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GAIN Report

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Mexico

Food Service - Hotel Restaurant Institutional

Mexico's Hotel Foodservice Sector

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Report Highlights:

The foodservice industry in Mexico includes the hotel, restaurant, and institutional (HRI) sectors. Mexico's HRI foodservice sector faced several challenges in 2014 caused by weak economic performance; however there is sustained growth in consumer foodservice driven by changing lifestyles trends, and sophisticated offering from foodservice operators, who are trying to satisfy customer needs. There are many export opportunities for U.S. suppliers of food and beverages interested in this market, especially in the restaurant and hotel sector because of a growing number of foreign and domestic tourists and a rise in young chefs opening their own restaurants. This report focuses mostly on the hotel sector, highlighting its structure, entry strategy, and best products prospects.

Post:

Mexico City ATO

Author Defined:**Section I. Market Summary**

Mexico is the 3rd largest U.S. trading partner. In 2014 U.S exports of agricultural products and fisheries to Mexico were valued at 20.1 billion USD and about 70 percent of Mexican agricultural exports went to the United States valued at 20.3 billion USD. The major agricultural exports to Mexico in 2014 were coarse grains, soybeans, red meats, wheat and dairy products.

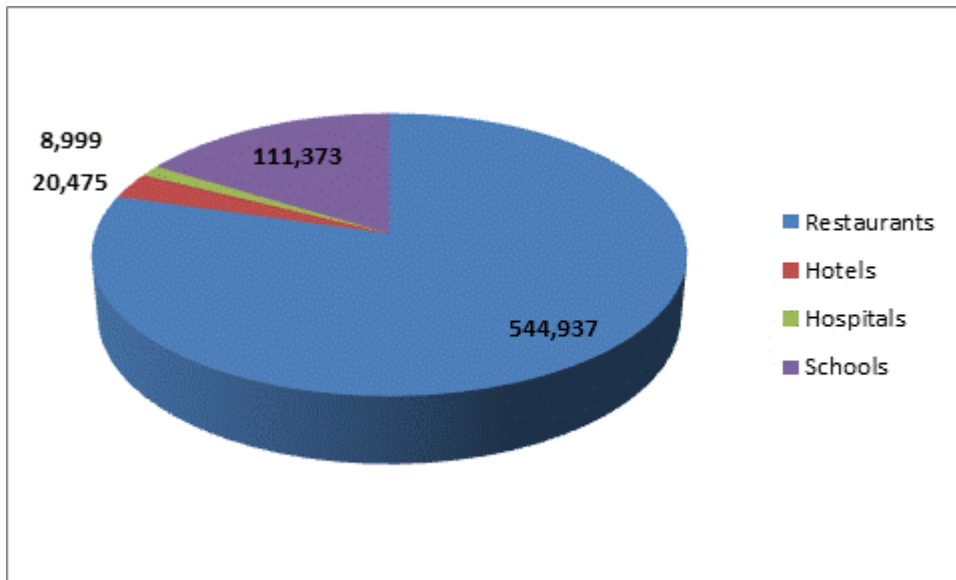
In 2014 the foodservice sector in Mexico faced several challenges caused by a weak economic performance and increased tax rates. The new tax on specific food and beverages (junk food tax) resulted in cost increases for the foodservice operators (see GAIN REPORT MX 3324 The Junk Food Tax in Mexico). Other tax increases included the homologation of the value- added tax (VAT) of 16 percent in the northern border area. However, the consumer foodservice sector is expected to record sustained growth driven mostly by lifestyle trends and an increasingly sophisticated offering from foodservice operators that are trying to meet customer needs.

Although economic recovery should be short term, key players in the foodservice sector, remain cautious because of the fluctuation of the exchange rates and the effect of the approved structural reforms.

In the restaurant foodservice sector, independent full-service restaurants accounted for the majority of value sales in 2014. Restaurant chains also had a dynamic growth with brands expanding their presence in major and smaller cities, in addition to increased geographic coverage and a strong presence in retail locations like shopping malls, airports, bus stations and highways. Similarly, the institutional segment registers a positive trend, with hospitals, caterers, airlines, industry cafeterias, and even prisons and schools evolving into professional foodservice providers, creating a large market with several opportunities for specific niches.

According to the Mexican Institute of Geography and Statistics (INEGI), out of the three segments in HRI foodservice, hotels are one of the smallest segments by number of outlets (see chart below). However, because of the socio-economic categories it targets, hotels represent a better opportunity for imported products, where price differential might be an issue for other markets. Mexico has more than 20,000 businesses registered as hotels motels and other lodging facilities

Chart 1. Mexico's HRI Sector by Category Number of Outlets



Source: National Institute of Geography and Statistics (INEGI) DENUE

Hotels are the main subject of this year's report.

