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Auto Service Stores Industry in Mexico, Theory of Industry Applied to the Acquisition of Giant Stores

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Abstract: Mexican supermarket industry is mainly characterized by a variety of types of consumers, mainly marked by differences in purchasing power. Mexican industry self serves the needs of different consumers through: (i) modern formats such as supermarkets, warehouses, hypermarkets and membership clubs; (ii) traditional formats such as small independent sundries; and (iii) informal, such as farmers' markets and local street vendors. This paper analyzes retrospectively the acquisition of the Gigante stores by Soriana from the theory of industry, resources and capabilities, reviewing the situation of both companies in the diamond industry by Porter, SWOT analysis themselves that theory.

Keywords: SWOT; Gigante; Soriana; Industry based theory.

1. Introduction

An industry is a group of companies or companies with similar goods or engaged in the same business twist. The industry can be a monopoly, oligopoly, perfect competition or duopoly this by the number of companies that compete in it (Peng, 2012). Companies also are distinguished by being more cost-effective than others because from the beginning what is sought is that, profitability, the industry will demand many companies as product support. A product being new can exercise monopoly power in consumers as the demand curve slopes downward remains. However, as are generated products like, more firms enter the industry and demand will be more elastic and profits tend to zero (Varian, 2010). The capacity and influence of the industry and its effects on society will be influenced largely by the agreements of the firms in the economic sector (Spulber, 2005).

Companies are set in a competitive market in which to obtain benefits and survive require adapting and implement strategies which according Learned, Christensen, Andrews and Guth (LCAG), defined as the essential concept of how companies interact in their environment (Learned *et al.*, 1969). A company is part of an industry which to interact with other companies that make the sector, use strategies to ideally develop economic and operational areas of the firm.

Joe Brian says that the behavior of the firm depends on the structure of the industry, as it is the collective behavior of the companies that form that determine how the firm will act (Bain, 1968). The firm according to LCAG has its tools to make decisions about the strategies to follow which can be internal factors of the company, such as the strengths and weaknesses, and external opportunities and threats. Porter (1983) notes that there are several tools which can be used to measure and predict the impact of the strategies followed and that should be considered before taking any course of action.

2. Diamond of Porter

The experience curve is a strategy of analysis that should be applied carefully and that does not consider the experience curve of competitors, as there are various factors affecting the market, not only experience. Porter (1980) suggests that not all industries can be analyzed by the experience curves, but resort to this only when information among competitors is complete and reliable, i.e. in cases where information asymmetry is not a relevant or as marked factor could be resorted to this type of analysis.

Porter states that any analysis of the industry must take into consideration the social and the economic aspects. The industry structure highly influences in setting the rules of the game in which are designed the strategies to be

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raised, and it should pay special attention to the external factors of the company and those are the really determining which are skills and competence and with what will confront the company.

2.1. Intensity of Rivalry among Competitors

The supermarket industry is on a high degree of rivalry, although companies that make up the industry self-service stores (supermarkets) are only seven, Wal-Mart de Mexico, Soriana, Grupo Gigante, Casa Ley, Controller Commercial Mexicana, Chedraui and Costco Wholesale Group Corporation. These are the leading companies and major market holders. These are only a few competing in the market and are constantly generated in non-cooperative games, and price wars with big advertising campaigns, besides that the 7 companies competing in the industry are large companies with large resources

2.2. Threat of Potential Entries

This point is almost nonexistent because it requires a large investment to enter and compete in the industry. Besides, the amount of the investment companies that are currently in the controlled market and entry barriers, with costs below of what the average consumer could get, also the companies have exclusive contracts with certain suppliers and its own brands of products.

2.3. Bargaining Power of Suppliers

Suppliers have a little power. Self-service companies usually handle very rigid policies towards their suppliers. They are "tied" to payments of goods handled as credits for the purchase of goods, long-term between 60 and 90 days. Also, the contracts of purchase-sale with suppliers usually is a very strict procedure and in which suppliers often invest a significant amount of time and money as they commonly must be adapted to the requirements of self-service stores.

