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Mexico

Food Service - Hotel Restaurant Institutional

HRI- Restaurant Sector in Mexico

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Report Highlights:
The foodservice industry in Mexico includes the hotel, restaurant, and institutional (HRI) segments. Mexico's HRI foodservice sector continues to grow thanks to a more stable economy and a growing middle class. 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 restaurant segment, highlighting its structure, entry strategy, and best product prospects.

Post:

Mexico City ATO

Executive Summary:

Section I. Market Summary

In 2013, the foodservice sector in Mexico appears to have fully recovered from the 2009 economic crisis (the global economic downturn and Mexico's swine flu epidemic of 2009 which resulted in the closure of approximately 6,000 establishments.). Even though sales began to pick up as early as 2010, and have increased beyond that, the recovery is still not complete, affected by the global increase in food prices, Mexico's new fiscal reforms, the eight percent tax to less healthy foods and the negative perception of Mexico as an unsafe tourist destination.

According to the National Institute of Geography and Statistics (INEGI), Mexico has over 20,000 businesses registered as hotels, motels and other lodging facilities and more than 428,000 registered as restaurants, caterers, nightclubs, bars and other food preparation services. U.S. suppliers continue to enjoy favorable market conditions as American restaurants and hotel chains expand operations in Mexico. U.S. products dominate imports with the main competition coming from local suppliers; of all the products consumed in hotels and restaurants around 15% are imported.

A lifestyle trend is emerging among middle-income class Mexican consumers who are both price-sensitive and eager to enjoy premium products and services. Mexican consumers are becoming more cosmopolitan and the fact that one third of the population is between 20 - 40 years old also has an impact on new opportunities for the foodservice industry. These types of consumers save on practical and everyday purchases but are willing to pay more for a more enjoyable consumer foodservice experience.

New concepts in restaurants and hotels with non-traditional cuisines, particularly Asian (Thai, Chinese, Japanese, Indian etc.) are appearing throughout the country, and Mexican consumers have a strong preference for oriental cuisine. Asian full service restaurants (FSR) had an eight percent value growth in 2013.

Also one of the hot food trends is Mexican cuisine with a sophisticated twist. This contemporary take on old-school cuisine is gaining traction among celebrity chefs and chef-owned restaurants that target middle to high-income consumers who are looking for a different food experience. Another focus is on sustainable ingredients, restaurants offering local and sustainable raised ingredients. Hotels are home to some of the city's most sought after restaurants including J&G grill at the St Regis, The Palm at Presidente Intercontinental and Morimoto at the Camino Real among others.

Author Defined:

The Restaurant Sector in Mexico

According to the National Restaurant Chamber, CANIRAC, and the last census from The National Institute of Statistics and Geography (INEGI) there are 428,000 establishments dedicated to food sales in Mexico. Five percent are defined as full-services restaurants chains, and franchises that offer consolidated services. Seventy–five percent of the total is medium and small independent restaurants.

In 2013 the restaurant industry grew 3.5 percent with respect to 2012, and for 2014 the goal was to grow between 5 or 6 percent according to CANIRAC. The market value of full service restaurants grew to $28 million in 2012 and leading the way were: Vips, Sanborns, Toks and Yum Brands.
The market value in 2013 was $164 billion Mexican Pesos(MXP)

The restaurant industry in Mexico employs about 1,500,000 direct and 3,500,000 indirect employees. The sector represents 1.5% of the National Gross Domestic Product. Based on INEGI statistics 19.8 percent of the family budget is destined to eat away from home. However, the Mexican tax package introduced on January 1st, 2014 increased taxes on a number of consumer goods, including many food items and gasoline, making consumers more hesitant to eat away from home.

The Mexican restaurant market is divided into five categories

- Fine-Dining/Full-Service Restaurants: higher priced/targets middle-to-high end consumers
- Casual-Dining Restaurants: affordable, family friendly dining outlets
- Fast-food – Mc Donald's, Burger King, Subway, Panda Express
- Quick and Casual Restaurants, which include coffee shops, targets middle income consumer Small independent restaurants, street/mobile outlets (kiosks, stalls, etc.)