Hotel Sector

In 2014 the Mexican tourism sector recorded an annual growth of 17 percent, which exceeded 16,000 million USD and generated a net income of 97,000 million USD. Tourism is one of the biggest contributors to Mexico's gross domestic product, accounting for 8.4 percent of it according to Mexico's national tourism business council.

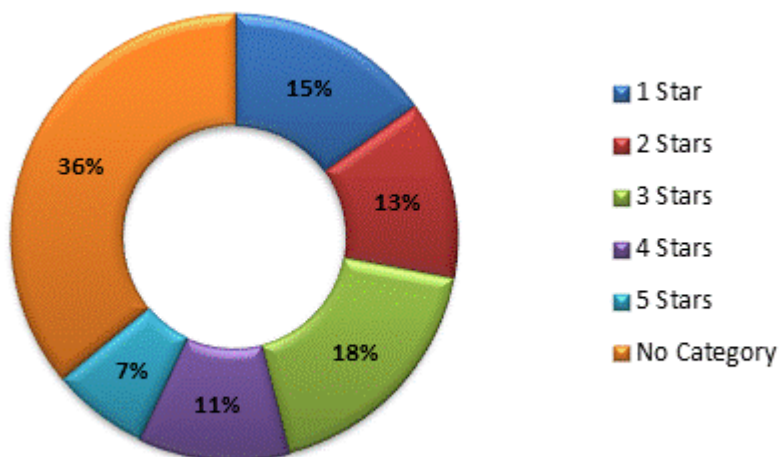
According to the World Tourism Organization (UNWTO), Mexico ranked 10th in the world, as a main tourist destination by the number of foreign arrivals, with 23.4 million international tourists from a record-high of 143 different countries. But 23rd, when based on tourism revenues, with almost \$12 billion reported. Additionally, Mexico's Ministry of Tourism (SECTUR) recorded more than 29.3 million international travelers in 2014 with an annual growth of 21.5%. Furthermore, SECTUR recorded 182 million domestic travelers (Mexican tourism) in 2014 with a rate of growth of 4% per year.

According to SECTUR from January to September 2015, the income from foreign currency and international visitors amounted to almost 13 billion USD, which represented an increase of 8.2 percent over the same period in 2014. During the first nine months of the year, tourism had a positive accumulated balance of 5.6 billion dollars, an increase of 10.1 percent compared with the same month last year. SECTUR also reported that in those months the arrival of domestic tourists in hotel rooms exceeded 38.8 million (75.9 percent) while the remaining 24.1 percent of arrivals to hotel rooms were foreign tourists. Sixty percent of international travelers go to beach destinations and of those, 50 percent goes to Cancun and the different locations in Quintana Roo; 30 percent goes to Mexico City, which has become one of the most important tourist destinations for Americans.

In Mexico there are 18,711 hotels, with over 692,351 rooms registered in Mexico. Of the registered available rooms, over 25% belong to one of the 85 hotel chains (both foreign and domestic) located in Mexico. Like many

other countries, hotel chains concentrate the top tiers of lodging categories (3 stars and up), with a few specialized high-end individual resorts. It is in these sub-segments where imported food products are of high demand and where most of the business opportunities for U.S. exporters arise.

Chart 2. Hotels in Mexico, by Category, 2013



Source: Sectur- Datatur (Mexican Integral Tourism Analysis)

In recent years there has been a changed in the type of inventory of hotel resorts, with a small emphasis in the traditional model –European plan, and a rise in the all-inclusive model. Many hotel chains especially their beach resorts had varied their offer into All -inclusive targeting different segments, families and adults. In 2014 consumer foodservice through travel accounted for a share of 9% of total value sales and 6%of the total number of outlets. Stand-alone outlets instead of retail remain the most important format in the consumer foodservice industry. The strong presence of travel locations is explained by the highly developed travel and tourism industry in the country. In 2014 foodservice through travel accounted for 67.9 billion MXP and 47,884 outlets.

