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ABSTRACT

This paper examines the resource-based horizontal acquisition strategy of JBS. This strategy transformed a relatively small business that was founded in 1953 (comprising a butcher shop and small abattoir located in a small town in the interior of Brazil) into the world's biggest meat producer by 2010.

Keywords: JBS, world's biggest meat producer, horizontal acquisition strategy, resource-based strategy

The Resource-Based Horizontal Acquisition Strategy of JBS

This paper examines the successful resource-based horizontal acquisition strategy of JBS. This strategy transformed a business that was founded in 1953 by José Batista Sobrinho in a small town in the interior of Brazil (comprised of a butcher shop and small abattoir) into the world's biggest meat producer by 2010.

This paper divides the history of JBS into three periods: the first period (1953–2006) describes the growth by horizontal acquisitions in Brazil, and first international horizontal acquisition in Argentina; the second period (2007–2008) describes the initial public offering (IPO) of JBS and the aggressive international horizontal acquisitions that started with the acquisition of Swift in the U.S.; and the third period (2009–2010) begins with a merger with Bertin (the second largest meat producer in Brazil to JBS at that time), the diversification into the unrelated businesses that were part of Bertin, the concentric diversification into poultry with the acquisition of Pilgrim's Pride in the U.S., and—as consequence of all these acquisitions—the consolidation pains experienced by JBS (the growth timeline of JBS from 1953 to 2010 is shown in Appendix 1). Finally, the paper evaluates the resource-based horizontal acquisition strategy of JBS and the role of the Brazilian Development Bank (BNDES) in financing the growth of JBS.

History of JBS from 1953 to 2006

In the early 1950s, José Batista Sobrinho started a small business purchasing cattle to resell to abattoirs in the city of Anápolis (the third largest city in the Brazilian state of Goías: with a population, at the time, of approximately 50,000 inhabitants). The business grew, and in 1953 Sobrinho opened—with his two brothers—a small butcher shop and abattoir, which slaughtered five heads of cattle a day. The construction of Brasilia (the new capital of Brazil in the state of Goiás, started in 1956 and inaugurated in 1960) was only 162 kilometers from Anápolis, and this promoted strong economic growth in the region during the 1960s. Sobrinho took advantage of this growth, and of the tax exemption offered to companies that were willing to invest in the new capital of Brazil, and his company, Friboi, made its first acquisition of an abattoir in Planaltina (a satellite town of Brasilia in Brazil's new Federal District) in 1968 (JBS; Polonial, 2007; Bell & Ross, 2008; Salomão, 2009).

Brazil's strong economic growth in the 1960s and 1970s increased the country's beef consumption, and the business prospered. In 1970 Friboi acquired a new abattoir in Luziânia (also in the state of Goiás). With this acquisition Friboi increased its slaughtering capacity to 500 heads of cattle a day (JBS, 2007; and JBS history and profile).

During the 1980s, Friboi invested to expand its processed beef production capacity, and in the 1990s and early 2000s the company began expanding aggressively, acquiring abattoirs and increasing its capacity for producing fresh, chilled, and processed beef in Brazil. Between 1993 and 2005, Friboi acquired twelve abattoirs and beef processing plants, and so became one of the largest beef producers in the country, with a slaughtering capacity of 5,800 heads of cattle a day (JBS; and Bell & Ross, 2008).

Sobrinho's three sons (José Jr., Wesley, and Joesley) chose to work in the company rather than attend college. They started in the abattoirs, on the beef cutting room floor: however, from 2000 the sons took over the day-to-day management and high level strategic decisions, while their father (aged 80 in 2012) stepped back to play an advisory role (Bell & Ross, 2008). Today, Joesley serves as Chairman, Wesley as CEO, and José Jr. and the patriarch Sobrinho serve as board members (JBS; Bell & Ross, 2008).

The first international expansion by Friboi was made in 2005, with the acquisition of Swift Armour, Argentina's largest beef producer and exporter, and was financed by the Brazilian Development Bank (BNDES; Moreira, 2012). In the same year, Friboi was reorganized from a closed family business to a public company, and was renamed JBS SA, after the initials of the founder José Batista Sobrinho (JBS).

In 2006, the newly renamed JBS increased its slaughter capacity to 22,600 head cattle a day (from the previous 5,800), by acquiring two additional abattoirs and beef processing plants in Argentina. With these two additional plants JBS had twenty-one beef processing plants in operation in Brazil and five in Argentina (JBS, 2007). The acquisitions in Argentina were probably motivated by the substantial strength that the Brazilian currency (the real) had against the U.S. dollar in 2006, making foreign acquisitions cheap. This strength of the real, on the other hand, put Brazilian exporters in a disadvantage: it represented a challenge for JBS, who exported more than a third of its beef and generated sixty-one percent of its sales through exports to customers in 110 countries even through major international markets were closed to Brazilian beef, including the U.S., Canada, Mexico, and Korea (Bell & Ross, 2008).

The Initial Public Offering of JBS, Capital Increase, and the Acquisition of Swift in the U.S

In March 2007, JBS was the first beef processing company to make an Initial Public Offering (IPO) on the Brazilian stock exchange (BOVESPA). The company raised almost 800 million USD (Bell & Ross, 2008). In addition to acquisitions of both abattoirs and beef processing plants in Argentina and Brazil in the first half of 2007, in July of 2007 JBS surprised the market by acquiring Swift, with operations in the U.S. and Australia, for a total amount of 1,459 million USD: including 225 million USD paid to HM Capital Partners LLC, the former controlling shareholder of Swift, and 1,234 million USD used for the liquidation of financial debt of Swift (JBS, 2008; Bell & Ross, 2008).