2.4. Bargaining Power of Buyers

Consumers have a relatively high bargaining power, given how competitive the market is, which leads to have strong price wars, and advertising campaigns in order to attract a larger segment of the market. Suppliers continuously place bids in which they compared prices between them and provide payment of the difference plus a bonus which makes consumers choose among those that generate higher profits.

2.5. Threat of Substitutes

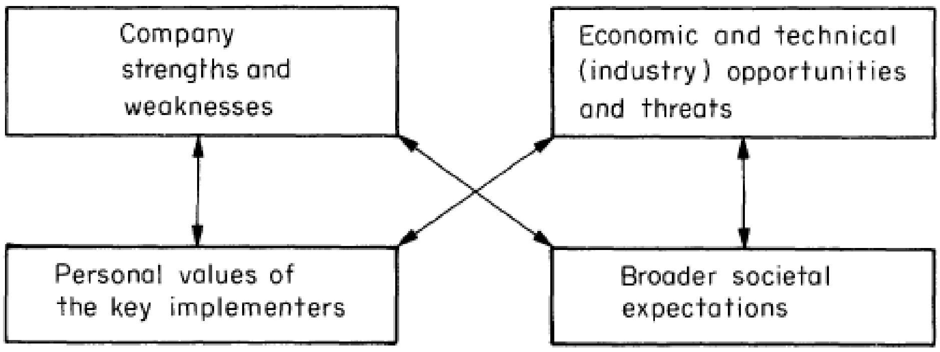
As for self-service industry, the threat of substitutes is great as companies that compete in it tend to have similar products and price promotions. In order to stand out and excel in the service sector Organization Soriana implement services that generate a value added, such as the agreement with Banamex that provides financial products through SoriBan, optical services, medical clinics, private label generic drugs, etc.

3. SWOT Analysis of Grupo Gigante

Porter dynamics usually is considered static and impractical for future planning, and does not consider the risk factor which is clearly a less controllable and measurable variable (White, 2004).

The firm has LCAG as tools to make decisions about the strategies to follow which can be internal factors of the company, such as the strengths and weaknesses, and external opportunities and threats, as shown in figure 1.

Figure-1. Factors of decision making.



Source: Industrial Organization and the Evolution of Concepts for Strategic Planning: The New Learning (Porter, 1983)

3.1. Weaknesses

The company Grupo Gigante (Giant Group) began a campaign of remodeling and opening of accelerated and excessive branches in which it invested about 48% of the assets of the company to carry out. Likewise, there was the opening of branches which generated 37,200 m2 of new floor of sales. Additional to it, the company faces a debt of nearly 45% to end 2006.

According to the annual financial report 2006 sales and administration of the company have resulted in low profits of 3.1% (Grupo, 2007). These results depend heavily on its key members, senior executives and directors which may represent major risk factor in the time when these cease to provide their services to the company, in addition to credits for financing that the company is supporting on payment and compliance with the commitment to mortgage of real property. Such loans are amounting to 2,700 million pesos.

3.2. Opportunities

The growth of self-service companies like Wal-Mart, Grupo Gigante and Comercial Mexicana, Casa Ley, is encouraging some investment funds to put their money in real estate. Grupo Gigante analyzes the idea of dealing with the Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit) authorization to open a separate bank thus further diversify the areas in which her company has presence. The company has achieved success so the implementation of the system SAP in all companies can provide greater control and access to company information. Also, it has national coverage with presence in 90 cities, in 32 states, plus has begun a process of internationalization with 7 outlets in Los Angeles, California (Grupo, 2007).

3.3. Strengths

Redefinition of formats, the company has remained in constant innovation to maintain VRIO within their stores, and has invested significantly more efficient in promotional campaigns. Also, it is committed to expanding the scope of pricing strategy and gets more market share and involvement. It has sought lower prices in order to attract more buyers. There has been a minor decline that the industry average in 2006 and has invested in the development of private label products with greater quality control, in addition to the procedures for trademarks and patents to ensure the inimitability of these products.

