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GAIN Report

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Mexico

Food Processing Ingredients

2016 Annual Report

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Report Highlights:

With over 186,000 food processors and more than 800,000 employees the Mexican food processing sector produced \$135.5 billion dollars worth of processed foods making it the 3rd biggest producer of the Americas and 10th producer in the world. Due to demographic and lifestyle changes, the sector could expand depending on whether the Mexican peso can resurface or if it will continue to devalue against the U.S. Dollar. Since 2014, the peso has lost 31% of its value versus the USD and 42% since 2010.

Section 1. Market Summary

Introduction

During 2015, Mexico produced US\$135.5 billion worth of processed foods, which represents a 1.2 percent decrease from 2014, still maintaining its place as the third most important processed food producer in the continent behind the United States and Brazil, and the tenth spot in the world overall. Mexico's total GDP for 2015 was US \$1.144 trillion resulting in a 12 percent decrease when compared to 2014, this as a result of the Mexican peso losing 19% of its value versus the U.S. Dollar in 2015. Services accounted for 62.7 percent of the country's GDP while industry and agriculture represented 33.8 percent and 3.5 percent respectively. Mexico's processed food imports for 2015 were \$9.4 billion, with 63 percent imported from the United States. Exports were \$11.8 billion with 72 percent of the total bound for the United States, making Mexico the second leading processed food exporter to the United States.

Mexico has a strong food processing industry in which leading Mexican brands like Bimbo, PepsiCo, Lala, and Nestle amongst others have a well-developed national distribution network that is well positioned in the market and enjoys high brand awareness with consumers who are very loyal despite economic variations.

In Mexico, according to the National Institute of Geography & Statistics (INEGI), there are over 186,000 economic units under the industry classification for food and beverage manufacturing and processing that employ close to 800,000 workers.

Key Market Drivers

Key market drivers for the food processing sector include:

- Increasing interest in healthy foods across all age groups.
- Increasing demand of organic foods and natural ingredients
- Increased demand for convenience foods and prepared meals, due to the growth of urban cities and more women entering the work force. In 2015, a woman was the sole or main provider in 29 percent of all Mexican homes. This represents a 5 percent increase from 2010.
- More demand for gourmet and more sophisticated food products. Consumers are looking for new food experiences and are open to trying more exotic flavors and ethnic foods.
- Private label brands keep growing. Private label products are popular among the masses and in lower socioeconomic levels since they offer unit prices which are significantly lower than those of the leading brands while maintaining good quality.
- Recent demographic changes in Mexico point to the number of persons per household decreasing. In 2015 the average Mexican household contained 3.8 people. With the increase in the number of single households now in Mexico, there is increased demand for processed food products smaller packages or single portions.
- Lifestyle changes such as time away from home, urbanization, and more access to information have also affected consumer trends.

Advantages and Challenges facing U.S. Foods

Advantages	Challenges
The demand for imported products depends on the availability, seasonability and price of certain food products.	The food sector is extremely price sensitive and certain products may price themselves out of the market.
A shared a 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 35% 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 most signed free trade agreements in all of Latin America, 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 a growing healthier eating trend 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 in 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