A substantial portion of the financing for the acquisition of Swift was obtained by JBS from a capital increase that was received on June 29, 2007, in which the Brazilian Development Bank (BNDES) subscribed a relevant portion of the new common shares. Prior to the deal, JBS had a market capitalization of 4.2 billion USD and a sales revenue of 2.1 billion USD: almost five times less than Swift's 9.5 billion USD (JBS, 2008; Salomão, 2009).

Throughout the remainder of 2007, JBS made other major national and international acquisitions of abattoirs, beef packing plants, and industrial plants in the areas of the beef by-product market segment and of packaging for JBS products. With these acquisitions, the total of the slaughter capacity of JBS rose in 2007 to 51,400 heads of cattle a day (from 22,600 in 2006). The number of plants increased from 26 in 2006 to 50 plants in operation at the end of 2007 (21 in Brazil, 7 in Argentina, 12 in the U.S., and 8 in Australia; JBS, 2008).

Prior to the acquisition of Swift, JBS had a significant growth record, which helped to promote the IPO and capital increase in 2007. From 2004 to 2006, sales rose by 21%, with net income increasing from 50.2 million USD to 84.3 million USD. The earnings before interest, taxes, depreciation, and amortization (EBITDA) of JBS, as a percentage of revenue, was: 9.1% in 2004, 9.6% in 2005, and 14.2% in 2006 (the year that the valorization of the real against the dollar reduced exports of Brazilian beef). These percentages were considered by financial analysts to be far greater than those of other major players in the U.S. beef processing industry (JBS, 2007a). On the other hand, JBS held a high debt load (956 million USD) at the end of 2006 (Bell & Ross, 2008).

With the acquisition of Swift in the U.S., JBS became the third largest beef processor in the U.S. (behind Tyson Foods and Cargill Meat Solutions, respectively), and the largest worldwide, with holdings in the U.S., Australia, and Europe, as well as Brazil and Argentina. The rationale for the acquisition of Swift by JBS was the importance of establishing operations in other regions besides Latin America, as this allowed JBS to deal more effectively with the currency fluctuations, and to better manage sanitary restrictions and other trade barriers (Bell & Ross, 2008).

In December 2007, JBS announced the purchase (completed in 2008) of 50% of Inalca, the absolute leader in the Italian beef industry and one of the largest producers of beef products of the European market, with operations in Russia, Africa, and Europe. The acquisition, at a cost of 225 million euros, represented a strategic alliance: this created important synergies between products and selling channels, introduced JBS products to key markets throughout Western Europe, and brought Inalca (now Inalca-JBS) into closer contact with the world's main beef suppliers. For JBS, the acquisition represented an important initial step for the company's future growth in the European market (JBS, 2008).

JBS and Antitrust Concerns in the U.S.

In February and March 2008, JBS signed agreements to acquire the fourth- and fifth-largest U.S. beef processors (the National Beef Packing Company and the Smithfield Beef Group, respectively). These planned acquisitions were reviewed by the Antitrust Division of the U.S. Department of Justice (DOJ), and in October 2008, DOJ and 13 states filed a complaint in U.S. District Court to block the JBS buyout of National Beef Packing Company, citing concerns that this purchase could contribute to higher consumer prices and could also lower producer prices. That same day, the DOJ announced it would not challenge the acquisition of Smithfield Beef Group, and JBS subsequently acquired the company. The proposed JBS acquisition of Five Rivers Ranch Cattle Feeding, which was part of the Smithfield deal, also took place: making JBS the largest cattle feeder in the United States (Johnson, 2009).

Some members of Congress publicly applauded the DOJ's lawsuit to block the JBS buyout of National Beef Packing Company. Opinion within the U.S. beef industry was mixed, and some commentators were concerned that if JBS were to acquire National Beef in addition to Smithfield, this would make JBS the largest U.S. beef producer, with a combined share of about 30% of the U.S. cattle slaughter market. In February 2009, discussions between JBS and DOJ broke down, and JBS decided not to purchase National Beef Packing Company (Johnson, 2009).

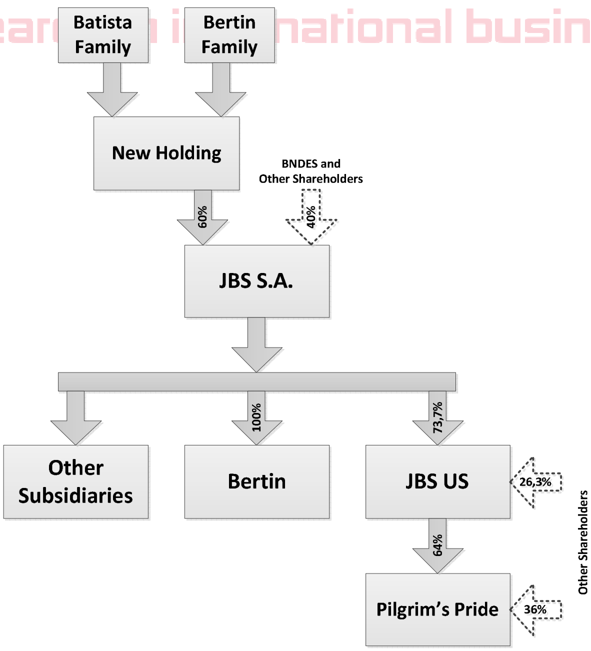
In 2008, JBS also acquired the Australian company Tasman Group, thereby consolidating its leadership in the world meat industry. These acquisitions, according to JBS (JBS, 2009; JBS history and profile), represented the conclusion of the investment plan for the construction of a sustainable platform for slaughter, production, and commercialization of meat in the U.S. and Australia, which had begun in July of 2007 with the acquisition of Swift´s operations in the U.S. and Australia. The total slaughter capacity of JBS increased from 51,400 heads of cattle per day in 2007 to 65,700 heads of cattle a day in 2008 (JBS, 2009).

