

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Mexico

## Food Processing Ingredients

## Food Processing Ingredients Mexico 2017

**Approved By:**

Julio Maldonado

**Prepared By:**

Jose Castellanos

**Report Highlights:**

Mexico has a strong food processing industry in which leading Mexican brands like Bimbo, PepsiCo, Lala, and Nestle among others, have a well-developed national distribution network that is well positioned in the market and enjoys high brand awareness with consumers who are very loyal despite economic variations. Even with high customer loyalty, these brands have not been exempt of a shift in consumer preference to eat healthier and avoid food high with high sugar and sodium content. Alternate products such as Coca-Cola launching “Coca sin azucar” which translates to Coke with no sugar, and the worldwide trend of companies offering smaller portions of products that are considered unhealthy by nutritional standards, are also expanding throughout Mexico.

## **Section 1. Market Summary**

### **Introduction**

Mexico imported 26.3 billion USD worth of agricultural products in 2016 with 18.2 billion (nearly 70 percent) of the products coming from the United States, making it by far, the largest supplier to Mexico. 2016 agricultural imports have seen a 10 percent decrease from the all-time high of 2014 (20.45 billion USD). If you take into consideration the fact that since January 2015 the overall depreciation of the Mexican peso has reached a significant 40.6 percent against the USD, U.S. exporters have succeeded in the difficult task of exporting their products even though their products increased dramatically in price over a relative short period of time.

Mexico's total GDP for 2016 was US \$1.045 trillion (World Bank) resulting in a little over 9 percent decrease in comparison to 2015. In the same span the Mexican Peso lost 20 percent of its value against the U.S. Dollar starting out 2016 at \$17.25 Mexican pesos per US Dollar and ending the year at \$20.73.

Services accounted for 63.4 percent of the country's GDP while industry and agriculture represented 32.2 percent and 3.8 percent respectively. Mexico's packaged food sales for 2016 were 50.34 US billion.