Similarly, another strength that the group has is the fact that it takes much to pay and little to regain the customer portfolio base, which gives it sufficient liquidity to meet its financial commitments and liquidity ratio is 1.11 / 1 is that for each dollar of debt there is $ 1.11 of assets to pay which is good although low, the optimum would be 2/1.

3.4. Threats

Soriana has a lower borrowing than Gigante and has higher working capital which enables it to generate more profits and pay additional taxes. Additional to this, the ANTAD member stores reported a 0.3% drop in April and 1.3% in May 2006; the US chain Wal-Mart de Mexico reported an increase of 4.1% and 3.4% in the same months.

Supermarkets self-service industry has a high level of competition at the level of prices basically where the most common is a war of prices and offers, where the main competitors such as Soriana, SA de C.V., Wal-Mart de Mexico S. de RL de C.V. and Controladora Comercial Mexica S.A. de C.V. (Mexican Commercial Controller), have kept strategies of the price war which increases the pressure on operating margins of the company.

In 2006, Wal-Mart launched an aggressive expansion plan, opening 120 stores in the country in a single year, in addition to market share decreased from 16.5% in 2001 to 9.7 in 2006, according to the companies listed on the Stock Exchange.

4. SWOT Soriana

4.1. Strengths

Presence in almost the entire country, the company Organization Soriana has 234 stores in 112 cities and 29 states. The company has maintained a steady increase in profits. In 2006 increased 14.8% and from 2006 to 2007, increased 12.38%. It is also implemented a marketing program, which resulted in a growth of 14.7% of customers. The company has a policy of reinvesting most of the profits generated.

In 2006, Soriana had an investment of 4,517 million pesos from equity which is reflected in the debt ratio of 44% for 2006 and 55% in 2007. The company has diversified its products by offering a range of services that give added value, solid financial ratios and give favorable results for the company, in 2006, with suitable and stable levels of solvency.

4.2. Opportunities

The company has developed a chain of services that generate added value and diversified its operations and making inroads into several new markets, including financial advice in coalition with Banamex. Among other strategic alliances that allow it to compete on the market with Wal-Mart, and Grupo Gigante (Giant Group) among others, it has invested significantly in the development and growth of sales floor. So that to end 2007 achieved an increase by 20% to a total of 337,041 square meters of sales floor. Soriana Company has a good rate of return on the capital paying significantly to its shareholders.

4.3. Weaknesses

The working capital of the company has a short range of positive difference in 2006 and in 2007 becomes negative where the liability of the company is much larger than the assets. Besides having a slow-moving inventory, which is 6 times on average every 53 days. This being a company that handles perishable products including a temporary too high for the market, in addition to its indexes in this acid test are low having only .52 of 1 indicating that it is unable to meet their obligations with respect to assets held in 2006 as in 2007, however in 2007 has clearly diminished its ability to pay.

4.4. Threats

The expansion policy of the company is in a very aggressive point. The company is not in the best financial situations to generate the acquisition of the Gigante stores. It has shortcomings in information technology because it is still in the process of standardizing computer systems which puts it at a distinct disadvantage with competitors.

Like Grupo Gigante (Giant Group), Soriana Organization faces a market with a high level of competitiveness. In 2006 the US chain Wal-Mart of Mexico reported an increase of 4.1% and 3.4% of market share. Industry of self-service stores has a high degree of competence basically at price level where the most common is a war of prices and where the main competitors such as Grupo Gigante SAB de variable capital (C.V), Wal-Mart de Mexico Society of limited responsibility (S. R.L of C.V.) and Mexican Commercial Controller, Anonymous Society of Variable Capital (S.A. of C.V.) strategies have kept the price war which increases the pressure on operating margins of the company.

