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## **Mexico**

### **Food Processing Ingredients**

#### **Food Processing Ingredients Mexico**

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**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 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 healthy and avoid food high with high sugar and sodium content. Alternate products such as Coca-Cola launching "Coca Cola Sin Azucar" which translates to "Coca-Cola with no Sugar", and the worldwide trend of companies offering smaller portions of products that are considered to have high calorie content are also expanding throughout Mexico.

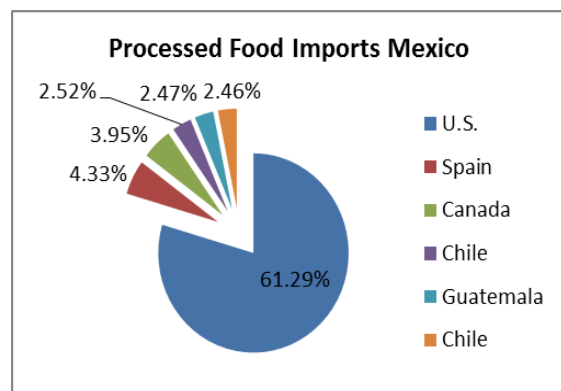
## Market Fact Sheet Mexico

### Executive Summary

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

Mexico imported US \$9.85 billion worth of processed food products in 2017 with US\$6 billion (over 60 percent) of the products coming from the United States, making it by far, the largest supplier to Mexico. The largest categories for processed food imports from the United States were dairy products, food preparation products, and fructose syrup combining for 25 percent of total imports from the United States. Likewise, Mexico exported US\$14.67 billion of processed food with nearly US\$11 billion heading to the United States. The biggest categories of exports to the U.S. were beer, tequila and baked goods. The key companies in the processed foods sector in Mexico are Bimbo (World leader in baked goods), Grupo Maseca (World leader producer of flours and tortillas), Bachoco (market leader for poultry production), Lala (market dairy production leader) and Sigma Alimentos (market leader for processed meats).

### Imports of Consumer-Oriented Agricultural Products



### Food Processing Industry

According to the National Institute of Geography & Statistics (INEGI), in Mexico in 2017 there were over 187,347 economic units including offices, manufacturing plants and distribution centers under the industry classification of "food and beverage manufacturing and processing". These entities employ close to 800,000 workers.

### Imports of Consumer-Oriented Ag. Products 2017:

US\$9.85 Billion

#### Key Players

|                       |                           |
|-----------------------|---------------------------|
| Bimbo                 | Grupo Herdez              |
| Grupo Maseca          | Grupo la Moderna          |
| Industria Bachoco     | Alpura                    |
| Industrial Grupo Lala | Grupo Minsa               |
| Sigma Alimentos       | Pescados Industrializados |

#### Food and Beverage Trends in Mexico for 2018:

Foods across all age groups; organic foods and natural products; prepared and ready to eat meals due to more time being spent away from home and more women entering the work force.

#### GDP/Population 2016

Population: 127,540,423

GDP: US\$1.045 Trillion

Sources: Global Trade Atlas, Euromonitor

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### Quick Facts

## **Section 1. Market Summary**

### **Introduction**

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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 US 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 2017 were US\$49.11 billion.

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

**Table II**

| <b>Advantages</b>   | <b>Challenges</b>  |
|---|--|
| The demand for imported products depends on the availability, seasonability and price of certain food product – factors which favor U.S. exporters. | The food sector is extremely price sensitive and certain products may price themselves out of the market. A fluctuating peso heightens this sensitivity            |
| A shared 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 second most free trade agreements in all of Latin America after Chile, 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 growing healthier eating trends 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.

Significant 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 with 2.7 million points of sale) 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.

