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Mexico

HRI Food Service Sector

Report

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Report Highlights:
Mexico's hotel, restaurant and institutional food service sector continues to provide good export opportunities for U.S. suppliers. Total hotel and restaurant sales in Mexico were estimated to be $46 billion in 2002. Though there was not a growth in the number of tourists to Mexico from 1999 to 2002, spending by tourists increased 23 percent during that time. Almost 90 percent of foreign tourists to Mexico are from the United States and many show a preference to purchase U.S. products.

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[MX]

Hotel Restaurant and Institution Sector Report

SECTION 1. MARKET SUMMARY

Mexico's hotel, restaurant and institutional food services (HRI) sector continues to provide export opportunities for U.S. suppliers. Total hotel and restaurant sales in Mexico were estimated at US$46 billion in 2002. Mexico has been hit by the worldwide tourism slump, but despite the fact that the number of visitors increased by less than one percent from 1999 to 2002, spending increased by 23 percent during the same period.

According to Mexico's Secretary of Tourism, there are 11,618 hotels with 469,488 rooms and over 200,000 restaurants. Although no official data exists on the institutional food service market in Mexico, industry representatives estimate that roughly six million meals are prepared each year.

U.S. suppliers continue to enjoy favorable market conditions as Mexican consumers become more discerning and American restaurant and hotel chains expand operations in Mexico. U.S. products are perceived to be of higher quality than those of local producers, particularly red meat, poultry and dairy products. American products dominate imports with the main competition coming from local firms that supply the bulk of HRI needs. Of all food products consumed in hotels, approximately 15 percent is imported.

The decline in tourism has affected purchasing practices. An industry source notes that some hotels have instituted centralized controls that limit individual hotels' ability to purchase new items.

The HRI sector is served almost exclusively by independent distributors. While some hotels and restaurants do import directly, U.S. suppliers will almost certainly need to serve the market through an established distributor. The best prospects for U.S. exporters are with the large hotel groups and international-class restaurants since smaller establishments use few further-processed foods. Many U.S. food products, including frozen beef, are purchased directly at large Club Stores for use in smaller restaurants.

Advantages and Challenges Facing U.S. Products in Mexico

Advantages	Challenges
The United States is already the leading foreign supplier to Mexico's HRI sector.	Commercial barriers such as labeling, phytosanitary and sanitary regulations and NOMs (Mexican quality standards) continue to pose obstacles for importing some U.S. products.
Geographical proximity gives U.S. exporters a competitive advantage over third country suppliers.	As Mexico's transportation and distribution infrastructure improves, other countries will be able to deliver product more efficiently to the Mexican market.
Because of NAFTA, U.S. products have preferential import duties compared to products from other countries. As of 2003, most U.S. food and agricultural product exports to Mexico are duty-free.	The European Union, Chile and other Central American and South American countries have free trade agreements with Mexico giving them preferential duties for some products.
Rising per capita income, more women in the work force, and increasing foreign investment are driving the demand for processed foods.	U.S. firms must aggressively solicit new business and establish in-country sales and servicing infrastructure.
International visitors demand high-quality and U.S. style foods.	Local suppliers can fulfil the demand for many products.
Familiarity with U.S. chain restaurants.	Limited market for up-scale restaurants.
Increased investment from U.S. hotel and restaurant chains in Mexico.	Convincing U.S. chains to use U.S. suppliers despite local competition.
High quality and consistency of U.S. products.	Transportation and distribution methods make it difficult to serve market.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Since selling to the HRI sector requires micro-servicing of hundreds or even thousands of points, a U.S. supplier will need to work though a local distributor. Most buyers will insist that a local distributor deliver product, collect payment and resolve problems. The key is finding a reputable firm; there are a limited number of qualified representatives with the infrastructure and reputation to successfully serve the market.

The best way to simultaneously find a distributor and determine the viability of your product in the market is to visit Mexico and meet with prospective representatives. These distributors are constantly visiting customers and introducing new products; if anyone knows whether a given food item has possibilities, it is the distributors. The ATO can assist with a list of distributors for product types.