### **Sales of packaged goods 2011-2016 by category**

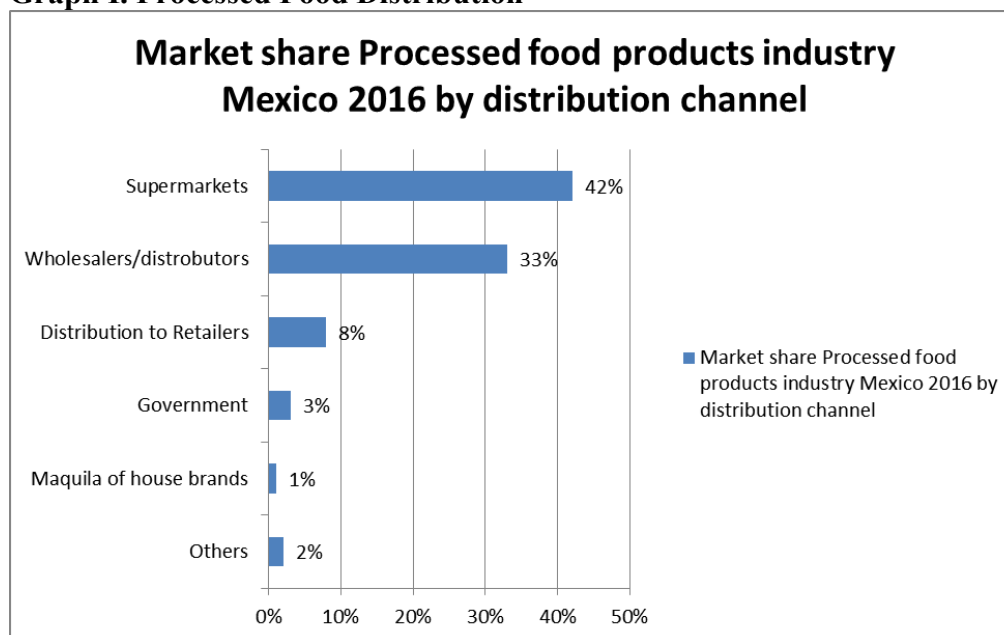
**Table I**

USD ban	2011	2012	2013	2014	2015	2016
Baby Food	0.96	1.01	1.16	1.21	1.14	1.03
Baked Goods	16.42	17.49	19.68	19.81	17.90	15.87
Breakfast Cereals	0.77	0.80	0.83	0.83	0.77	0.68
Confectionery	3.98	3.91	4.31	4.60	4.17	3.68
Dairy	10.89	11.23	12.96	13.42	12.48	11.24
Edible Oils	1.25	1.32	1.55	1.66	1.55	1.40
Ice Cream and Frozen Desserts	0.52	0.53	0.57	0.62	0.58	0.52
Processed Fruit and Vegetables	0.87	0.90	1.02	1.08	1.01	0.92
Processed Meat	2.64	2.79	3.37	3.61	3.41	3.10

and Seafood						
Ready Meals	0.42	0.43	0.49	0.52	0.48	0.44
Rice, Pasta and Noodles	1.69	1.77	2.01	2.09	1.92	1.70
Sauces, Dressings and Condiments	2.83	2.92	3.36	3.54	3.34	3.04
Savoury Snacks	3.33	3.35	3.87	4.01	3.81	3.48
Soup	0.17	0.15	0.17	0.18	0.16	0.15
Spreads	0.38	0.39	0.48	0.54	0.50	0.46
Sweet Biscuits, Snack Bars and Fruit Snacks	2.63	2.68	3.02	3.21	2.98	2.67
Packaged Food	49.75	51.69	58.85	60.92	56.20	50.34

Source: Euromonitor

**Graph I. Processed Food Distribution**



Source: Statista

Mexico has a strong food processing industry in which leading Mexican brands like Bimbo, PepsiCo, Lala, and Nestle among others, have a well-developed national distribution network that is well positioned in the market and enjoys high brand awareness with consumers who are very loyal despite economic variations. Even with high customer loyalty, these brands have not been exempt of a shift in consumer preference to eat healthier and avoid food high with high sugar and sodium content. Alternate products such as Coca-Cola launching “Coca sin azucar” which translates to Coke with no sugar, and the worldwide trend of companies offering smaller portions of products that are considered unhealthy by nutritional standards, are also expanding throughout Mexico.

In Mexico, according to the National Institute of Geography & Statistics (INEGI), there are over 186,000 economic units including offices, manufacturing plants and distribution centers under an industry classification as food and beverage manufacturing and processing, they employ close to 800,000 workers.

### **Key Market Drivers**

Key market drivers for the food processing sector include:

- Increasing interest in healthy foods across all age groups. This is a worldwide trend that the World Health Organization labels as Healthy Ageing. According to the WHO the recognition of the influence of better life choices help prevent or delay chronic illnesses.
- Increasing demand of organic foods and natural ingredients (this ties in with making healthier lifestyle choices).
- Increased demand for convenience foods and prepared meals, due to the growth of urban cities and more women entering the work force. In 2016, a woman was the sole or main provider in nearly 30 percent of all Mexican homes.
- More demand for gourmet and more sophisticated food products. Consumers are looking for new food experiences and are open to trying more exotic flavors and ethnic foods. New Moroccan, Egyptian, and Pakistani restaurants have opened in Mexico City where trends for the rest of the country usually begin.
- Recent demographic changes in Mexico point to the number of persons per household decreasing. In 2015 the average Mexican household contained 3.8 people. With the increase in the number of single households now in Mexico, there is increased demand for processed food products smaller packages or single portions.
- Lifestyle changes such as time away from home, urbanization and more access to information have also affected consumer trends.

### **Advantages and Challenges facing U.S. Foods**

**Table II**

<b>Advantages</b>	<b>Challenges</b>
The demand for imported products depends on the availability,	The food sector is extremely price sensitive and certain products may price themselves out of the market. The

