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Mexican Consumers Demand More Tea Drinks

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Report Highlights:

Ready To Drink tea (RTD tea) increased 29% in calendar year (CY) 2008 over the previous year, reaching \$118.5 million dollars with total sales accounting for 102 million liters consumed. While CY 2009 data is not yet available for this commodity, market analysts have informed Post that consumption of RTD tea continued to rise in Mexico as consumers search for new and healthier alternatives to soft drinks.

General Information:

MARKET OVERVIEW

Mexico is the second largest market for U.S.-origin ready-to-drink (RTD) tea just behind Canada. Although RTD tea remains an emerging sector, Mexican consumers are varying their beverage consumption to other drinks such as vegetable/fruit juices and flavored bottled water due to the increase trends in wellness and health.

It is expected that companies will intensely promote their low sugar or light RTD tea to women and young adults who are concerned with their weight. However, steady competition from less expensive options such as fruit juices and flavored water will likely deter RTD tea from gaining significant sales in the near future.

In 2008, the total volume of hot drinks sold in Mexico declined. In spite of on-trade sales of hot drinks reporting positive growth, this was not enough to compensate for declining off-trade sales. However, in value terms positive growth was recorded in 2008 due to the increase in the average unit price, a result of the general increase in food prices in Mexico.

Coffee maintained its overall dominant market share of the beverage market and is still growing. Both tea and coffee posted a healthy increase in 2008 in value terms, driving the growth of the industry as a whole. However, growth in terms of volume remained in the low single digits for both sectors. Other hot drinks have not yet recovered from the declines recorded over the past four years. Mexican consumers are embracing new options being offered in fresh coffee. Instant coffee, the largest subsector in coffee in terms of value continues to face strong competition from fresh coffee in 2008.

However, instant coffee producers are striving to maintain their share and prevent fresh coffee from taking sales away from them. Nescafe has embraced such a strategy. They have launched new product development in an attempt to gain back as many consumers as possible. Consumption of hot tea in contrast has not posted dynamic growth rates as most Mexicans are not as likely to enjoy a cup of tea.

Substitute products like flavored milk drinks and Ready to Drink Coffee (RTD coffee) continued to take sales away from other hot drinks.

Table 1. Mexico: Advantages and Challenges Facing RTD Tea Consumption

Advantages	Challenges
99% of total sales of RTD teas in Mexico are supplied by international companies.	It will take some time for the Mexican consumers to change preferences towards RTD teas over other soft drinks.
The high quality of U.S. products is a key factor that is influencing Mexican consumers' preferences.	An extended sharp decline in the Mexican economy may affect sales of RTD tea because there are no economy brands of RTD tea on the market. Currently, middle

	income and affluent Mexicans are the most likely consumers of RTD teas.
Better distribution systems are being developed by major retailers for high-value imports, which include better cold chain technology.	As more brands and flavors of RTD teas are introduced, it is anticipated that this sector will continue to expand.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

99% of total sales of RTD teas in Mexico are controlled by international companies. Nestle Mexico dominated total volume sales in CY 2008, with a 39% market share. Arizona Beverages de Mexico captured market share from Nestle Mexico through the introduction of a new gallon package and more flavors, in addition to a stronger presence in convenience stores and grocery retailers.

Table 2. Mexico: RDT Tea Companies and Market Share (Percent of Trade Volume

	CY 2005	CY 2006	CY 2007	CY 2008
Nestle Mexico SA de CV	97.9	75.1	57.3	32.9
Unilever de Mexico SA de CV	-	17.8	26.5	31.8
Arizona Beverages de Mexico, SA de RL de CV	-	4.0	13.2	29.2
Grupo Peñafiel SA de CV	-	-	-	4.0
Broker Distribucion SA de CV	0.8	-	-	-
Grupo Herdez SA de CV	0.4	-	-	-
Others	1.0	3.0	3.0	3.0
Total	100	100	100	100

Source: Euromonitor

Domestic Companies Increase Their Market Share

Several domestic companies are modestly but consistently increasing their market share at the expense of big multinational players. This trend is a result of the expansion of fresh coffee products, where domestic producers have made huge strides in gaining a wider presence on supermarket shelves over the past few years. Some domestic companies are also faring well in the tea sector due to new product innovations which include new flavors and tea blends that satisfy the tastes of Mexicans. In the case of other hot drinks, the largest domestic competitor, Chocolatera de Jalisco, is doing relatively well despite shrinking sales in this sector.