The Merger of JBS with Bertin and the Acquisition of Pilgrim's Pride in the U.S.

In July 2009, JBS strengthened its production base in Brazil, with the incorporation and reopening of five new abattoir and beef packing centers that had been closed due to financial problems. These abattoirs and beef packing centers were equipped to export to major international markets (JBS, 2009). In the following August, JBS entered a new area with the creation of JBS Couros (Leather). The entry into leather was a logical step, since JBS was the largest producer of beef, and leather is a byproduct of this industry (JBS, 2009).

In December of 2009, JBS merged with Bertin, the second largest beef packer in Brazil and one of the largest beef exporters in Latin America. The merger agreement reorganized JBS and Bertin and created a new holding company; the Batista Family put all the shares they held in JBS into this company, and the Bertin Family put the 73.1% of shares they held in Bertin into that the new holding also (Figure 1). With this, the new holding company became the controlling shareholder of both JBS and Bertin (JBS, 2009).

Figure 1: Merger of JBS with Bertin in December 2009 and acquisition of Pilgrim's Pride



Source: Adapted from JBS 2007

The merger with Bertin—besides reinforcing the market share of JBS in beef packing and leather—diversified the company into areas of prepared foods, pet foods, milk and dairy products, recycling, biodiesel fuels, petrochemical products, personal hygiene and beauty products, collagen, and canning, among others. With the merger, the slaughter capacity of JBS increased to 90,290 heads of cattle per day (from 65,700 in 2008). In addition, because Bertin was the largest Brazilian producer and exporter of leather, the merger the merger made JBS the largest leather producer and exporter in the world (JBS, 2010).

In the same month as the merger with Bertin (December 2009), JBS made another diversification, by acquiring 64% of Pilgrim's Pride Corporation (PPC) and thereby entering into the chicken-processing market. With this acquisition, JBS became the second largest poultry producer in the world, with operations in the United States, Mexico and Puerto Rico, and a daily slaughtering capacity of 7.6 million chickens. To finance the acquisition, JBS issued convertible debentures that were subscribed by the Brazilian Development Bank (BNDES). These debentures were made mandatorily exchangeable for common shares of JBS USA (in the form of BDRs) if a liquidity event was to occur (JBS, 2010).

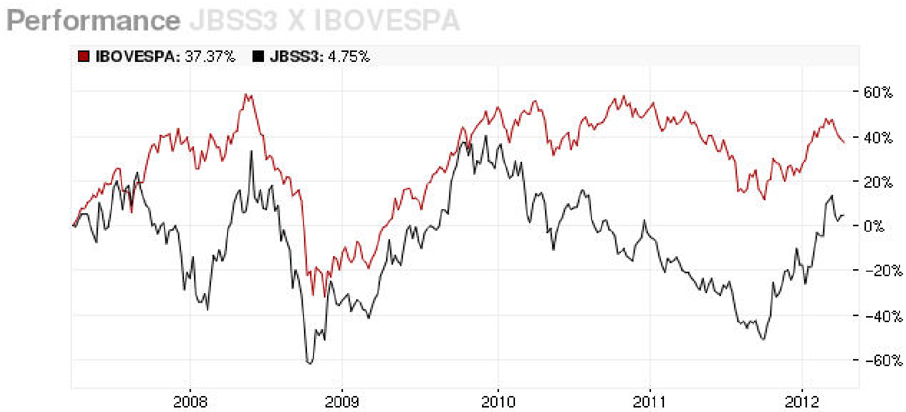
On I December 2009, JBS announced of the acquisition of Tatiara Meat Company (TMC), located in South Australia. The completion of the acquisition occurred in February of 2010.

Consolidation Pains of JBS

During 2010, JBS made numerous efforts to resolve pending issues between the partners of Inalca-JBS, in which JBS had acquired a 50% interest in December 2007 for 225 million euros. Finally, a termination agreement, dissolving the partnership was signed: through this agreement the Cremonini group paid 218.9 million euros to purchase the 50% interest of the company from JBS. Also in Italy, JBS acquired outright control over Rigamonti, in which it had held a seventy percent interest since December 2009 (JBS, 2010).

The many acquisitions landed JBS with $6.9 billion in debt, and some market analysts during 2010 expressed concern that the company was overreaching. The firm lost $160 million in 2010 on about $33 billion in sales, mainly because of the cost of integrating Pilgrim's Pride and Bertin. Investors became worried, and JBS' stock, traded in Brazil's Novo Mercado, dropped by 30% during 2010 (Figure 2). Other meat producers, including the main rival of JBS, Tyson Foods, also had income difficulties during 2010, mainly because of spikes in corn prices that increased the costs of raising cattle (Blankfeld, 2011).