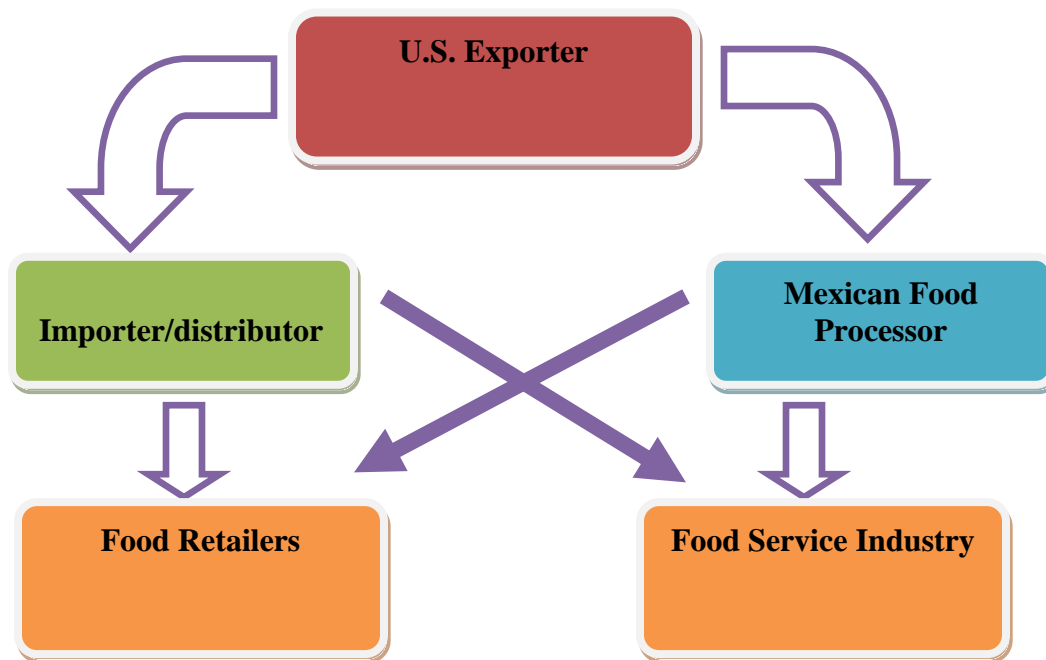
Large multinational companies have a competitive advantage over smaller domestic producers in certain product categories such as frozen foods, soups, specialty canned and preserved products, and well-known condiments and flavors that cater to the international pallet. Because of this, companies able 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 2,358 establishments including 79 store openings in 2017. They also operate under the following store formats: Supercenters, Bodega Aurrera, Sam’s Club and Superama, each targeting a different market segment. Another major retailer, Soriana, operates 827 stores including the 143 it purchased from Comercial Mexicana in January of 2015. Comercial Mexicana now has 59 stores which include all of its Sumesa, Fresko and high end City Market stores. Chedraui with 213 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 over 13,000 establishments, with 7-Eleven coming in at a distant second with 1737 stores and Impulsora Círculo CCK which owns Circulo K and Extra stores with 1010. 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, mostly in 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, all U.S. food products are 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**

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| <b>Company</b>                                | <b>Number of Employees</b> | <b>Sector</b>   | <b>Sales (U.S. Millions)</b> |
|---|----------------------------|---|------------------------------|
| Grupo Bimbo SAB de CV                         | 137,000                    | World leader in baked goods and foods                                     | 13,330(2017)                 |
| Gruma S.A.B. de C.V.                          | 20,500                     | World leader in production of cornmeal, tortillas and flat bread.         | 3,610 (2016)                 |
| Industrias Bachoco SAB de C.V.                | 25,000                     | Chicken, and fresh eggs, convenient foods such as ground meat and chorizo | 1,520 (2017)                 |
| Industrial group Lala SA de CV                | 34,884                     | Dairy Products  | 3,280 (2017)                 |
| Sigma Alimentos SA de CV                      | 40,044                     | Processed fruits, vegetables, cold meats, cheese and yogurt               | 5,620 (2016)                 |
| Ganaderos Productores de Leche Pura, SA de CV | 11,700                     | Dairy Products  | N/A                          |

|  |        |   |            |
|--|--------|---|------------|
| Grupo Herdez SA de CV                    | 9,177  | Produces and commercializes, sauces, canned fruits and veggies, dried pasta | 960 (2016) |
| Grupo La Moderna SA de CV                | 4,500  | Pastas, crackers and flours   | ??         |
| Grupo Bafar S.A.B. SA de CV              | 10,000 | Manufacturing and distribution of cold cut meats                            | 581 (2016) |
| Grupo Minsa S.A.B. de CV                 | 1,100  | Corn Flour  | 297 (2016) |
| Pescados Industrializados SA de CV       | 1,000  | Canned tuna   | 327 (2017) |
| Lechera Guadalajara SA de CV             | 4.2    | Dairy products  | N/A        |
| Chilchota Alimentos SA de CV             | 750    | Dairy products  | N/A        |
| Derivados de Leche La Esmeralda SA de CV | 1,700  | Cheeses, cream and butter   | N/A        |



|                                    |       |   |            |
|------------------------------------|-------|---|------------|
| Keken                              | 5,000 | Exporter of Pork to the Asian Market                            | 481        |
| Productos Verde Valle S.A. de C.v. | 3,700 | Processing and distribution of rice, beans and seeds.           | N/A        |
| Conservas la Costeña SA de CV      | 2,250 | Preserved fruits and veggies, canned food, sauces, soups, jelly | 800 (2017) |

