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Mexico

Food Service - Hotel Restaurant Institutional

2016 Annual Report

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Report Highlights:
The foodservice industry in Mexico includes the hotel, restaurant, and institutional (HRI) sectors. Mexico's HRI foodservice sector has faced several challenges in 2015 due to a more unstable economy and in the first half of 2016 the depreciation of the peso has slowed down growth. However, the area of chained full service restaurants grew at twice the rate of independent players in 2015. Mexico is still an attractive market for international foodservice players. There are 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 sector, highlighting its structure, entry strategy,

and best products prospects.

Section I. Market Summary

Mexico is the 3rd largest U.S. trading partner. In 2015 U.S exports of agricultural products and fisheries to Mexico were valued at 18.5 billion USD and about 70 percent of Mexican agricultural exports went to the United States valued at 21.03 billion USD. The major agricultural exports to Mexico in 2015 were corn, soybeans, red meats, wheat and dairy products.

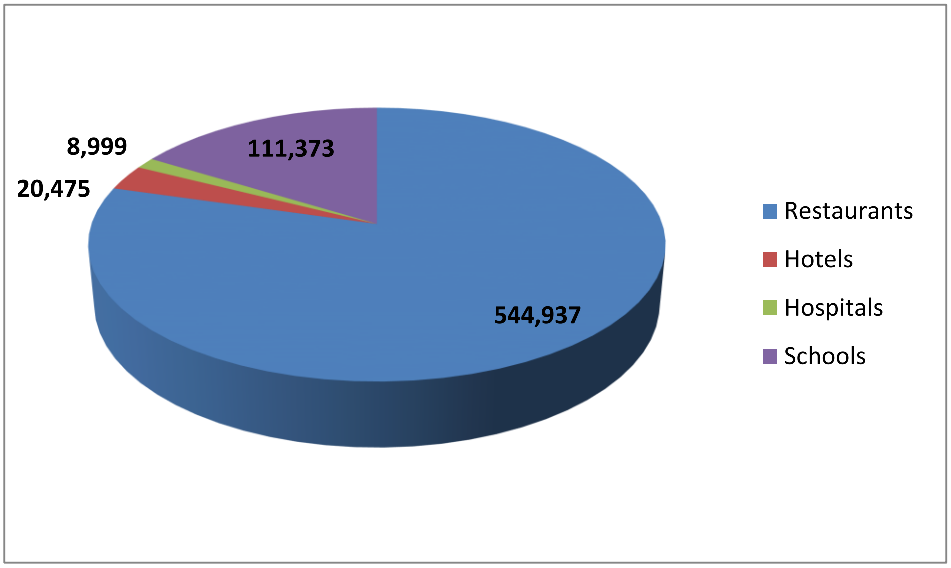
2015 was a challenging year from an economic standpoint for most countries throughout Latin America as a result of different factors including the decline in the value of local currencies against the U.S. dollar, inflation and political controversies in many countries, Mexico stood out as relative bright spot in the region. Despite only a moderate growth in GDP in 2015 over 2014 (2.4% compared to 2.3%) consumer confidence in Mexico improved. In 2015 the foodservice sector in Mexico showed a surprising resilience in times of crisis and many consumers continue to prioritize foodservice purchases even during these times, sometimes at the expense of other affordable indulgences.

According to Euromonitor, chained foodservice showed sustained growth driven mostly by the increased investment by foodservice companies in Mexico over the last two years. Chained foodservice companies grew faster than independent players in nearly every foodservice area in 2015. The entrance of several new players to Mexico reflected that the country remains attractive to international players. For example, Allied Domecq re-entered Mexico with its Dunkin Donuts brand in October of 2015, and Ilitch Holiding tripled the number of outlets of Little Caesar's Pizza in 2015.

According to the National Restaurant Chamber, CANIRAC, and the last census from The National Institute of Statistics and Geography (INEGI) there are 515,049 establishments dedicated to food sales in Mexico. Five percent are defined as full-services restaurants, chains, and franchises, which offer consolidated services. Ninety-five percent of the total is medium and small independent restaurants.

Out of the three segments in HRI foodservice, restaurants is the biggest segment 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.