Table 1. Sales in Consumer Foodservice by Location: Foodservice Value 2010-2014

MXN bn	2010	2011	2012	2013	2014
Consumer Foodservice through Standalone	496.7	514.3	536.3	561.4	586.1
Consumer Foodservice through Leisure	13.0	12.9	13.0	13.8	14.5
Consumer Foodservice through Retail	59.1	62.7	68.0	73.7	79.4
Consumer Foodservice Through Lodging	15.3	16.2	17.4	18.4	19.5
Consumer Foodservice Through travel	52.3	55.1	59.5	63.9	67.8
Consumer Foodservice	636.4	661.3	694.2	731.2	767.4

Source: Euromonitor

According to SECTUR and the Mexican Central Bank (BANXICO) domestic tourists have an average stay of 4 nights, with an average spending of \$445 per day; meanwhile, foreign tourists stay for a longer period of time: 10 nights, and have an average expenditure of \$770 per day. Of the total expenditures, travelers spend on average almost 20% on lodging and 12% of the total on food and beverages.

Table 2. Average Expenditure when Traveling

Concept Category	Percentage of Total Expenditure
Lodging	22.0%
Transportation	15.6%
Food and Beverages	14.02%
Entertainment	19.9%
Health/Accessories/Souvenirs	16.7%
Other	11.6%
Total	100%

Source: DATATUR-SECTUR Tourism Expenditure Survey 2013

Trends in the Hotel Sector

- Room service is not disappearing from hotels. Hotels that pay attention to their target demographic are finding creative and profitable ways to incorporate unique in-room dining experiences in their food and beverage programs.
- Hotels are looking to innovate more and want to offer consumers a different food experience, including ethnic food restaurants inside the hotels
- Luxury hotel chefs are creating menus based on their own heritage, developing a reputation for authenticity in the process.
- Breakfast is the most important meal for a hotel in the European plan model. It's important to offer guests enough quality breakfast options that they enjoy this often "captive audience" meal enough to seek out on-premise culinary options during the lunch and dinner rather than eating out.
- Quick service emphasis, hotels will be developing new grab-and-go, smaller locations. Many hotel leaders have noticed that their guests, whether on business or on vacation, prefer high-end quick service.

Table 3. Advantages and Challenges of U.S. Products in the Foodservice Sector

Advantages	Challenges
The demand for imported products depends on the availability and price of certain food products such as meat, poultry, processed food, gourmet food among others	The price of food is a key factor in food purchases. For some U.S products if the price is higher, then suppliers will purchase the domestic product.
Sharing a land border with over 45 crossings gives U.S. exporters a competitive advantage over third country suppliers	As Mexico’s food distribution infrastructure continues to improve, other countries are now able to deliver product more efficiently to the Mexican market.
U.S. food products are regarded as high-quality and safe to consume.	The fluctuation of the exchange rate and inflation rate make U.S food products more expensive than local products
Higher income levels and more women in the	Non U.S. producers /companies could capture new

workforce have increased the demand to eat away from home	business in the foodservice sector and establish in-country sales.
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Section II. Road Map for Market Entry

A. Entry Strategy

U.S. suppliers are encouraged to look for multiple local distributors in Mexico and identify distributors that service the major cities including Mexico City, Guadalajara, Monterrey, Cancun and other Pacific coastal cities, where most of the foodservice market is concentrated.