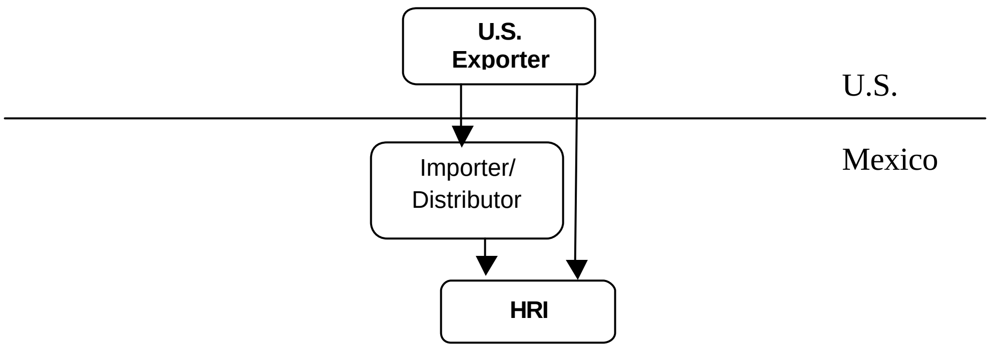
Buyers will insist on having product samples to be tested in the hotel or restaurant. Chefs usually choose ingredients, so getting the food item tested by these decision-makers is an important first step.

Once a distributor is established, the U.S. supplier needs to nurture the relationship. Good communication between the supplier, distributor, and end-user was cited often by interviewees as one of the most important components for building a successful distribution network in Mexico. U.S. suppliers should closely monitor their distributor's activities by traveling to the market, going on customer calls and supporting promotional activities.

It is possible to bypass a Mexican distributor and to sell directly to hotels or restaurants. The restaurant chain VIPs (owned by Walmex), for example, imports containers from large suppliers directly from the United States. Smaller suppliers deliver to a warehouse in Laredo where shipments are consolidated for transport across the border. But since few organizations have the infrastructure to import directly and deliver to their own outlets, the exporter would need a local distributor to service the rest of the market.

B. MARKET STRUCTURE

Distribution is the single most important factor in any food product's success in Mexico. The following chart illustrates the primary channels for food products exported from the United States and sold in Mexico.



Types of distributors

There are essentially three types of distributors serving the HRI sector. The first supply basic dry goods and fresh products purchased at the *Central de Abastos* (Central Supply Market), Club Stores, local suppliers, and other markets. These distributors are basically delivery services.

The second type of distributor is a specialized importer. These importer-distributors have their own warehousing facilities and delivery vehicles and usually specialize in one type of product. Examples in Mexico City include Monjuic, specializing in imported cheeses, and Vininter, a pasta, wine, and liquor distributor.

The third type of distributor is the major international-style fast food service distributor. Major companies include Martin Brower for McDonalds and Pacific Star for KFC and Pizza Hut. Other importers not only serve international chain restaurants, but also provide food products to a wide variety of mostly upscale hotels and eating establishments. Distribuidor Internacional de Alimentos (DIA) and its subsidiary, Exim del Caribe, is a large company serving 96 cities with over 1000 products. DIA distributes to Domino's, Burger King, Cinemark and Starbucks.

It is important to note that there is no large "multi-supplier" similar to Sysco in the United States that serves the HRI sector. For this reason, dozens of trucks make deliveries each day to large hotels and restaurants. The Hotel Presidente, for example, reports that up to 50 trucks arrive every day.

Although Unilever and Nestle Food Service have sophisticated distribution systems, they generally only supply their own products. The remaining independent distributors will specialize in a single product group and operate only regionally. One company, Chef Mart Food Service, plans to offer a full catalog of food and supplies to the industry, but currently only serves Mexico City with a limited group of products. Although Chef Mart is owned by two large processors, Jumex and La Costeña, they will also offer products that they do not manufacture.

Distribution methods

Only Mexican entities registered with the Ministry of Economy as importers may bring product into Mexico. The importer will be one of three entities, an independent importer-distributor, the hotel or restaurant itself, or a distribution subsidiary of the U.S. supplier.

The HRI sector relies on local distributors. One of the largest chains catering to tourists, Grupo Anderson's, uses only local firms to supply product. While there is a buyer in the corporate office, purchasing decisions are made at each one of their 62 restaurants.

It is possible to sell directly to restaurants and hotels. Indeed, some of the major hotel and restaurant chains do import product directly from the United States. The Hotel Presidente, for example, imports meat directly but uses a customs broker who also delivers the imported product to the hotel. VIPs, a large family-style restaurant chain owned by Wal-Mart, imports some high volume products directly.