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



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

Restaurant Sector

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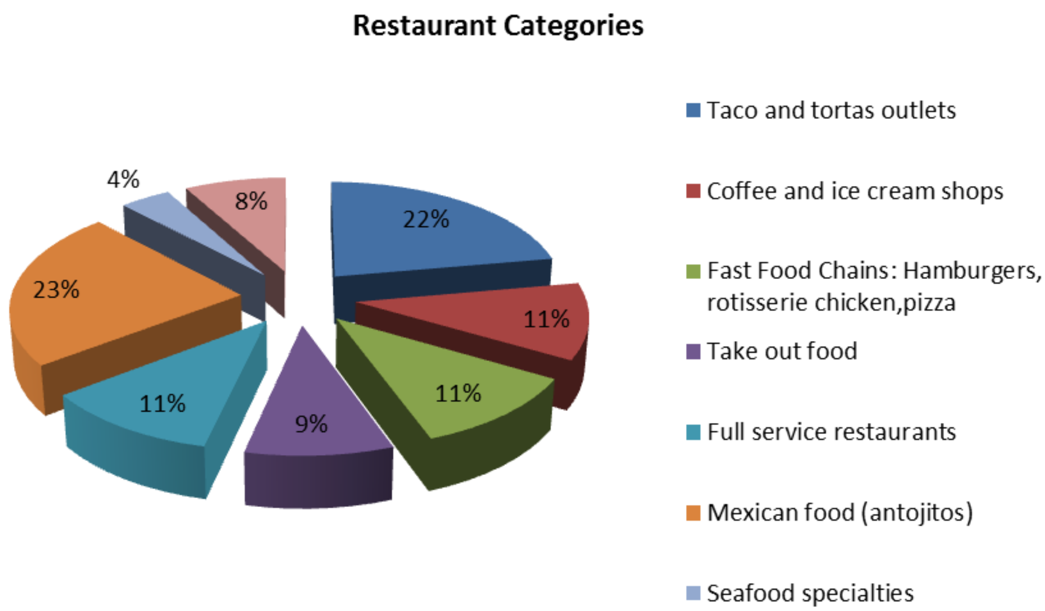
In the restaurant foodservice sector, independent full-service restaurants accounted for the majority of value sales in 2015. Chained foodservice companies, however, grew faster than independent players in nearly every foodservice area in 2015. Restaurant chains expanded their presence in major and smaller 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 registered 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 CANIRAC's president, Mr. Hugo Vela, the restaurant industry in 2016 suffered a slowdown in growth driven by the impact of the exchange rate on some imported products used by the industry, including meat, seafood, and specialty products.

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.)



Source: Canirac: Todo Sobre La Mesa

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Source: Canirac: Todo Sobre La Mesa

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.

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 October 2016, UberEats, a new 'premium' food delivery service was introduced in Mexico City. UberEats has signed alliances with around 500 restaurants in Mexico City from fast food and full service chains like Fisher's to gourmet restaurants such as Eno and Tori Tori.

New concepts in restaurants and hotels with non-traditional cuisines, particularly Asian (Thai, Chinese, Japanese, Indian etc.) are consolidating throughout the country, and Mexican consumers have a strong preference for oriental cuisine. Another trend in the restaurant sector is on sustainable ingredients, restaurants offering local and sustainable raised ingredients.

Convenience remains key in the form of convenience stores as well as on quick-on-the-go foodservice. Fast food sales through convenience stores had a double-digit sales growth in 2015, driven mainly by a growth in outlets, which increased by 9 percent in 2015. The chain OXXO had more than 13,912 outlets in Mexico in 2015. The preference for quick on- the-go is expected to keep growing over the next five years according to Euromonitor.

Table 1. Consumer Foodservice by Independent versus Chained/Organized Outlets 2015

Outlets	Independent	Chained/Organized	Total
100% Home Delivery/Takeaway	2,012	1,443	3,455
Cafes/Bars	30,598	1,900	32,498
Full-service restaurants	234,392	3,078	237,470
Fast-Food	18,844	27,204	46,048
Self-Service Cafeterias	-	-	-
Street Stalls –Kiosks	467,916	808	468,724
Pizza Consumer Foodservice	5,364	2,212	7,576
Consumer Foodservice	753,762	34,433	788,195

Source: Euromonitor

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 especially in 2016 where the cumulative depreciation of the peso is more than 6.5% 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.