Figure 2: Performance of JBS shares compared with the BOVESPA Index



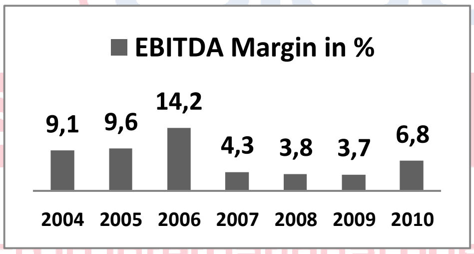
Source: Adapted from BOVESPA, April 2012.

In response to the significant drop in the value of JBS shares during 2010 (Figure 2), JBS management decided to postpone the Initial Public Offering of its America subsidiary JBS U.S. on the New York Stock Exchange (NYSE) and on the National Association of Security Dealers Stock Market (NASDAQ), which was programed for December 2010 and already registered with the U.S. Security Exchange Commission (SEC). The Initial Public Offering was required, because the indenture of the debentures issued in December 2009 and subscribed by the Brazilian Development Bank (BNDES) had the obligation to make them convertible into sponsored Brazilian Depository Receipts (BDRs) that were backed by US shares held by JBS. The deadline for this conversion was December 2010, and in the event of postponement, JBS had agreed to pay a premium of 300 USD to the debenture holders as compensation, in accordance with the rules set in the indenture.

In December 2010, management decided that JBS would pay the premium and postpone the IPO to December 2011 (JBS, 2010; G1, 2010). In April 2011, the management of JBS announced that they had cancelled the plans for the IPO of its American subsidiary JBS U.S., ignoring the obligation to its main debenture holder BNDES (Olivon, 2011). This decision was undoubtedly motivated by the poor performance of the company shares, which continued the downward trend that had commenced in 2010 (Figure 2). In May 2011, the debenture holders, including BNDES, converted their debentures into JBS shares (Gradilone, 2011).

Performance and Achievements of JBS

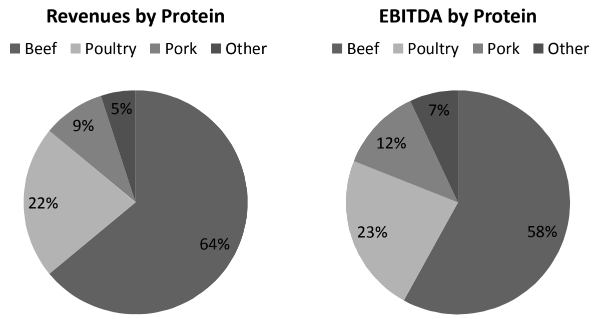
Figure 3: JBS performance before and after the 2007 IPO and acquisition of Swift in the U.S



Source: Adapted from: JBS, 2007a, 2009, 2010.

The performance of JBS after the 2007 IPO never met shareholders' expectations, and this is reflected in the poor performance of the company shares (Figure 2). The prospectus for the IPO showed an EBITDA as representing 14% of sales. In the same year, Tyson Foods (at the time the world's biggest meat producer) presented a loss (Tyson, 2006). To the disappointment of the investors, with the acquisition (in 2007) of Swift in the U.S, JBS had made a significant loss in the first year after the IPO, and its EBIDA as a percentage of revenue never met shareholders expectations (Figure 3). As a result, JBS shares have underperformed ever since: from the IPO in 2007 to April 2012 the growth of JBS shares was only 4.75%, compared with the Brazilian stock exchange index ,which grew 37.37% in the same period (Figure 2).

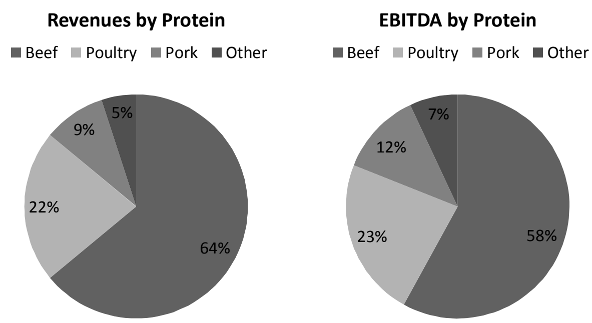
Figure 4: JBS Diversified global protein producer



Source: Adapted from JBS, 2010

On the other hand, the status of JBS as a diversified global protein producer allowed the company to navigate the market in a way few others could (Figure 4). In 2008, for instance, when the European Union restricted sales of Brazilian meat (alleging that breeders weren't complying with the European Union traceability measures), JBS took advantage of its Australian subsidiary to export to Europe until Brazilian beef exports to the EU resumed in 2009. Similarly, although no Brazilian meat producer could export cuts to the U.S. because of restrictive U.S. safety rules, JBS was able to enter the market through its own U.S. subsidiary. Also, the production of three different proteins—beef, pork and chicken (Figure 5)—allowed JBS to hedge (Blankfeld, 2011).