In 2006, Wal-Mart launched an aggressive expansion plan, opening 120 stores in the country in a single year, in addition to the market share of Organization Soriana decreased from 16.5% in 2001 to 9.7 in 2006 according to the listed companies.

5. Organization Soriana SA De C.V. and the Assumption of Arrogance

The hypothesis of arrogance tells of how a company can generate an overestimation of another and offer over the real cost, paying a price exceeded in the acquisition thereof, (Roll, 1986) which can be reflected in the Tiendas Gigante (Giant Stores) acquisition by Organization Soriana (Organization Soriana).

The December 5, 2007, Soriana held a purchase agreement with Gigante in the amount of 1, 351 million dollars. This includes the transfer of, among other things, the rights of the leases that the Company has made with third parties to lease the properties where it operates some of its stores of supermarkets that have celebrated Gigante, S. A. of C. V. with the real estate group of the Company. This converts Soriana on the landlord of two hundred five stores (198 in Mexico and 7 in the United States), five distribution centers, two meat processing plants, furniture and equipment stores and distribution centers.

The purchase also includes the transfer of all fixed assets of the Company used to operate grocery stores, furniture and equipment of stores and distribution centers, as well as technology transfer of SAP system implemented in the company; the sale of two properties (Durango and Torreon); the use of the trademark "Gigante" by the purchaser during the first four months of 2008; a covenant not to compete for the Company for 5 years; and the transfer of all employees of the company involved in the operation of the supermarket stores, so that from January 1, 2008 Soriana will be the replacement of the same pattern.

Organization Soriana as shown in Table 1 and 2 was not in the best position to make this acquisition.

Table-1. Financial reasons Gigante

		2006	2007	Comments
Liquidity	Working Capital (AC-PC)	8’961,729- 6’852,731 = 2’108,998	16’458,236- 8’889,674 = 7’568,562	Following the divestment of the self-service sector you can see a clear improvement
	Liquidity Ratio (AC / PC)	8’961,729/ 6’852,731 = 1.31	16’458,236/ 8’889,674 = 1.85	Increased liquidity ratio after the divestment
	Acid Test (AC-Inventory / PC)	(8’961,729 – 1’189,562 / 6’852,731 = 1.13	16’458,236 - 1’345,693 / 8’889,674 = 1.70	The index of the acid test is higher in 2007
		2006	2007	Comments
Activity	Inventory turnover (cost of sales / inventory)	24,582,400 / 1’189,562 = 20.66	31,864,963 / 1’345,693 = 23.68	Decreased inventory turnover
	Period inventory (inventory / cost of sales * day period)	(1’189,562 / 24,582,400)*360 = 17	(1’345,693 31,864,963)*360 = 15	They have a good inventory turnover period although many of these were bought by Soriana in the divestment

				process
	Average customer collection period (accounts receivable / sales * day period)	(125,338 / 31’876,300)*360= 1.42	(114,921 / 34’932,998)*360= 1.18	The collection tells us q clients most purchases are made in cash
Debt	Debt ratio (total liabilities / total assets)	25010063 / 11155094 = 0.4460	30200333 / 11761467 = 0.3894	Acceptable debt levels
		2006	2007	Comments
Profitability	Gross profit margin (Gross Profit / Sales)	7,888,600 / 31,876,300 = 0.25	3,333,212 / 34,932,998 = 0.10	The company has higher cost of sales after the divestment
	Net Profit Margin (Net Income / Sales)	306,500 / 31,876,300 = 0.10	4,729,711 / 34,932,998 = 0.14	The company generates a higher margin of profit subsequent to the divestiture
	Return on assets (net income / total assets)	306,500 / 25,010,063 = 0.01	4,729,711 / 30,200,333 = 0.16	The company generates a higher margin of profit subsequent to the divestiture
	Return on equity (net profit / equity)	306,500 / 13,854,969 = 0.02	4,729,711 / 18,438,866 = 0.26	The company generates a higher margin of profit subsequent to the divestiture