The sector is very fragmented; full service restaurants in Mexico serve a wide range of consumers. However, the majority of outlets are independent family –owned fondas and taquerias. Fondas are small independent restaurants which are popular among middle and low income consumers who do not eat at home. Restaurants that belong to the "organized" restaurant segment are chains and large establishments, which only represent around 1 percent of all the restaurants in Mexico and generate 6 percent of all value sales of the sector, these include fast food, casual dining, fine dining, cafes and bars.

Table 1. Consumer Foodservice by Independent versus Chained/Organized Outlets 2013

Outlets	**Independent**	**Chain/ Organized**	**Total**
Cafes/Bars	29,587	1,598	31,185
100% Home Delivery Takeaway	1,904	1,122	3,026
Full-Service Restaurants	226,578	2,717	229,295
Fast Food	18,346	22,981	41,327
Street Stalls/kiosks	453,571	713	454,284
Pizza CFS	5,215	1,667	6,882
Total Consumer Foodservice	729,986	29,131	759,117

Source: Euromonitor

The consumer foodservice industry in Mexico continues to experience growth in full service restaurants, especially in home delivery, driven mainly by heavy traffic and fast pace lifestyle in the biggest cities like Mexico City with 20 million consumers, where many people prefer to eat at work or on the run. In the northern cities of the country, growth in home delivery is linked to insecurity and violence, which make consumers reluctant to eat away from home.

Mexican operators continue to invest in order to offer consumers different options and a variety of cuisines and prices. Leading foreign companies see Mexico as a good place to invest in, introducing their brands either via franchising or by working with strong Mexican operators such as Alsea or the Mexican Restaurants Corporation (CMR).

Alsea is the leading foodservice company in Mexico, managing 1,572 outlets in 2012 and leading sales in value terms. The company is the franchisee of highly successful consumer foodservice brands such as Starbucks, Domino's Pizza, California Pizza Kitchen, Pei Wei and PF Chang's China Bistro. The company also owns 100% of Burger King fast food restaurants in Mexico and Chili's Grill & Bar outlets in Mexico City they have 42 units.

In 2014 Alsea purchased Wal-Mart's chain VIPs (a flagship Mexican family restaurant similar to Denny's in the U.S.) and other Walmart's consumer foodservice brands including El Porton, Ragazzi and La Finca. This acquisition has strengthened Alsea's position in full-service restaurants as well as expanding the company's brand portfolio.

Corporacion Mexicana de Restaurantes (CMR) is a publicly-owned Mexican company with a strong focus on full-service restaurants. The company offers a wide range of prices including low-, mid- and high-end options in consumer foodservice. CMR operates the Wings and Merdien brands, with Meridien focused on high-end hospital locations. The company also has a joint venture with Darden Group, with these operating brands including Olive Garden, Red Lobster and the Capital Grille. These brands also target mainly middle- and high-income consumers.

In 2014 CMR planned to open 10 more establishments with an investment that will surpass the$ 200 million MXP and will generate about 10,000 jobs in Mexico.

Toks it's another leading chain in the category of full service restaurants owned by Grupo Gigante. In 2012 Grupo Gigante brought the Panda Express (Chinese Fast Food) franchisee and this year Toks purchased Comercial Mexicana's (CM) chain Restaurantes California and seven Beer Factory restaurants owned by CM too. Grupo Gigante is not only looking to expand its business but also wants to elevate the quality of its products and services.

Franchised businesses accounted for 4% of outlet volume in overall consumer foodservice and about 13% of value sales in 2013.

The main challenge of the restaurant industry, according to CANIRAC, is to renovate its strategy and image facing a changing and demanding consumer of new experiences regarding food.