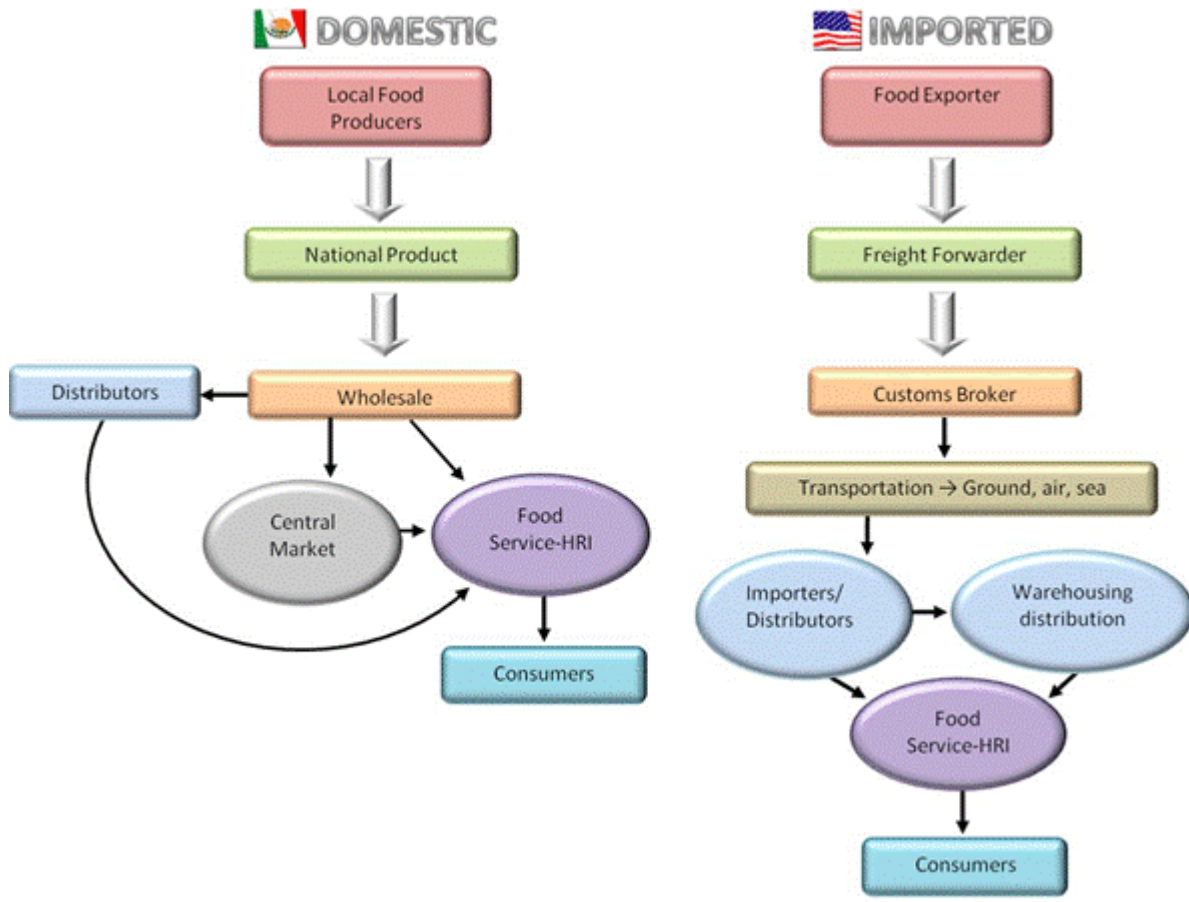
Distribution is the most important factor in the success of selling food products in Mexico. A distributor is the primary channel for food products exported from the United States and sold in Mexico. Food and beverage products for the HRI market are supplied through various types of distributors. The main types include:

- Independent importers and/or distributors that have their own warehouses and deliver to all HRI sectors. They offer import assistance on all the required documentation like the certificate of origin, compliance with the different Mexican norms, customs regulations and more.
- Distributors who specialize in one product type such as meat or seafood products (Comercializadora Norteamericana for meat and el Sargazo for seafood are two examples).
- Distributors who specialize in several products such as frozen and/or refrigerated products and dry goods. The cold chain has greatly improved in Mexico recently.
- Wholesalers usually work with locally horticultural goods. They generally supply the product but do not offer additional assistance to their clients and these transactions are usually paid in cash. More than 80% of total produce consumed in Mexico is marketed through the Central Market (Central de Abastos,) the largest in the world.
- Large consumer food service companies like Alsea have their own distribution company (DIA) to service their own outlets including VIPS, California Pizza Kitchen, Chilis, Domino's Pizza among others
- Price clubs/club stores (Costco and Sam's Club) sell and distribute basic dry goods and some fresh products. They have accessible locations, affordable prices, and accept credit cards. In the past few years Costco developed a new distribution system for its foodservice clients.
- Direct sales are rare, but some restaurants and hotels chains can buy specific products directly.

Purchasing decisions by large restaurants chains are usually made by the purchasing manager or the corporate buyer. Chefs play an important role in purchasing decisions and they tend to focus more on the quality and taste of the product than buyers who focus primarily on price.

Smaller hotels generally work with smaller food suppliers and their distribution. Price, service and relationships are the most important variable for these enterprises. This restaurant segment will look for what is close and available rather than a more integrated and complex distribution channel.

B. Market Structure



A. Sub-Sector Profiles

Restaurant Sector

While the restaurant industry has seen positive adjustments in terms of value growth, (see GAIN Report MX432 Restaurant Industry in Mexico) the HRI report about the restaurant sector in Mexico remains current. Updated data and figures for the restaurant sector in Mexico will be included in 2016 HRI report.

Institutions

There is no official data on the institutional food service market in Mexico. However, industry representatives estimate that about 14 million meals are prepared each year. The Mexican institutional food service industry includes manufacturing facilities, airline and cruise ship catering, hospitals, schools, institutional food cafeterias, schools, prisons, and the military.