Table-2. Financial reasons Soriana

		2006	**2007**	**Comments**
Liquidity	Working Capital (AC-PC)	12,997,011 – 11,468,945 = 1,528,066	16,849,982 – 26,163,752 = -9,313,770	Buying giant Soriana stores left with a marked loss of working capital
	Liquidity Ratio (AC / PC)	12,997,011 / 11,468,945 = 1.13	16,849,982 / 26,163,752 = 0.64	The company had a considerable deterioration in terms of liquidity
	Acid Test (AC-Inventory / PC)	(12,997,011 – 7,080,286) /11,468,945 = 0.52	(16,849,982 – 7,847,221) /26,163,752 = 0.34	The obligations acquired in the purchase of giant stores had a clear impact.
Activity	Inventory turnover (cost of sales / inventory)	47,718,414 / 7,080,286= 6.73	51,796,467/ 7,847,221 = 6.60	Slight increase in inventory turns
	Period inventory (inventory / cost of sales * day period)	(7,080,286/ 47,718,414) *360= 53.41	(7,847,221/ 51,796,467) *360 = 54.54	It has a very high inventory turnover period
	Average customer collection period (accounts receivable / sales * day period)	(611,501 / 60,554,446) *360 = 3.64	(639,878/ 65,190,659) *360= 3.53	The company has a high collection period to customers for the market
Debt	Debt ratio (total liabilities / total assets)	18,283,232/ 43,110,568= 0.4241	33,746,600/ 61,154,338= 0.5518	Acceptable debt levels
		2006	2007	Comments
Profitability	Gross profit margin (Gross	12,836,032 /	13,394,192 /	The profit margin

	Profit / Sales)	60,554,446=0.21	65,190,659= 0.21	is minimal variations
	Net Profit Margin (Net Income / Sales)	2,789,262 / 60,554,446= 0.05	3,134,651/ 65,190,659= 0.05	The profit margin is minimal variations
	Return on assets (net income / total assets)	2,789,262 / 43,110,568= 0.06	3,134,651/ 61,154,338= 0.05	The profit margin is minimal variations
	Return on equity (net profit / equity)	2,789,262 / 24,826,807= 0.11	3,134,651/ 27,407,738= 0.10	The profit margin is minimal variations

Source: Own creation with data annual financial reports of Grupo Gigante S.A. de C.V. (Grupo, 2007;2008; Organizacion, 2007;2008).

It may have been the arrogance and / or inexperience of the main investors in the company and vendor management that take them to make a decision that apparently not generated the best results in terms of short-term concerns, (Ketelhöhn, 2009). The acquisition meant for Soriana acquiring debt for 9,790.998 million pesos. As a result Soriana 2007 saw a considerable decrease in its solvency and liquidity being unable to meet its total obligations with the assets held. (Walter and Barney, 1990) presented 20 possible targets that could pursue acquisitions. For purposes of this work will take only those that apply to the case study:

A. To enhance the competitiveness inherent generating or absorbing a significant market share, the acquisition of 205 stores, in addition to its distribution centers helped to that Soriana has a greater market share.

B. Penetrate new markets through the company's capabilities. Seven giant stores in Los Angeles, California open the doors of the US market.

C. Improving economies of scale thanks to an absorption capacity of the acquired company. In this case, it could be interpreted as such technology transfer capabilities of the SAP system and as the program logistics and distribution centers.

D. Amplification of capacity at lower cost than the installation of new facilities, Soriana acquired the physical space as well as furniture and all the equipment required for its operation. This means that it takes longer than only investing in change image, as the staff was also hired and therefore training expenses and management regarding the hiring of new staff was minimized by acquiring the company.

6. Conclusions

Self-service industry in Mexico in late 2007 approached a duopoly, after the acquisition of Tiendas Gigante (Giant Stores) by Organization Soriana. The market was redistributed being Wal-Mart of Mexico at the lead and Soriana the second competitor at the market. The purchase of the Gigante stores impacted in the short term negatively on Soriana, and positively in Gigante, although the divestment will generate a lower income. Also it was provided greater stability to maintain the operations of other companies in the group.