Figure 5: JBS diversified by protein produced

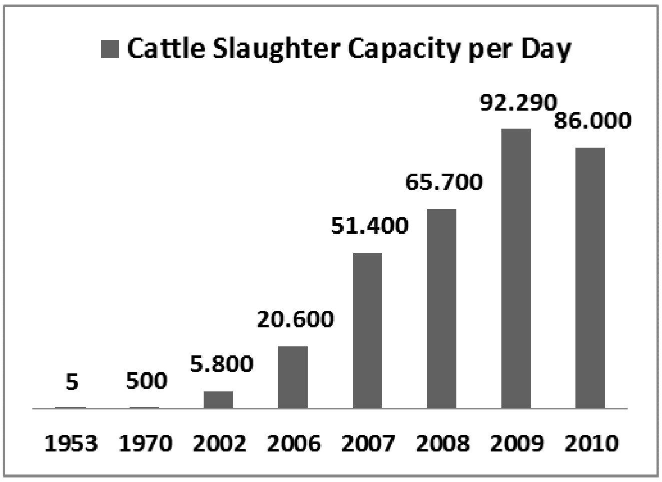


Source: Adapted from JBS, 2010

During the previous few years, with its resource-based horizontal acquisition strategy, JBS has reached an impressive position in world market. Specifically, in 2010, JBS became (JBS, 2010):

- The world's leading beef producer and exporter, with operations in the U.S., Brazil, Australia, Argentina, Uruguay, and Paraguay, and a daily slaughtering capacity of over 86,000 head of cattle.
- The world's second largest poultry producer (behind U.S. firm Tyson), with operations in the United States, Mexico, and Puerto Rico and a daily slaughtering capacity of approximately 7.9 million birds (Tyson, 2006, 2011).
- The third largest pork producer in the United States, with a daily slaughtering capacity of 50,000 hogs.
- The world's leading lamb producer and exporter, with operations in the U.S. and Australia and a daily slaughtering capacity of 24,000 sheep.
- The global leader in leather tanning, with operations in Brazil, the U.S., Australia, Argentina, Uruguay, Paraguay, and China and a daily production capacity of 82,300 hides.
- The third largest dairy producer in Brazil, with a daily production capacity of 5,400 tons.

Figure 6: JBS cattle slaughter capacity growth by horizontal acquisitions



Source: Adapted from JBS, 2007, 2008, 2009, and 2010

Financing for the Growth of JBS by the Brazilian Development Bank (BNDES)

In 2004, the Brazilian Ministry of Development, Industry, and Exterior Commerce created the Policy of Productive Development, with the purpose of developing specific sectors of the Brazilian economy. One of the chosen sectors was the meat sector, which was selected to become the world leader in exports. With the support on the Brazilian Government and financing from Brazilian Development Bank (BNDES), the meat sector consolidated some key players, and as a result of the successful policy Brazil became the world´s biggest exporter of animal protein (specifically, the number one exporter in the world of beef and of poultry, and the fourth largest exported of pork). Meat is currently the second largest agribusiness export market in Brazil (second to soybeans; MDICE, 2012; Marques, 2010; Carvalho, and Duysters, 2010).

The management of JBS took full advantage of the support from the Brazilian Government, and used the resources offered by BNDES to finance its key acquisitions. In 2005, the first international acquisition of JBS of Swift Armur in Argentina was financed by the BNDES; the acquisition in 2007 of Swift in the U.S. was financed by a capital increase in which the BNDES subscribed a relevant portion of the new common shares; the acquisition in 2009 of Pilgrim's Pride was financed by an issue of convertible debentures that were primarily subscribed by the BNDES.

The original agreement to convert the debentures into sponsored Brazilian Depository Receipts (BDRs) backed by U.S. shares in JBS listed in the NYSE or NASDAQ was renegotiated with the debenture holders, and the debentures were converted in May 20011 into JBS shares listed in the Brazilian stock exchange (BOVESPA). With this conversion, the BNDES increased its participation in JBS, from 25% to 31.41% shares (see Figure 7; Landim and Inhesta, 2011; Gradilone, 2011; JBS, 2011d).

Figure 7: JBS Shareholders before and after the conversion of the debentures in May 2011

JBS Shareholders	Before Conversion	After Conversion April 2012
Batista Family*	54,50%	46,93%
BNDES	25,00%	31,41%
Others	20,50%	21,66%

* Holding controled by the Batista Family

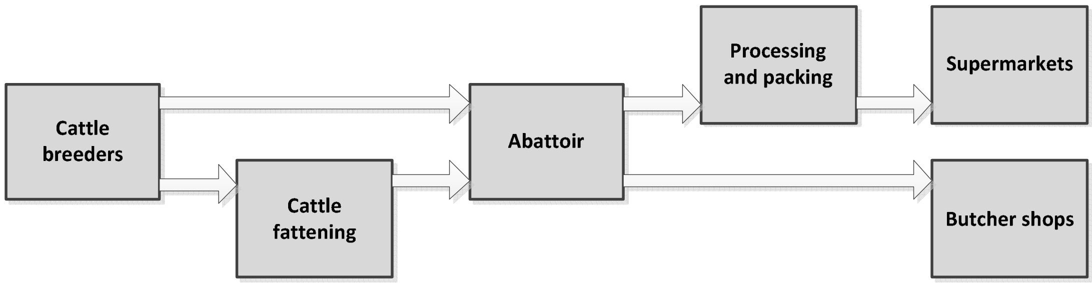
Source: Adapted from Landim, and Inhesta, 2011; Gradilone, 2011; JBS, 2012d

The financing of JBS growth by the BNDES generated some discontent from other meat packers in Brazil, who considered it unfair competition, and among cattle breeders, who were concerned that the concentration into a small number of meat packers would lead to fixing of cattle prices. There were also critics of the interference of the state into businesses like JBS, which they termed *state capitalism* (Moreira, 2012). In response to these criticisms, an investigation was undertaken by Federal Public Persecutors in Brazil into the relationship between JBS and BNDES (Rodrigues, 2011). This investigation was closed, however, because the BNDES was found to be acting according to the Policy of Productive Development, as defined by the Brazilian Government (Agência Estado, 2011).