Source: Promexico/Euromonitor/Company Websites

| <b>Product category</b><br><b>Total Import in million US\$</b> | <b>Import in Million USD</b> | <b>Main suppliers in percentage</b>                                  | <b>Strengths of Key supply countries</b>     | <b>Advantages and Disadvantages of Local Suppliers</b>                                   |
|--|------------------------------|--|--|--|
| PG 30 Breakfast Cereals  | 71.24                        | 1. U.S. 85.01<br>2. Canada 4.10<br>3. Chile 2.24                     | Distance, availability and regional          | Developed processed food industry  |
| PG 31 Snack Foods  | 548.30                       | 1. U.S. 59.77<br>2. Canada 14.72<br>3. Guatemala 4.0                 | Distance, availability and regional products | Developed confectionary industry   |
| HS 02: Meat  | 3,820.47                     | 1. U.S. 82.49<br>2. Canada 9.74<br>3. Chile 3.25                     | Distance, availability and regional products | Strong market with well-developed distribution channels.                                 |
| HS 03: Fish and Crustaceans                                    | 566.69                       | 1. China 27.55<br>2. Vietnam 22.09<br>3. Chile 17.51<br>4. U.S. 7.26 | 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             | 1639.55                      | 1. U.S. 76.17<br>2. New Zealand 8.86<br>3. Uruguay 3.66              | Distance, availability and regional products | Great tradition of milk and milk based products  |

|  |        |   |   |  |
|--|--------|---|---|--|
| HS 07: Edible vegetables                                 | 360.6  | 1.U.S.<br>76.67<br>2. Canada<br>6.88<br>3. Chile<br>6.27        | Distance,<br>availability<br>and regional<br>products | Production returned to normal levels in 2013 after severe drought in 2011  |
| HS 08: Edible Fruits and Nuts                            | 1,058  | 1. U.S.<br>81.11<br>2. Chile<br>10.32<br>3. Turkey<br>2.49      | Distance,<br>availability<br>and regional<br>products | Products not sufficiently available on local market  |
| HS 09: Coffee, Tea, Mate and Spices                      | 354.14 | 1. Brazil<br>18.62<br>2. Sri Lanka<br>17.01<br>3. U.S.12.72     | Trading<br>tradition<br>/Price &<br>Quality           | New niche market for premium coffee consumption  |
| HS 16: Edible Preparations of Meat Fish, Crustaceans     | 482.09 | 1. U.S.<br>63.24<br><br>2. China<br>16.66<br>3. Ecuador<br>8.38 | U.S.<br>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:<br>Preparation off Cereals, Flour, Starch or Milk |        | 1. U.S.<br>61.97  | Proximity   | Taking effect on 1 January 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. |

|  |        |  |  |  |
|--|--------|--|--|--|
|  | 500.43 | 2. Canada<br>7.20<br>3.<br>Netherlands<br>5.87 |  |  |
|--|--------|--|--|--|

|   |          |  |                             |  |
|---|----------|--|-----------------------------|--|
| HS 20: Preparations of Vegetables, fruits, Nuts | 688.74   | 1. U.S.<br>64.83<br>2. Chile<br>12.08<br>3.<br>Canada5.92    | Proximity                   | Not sufficiently domestically available                              |
| HS 21: Miscellaneous Edible Preparations        | 1,328.01 | 1. U.S.<br>83.10<br>2. Uruguay<br>2.47<br>3.Colombia<br>2.00 | Proximity                   | Not sufficiently domestically available                              |
| HS 22: Beverages, Spirits, Wine and Vinegar     | 1,148.09 | 1.U.S.<br>46.90<br>2.U.K. 15.33<br>3. Spain<br>11.80         | Excellent regional products | Strong beverage tradition, growing demand for Bourbon / U.S. Whiskey |

**Source: Euromonitor**

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:

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