Larger companies that have experience in the market may have their own representative and/or distribution system in Mexico. This is the preferred method for most companies since they can maintain control over distribution. Still, it requires a substantial investment and is not a practical option for any but the largest companies.

Distributors' margins can range between 15 to 40 percent depending on whether the food item is a gourmet product or more of a commodity. U.S. suppliers are usually shocked at these mark-ups, but a distributor in Mexico has higher costs and risks than does one in the United States for at least two reasons. First, the import process is time consuming and cumbersome. Second, distributors don't wait for checks to come in the mail; they may have to send a messenger several times to a customer's office in order to collect. Hotels and restaurants usually receive seven to 15 days credit from suppliers.

Many of the international chains, both fast food and other franchises, begin operations in Mexico by importing virtually all of their consumables from the home distribution center, usually in the United States. This percentage decreases over time as Mexican suppliers fill the gap. The distributor serving KFC and Pizza Hut, for example, imported 80 percent of their food products from the United States in 1995 – now that figure is down to 30 percent. McDonald's has reduced their food imports to less than 10 percent.

Transportation

A land border crossing by truck is the most likely form of transportation for U.S. food products. Excluding Cancun, the largest Mexican markets in the HRI sector are located in the interior of the country. Approximately 80 percent of all U.S. exports are transported to Mexico via truck. A 40 foot trailer from Laredo to Mexico City will cost approximately US $1000, and a refrigerated trailer will cost around US $1300. The Mexican national railway system is antiquated and disorganized; it is not really an option for anything but bulk commodities. Maritime transportation may be considered for delivery to Cancun, but is generally not practical for processed foods. A limited amount of product, usually fresh fish, is sent from the United States by air.

C. SUB-SECTOR PROFILES

Hotels and Resorts

Mexico is the world's seventh largest tourist destination in the world, with 3.6 percent of all tourists. Arrivals from the United States represent more than 90 percent of total international tourism to Mexico. Though the number of tourists increased by less than one percent from 1999 to 2002, spending actually increased by 23 percent. It is estimated that there were 100 million foreign visitors to Mexico in 2002 that spent close to US$9 billion.

Number of Visitors to Mexico and Total Spending

Year	Number of Visitors (000s)	Total Spending (US$ Millions)
1999	99,869	7,223
2000	105,673	8,295
2001	100,718	8,401
2002	100,151	8,858

Source: Secretary of Tourism

Mexico's Secretary of Tourism, reports that there are 11,618 hotels with 469,488 rooms througho ut Mexico. According to Horwath Castillo Miranda, total annual sales were approximately US$31 billion in 2002.

Hotel and Restaurant Sales in Mexico (000s of US$)

	2002
Hotel Sales [1]	30,943,103
Restaurant Sales [2]	14,984,520
Total Sales	45,927,623

Source: Horwath Castillo Miranda, Mexico City [1] , CANIRAC [2]

Mexico City has the largest number of hotels in the country, with 670 hotels and 47,000 rooms. Of these, 55 hotels were classified as "International Tourism Quality" with a total of 14,570 rooms. Other important business and tourist destinations are the cities of Monterrey and Guadalajara and resorts on the coasts of the states of Quintana Roo, Baja California, and Guererro.

Four and five star hotels make up almost 40 percent of the rooms available around the country. This is significant since imported food products are more likely to be used at upscale hotels catering to foreign travellers. The Mexican hotel industry derives approximately 29 percent of its total income from the sale of food and beverages.

Hotels by Category and Number of Rooms

Category	Number of Hotels	Number of Rooms
Five Star	575	109,170
Four Star	1,140	92,559
Three Star	1,987	82,822
Two Star	1,834	55,326
One Star	1,949	46,952
No Category	4,133	82,659
TOTAL	11,618	469,488

Source: Secretary of Tourism

*Includes villas, apartment hotels, guest houses, bungalows, inns, furnished rooms, camps, and cottages.

The hotel industry is dominated by several large groups in Mexico. The largest, Intercontinental Group, manages 81 properties. Grupo Posadas handles 58 hotels. Fratur, Hoteles Camino Real, Grupo Calinda, Grupo Cosamex, and Hotelera Chicome are also principal players.