The Dynamic Forces of Change

The meat packing industry is a mature industry in Brazil, and similar to much of the rest of the world, it handles the entire process, from the slaughtering of animals (mainly cattle, pork, sheep, and poultry) in specialized abattoirs, to the subsequent cutting, packaging, and distribution of the meat. The animals are generally bought by the meat packers from independent breeders, although sometimes cattle intermediaries purchase the animal from the ranchers who are distant from the abattoirs, and transport them to the vicinity of the abattoirs. Because the cattle lose weight during the transport, these intermediaries sometimes fatten them up with special rations to resell them to the abattoirs. The cut meat is then sold by the meatpacker to butcher shops and the packaged meat sold to supermarkets (Figure 8).

Figure 8: Brazilian meatpackers (beef) simplified supply chain



Traditionally, cattle abattoirs in Brazil were small local operations that bought animals from independent ranchers, slaughtered the animals, cut the meat, and sold the cut meat to the local butcher shops: this is how José Batista Sobrinho started in 1953 in the small town of Anápolis. However, three dynamic forces have changed the Brazilian beef business.

The first force that changed the beef business was the squeezing out of small ranchers by larger rancher operations. These moved further to the interior of Brazil where land was inexpensive and where breeding of thousands of heads of cattle was possible. This created the need to transport cattle from the open ranges to the abattoirs and to fatten them to gain weight before being slaughtered. These large-scale cattle breeders and the intermediaries that were in the cattle fattening business started to impose their prices on the local abattoirs.

The second force was the expansion of supermarket chains, which needed quality packaged beef to sell to their clients. These supermarket chains squeezed the traditional local butchers out of business, and these local butchers had been the main clients of the local abattoirs. In addition, the volume that these supermarket chains purchased, and their quality requirements, imposed changes to the traditional abattoirs: who had to aggregate meatpacking and implement a substantial number of sanitary and quality procedures. This increased the cost to the abattoirs, who were not compensated by the lower prices per unit that the supermarket chains were willing to pay based on their high volume requirements.

Squeezed between the large-scale ranchers and intermediaries on one side, and the supermarket chains on the other side, and with the higher cost of the operations, local abattoirs began to find themselves in financial difficulties. Taking advantage of the situation, JBS, along with some of the more effectively managed meatpackers, began to consolidate the industry by buying out those in trouble. The rationale for these horizontal acquisitions was a strategy to increase the capacity to slaughter cattle, in order to be able to build up a better bargaining position against the big ranchers and the cattle fattening intermediaries (on the supply side) and the supermarket chains (on the demand side). This is the reason that JBS (up until 2009) measured growth by the growth of its cattle slaughter capacity (Figure 6).

The third force that changed the beef business was the growing international demand for beef. Brazil, with one of the largest untapped agricultural land reserves in the world, was ideally suited to fill this demand. Given this, the Brazilian Government defined meat export as one of the priorities in their Policy of Productive Development (created in 2004). To access to the international beef market Brazil had to improve the entire beef supply chain: including genetics, feeding, sanitation, processing, packaging, and transport. This required investments by the Brazilian Development Bank (BNDES) in some key players (those that had the necessary scale and capacity to make the necessary changes to the supply chain to open the international markets for Brazilian beef): the most successful of these players was JBS.

The Acquisition Strategy of JBS

As noted above, José Batista Sobrinho learned the business from the supply side in the 1950s by starting operation of purchase cattle to resell to abattoirs. In 1953, he learned to operate a small butcher shop and abattoir, which he ran with his two brothers. The success of this venture motivated him to purchase an abattoir in 1968 and another in 1970.

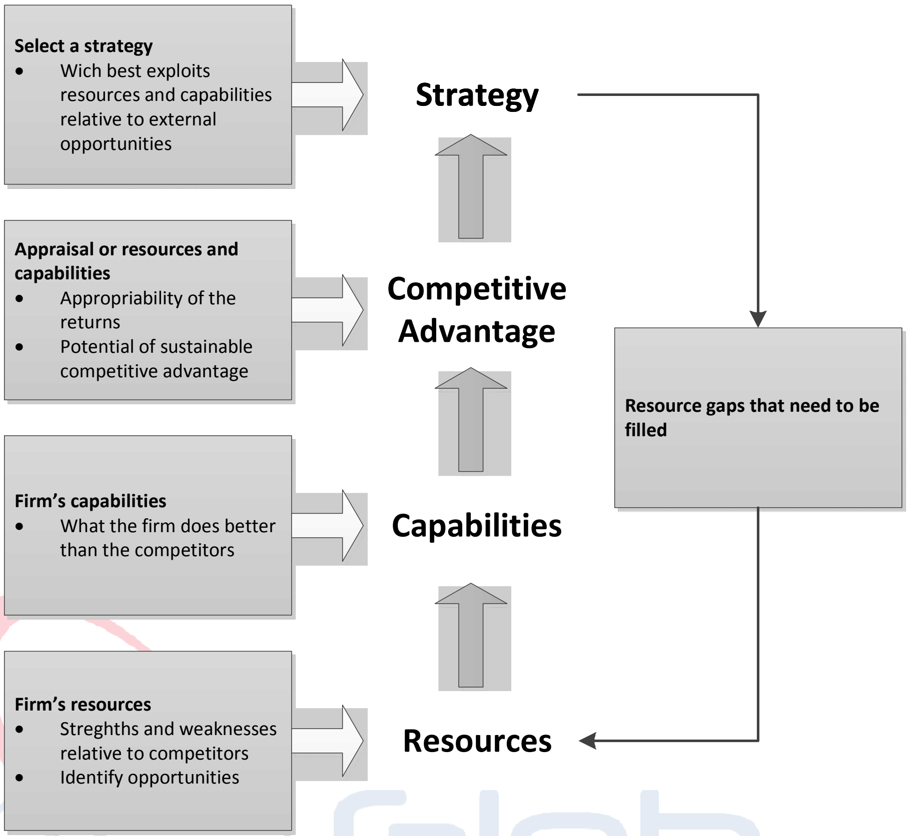
Sobrinho soon realized that he needed to increase his cattle slaughtering capacity to gain bargaining strength with the cattle breeders and the intermediaries who were fattening cattle to sell to abattoirs. He also realized that he needed to create a branded packaged beef to differentiate the beef he sold to supermarkets and to avoid commoditization. To achieve this he renamed the company Friboi, and encouraged customers to create demand for Friboi packaged beef in the supermarkets.