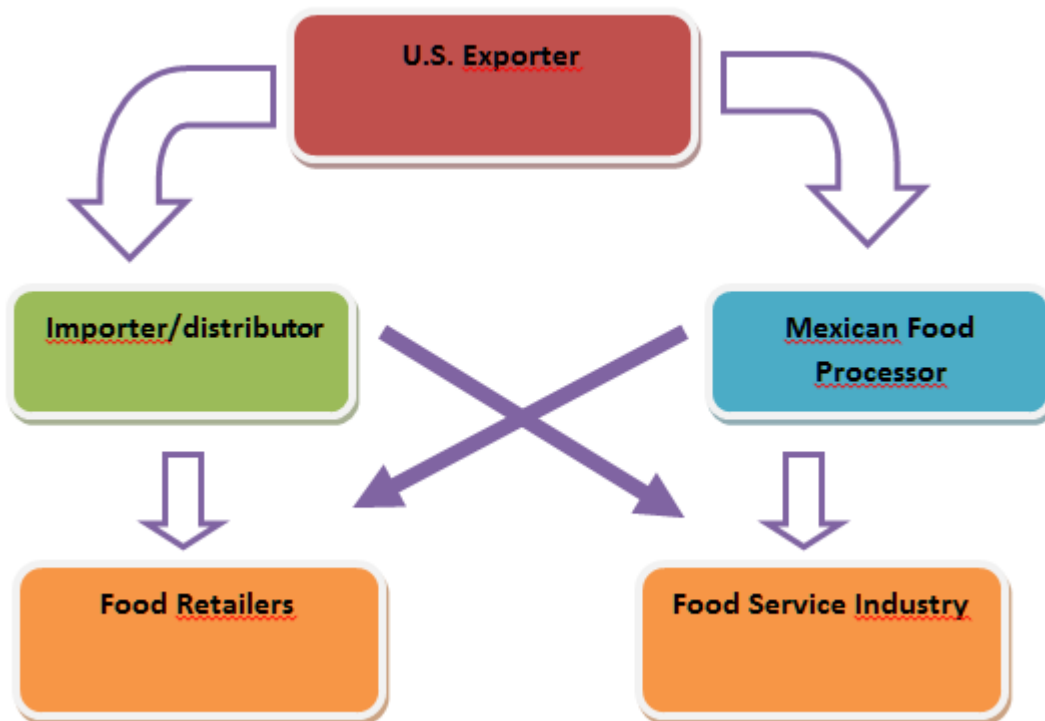
over similar imported products because they cater to local flavors. Artisanal processed foods in Mexico, such as *tortillas* and *bolillos* (*local bread unit*), and other traditional local breads, remain basic food staples in the Mexican diet and as a result, domestically-produced versions of these goods are more favorable to imported brands.

A great deal of 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) 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.

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

Distribution Channels for Processed Food Products in Mexico



Processed products have several outlets for distribution in Mexico:

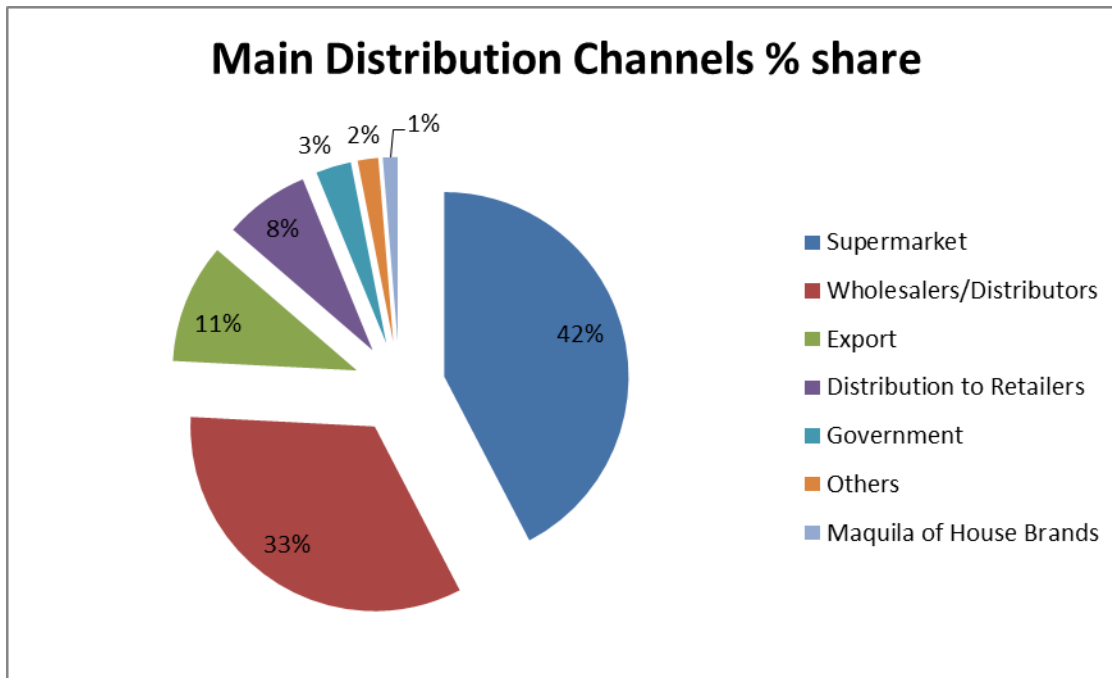
Retail Market Chains: Walmart leads the retail sector with 2,174 establishments which include Supercenters, Bodega Aurrera, Sam's Club and Superama formats, each targeting a different market segment. Another major retailer, Soriana, operates 834 stores including the 160 stores it purchased from Comercial Mexicana in January of 2015. Comercial Mexicana will keep 40 stores which include all of its Sumesa, Fresko and high end City Market stores. Chedraui with 212 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 12,599 establishments, with 7-Eleven coming in at a distant second with 1750 stores and Impulsora Círculo CCK which owns Circulo K and Extra stores with 878. 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.