Table 2. Restaurant Company Profiles

Company Name	Sales	Outlet Name	Number Of Outlets	Type
Alsea	Mx$15,719 million	Domino's Pizza Starbucks Coffee Burger King Chili's Italiannis PF Changs California Pizza	596 443 433 42 63 16 20 2	Pizzas Coffee Shop Fast Food Casual Dinning Full Service Restaurant

		Kitchen Pei Wei Vips El Porton	260 84	
Corporacion Mexicana de Restaurantes	Mx$2,133.0 million	Wings La Destilería Fonda Mexicana Chilis Olive Garden Red Lobster Capital Grille	14 5 4 45 6 2 1	Full Service Mexican Food &Bar Mexican Food Casual Dining European FSR Casual Dining Fine Dining
Grupo Carso	Mx$40,514 million	Sanborns Sanborn's Cafe	165 28	Full service restaurants
Premium Restaurant Brands/Yum International	Mx$ 3,628,660 million	Pizza Hut KFC	178 328	Pizzas Fried chicken
Grupo Gigante	---	Toks Panda Express Beer Factory	125 22 7	Full Service Restaurant Asian Fast Food Casual Dining
Grupo Garabatos	---	Garabatos Casa del Pastor	13 4	Full Service restaurant Taqueria – Quick and Casual

Source: Restaurant websites, euromonitor, industry contacts

Restaurant Industry Trends in Mexico

According to CANIRAC some of the main trends of the Mexican restaurant industry are:

- Healthier options in restaurants
- Organics
- Gourmet and artisanal cuisine
- Restaurants are looking to innovate more and want to offer consumers a different food experience
- Food trucks are a growing trend, as they offer a different variety of dishes with a hip twist and have become very popular among young people, however, CANIRAC considers them a type of informal commerce because they lack all the documentation, registration and paperwork a formal restaurant needs to operate.

Table 3. Advantages and Challenges of U.S. Products in the Institutional 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 border with the U.S. gives the U.S. exporter	As Mexico's food distribution infrastructure

a competitive advantage over third country suppliers.	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 workforce have increased the demand to eat away from home	Non U.S. producers /companies could capture new business in the foodservice sector and establish in-country sales.

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.

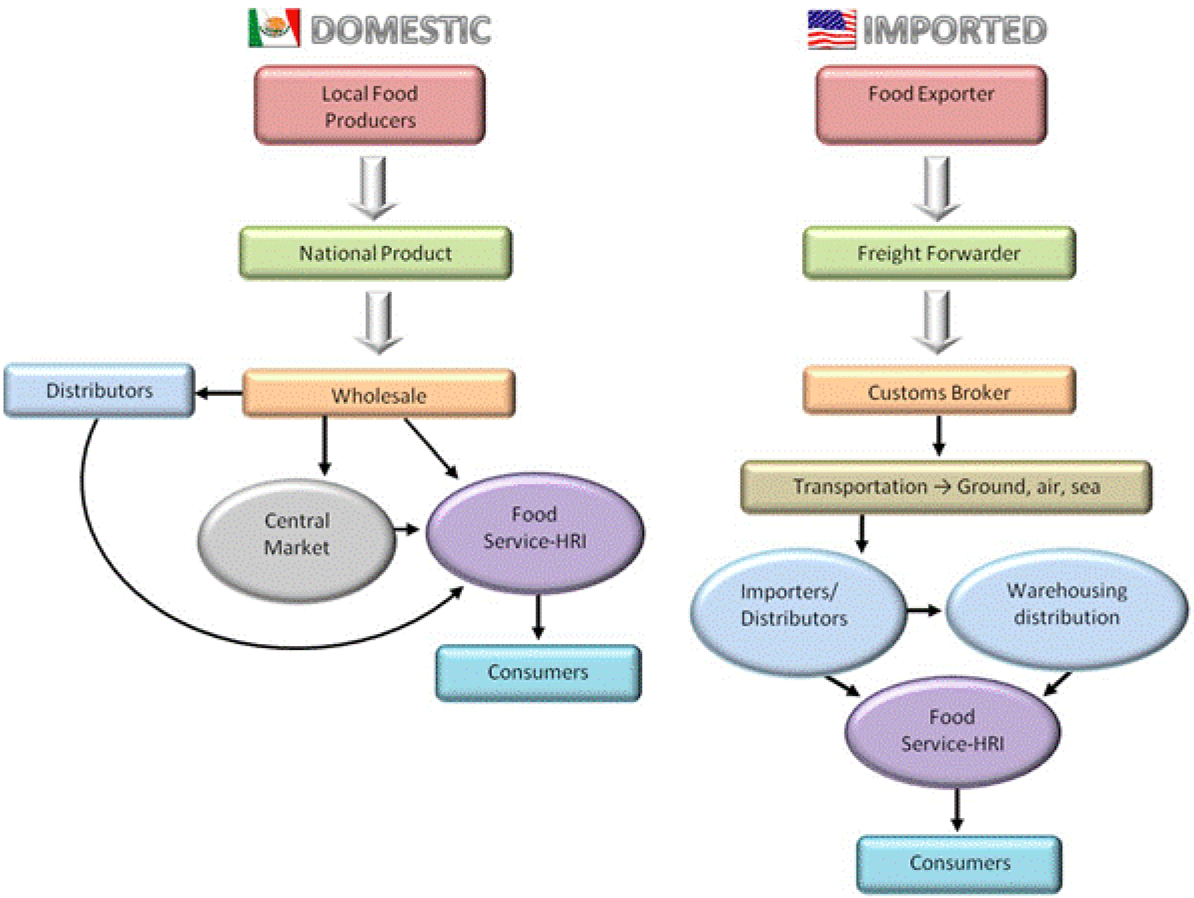
Distribution is the most important factor in the success of selling food products in Mexico. A distributor is the primary channel for food products exported from the United States and sold in Mexico. Food and beverage products for the HRI market are supplied through various types of distributors. The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