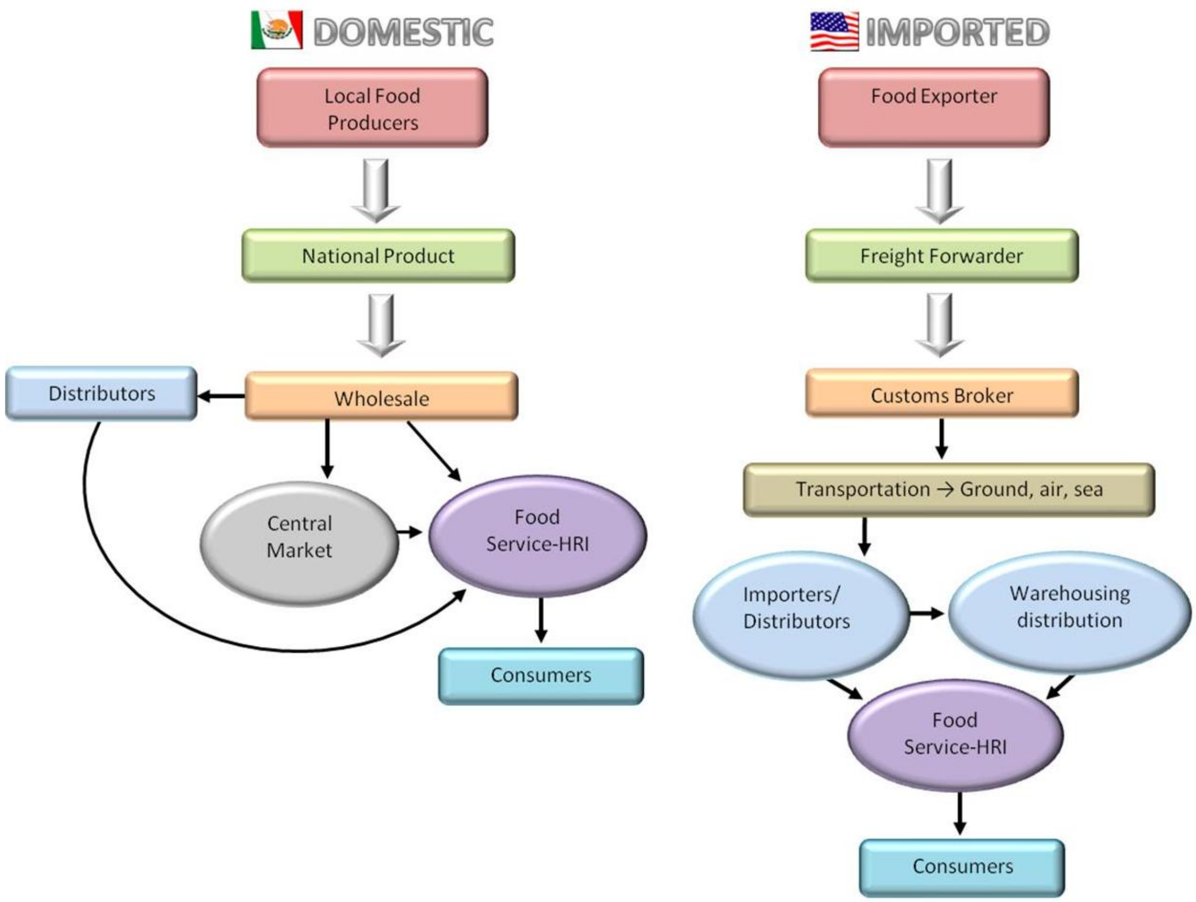
Distribution is the most important factor in the success of selling food products in Mexico. A distributor is the primary channel for food products exported from the United States and sold in Mexico. Food and beverage products for the HRI market are supplied through various types of distributors. The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

- Independent importers and/or distributors that have their own warehouses and deliver to all HRI sectors. They offer import assistance 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 then buyers who focus primarily on price.

Smaller restaurants generally work with smaller food suppliers and their distribution. Price, service and relationships are the most important variable for these enterprises. The 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**

Hotel Sector
While the hotel industry has seen positive adjustments in terms of value growth, (see GAIN Report MX5310 Hotel Industry in Mexico) the HRI report about the hotel sector in Mexico remains current. Updated data and figures for the hotel sector in Mexico will be included in 2017 HRI report.

Institutional Sector

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. The foodservice sector looks 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: 32,815,172 liters	United States 98% Uruguay 1%	-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: 321,787 Tons	United States 88% Chile 9% Peru 1%	-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: 158,234 Tons	United States 94% Chile 4% Argentina 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 (Beef) Beef- 80,351 Tons	United States: 82% Canada: 11% Nicaragua 5%	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- 652,357 Tons	United States 91% Brazil 6% 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: 61,411 Tons	United States 60% Canada 12% China 7% Guatemala 6%	-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: 174,335,530 liters	United States 77% Spain 7% Chile 7%	U.S. is the major supplier for beer and wine 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, lobster 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 and craft beers

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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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.

Related Tradeshows in Mexico in 2017:

SIRHA – Foodservice Show
Date: February 8-10, 2017
Location: World Trade Center Mexico City
Website: www.sirha-mexico.com

Exphotel Cancun
Date: June 13-15, 2017
Location: Cancun Convention, Center Quintana Roo
Website: www.exphotel.net

Abastur
Date: August 29-September 1, 2017
Location: Banamex Center, Mexico D.F.
Website: www.abastur.com

Restaurant Industry Contacts

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Sources:
Mexican Statistics and Geography Institute (INEGI)
Euromonitor International
El Economista, newspaper
National Chamber of the Restaurant Industry (CANIRAC)
Todo a la Mesa Report- CANIRAC
El Financiero Newspaper
Servi Alimentos magazine

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