Section III. Competition

Competition among suppliers is based on price, quality, service, and volume sizes. The key is price competitiveness and quick access/availability of products. Suppliers prefer to have their demand directly linked with the size of the business. Products with the biggest volumes are meat, processed foods, and cold meats. They also look for suppliers that can also offer product variety and emergency necessities. They purchase 80% of their fresh produce directly with a supplier at the central market. Their suppliers need to offer a variety of products depending on general preferences, unless they have specialized needs. They source imported specialty products from local/regional distributors, due to volume.

Local manufacturers are the main competitors for U.S. exporters selling to the HRI sector. They can be categorized in two types:

- **Domestic Manufacturers:** Local food processors like Bimbo, Lala, Sabritas and Herdez have the greatest market penetration, dominate the foodservice sector, and have an advanced distribution system.
- **Transnational Companies:** Global companies like Coca-Cola, General Mills, Nestlé, Unilever, and Kraft Foods are also active local suppliers. Much of their success is due to their strategic alliances with foodservice operators.

Table 4. Competition

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Products Net imports: 23,980,838 liters	United States 77% New Zealand 11% Chile 2%	-U.S. is the major supplier of dairy ingredients, whey and milk powder	The industry is highly fragmented with a large number of small-scale artisanal producers that distribute products locally. Four companies constitute about 60 percent of the total dairy market (comprising fluid milk and added-value product processing) in Mexico. Lala, Alpura, Sello Rojo
Fresh Fruit Net Imports: 359,204 Tons	United States 89% Chile 8%	-US remains the leading provider of apples pears and stone fruits in Mexico -Chilean apples are typically imported from March to June -Mexican apples are marketed from September through December	Local production of deciduous fruits (apples, pears, grapes) is not sufficient to address the domestic demand.
Fresh Vegetables Net Imports: 177,735 Tons	United States 95% Chile 4% Canada 1%	-U.S. is a supplier of seasonal veggies like yellow onions, pumpkins.	Local production is high and local brands are well positioned in the market at very competitive prices
Meat (pork and beef) Pork- 412,807 Tons Beef- 96,969Tons	United States: 89% Canada: 10%	U.S. dominates meat imports (beef and pork) followed by Canada U.S. meat is regarded as high quality	Local companies dominate the market (85%) Mexican meat producers don't have a classification system of quality in place, making meat cuts not standardized

Poultry Net Imports- 640,924 Tons	United States 96% Chile 2%	-U.S. major supplier of chicken paste and turkey -U.S. poultry is regarded as high quality.	-Local poultry producers are major suppliers. - Some local distributors could have a poor cold chain management
Processed Foods - Snack Foods Net Imports: 64,867 Tons	United States 62% Canada 9% Guatemala 8%	-U.S. is a major supplier for ingredients of snack foods processed in country. -Canada also imports food ingredients for snacks.	The leaders in this category are companies with a well-developed distribution network and various product mixes that include leading products in different processed foods categories.
Wine and Beer Net Imports: 128,979,228 liters	United States 74% Spain 7% Chile 6%	U.S. is the major supplier for wine and beer combined. Spain is the #1 importer of wines	Mexico is the number one exporter of beer to the U.S. Mexican Craft brewers are on the rise trying to capture a differentiated market European wines are well accepted and regarded among Mexican consumers. Local wine is well positioned but is not price competitive

Global Trade Atlas

SECTION IV. Best Prospects for Mexico

Products with high sales potential in the foodservice sector:

- Meat (pork and beef), cold cuts
- Salmon, crab, and other seafood products that Mexico does not produce
- Gourmet products including artisanal cheeses, breads, olive oil
- Organic foods especially produce

- Specialized food products for specific food-styles (Thai, Korean, Mediterranean, etc.), including dressings and salsas
- Wines

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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Related Tradeshows in Mexico in 2016:

SIRHA – Foodservice Show

Date: February 10-12, 2016
Location: World Trade Center Mexico City
Website: www.sirha-mexico.com

Exphotel Cancun

Date: June 14-16, 2016
Location: Cancun Convention, Center Quintana Roo
Website: www.exphotel.net

Abastur

Date: August 29-September 1, 2016
Location: Banamex Center, Mexico D.F.
Website: www.abastur.com

Hotel Industry Contacts

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Association of Hotel Chains (ANCH)	www.anch.com.mx	+52 (55) 5326 6700 ext. 26534
SECTUR (Mexican Ministry of Tourism)	www.gob.mx/sectur/	

Sources:

Mexican Statistics and Geography Institute (INEGI)

Euromonitor International

El Economista, newspaper

Mexican Association of Hotels and Motels (AMHM)

Mexican Ministry of Tourism (SECTUR)

National Chamber of the Restaurant Industry (CANIRAC)

UNWTO World Tourism Barometer 2013