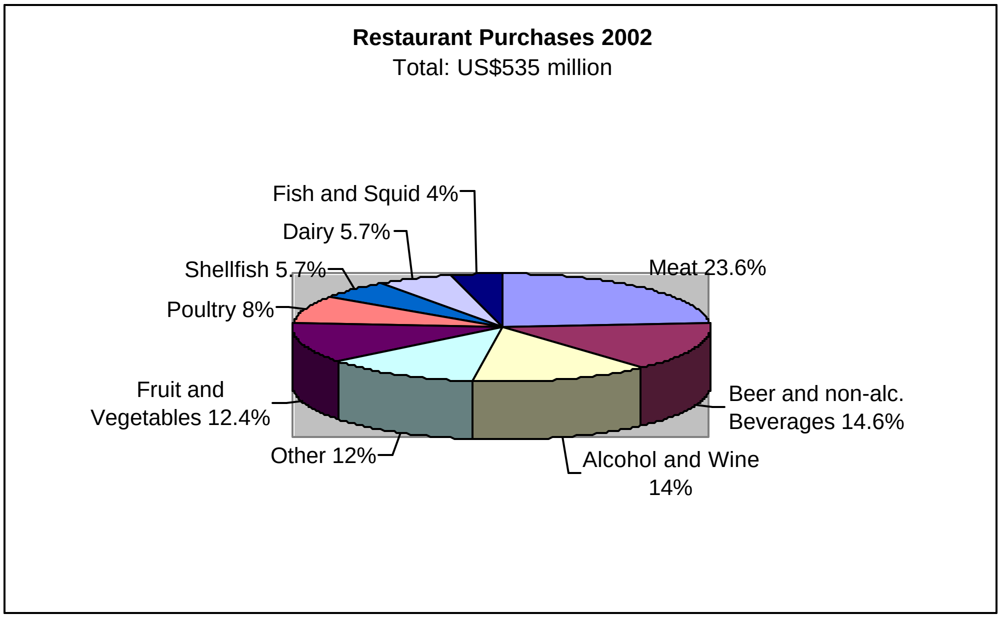
Restaurants
According to CANIRAC, the National Restaurant Chamber, the Mexican restaurant industry comprises 221,249 establishments. In 2002, total restaurant sales approached US$15 billion, nearly 2.5 percent of the Mexican gross domestic product and 25 percent of tourism industry sales. Restaurants employ 800,000 workers or two percent of total employment.

Approximately 9,000 restaurants belong to the "organized" class of chains and large establishments, the remainder are small, family-owned operations. There are roughly 70 restaurant chains in Mexico, a category that includes the following three types: fast food; no-frills, family-oriented sit down; and international and clasical theme restaurants. Of the large restaurant operators in Mexico, Wal-Mart de Mexico and Corporacion Mexicana de Restaurantes stand out with 262 and 92 outlets respectively

Well-known U.S. restaurants such as The Palm, China Grill and Le Cirque can be found at the finer Mexican hotels. The exacting standards of U.S. chains oblige Mexican operators to source U.S. product. By contrast, chains such as Grupo Anderson´s (Señor Frogs, Carlos and Charlies) that also cater to national and international visitors source most of their product nationally and only import liquor, and wine, and sauces.

The many fast food restaurants that entered Mexico in the 1980's have continued to expand. New shopping malls around the country feature food courts with well-known U.S. fast food franchises. Grupo Yum, owner of KFC and Pizza Hut, has 410 outlets around the country and may soon bring Taco Bell, Long John Silver and A&W. Another group, ECE owns 18 restaurants, mostly in tourist areas, that include Hard Rock Café, Planet Hollywood, Rainforest Café and others. Other smaller fast food companies include: Arby`s, Carl`s Jr. Hamburgers, Papa John's Pizza, Sushi Itto, Taco Inn, Opah (Greek Food) and Helen´s.

Restaurants spend approximately US$535 million per year on ingredients/raw materials. Meat, alchoholic and non-alchoholic beverages represent just over half of this amount.



Source: CANIRAC 2002

Institutional Food Sector

The Mexican institutional food services industry includes airline and cruise ship catering, hospitals, schools, golf courses, institutional food cafeterias, the military and prisons.

Airlines: Airlines outsource the preparation of inflight meals to catering companies known as "comisariatos". There are really only two companies serving this market: Gate Gourmet and Luftansa Services (Skychef and Aerococina).

Airlines such as Aeromexico select the menu and define the portion sizes. The contracted caterer will choose suppliers based upon price and quality defined by the airline. The caterers primarily source with local suppliers, though companies like Gate Gourmet are increasingly purchasing U.S. dairy and meat products and Chilean seafood. While in most cases the caterer decides on ingredients, there are instances in which the airline will request a certain product or brand.