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 in the most 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, most U.S. food products can be imported duty-free into Mexico. Nonetheless transportation to Mexico can be another challenge. High transportation costs, especially for exporters of temperature controlled products and those sending small shipments can affect competitiveness of U.S. products.



Source Euromonitor

A. Company Profiles

Table 2. Mexico's food processing companies –Company Profiles

Company	Number of Employees	Sector
Grupo Bimbo SAB de CV	125,351	World leader in baked goods and foods
Gruma S.A.B. de C.V.	19,202	World leader in production of cornmeal, tortillas and flat bread.
Industrias Bachoco SAB de C.V.	25,000	Chicken, and fresh eggs, convenient foods such as ground meat and chorizo
Industrial group Lala SA de CV	35,000	Dairy Products
Sigma Alimentos SA de CV	33,000	Processed fruits, vegetables, cold meats, cheese and yogurt
Ganaderos Productores de Leche Pura, SA de CV	10,000	Dairy Products
Grupo Herdez SA de CV	6,182	Produces and commercializes, sauces, canned fruits and veggies, dried pasta

Grupo La Moderna SA de CV	4,500	Pastas, crackers and flours
Grupo Bafar S.A.B. SA de CV	9,808	Manufacturing and distribution of cold cut meats
Grupo Minsa S.A.B. de CV	1,100	Corn Flour
Pescados Industrializados SA de CV	1,000	Canned tuna
Lechera Guadalajara SA de CV	3,500	Dairy products
Chilchota Alimentos SA de CV	750	Dairy products
Derivados de Leche La Esmeralda SA de CV	1,700	Cheeses, cream and butter
Keken	5,000	Exporter of Pork to the Asian Market
Productos Verde Valle S.A. de C.v.	3,700	Processing and distribution of rice, beans and seeds.
Conservas la Costeña SA de CV	2,250	Preserved fruits and veggies, canned food, sauces, soups, jelly

Source: Promexico

Overall competitive situation for U.S. exports 2015

Product category	Import in Million USD	Main suppliers in percentage	Strengths of Key supply countries	Advantages and Disadvantages of Local Suppliers
Total Import in million US\$				
PG 30 Breakfast Cereals		1. U.S. 85.01	Distance, availability	Developed processed food industry

	71.24	2. Canada 4.10 3. Chile 2.24	and regional	
PG 31 Snack Foods	548.30	1. U.S. 59.77 2. Canada 14.72 3. Guatemala 4.0	Distance, availability and regional products	Developed confectionary industry
HS 02: Meat	3,820.47	1. U.S. 82.49 2. Canada 9.74 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 2. Vietnam 22.09 3. Chile 17.51 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 2. New Zealand 8.86 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. 76.67 2. Canada 6.88 3. Chile 6.27	Distance, availability and regional products	Production returned to normal levels in 2013 after severe drought in 2011
HS 08: Edible Fruits and Nuts	1,058	1. U.S. 81.11 2. Chile 10.32 3. Turkey 2.49	Distance, availability and regional products	Products not sufficiently available on local market