Sobrinho and his sons instinctively followed a resource-based competitive strategy in growing JBS (Figure 9). The key resource they used to build JBS was their abattoirs and the daily slaughter capacity of cattle (Figure 6): this enabled them to gain bargaining power with suppliers. The capabilities they built up were the efficient operation of abattoirs, cost efficient processing and packaging beef, and the capability to market branded packaged beef to supermarkets (and so gain bargaining power with customers).

The acquisition strategy of JBS was a resource-based horizontal acquisition strategy (Figure 9 and 10) up until the acquisition of Swift in the U.S. in 2007, the merger with Bertin in Brazil in 2009, and the acquisition of Pilgrim's Pride (also in the U.S.) in 2009. The focus of the resource-based horizontal acquisition strategy was on acquiring beef abattoirs and packing plants to grow the cattle slaughter capacity (Figure 6).

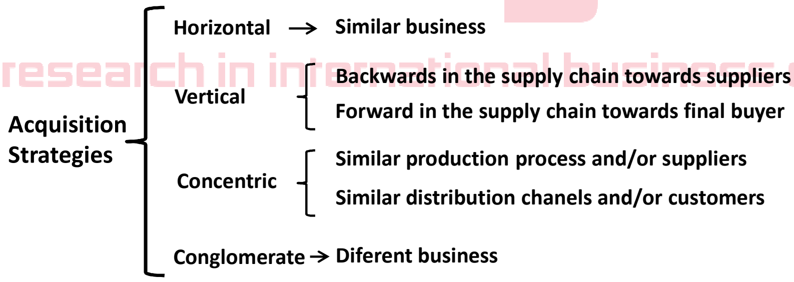
The acquisition of Swift in the U.S. in 2007 (with its abattoirs in the U.S. and Australia) was motivated by the possibility of increasing the cattle slaughter capacity and the need to establish operations in regions outside Latin America in order to deal more efficiently with currency fluctuations, sanitary restrictions, and other trade barriers. These issues were resource gaps (Figure 9) that had to be filled for JBS to be a relevant actor in the world trade of beef. The acquisition, on the other hand, also included a concentric diversification (Figure 10) into pork and lamb. This acquisition made JBS the third largest pork producer in the U.S. and with additional smaller acquisitions in Australia the world's leading lamb producer.

Figure 9: Resource-based competitive strategy



Source: Adapted from Grant, 1991, p. 115

Figure 10: Four basic acquisition strategies



Source: Adapted from Gomes, Weber, Brown, and Tarba, 2011, p. 10

When JBS acquired Smithfield Beef in the U.S. in 2008, this consolidated its leadership as a beef producer. Together with the beef operations JBS, also acquired the largest cattle feeder in the U.S.: this was a major backward vertical diversification of JBS in the U.S.

The merger with Bertin in Brazil in 2009 was also motivated by growing JBS's cattle slaughter capacity; but it included a concentric diversification into leather. The merger consolidated the diversification that was started by JBS with the creation of JBS Couro (leather). With the merger, JBS became a global leader in leather tanning; but the merger also included some conglomerate type of diversification into dairy products and canned vegetables, such that JBS is currently the third largest dairy producer in Brazil.

The acquisition of Pilgrim's Pride in the US in 2009 was another concentric diversification into poultry. With this acquisition JBS became the world's second largest poultry producer behind another U.S. firm, Tyson (Tyson, 2006, 2011).

Like most large companies, JBS also made some smaller vertical and concentric diversifications, which potentially occupy management time that could be better employed by concentrating on the core business: JBS today manufactures cans, produces collagen, casings, beef jerky's, energy, biodiesel, oleo-chemicals, has a trading company, a shipping company, a cattle confinement operation, and an agricultural supply and service company (JBS, 2012c).

Conclusion

JBS was very successful in the beef packing business, with its resource-based horizontal acquisition strategy that used the financial backing of the Brazilian Development Bank (BNDES) to acquire abattoirs and beef packing plants in Brazil, Argentina, Uruguay, and Paraguay. When JBS realized that its Latin America export platform was vulnerable to currency fluctuations, sanitary restrictions, and other trade barriers, it used the financial backing of the BNDES to acquire Swift in the U.S. during 2007, and operations in the U.S. and Australia, Smithfield Beef in the U.S., and Tasman Group in Australia in 2008. In 2009 followed the merger with Bertin in Brazil and the acquisition of Pilgrim's Pride with the strong financial backing of the BNDES. These acquisitions diversified JBS into pork, lamb, and poultry (among other less synergic businesses).