Military and prisons: The Mexican military's food purchasing is decentralized. According to a purchasing officer at Navy Command, each base around the country is responsible for purchasing locally. Imported products are generally not considered unless it is price competitive with local inputs.

Prisons also source all their food requirements locally. There are three different jurisdictions operating prisons in Mexico: Federal, State and Municipal. Prison contracts are awarded almost solely on price and imported products are rarely purchased.

Company cafeterias: A high percentage of Mexican companies – both manufacturers and professional offices – provide meals to their employees, either free of charge or at greatly reduced prices. Most, including that at Ford Motor Company, report that they use Mexican products almost exclusively. Scotiabank Inverlat, however, serves imported products in their corporate dining rooms such as U.S. beef, salmon and potatoes which are sourced from local distributors.

Hospitals: There are approximately 27,200 hospital units in Mexico. Of these, almost 23,000 are state-owned and purchase very little imported product. Private hospitals catering to higher income patients are increasingly adding imported food to their menus. The ABC in Mexico City commented that they are purchasing imported meat, fish and dairy products. The ABC also reported that they were pleased with imported catfish because it lacks a fishy odor and keeps longer on the patient's plate.

Hospital Units in Mexico

Hospital Type	Number of Hospitals
Private Hospitals (1)	4,453
Hospitals	2,950
Clinics	678
Radiology C linics	825
Public Hospitals (2)	22,762
Health Secretariat	11,835
Social Security Hospitals	5,378
Social Services and Security Institute for State Workers	1,247
Petroleos Mexicanos Pemex, State Oil Company	215
Military Hospitals	341
Oceanic and Navy Secretariat	137
Others	3,609
Total	27,215

Source: 1. Direccion General de Epidemiologia-Secretaria de Salud, Boletin Estadistico 1999
2. Secretaria de Salud-Direccion General de Información y Evaluación del Desempeño, Boletin de Informacion Estadistica num. 21, 2001.

SECTION III. COMPETITION

The main competition for U.S. exporters selling to the HRI sector will come from established Mexican companies. National producers have a long and distinguished history. Large processors such as Herdez (canned goods), Bimbo (bread and baked goods), and Sabritas (snacks) dominate those segments and have sophisticated production and delivery systems. The brewing giants, Grupo Modelo and Cervecería Cuauhtemoc, have almost complete control over beer distribution. Important multinational firms active as local suppliers include Bacardi, Campbell's, Coca Cola, Danone, Del Monte, General Mills, Kraft Foods, Nestle, Unilever and others.

The United States dominates Mexico's food imports with 78 percent of the total. Still, there is competition from other countries.

- Chile, which has a free trade agreement with Mexico, is strong in poultry and seafood.
- Canadian producers are more active than ever and compete with the United States in meat and dairy products.

- Asian products are imported by a limited number of distributors. China is becoming strong as a supplier of frozen talapia, an increasingly popular freshwater fish.
- Competition from Europe has also increased as a result of the Mexico-European Union Free Trade Agreement, although meat and dairy products were excluded from the treaty. Europe and Chile dominate wine imports leaving U.S. producers with a small share of that market.

Food Product Imports Ranked by Country

Product Group	Rank	Country	Share of Import Market (%) 2002
Beef	1	United States	88.9
	2	Canada	11.5
Dairy	1	United States	32.85
	2	Canada	20.36
	3	New Zealand	9.96
	4	Germany	3.93
Seafood	1	United States	19.47
	2	Chile	12.68
	3	China	11.85
	4	Costa Rica	8.34
Chicken	1	United States	89.84
	2	Chile	10.16
Wine	1	France	29.46
	2	Chile	24.73
	3	Spain	19.07
	4	Germany	12.28

Source: World Trade Atlas, Global Trade Information Systems Inc., July 2003.

SECTION IV. BEST PRODUCT PROPECTS

Products Present in the Market Which Have Good Sales Potential

- Mexican buyers, particularly those in the hotel industry, suggest a strong demand for high quality U.S. meats such as Angus, rib eye, and New York strip.
- Lunch meats, minute steaks, and other processed meats show good prospects, according to buyers.
- Buyers suggest that fish (especially talapia) and seafood products (particularly white crab and lobster) also present lucrative opportunities. Frozen seafood, of which 70 percent is sold to restaurants, has great potential.
- The Hotel Nikko expressed they would like to see more canned whole fruits in syrups.
- Desserts, specifically high quality ice creams, present strong possibilities.
- Processed fruits, vegetables, and egg products are expected to record high levels of growth in the near future.