seasonability and price of certain food products.	Mexican Peso lost 20 percent of its value against the USD in 2016. As of Dec. 14 <sup>th</sup> , 2017 The Mexican Peso has gained eight percent closing in at 18.97. It began 2017 at 20.62.
A shared a border with Mexico and NAFTA gives U.S. exporters a competitive advantage over other third country suppliers.	With Mexico's food distribution continuing to improve, Mexico's market becomes more attractive for other countries wanting to export to Mexico.
U.S. food products are regarded as high-quality.	The peso's depreciation rate (the dollar has appreciated 40% in the last two years) make U.S. food products more expensive than local products.
Local manufacturers are always searching for innovations to meet new trends and consumer demands.	Mexico has the most free trade agreements in all of Latin America, this leads to more competition between the United States and other countries.
Higher income levels and more women in the workforce have increased the demand for convenience packaged foods and ready -to-eat products, which are already being produced in the United States.	Since it was uncommon to see U.S. products on Mexican shelves before NAFTA, Mexicans remain brand loyal to a vast number of Mexican brands making it difficult for U.S. products to gain market share.
Due to a growing healthier eating trend in Mexico, there is a demand for healthier products which are already widely produced in the U.S.	Mexicans tend to base their purchasing decision on quantity and price more than quality.

## **Section II. Market Structure and Entry**

### **A. Market Entry**

Locally produced food products continue to have certain competitive advantages over foreign imported products. First, given their location, domestic processors are often more aware of the current and evolving market trends and tendencies and are therefore often quicker to make modifications and meet the demands. Also, domestic processors tend to have a better understanding of the local foodservice industry, including the resources and contacts to gain prominence in this key channel of distribution for the industry. Imported products face direct competition with local specialty companies that cater to particular niche markets relative to regional demands in the country. Smaller domestic companies also tend to have a well-established supply channel with major warehouse food clubs across Mexico, including Costco and Sam's Club, which in turn serve a large portion of the foodservice sector.

Domestic producers of several important processed foods groups, including canned/preserved food, chilled processed food, sauces, salad dressings, and condiments, maintain the leading edge in the market over similar imported products because they cater to local flavors. Artisanal processed foods in Mexico, such as *tortillas* and *bolillos* (*local bread unit*), and other traditional local breads, remain basic food staples in the Mexican diet and as a result, domestically-produced versions of these goods are more favorable to imported brands.

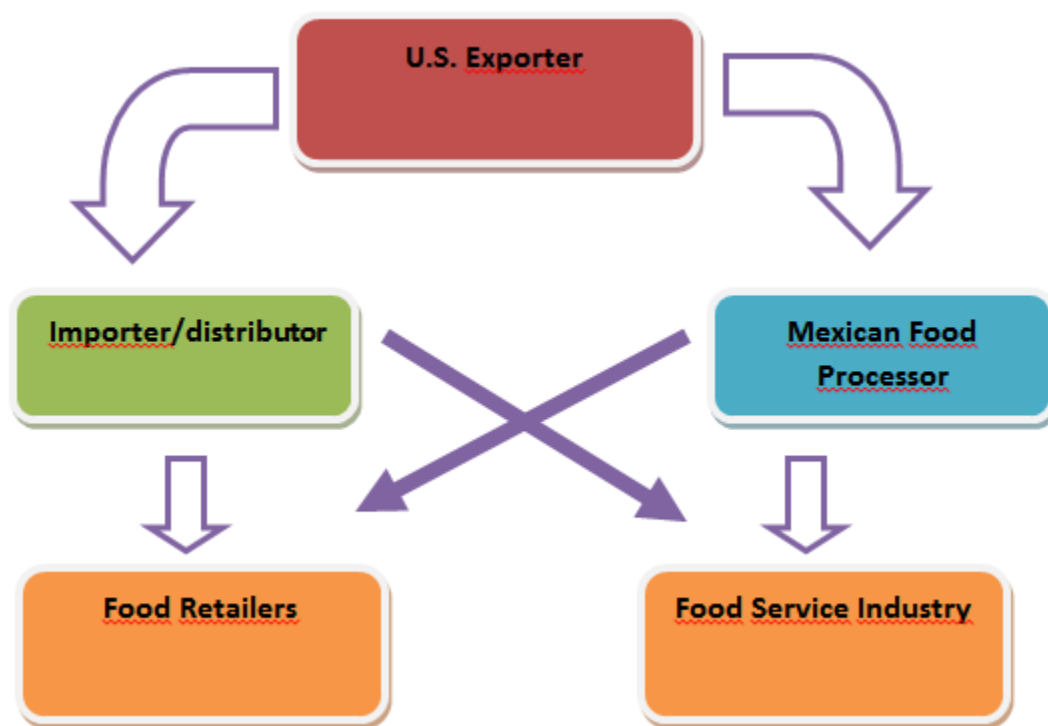
A great deal of competition exists in the category of snacks foods and “impulse/indulgence” food products. Key companies such as Grupo Bimbo (the largest baked goods company in the world) and Grupo Sabritas (owned by PepsiCo.) produce a large number and assortment of baked goods, snacks and impulse and indulgence products, making it difficult for smaller producers to compete locally. Additionally, their efficient distribution and logistical network makes it difficult for new-to-market products to compete as the local brands are found even in the smallest mom and pop stores nationwide. This sector is also faced with the challenge of keeping production costs down in order to stay competitive while meeting new trends specifically those related to consumers making healthier decisions when it comes to day to day nutrition.