- Independent importers and/or distributors that have their own warehouses and deliver to all HRI sectors. They offer import assistance in 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).
- 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 produced goods. They generally supply the product but do not offer additional assistance to their clients and these transactions are usually made 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 to service their own outlets.
- 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 large restaurant 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.

Smaller and independent restaurants 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**



c. **Sub-Sector Profiles**

While the hotel and institutional segments have seen positive adjustments in terms of value growth, the 2013 HRI GAIN Reports focusing on these segments remains current. This report will focus on the restaurant segment, although most of the information reported previously for the hotel and institutional segments, such as market entry strategy, structure and competition is very similar and minor differences will be pointed out in each section.

Hotels

In 2013, Mexico ranked 10th in the world's main tourists destinations list. According to the Tourism Secretariat (SECTUR) from January to November 2014, hotel occupation across Mexico grew 4.4 percent in comparison with the same period in 2013. The coastal cities with the biggest growth were Cozumel,   Nuevo Vallarta, Los Cabos and Puerto Vallarta.   For more information on the hotel sector please refer to GAIN Report MX 3505 2013 HRI-Hotel Foodservice Sector.

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. For more information on the institutional sector please refer to GAIN report MX 0309 HRI- Institutional Foodservice Sector.

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; they 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	Local production of deciduous fruits (apples, pears, grapes) is not sufficient to address the domestic demand.

		December	
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&various product mixes that include leading products in different processed foods categories.
Wine and Beer Net Imports: 128,979,228	United States 74% Spain		Mexico is the number one exporter of beer to the U.S. Mexican Craft brewers are on the rise trying to capture a differentiated

liters	7% Chile 6%	U.S. is the major supplier for wine and beer combined. Spain is the #1 importer of wines	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 restaurant 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
- Craft Beer
- 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 2015:

Alimentaria
Date: May 26-28, 2015

Location: Centro Banamex Convention Center, Mexico D.F.
Website: www.alimentaria-mexico.com

Exphotel Cancun
Date: June 16-18, 2015
Location: Cancun Convention, Center Quintana Roo
Website: www.exphotel.net

Abastur
Date: August 30-September 3, 2015
Location: Banamex Center, Mexico D.F.
Website: www.abastur.com

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Sources:
National Chamber of the Restaurant Industry(CANIRAC)
Mexican Statistics and Geography Institute (INEGI)
Euromonitor International
Newspaper CNN Expansion, El Universal, Alto Nivel