The simple resource-based horizontal acquisition strategy in the beef industry that promoted JBS success was fuzzed (lost focus) by the need to learn to operate with pork, lamb, and poultry in foreign countries without a home-grown experience (such as the experience JBS had in beef). Also, JBS diversified into many new businesses, and some were completely new (such as dairy products, which came with the acquisitions and the merger with Bertin). All this was complicated by the many locations all over the world, and starting in 2007 this led to an enormous task of consolidation for JBS management. It is no wonder that JBS had consolidation pains and that the firm's performance reflects this (Figures 2 and 3).

Probably the only way for JBS to return to its past performance (that is, the performance achieved prior to the international acquisitions) is to concentrate on its core business and shed all the unrelated businesses that are distracting the management team. It seems that JBS management is starting to do this, by spinning off its dairy product division (JBS, 2012c). The concentration on JBS core business would also realign the firm with the objectives of the Brazilian Government's Policy of Productive Development.

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Appendix 1

Growth Timeline for JBS (from 1953 to 2010)

1953: The beginning

- José Batista Sobrinho commenced operations with a small butcher shop and abattoir in the city of Anápolis (GO), with the capacity to slaughter five head of cattle per day.

1968: *The first acquisition*

- Acquisition of the first abattoir in Planaltina (DF)

1970: *Growth was just beginning*

- With the acquisition of the second abattoir in Luziânia (GO), slaughter capacity jumped to 500 head of cattle per day.

1981–2004: *Ongoing expansion through acquisitions and increase in productivity*

- Significant expansion of operations in Brazil through acquisitions of beef packing plants and units for raw and processed beef production, as well as investments in increased productive capacity.
- During this period, slaughter capacity reached 5,800 head of cattle per day.

2004: *This year featured additional acquisitions*

- Acquisition of 50% of BF Alimentos.

2005: *Creation of JBS SA and start of the process of internationalization*

- Restructuring of the Friboi Group into JBS S.A. as a public company.
- Period in the process of internationalization is initiated with the acquisition of Swift Armur, the largest producer and exporter of beef in Argentina financed by the Brazilian Development Bank (BNDES).

2006: *Expansion in Argentina and increase of capacity for slaughter*

- Acquisition of two more units in Argentina (Venado Tuerto and Pontevedra).

- Continuing increase of capacity, reaching capacity to slaughter 20,600 head of cattle per day in a total of twenty-one plants in Brazil and five in Argentina.

2007: *IPO of JBS S.A. and entry into the U.S. market*

- JBS was the first meat processing company to make an IPO on the Brazilian securities exchange.
- Acquisition of two units in Argentina (Berazategui and Colonia Caroya).
- Acquisition of the food distributor SB Holdings.
- Acquisition of another unit in Brazil, in Maringá (PR).
- Capital increase, in which the Brazilian Development Bank (BNDES) subscribed a relevant portion of the new common shares.
- Acquisition of Swift in the U.S., which changed its name to JBS USA.
- Major national and international acquisitions of beef packing and industrial plants in the beef by-product segment and packaging for JBS products.
- Acquisition of 50% of Inalca in December, one of the largest beef producers in Europe.
- JBS increased its slaughter capacity to 51,400 heads of cattle a day.

2008: *JBS expands its business abroad and consolidates its leadership in the beef industry*

- Announcement of the purchase of the American company Smithfield Beef and the Australian company Tasman Group, thus consolidating JBS leadership in the world beef industry.
- These acquisitions represented the conclusion of the investment plan for the construction of a sustainable platform for slaughter, production, and commercialization of beef in the U.S. and Australia, which began in July of 2007 with the acquisition of Swift in the U.S.
- JBS increased its slaughter capacity to 65,700 heads of cattle a day.

2009: *The incorporation of a Brazilian giant marks a year of success and growth*

- Merger with Bertin S.A., the second largest beef company in Brazil.

- JBS S.A. announces the expansion of the Company in Brazil incorporating five beef packing plants and an increase in the number of cattle slaughtered per day.
- Founding of JBS Couros (leather), which represents the company's entry into the field of industrialization, sale, importing and exporting of leather.
- Acquisition of 64% of the shares of Pilgrim's Pride Corporation engaged in the breeding, slaughter, processing and sale of chicken.
- Announcement of the acquisition of Tatiara Meat Company (TMC), through its wholly owned subsidiary, Swift Australia. TMC is a processor of high quality beef located in Bordertown South Australia. The completion of the acquisition occurred in February of 2010.
- JBS increased its slaughter capacity to 92,290 heads of cattle a day.

2010: *Consolidation and integration of Pilgrim' Pride and Bertin*

- Consolidation of JBS USA, with the integration of Pilgrim's Pride, and of JBS Mercosul, with the incorporation of Bertin.
- Sale of the 50% participation in Inalca and the acquisition of the control of Rigamonti.
- Postponed the deadline for JBS USA IPO until December 31, 2011 by paying a premium on the debentures expecting that the U.S. stock market will improve in the future.
- JBS closed some inefficient abattoirs and the slaughter capacity was reduced from 92,290 heads of cattle a day in 2009 to 86,000.

Sources: JBS website and annual reports (Moreira, 2012; JBS, 2007, 2008, 2009, 2010)

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