Large multinational companies have a competitive advantage over smaller domestic producers in certain product categories such as frozen foods, soups, specialty canned and preserved products, and well-known condiments and flavors that cater to the international pallet. Because of this, companies able to meet the demands of this competitive processed food sector must have the means to invest in technology and innovation not only to meet consumer demands but also maintain low, competitive prices.

### **Market Structure**

#### **Diagram I**

#### **Distribution Channels for Processed Food Products in Mexico**



Processed products have several outlets for distribution in Mexico:

**Retail Market Chains:** Walmart leads the retail sector with 2,174 establishments which include Supercenters, Bodega Aurrera, Sam’s Club and Superama formats, each targeting a different market

segment. Another major retailer, Soriana, operates 834 stores including the 160 stores it purchased from Comercial Mexicana in January of 2015. Comercial Mexicana will keep 40 stores which include all of its Sumesa, Fresko and high end City Market stores. Chedraui with 212 stores is the third most important retail chain in the country. Price club stores (Costco and Sam's Club) carry a good variety of imported processed food products in bulk.

In the convenience store category, Oxxo, owned by FEMSA (second biggest Coca-Cola distributor/bottler in the world) leads the market with 12,599 establishments, with 7-Eleven coming in at a distant second with 1750 stores and Impulsora Círculo CCK which owns Círculo K and Extra stores with 878. Many of these C-Stores will also include gasoline stations given the recent energy reform in Mexico.

Also, there has been an expansion of more upscale retail stores where premium brands and more sophisticated niche food products are sold. These stores include City Market, Chedraui Select, Liverpool, Palacio de Hierro, Superama, and smaller independent specialty stores mostly in larger cities across Mexico. They are also a force in the catering business as well.

It is important to highlight that there are different distribution trends depending on the category of processed foods. For example, meal solution products (e.g., canned products, sauces, dressings) are typically purchased in supermarkets. Both frozen and chilled processed foods are also primarily sold in large retail outlets, because of their need for refrigerated storage and large freezers, with the exception of popular brands that provide refrigerators for distribution in convenience stores. Wet markets are still the norm, selling fresh meats, fruits and vegetables in the most middle and lower income neighborhoods across Mexico.

**Food Service Industry:** In the HRI foodservice industry large local food processors like Bimbo (baked goods) and Herdez (canned goods) have the greatest market presence; they dominate the foodservice sector and have mature and developed distribution systems. Other major players in the HRI industry are Nestlé Professional, Mondelez de México, Unilever Foodsolutions and Sigma Foodservice that supply the local foodservice sector with different categories of products that include but are not limited to beverages, dairy, refrigerated products, breakfast cereals, chocolate, and bottled water. Much of their success is due to their strategic alliances with the largest chained foodservice operators supplying them with a wide variety of products ranging from sauces, dressings, and condiments to dairy products and baked goods.

Roughly 80 percent of all U.S. exports to Mexico are transported by truck. Under NAFTA, most U.S. food products can be imported duty-free into Mexico. Nonetheless transportation to Mexico can be another challenge. High transportation costs, especially for exporters of temperature controlled products (as is the case with American craft beer) and those sending small shipments can affect competitiveness of U.S. products.