It can be said that Soriana fell on the assumption of arrogance because it bought at high cost the shops and Gigante earned a good profit by disintegration. But even if Soriana obtained negative results, it was considered a good strategy because as mentioned under Porter´s framework. The industry has few but very large companies competing all the time and to have let Wal-Mart to absorb market share, it would have taken the market monopoly by acquiring most of this.

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Appendix

FINANCIAL STATEMENT 2006-2007 GRUPO GIGANTE SAB de C.V.

	Results statement % integrals		YEAR	2006	YEAR	2007
			$		$	
Income						
	Net sales		31,876,300	100.00%	34,932,998	100.00%
	Other income		594,700	1.87%	265,177	0.76%
			32,471,000	101.87%	35,198,175	100.76%
Costs and expenses						
	Sales costs		24,582,400	77.12%	31,864,963	91.22%
	Operating expenses		6,882,300	21.59%	2,485,966	7.12%
			31,464,700	98.71%	34,350,929	98.33%
	Operating profits		1,006,300	3.16%	847,246	2.43%
	Comprehensive financing cost		184,800	0.58%	51,498	0.15%
	Other expenses		206,100	0.65%	-6,086,415	-17.42%
	Not ordinary account		0	0.00%	49,038	0.14%
	Income before income		615,400	1.93%	6,931,201	19.84%
	ISR		308,900	0.97%	2,201,490	6.30%
	PTU		0	0.00%	0	0.00%
	Consolidated net income		**$306,500**	0.96%	**$4,729,711**	13.54%
	Majority net income		$295,700	0.93%	$4,712,476	13.49%
	Income (loss) Net minority		10,800	0.03%	17,235	0.05%
	Consolidated net income		**$306,500**	0.96%	**$4,729,711**	13.54%
	Basic earnings per common share		$0.34		$4.78	
	Basic earnings per diluted share		$0.34		$4.78	

BALANCE SHEET GRUPO GIGANTE 2006-2007

Grupo Gigante S.A.B. de C.V.				
General balance sheet % integrals	**2006**		**2007**	
			miles de pesos	
ASSETS			$	
Cash	**414,647**	**1.66%**	**634,823**	**2.10%**
Customers	125,338	0.50%	114,921	0.38%
Estimate doubtful debts	-16,134	-0.06%	-8,882	-0.03%
Taxes to recover	200,469	0.80%	586,136	1.94%
Stores Soriana	0	0.00%	7,138,607	23.64%
Others	16,138	0.06%	76,975	0.25%

Accounts Receivable	**325,811**	**1.30%**	**7,907,757**	**26.18%**
Inventories	**1,189,562**	**4.76%**	**1,345,693**	**4.46%**
Prepayments	**72,902**	**0.29%**	**93,991**	**0.31%**
Derivative financial instruments	**529**	**0.00%**	**0**	**0.00%**
TOTAL ASSETS	**6,958,278**	**27.82%**	**6,475,972**	**21.44%**
TOTAL ASSETS flows	**8,961,729**	**35.83%**	**16,458,236**	**54.50%**
Buildings	5,826,677	**23.30%**	5,544,882	18.36%
Adaptations to buildings	1,322,430	**5.29%**	1,403,253	4.65%
Store equipment	705,513	**2.82%**	769,307	2.55%
Furniture and equipment	174,771	**0.70%**	233,376	0.77%
Transport equipment	102,311	**0.41%**	108,224	0.36%
	8,131,702	**32.51%**	8,059,042	26.69%
Cumulative depreciation and Amort	-1,211,097	**-4.84%**	-1,102,107	-3.65%
	6,920,605	**27.67%**	6,956,935	23.04%
Construction in progress	77,770	**0.31%**	127,100	0.42%
Land	5,648,472	**22.58%**	5,858,364	19.40%
EQ estate and net	**12,646,847**	**50.57%**	**12,942,399**	**42.86%**
investment in shares	**216,779**	**0.87%**	**213,538**	**0.71%**
Goodwill and other	**553,336**	**2.21%**	**548,301**	**1.82%**
Discontinued operations	**2,631,372**	**10.52%**	**37,859**	**0.13%**
SUM OF ASSETS	**25,010,063**	**100.00%**	**30,200,333**	**100.00%**

