

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Mexico

Food Service - Hotel Restaurant Institutional

HRI-Institutional Foodservice Sector

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Report Highlights:

The institutional foodservice industry in Mexico includes schools, company cafeterias, hospitals, nursing/retirement homes, clubs, amusement parks and casinos, military, prisons, airline catering, and sport events. There are export opportunities for U.S. suppliers of food and beverages to service this market. A key step to entering this market is to find and keep in constant contact with a reputable distributor. U.S. food and beverages have a reputation of being high quality, consistent, safe, and easily available products by the HRI industry.

Post:

Mexico City ATO

SECTION I. Market Summary

In 2012 the foodservice sector in Mexico saw a stronger recovery after the economic downturn and the swine flu outbreak of 2009. Even though sales began to pick up in 2011, the recovery was delayed by factors such as the worldwide increase in food prices, higher personal income taxes, and the financial crisis, which lowered disposable income rates for the whole population.

In 2011 Mexico faced its most severe drought in 70 years in the northern region of the country. The main impact of the drought is and will continue to be a growing reliance in agricultural imports. This means exchange rates and global commodity prices will make Mexico more vulnerable. For the consumer foodservice sector, it means a constant threat of price increases for a variety of ingredients that sooner or later will be passed on to consumers.

The purchasing power of the Mexican consumer is expected to continue to grow as long as the Mexican economy continues to grow, and therefore, consumer foodservice is expected to perform well.

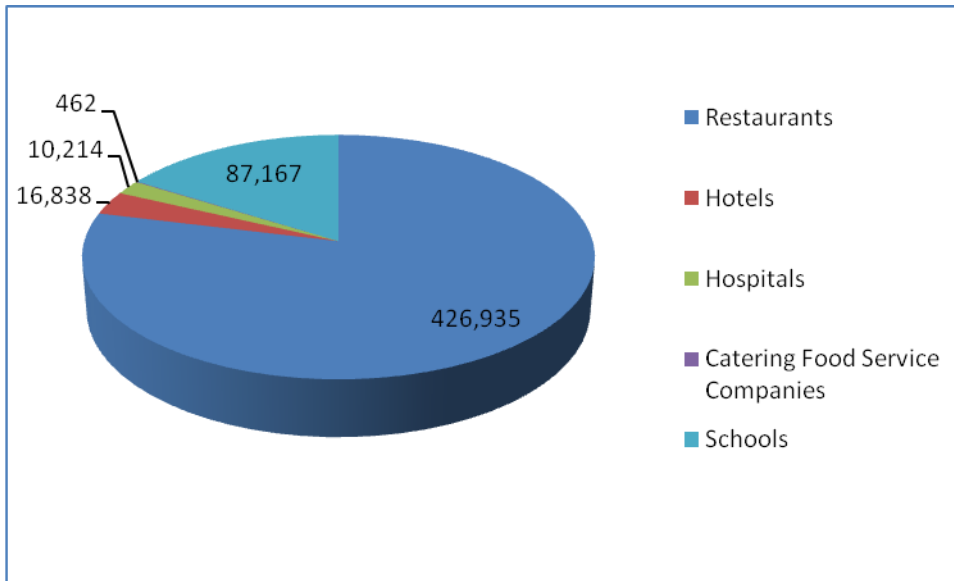
The consumer foodservice industry in Mexico continues to see growth in full service restaurants, especially in home delivery, driven mainly by heavy traffic and fast pace lifestyle in the biggest cities like Mexico City, where many people prefer to eat at work. In the northern cities of the country,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

Also, a growing number of players from all areas of consumer foodservice started engaging in online social networking sites as part of their marketing and promotions strategy. The strength of advertising in social networks will depend on technological development and broad access to the internet in all levels of the population.

While the restaurant industry has seen positive adjustments in terms of value growth, the December 28, 2011 Foodservice Restaurant Industry in Mexico (Gain report MX0347), remains current. Updated data and figures for the restaurant sector in Mexico will be included in 2013 HRI report. The hotel sector data and figures will be issued in mid-February 2013.

There is no official data on the institutional food service market in Mexico. However, industry representatives estimate that about twelve 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.

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



National Institute of Geography and Statistics (INEGI) DENUE

The HRI sector is served mostly through independent distributors. While some hotels, restaurants, and institutions might import directly, U.S. suppliers will most likely need to service the market through an established distributor.

One of the more frequent and more important sources for institutional sector products is the Central Wholesale Markets known as Centrales de Abasto. The Central Wholesale Markets are part of a strategic sector for Mexico as most of the food supply of the population passes through them. For example, the Central Market in Mexico City handles over 50 percent of all food products sold in Mexico, reaching more than 700,000 traditional public markets, outdoor informal markets “tianguis,” street vendors, mom-and pop stores, and the HRI sector (hotels, restaurants, hospitals, caterers, schools, among others.)

The main Central Wholesale Markets (CA) are located in Mexico City, Guadalajara, and Monterrey, which serve the major population centers. As a point of entry into Mexico, the Central Wholesale Market offers unique opportunities for U.S. products and it is an indirect way to target the institutional foodservice sector.