## A. Company Profiles

**Table III. Mexico's food processing companies –Company Profiles**

<b>Company</b>	<b>Number of Employees</b>	<b>Sector</b>
Grupo Bimbo SAB de CV	127,152	World leader in baked goods and foods
Gruma S.A.B. de C.V.	19,202	World leader in production of cornmeal, tortillas and flat bread.
Industrias Bachoco SAB de C.V.	25,000	Chicken, and fresh eggs, convenient foods such as ground meat and chorizo
Industrial group Lala SA de CV	33,244	Dairy Products
Sigma Alimentos SA de CV	30,500	Processed fruits, vegetables, cold meats, cheese and yogurt
Ganaderos Productores de Leche Pura, SA de CV	6,774	Dairy Products
Grupo Herdez SA de CV	8,703	Produces and commercializes, sauces, canned fruits and veggies, dried pasta
Grupo La Moderna SA de CV	4,500	Pastas, crackers and flours
Grupo Bafar S.A.B. SA de CV	9,808	Manufacturing and distribution of cold cut meats
Grupo Minsa S.A.B. de CV	1,100	Corn Flour
Pescados Industrializados SA de CV	1,000	Canned tuna
Lechera Guadalajara SA de CV	3,500	Dairy products
Chilchota Alimentos SA	750	Dairy products



de CV		
Derivados de Leche La Esmeralda SA de CV	1,700	Cheeses, cream and butter
Keken	5,000	Exporter of Pork to the Asian Market
Productos Verde Valle S.A. de C.v.	3,700	Processing and distribution of rice, beans and seeds.
Conservas la Costeña SA de CV	2,250	Preserved fruits and veggies, canned food, sauces, soups, jelly

Source: Promexico/Euromonitor

#### Overall competitive situation for U.S. exports 2016

Product category Total Import in million US\$	Import in Million USD	Main suppliers in percentage	Strengths of Key supply countries	Advantages and Disadvantages of Local Suppliers
PG 30 Breakfast Cereals	71.14	1. U.S. 84.79 2. Canada 4.10 3. Chile 2.26	Distance, availability and regional	Developed processed food industry
PG 31 Snack Foods	506.46	1. U.S. 60.62 2. Canada 13.92 3. China 3.81	Distance, availability and regional products	Developed confectionary industry
HS 02: Meat	3,587.51	1. U.S. 82.77 2. Canada 9.33 3. Brazil 3.02	Distance, availability and regional products	Strong market with well developed distribution channels.
HS 03: Fish and Crustaceans	609.86	1. China 29.72 2. Chile 17.65 3. Vietnam 16.97 4. U.S. 8.03	Price	Fish and seafood consumption is cyclical in Mexico and it is notably higher during Lent.

HS 04: Dairy Produce; Birds Eggs and Natural Honey	1650.96	1. U.S. 75.19 2. New Zealand 13.37 3. Netherlands 2.70	Distance, availability and regional products	Great tradition of milk and milk based products
HS 07: Edible vegetables	414.91	1.U.S. 73.51 2. Canada 9.30 3. Chile 6.07	Distance, availability and regional products	Production returned to normal levels in 2013 after severe drought in 2011
HS 08: Edible Fruits and Nuts	942.56	1. U.S. 81.26 2. Chile 9.35 3. Turkey 2.75	Distance, availability and regional products	Products not sufficiently available on local market
HS 09: Coffee, Tea, Mate and Spices	390.06	1. Sri Lanka 20.92 2. Vietnam 13.09 3. Brazil 12.74 4. U.S. 10.18	Trading tradition /Price & Quality	New niche market for premium coffee consumption
HS 16: Edible Preparations of Meat Fish, Crustaceans	461.39	1. U.S. 62.85 2. China 18.55 3. Ecuador 6.61	U.S. Proximity	The most popular retail channel for the sale of fish and seafood is outdoor markets because these offer the freshest products and a wide variety of options
HS 19: Preparation		1. U.S. 59.55	Proximity	Taking effect on 1 January