	2006		**2007**	
			thousands of dollars	
LIABILITIES			$	
Bank loans	31,680	0.13%	50,000	0.17%
Portion of long-term liabilities	13,487	0.05%	61,001	0.20%
Documents to pay	985,846	3.94%	983,507	3.26%
Accounts payable	79,125	0.32%	122,270	0.40%
Taxes and accrued expenses	760,906	3.04%	2,113,627	7.00%
Discontinued operations	4,981,687	19.92%	5,559,269	18.41%
TOTAL LIABILITIES	**6,852,731**	27.40%	**8,889,674**	**29.44%**
Long-term loans	48,764	0.19%	39,000	0.13%
Employee retirement obligations	44,085	0.18%	48,307	0.16%
ISR AND PTU (ESPS)	647,531	2.59%	2,206,160	7.31%
Discontinued operations	3,561,983	14.24%	578,326	1.91%
SUM OF LIABILITIES	**11,155,094**	**44.60%**	**11,761,467**	**38.94%**
CAPITAL				
Social Capital	2,688,168	10.75%	2,689,090	8.90%
Share premium	7,523,747	30.08%	7,648,149	25.32%
Retained earnings	17,716,760	70.84%	22,476,480	74.42%
Failure to update	-12,870,774	-51.46%	-13,188,431	-43.67%
Cumulative effect of deferred income tax	-1,312,925	-5.25%	-1,312,925	-4.35%
Majority stockholders' equity	13,744,976	54.96%	18,312,363	60.64%
Minority interest	109,993	0.44%	126,503	0.42%
S.C. TOTAL	**13,854,969**	55.40%	**18,438,866**	**61.06%**
SUM LIABILITIES AND CAPITAL	**25,010,063**	100.00%	**30,200,333**	**100.00%**

	Organization Soriana S.A. de C.V.				
	% comprehensive income statement	Year	2006	Year	2007
		$		$	
Income					
	Net sales	60,554,446	100.00%	65,190,659	100.00%

	Other incomes	0	0.00%	0	0.00%
		60,554,446	100.00%	65,190,659	100.00%
Costs and expenses					
	Cost of sales	47,718,414	78.80%	51,796,467	79.45%
	gastos de operación	8,966,500	14.81%	9,090,800	13.94%
	Operating expenses	56,684,914	93.61%	60,887,267	93.40%
	Operating income	3,869,532	6.39%	4,303,392	6.60%
	Comprehensive financing cost	-420,832	-0.69%	-460,246	-0.71%
	Other expenses	163,530	0.27%	194,121	0.30%
	No ordinary game	0	0.00%	0	0.00%
	Income before income tax and employee profit sharing ISR and PTU	4,126,834	6.82%	4,569,517	7.01%
	ISR	1,337,572	2.21%	1,434,866	2.20%
	PTU	0	0.00%	0	0.00%
	Consolidated net income	**$2,789,262**	4.61%	**$3,134,651**	4.81%
	Majority net income	$0	0.00%	$0	0.00%
	Income (loss) Net minority	0	0.00%	0	0.00%
	Consolidated net income	**$0**	0.00%	**$0**	0.00%
	Basic earnings per common share	$0.34		$4.78	
	Basic earnings per diluted share	$0.34		$4.78	