- Pre-made sauces, particularly dressings and salsas, continue to have strong demand.
- The Palm Restaurant in Mexico City mentioned that they had trouble finding soups, U.S. fruit juices, and high quality U.S. spices for seafood dishes.
- Although there is strong competition in snack foods from Mexican manufacturers, there is still room for high quality and innovative products.
- Nearly every interviewee suggested that the strongest trend in the market is towards "light" food.

Products Not Present in Significant Quantities but Which Have Good Sales Potential

According to Mexican buyers, there is good market potential for gourmet products as well as lobster, crab, squid and salmon. Theme restaurants catering to international tourists and high-end Mexico City restaurants are interested in portion control and high quality spices in bulk. Similarly, hotels are using more pre-made appetizers for food service and catering.

Products Not Present Because They Face Significant Barriers

Most U.S. food and agricultural products became duty free on January 1, 2003 when the ten-year implementation period for the North America Free Trade Agreement (NAFTA) came to an end. However, the potential increase in imports associated with this opening resulted in negotiations to contain U.S. exports of certain products. Thus, some products still face quotas or other barriers: fresh poultry, beef carcasses, bone-in meat, boneless beef cuts, prime beef cuts, fresh potatoes, sugar, cocoa and cacao, white corn and high fructose corn syrup, among others.

Consumer preferences or monopolistic practices of large Mexican suppliers are more often responsible for thwarting new entrants than are government barriers. California wines have not done well in Mexico and interviewees cited a Mexican preference for those from Spain, France or Italy. Imported beers have faced tough opposition from the two big Mexican brewers, which control distribution to hotels and restaurants.

SECTION V. POST CONTACT AND FURTHER INFORMATION[1]

If you have any questions or comments regarding this report or need assistance exporting processed food products to Mexico, please contact the U.S. Agricultural Trade Office in Mexico City at the following address:

The U.S. Agricultural Trade Office, Mexico City
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Industry Contacts

Company	Address	E-mail	Telephone and Fax
National Association of Supermarkets and Retailers (ANTAD)	Homero 109 Piso 11 Col. Polanco 11560 Mexico DF	gral@antad.org.mx	T: 55 55-80-17-72, F: 55 53-95-26-10
National Association of Grocers	Tolsa 54 Col. Centro CP 06040 Mexico DF	anam98@prodigy.net.mx	T/F: 55 57-09-36-97, 55 57-09-37-01
Mexican National Association of Hotels and Motels	Balderas 33-414 Piso 4 Col. Centro 06040 Mexico DF	amhmmex@prodigy.net.mx	T: 55 55-10-86-14, 55 55-10-86-59 F: 55 55-10-88-74
Mexican Association of Restaurants (AMR)	Torcuato Tasso 325-103 Col. Polanco 11560 Mexico DF	wwwamrac@prodigy.net	T: 55 52-50-11-46, 55 55-31-09-11 F: 55 55-45-86-71
Mexican Association of Hospitals	Queretaro 210 Col. Roma 06700 Mexico DF	amhospitales@hotmail.com	T: 55 55-74-01-28, 55 52-37-99-86 F: 55 55-84-18-82
National Chamber of the Industry of Restaurants and Food (CANIRAC)	Aniceto Ortega 1009 Col. Del Valle 03100 Mexico DF	canirac4@prodigy.net.mx	T: 55 56-04-04-18, 56-04-42-06 F: 55 56-04-40-86

[1] This report is for informational purposes only to assist U.S. exporters in their sales and promotional efforts of food and agricultural products in Mexico. The data in this report were collected from local trade and government sources and not necessarily official U.S. Department of Agricultural (USDA) data. While every effort has been made to provide an accurate list of contacts, telephone and fax numbers change frequently in Mexico. Also, there may be other qualified firms in Mexico and the United States and their exclusion from any lists or directories is unintentional. Neither the U.S. Agricultural Trade Office (ATO), nor the USDA endorses any firm contained herein. U.S. exporters should take normal commercial cautions when dealing with any potential importer, including conducting reference checks.