Large Retailers Capture a Growing Share of the Hot Drink Market

The largest share of off-trade volume sales of hot drinks continues to be accounted for by small independent grocers, although chained convenience stores are increasing their presence in terms of

distribution. As a result of successful negotiations with powerful retailers, many small local brands are reaching supermarket and hypermarket shelves. Some of the companies behind this gradual change in distribution are specialty coffee shops like Finca Santa Veracruz, Café Punta del Cielo and La Parroquia.

Coffee Drives Total Sales of Hot Drinks

The growing number of specialty coffee shops spreading throughout the country is playing a role in increasing the per capita consumption of coffee and tea in Mexico. Future prospects for other hot drinks in Mexico are not promising since current demographic trends include declines in the young adults' population, the largest consumer base for these types of drinks. The share of other hot drinks in terms of total sales by volume will decline while the share of tea will remain similar to current levels. Coffee sales will continue to drive growth of the entire industry.

SECTION III. COSTS AND PRICES

According to Euromonitor International, Mexico's declining economy as well as high gasoline prices resulted in increased transportation costs driving up the average unit price of RTD teas during 2008. The average off-trade price per liter is \$.97 (\$16.6 pesos), while on-trade unit price is more than four times higher.

RTD teas does not include economy brands. The most popular Brands are Nestea (Nestle Mexico), Lipton (Unilever de Mexico), Arizona (Arizona Beverages de Mexico) with prices averaging 88 cents per liter (or \$12 pesos). Snapple (Grupo Penafiel) products currently sell at the highest off-trade unit price averaging \$1.85 (\$25 pesos).

SECTION IV. MARKET ACCESS

Under NAFTA, imports of preserved food which are defined as "health foods" require a special import permit. A Sanitary Import Permit is required, along with a Sanitary Certificate and a questionnaire on Good Sanitary Practices must be completed. This Secretariat of Health requirement is administered by COFEPRIS - Federal Commission for Health Risk Protection (see contact section for more info).

The basic Mexican import document is the import permit "Pedimento de Importación" (customs entry document), which must be presented to Mexican Customs along with the commercial invoice in Spanish and a bill of lading. Products qualifying as "North American" must be accompanied by the NAFTA certificate of origin to receive preferential treatment. This is issued by the exporter and does not have to be validated or formalized.

Mexican Customs Law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to employ competent, reputable Mexican importers or custom brokers.

Imported health foods to be sold in the retail sector must be labeled according to the Mexican government specifications in NOM-051-SCFI-1994, “General labeling specifications for pre-packaged foods and non-alcoholic beverages”. Under this NOM, nutritional information is voluntary, unless a nutritional claim is made and in this case the label must be evaluated by COFEPRIS. This NOM applies to most food items and non-alcoholic drinks. Some U.S. suppliers choose to develop special packaging for the Mexican market. At a minimum, a label must be affixed to each package of the imported product prior to entering the country. All the information on the label must be in Spanish and must include the following data: [1]

- Commercial/brand name
- Producer's name and address
- Exporter's name and address
- Country of origin (i.e., Product from/de EE.UU.)
- Importer's name, address and RFC number (taxation number)
- Product description in Spanish
- Product description in English
- Preparation and handling instructions
- Net weight in metric units
- Date of expiration
- Ingredients
- Special warnings*

*Effective January 7, 2004 all labels with special information will have to be translated by specialized translators authorized by the Secretariat of Health for such purposes. A list of these translators may be obtained through the COFEPRIS. The translator must receive the original label (not translated) including the product's contents list and its formula. Based on this, the translated label will be amended based on the COFEPRIS' definition if the product is or not a food supplement.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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[1] ¹ For a detailed study of Mexican Regulations for Exporting/Border Crossing, Import Requirements and additional information on labeling NOMS, see following Gain Reports MX8313 Mexico Exporter Guide, MX8314 FAIRS Report and MX1223 Labeling Regulations at <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>