Organización Soriana S.A. de C.V.	**At December 31 of**			
General balance sheet. % integrals	**2006**		**2007**	
			Thousands of dollars	
ASSETS			$	
Cash	**3,359,814**	**7.79%**	**4,571,113**	**7.47%**
Customer	611,501	1.42%	639,878	1.05%
Estimate doubtful	0	0.00%	0	0.00%
Recover taxes	0	0.00%	0	0.00%
Others	0	0.00%	0	0.00%
Accounts receivable	**611,501**	**1.42%**	**639,878**	**1.05%**
Inventories	**7,080,286**	**16.42%**	**7,847,221**	**12.83%**
Prepayments	**1,944,881**	**4.51%**	**3,791,770**	**6.20%**
Derivative financial instruments	**529**	**0.00%**	**0**	**0.00%**
Discontinued operations	**0**	**0.00%**	**0**	**0.00%**
TOTAL ASSETS	**12,997,011**	**30.15%**	**16,849,982**	**27.55%**
Accounts Receivable at long term	**120,035**	**0.28%**	**115,685**	**0.19%**
Investment in shares	**175,533**	**0.41%**	**172,012**	**0.28%**
Buildings	17,629,665	**40.89%**	19,345,058	31.63%
Adaptations to buildings	0	**0.00%**	0	0.00%
Store equipment	0	**0.00%**	0	0.00%

Furniture and equipment	10,391,186	**24.10%**	11,597,251	18.96%
Transportation equipment	0	**0.00%**	0	0.00%
	28,020,851	**65.00%**	30,942,309	50.60%
Cumulative depreciation and Amort	-6,840,187	**-15.87%**	-7,698,213	-12.59%
	21,180,664	**49.13%**	23,244,096	38.01%
Construction in progress	99,416	**0.23%**	315,188	0.52%
Lands	8,409,594	**19.51%**	8,988,031	14.70%
Estate and EQ net	**29,689,674**	**68.87%**	**32,547,315**	**53.22%**
Redeemable investment	**0**	**0.00%**	**11,401,983**	**18.64%**
Goodwill and other	**101,464**	**0.24%**	**36,935**	**0.06%**
Other assets	**26,851**	**0.06%**	**30,426**	**0.05%**
SUM OF ASSETS	**43,110,568**	**100.00%**	**61,154,338**	**100.00%**
	2006		2007	
			thousands of dollars	
LIABILITIES			$	
Suppliers	10,226,124	23.72%	11,799,584	19.29%
Bank loans	0	0.00%	3,309,888	5.41%
Documents to pay	1,242,821	2.88%	11,054,280	18.08%
Accounts payable	0	0.00%	0	0.00%
Taxes and accrued expenses	0	0.00%	0	0.00%
Discontinued operations	0	0.00%	0	0.00%
TOTAL LIABILITIES	**11,468,945**	26.60%	**26,163,752**	**42.78%**
Other liabilities	205,683	0.48%	167,537	0.27%
Employee retirement obligations	102,128	0.24%	44,377	0.07%
ISR and PTU ESPS	6,506,476	15.09%	7,370,934	12.05%
Discontinued operations	0	0.00%	0	0.00%
SUM OF LIABILITIES	**18,283,232**	**42.41%**	**33,746,600**	**55.18%**
CAPITAL				
Social capital	2,067,442	4.80%	2,067,442	3.38%
Share premium	1,608,645	3.73%	1,608,645	2.63%
Reserve for the repurchase	550,201	1.28%	550,201	0.90%
Retained earnings	24,113,981	55.94%	26,594,868	43.49%
Consolidated net income for the year	2,789,262	6.47%	3,134,651	5.13%
Failure to update	-6,302,724	-14.62%	-6,548,069	-10.71%
Majority stockholders' equity	0	0.00%	0	0.00%
Minority interest	0	0.00%	0	0.00%
S.C. TOTAL	**24,826,807**	57.59%	**27,407,738**	**44.82%**
SUM LIABILITIES AND CAPITAL	**43,110,039**	100.00%	**61,154,338**	**100.00%**