HS 09: Coffee, Tea, Mate and Spices	354.14	1. Brazil 18.62 2. Sri Lanka 17.01 3. U.S. 12.72	Trading tradition /Price & Quality	New niche market for premium coffee consumption
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<p>HS 16: Edible Preparations of Meat Fish, Crustaceans</p>	<p>482.09</p>	<p>1. U.S. 63.24 2. China 16.66 3. Ecuador 8.38</p>	<p>U.S. Proximity</p>	<p>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</p>
<p>HS 19: Preparation off Cereals, Flour, Starch or Milk</p>	<p>500.43</p>	<p>1. U.S. 61.97 2. Canada 7.20 3. Netherlands 5.87</p>	<p>Proximity</p>	<p>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.</p>
<p>HS 20: Preparations of Vegetables, fruits, Nuts</p>	<p>688.74</p>	<p>1. U.S. 64.83 2. Chile 12.08 3. Canada 5.92</p>	<p>Proximity</p>	<p>Not sufficiently domestically available</p>

HS 21: Miscellaneous Edible Preparations	1,328.01	1. U.S. 83.10 2. Uruguay 2.47 3. Colombia 2.00	Proximity	Not sufficiently domestically available
HS 22: Beverages, Spirits, Wine and Vinegar	1,148.09	1.U.S. 46.90 2.U.K. 15.33 3. Spain 11.80	Excellent regional products	Strong beverage tradition, growing demand for Bourbon / U.S. Whiskey

III. Competition

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.

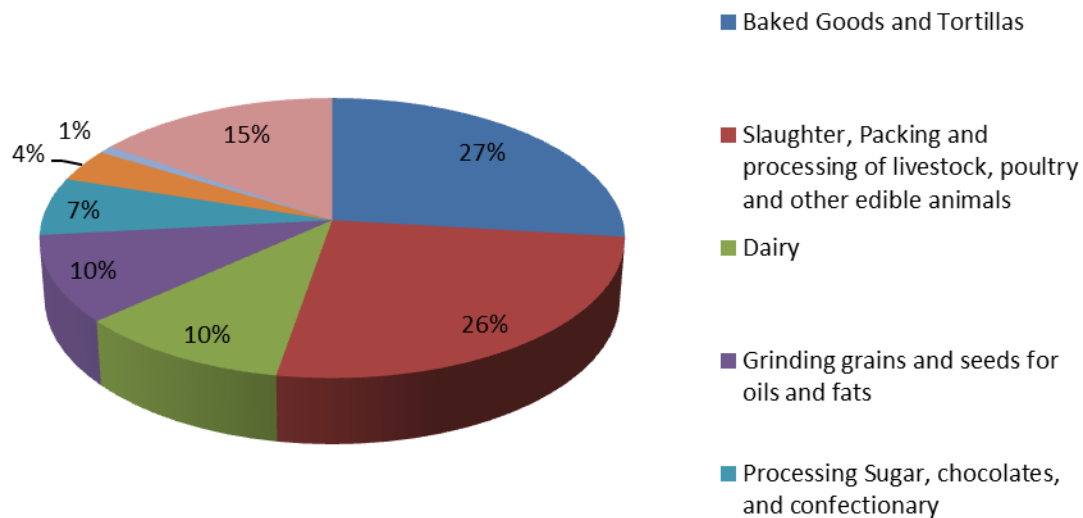
By product category:

- 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.

Production by Industry percentage share



Source ProMexico

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, Lebanese food, European food
- Dairy products- distinctive formulation of yogurts, 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.

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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Sources:

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Euromonitor International
Global Trade Atlas

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