off Cereals, Flour, Starch or Milk	630.38	2. Canada 7.76 3. Netherlands 5.76		2014 a new tax called IEPS – Impuesto Especial Sobre Producción y Servicios (Special Tax Over Production and Services) imposed an 8% rate on high-calorie food, that is those products with 275kcal and above per each 100g of product.
HS 20: Preparations of Vegetables, fruits, Nuts	701.5	1. U.S. 62.09 2. Chile 14.61 3. Canada 6.89	Proximity	Not sufficiently domestically available
HS 21: Miscellaneous Edible Preparations	1,387.97	1. U.S. 83.55 2. Uruguay 2.58 3. Spain 1.45	Proximity	Not sufficiently domestically available
HS 22: Beverages, Spirits, Wine and Vinegar	1,074.78	1. U.S. 42.89 2. U.K. 16.29 3. Spain 11.73	Excellent regional products	Strong beverage tradition, growing demand for Bourbon / U.S. Whiskey

Source Global Trade Atlas

### **III. Competition**

The processed food sector in Mexico is extremely price sensitive; companies need to keep prices low in order to stay competitive. Market competition comes from large local food processors that carry increasingly modern and developing lines of Mexican food products.

Companies like Grupo Herdez, Bimbo, La Costena and Sabormex are local competitors for U.S.

exporters, but also represent opportunities in terms of imports of ingredients for processing.

By product category:

- Herdez is the leader in processed and canned food and also owns Barilla Dry Pastas.
- Grupo Bimbo keeps leading the market in the bakery category and the impulse/indulgence categories such as biscuits, pastries and confectionary products. However, with the healthier foods trend and the obesity epidemic in Mexico, Bimbo's traditional products are losing ground to healthier packaged food products such as Quaker brand.
- Great competition exists in the category of snacks foods and "impulse/indulgence" food products. Large players, such as Grupo Bimbo and Grupo Sabritas, produce a large number and assortment of products to compete locally. Both have a remarkable distribution system creating barriers to enter the local market.
- Leading brands are facing direct competition with private labels that are popular and less expensive. The strongest private label brands currently in the market are by main retailers like Wal-Mart (Great Value), Comercial Mexicana (Kirkland and KPrecio) and Soriana private label.

In addition, there is the influence of other competitors, such as China, the European Union, South America, New Zealand and Australia that are gaining ground in the Mexican food market as a result of the various Trade Agreements Mexico has signed with these countries.

However, there are different niches of opportunity in the processed food market considering the major trends in Mexico, such as the growth of the population, the changes in consumption habits, and the increased demand for convenient foods.

#### **IV. Best Product Prospects**

Products with high sales potential in the food processing sector are:

- Healthy processed foods (Low sodium, low-fat, reduced sugar)
- Premium products- claiming better quality and product innovation.
- Gourmet Food – sauces, condiments, artisanal cheeses .
- Ethnic Foods such as Asian type items, Mediterranean food, European food .
- Dairy products- distinctive formulation of yogurts (greek etc), segmentation of milk products
- Ingredients for the processed food industry .
- Convenience Foods such as Ready-to -eat, meal helpers, frozen foods.

Craft Beer – there is a growing demand for differentiated premium beers. Consumers are demanding Ales such as Porters, Stouts and IPA's. Average year to year growth of the Mexican craft beer industry since 2011 is 58% annually according to ACERMEX (Mexican Craft Brewers Association).

#### **SECTION V. POST CONTACT AND FURTHER INFORMATION**

For further information and to learn more about the services provided by the Agricultural Trade Offices (ATO) in Mexico, please contact us at:

**U.S. Agricultural Trade Office in  
Monterrey, México**

U.S. Consulate  
150 Prolongacion Avenida Alfonso Reyes  
69196 Santa Catarina, N.L.Monterrey, Nuevo León  
Tel: (011 52 81) 8047-3393  
E-mail: ATOMonterrey@fas.usda.gov

**U.S. Agricultural Trade Office**

**Mexico City, Mexico**

Liverpool No. 31, Col. Juárez  
06600 Ciudad de México,, México  
Tel: (011 52 55) 5080-2000 ext. 5282  
E-mail: atomexico@fas.usda.gov

**FAS/Mexico Web Site:** We are available at: <http://www.mexico-usda.com> or visit the FAS headquarters' home page at: <http://www.fas.usda.gov> for a complete selection of FAS worldwide agricultural reporting.

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