Table 1. Main Outlets where HRI sector source their fresh products

	Produce: Fruits &Vegetables	Meat & Seafood
Central Wholesale Markets	46%	22%
Public Market	37%	17%
Supermarket (Retail)	28%	30%
Specialized Distributor	25%	48%
Home Delivery	24%	25%
Distributor multiple products	22%	27%
Direct purchase w/producer	9%	13%
Food Bank	7%	9%
Others	1%	4%

Source: El Economista Magazine. Agointeligente Supplement June 2011

Author Defined:

Sub-sector Profiles

Airlines: Airlines continue to outsource the preparation of in-flight meals to catering companies. There are two big companies serving this market in Mexico: Gate Gourmet and LSG Skychefs.

LSG Skychefs is a merger of Skychef and Aerococinas. LSG Skychefs operates in Mexico City and in the rest of the country is known as Aerococinas. LSG Skychefs services most of the U.S. airlines; among their clients are Delta Airlines, United, American Airlines, U.S. Airways and Air Canada. Gate Gourmet is the main competitor of Skychefs in Mexico.

The caterers primarily source with local suppliers, through companies like Skychefs. 90% of the products purchased are local (including fruits, vegetables, meat and seafood) and around 10% are imported (most imports are processed products). Skychefs handles a full range of products from premium made-to-order meals to cost-efficient snacks. While in most cases the caterer decides on ingredients, there are instances in which the airline will request a certain product or brand. For small volumes of products they turn to price clubs/wholesale stores like Sam's Club or Costco.

Several international airlines often bring the food from the point of origin of the flight and do not refill food in the country of destination, a term called "double boarded," putting the caterer in disadvantage to capture new customers/orders.

Airlines such as Aeromexico select the menu and define the portion sizes. The contracted caterer will choose suppliers based upon price and quality defined by the airline. Aeromexico, for example, had also followed the global trend to reduce the costs associated with serving food in flight. Aeromexico serves hot meals only on long international flights and cold meals on short international flights. Snacks and beverages are served on national flights.

Most airlines also offer food in flight for purchase, according to Mexico's Skychefs procurement manager, 25% of the people on a flight will purchase some food item on the plane; however, there is little rotation or variety of the food.

Some of the characteristics airlines caterers look for are:

- Small volumes
- Small portion size packaged food. Airlines need menus and food items that are "fly-able". E.g. 4 oz. waters, 14 g crackers, 1 oz. bags of chips, nut mixes, etc. It is hard to import these types of products because they usually want to purchase low volumes.

Institutional Catering (Company Cafeterias): A high percentage of Mexican companies – both manufacturers and professional offices – provide meals to their employees, either free of charge or at greatly reduced prices. Many of the main corporations outsource this service to foodservice and support international companies such

as Aramark, Sodexo and Eurest, among others. Since most of them offer full meals at reduced costs, imported products are rarely in their supply list. Some large corporations use some imported products in their executive menus sourced from local distributors.

Eurest is a leading company in food service and support. Eurest has been present in the Mexican market for more than 40 years, and is one of the main players in the institutional catering sector. They service the main corporations and industrial plants in Mexico, including PepsiCo, Unilever, IBM/3M, Procter & Gamble, Pfizer, Aventis, Volkswagen, and Ford.

Eurest is segmented to assist customers' demands in five operational sectors:

- Business & Industry
- Hospitals
- ESS – Remote Sites
- Scholarest - Education
- Sports & Entertainment

Competition among suppliers is based on price, quality, service, and volume sizes. Eurest operates through logistics providers, which are in charge of the full supply chain including storage and direct delivery to the customers.

Another institutional catering company, Aramark, has been present in the Mexican market for 43 years as a facility and foodservice company that caters to several institutions including hospitals, schools, business, and industry. They offer catering services to big corporations and among their clients are Coca Cola- Femsa, Chrysler, Kellogg's, and Televisa Network. U.S. suppliers could find opportunities in this sector through this company's distributors.

According to the National Restaurant Chamber (CANIRAC) only 25% of the people who eat away from home during the week eat at a restaurant; 75% possibly eat a type of lunch in street stalls. The catering and foodservice companies have a great opportunity to capture new companies to outsource their catering services and/or meals to offer it as benefit to their employees.

General characteristics of the institutional catering sector:

- These types of businesses are looking for products that help them reduce costs, reduce preparation times, and with stable prices
- The three most important aspects to work with a supplier are price, quality, and service. The key is price competitiveness and quick access/availability of products.
- Volumes are directly linked with the size of the business catered and the number of menus to offer. Products with the biggest volumes are meat, processed foods, and cold meats.
- Buyers look for suppliers that can offer product variety.

- 80% of their suppliers are local, and fruits and vegetables are usually bought directly with a supplier at the Central Market.
- The variety of products they offer depends on customers preferences. Company cafeterias usually have healthy menus and a salad bar offering the employees healthier food choices.
- Generally the multinational catering companies hold global contracts with different suppliers and negotiate competitive prices due to the large volumes purchased, giving them a benefit in term of costs. E.g. Unilever, Coca-Cola Company, Nestle etc...
- Some of the big corporations offer executive and more premium menus and in some occasions they will use imported specialty products sourced from local distributors

Hospitals: According to the National Institute of Statistics and Geography (INEGI) there are 10,214 hospital units (general public, private hospitals, and specialized) in Mexico. Over 60% of them are public, state-owned hospitals and purchase very few imported products. Private hospitals have catering services and can buy imported food products for their menus, but it will depend on price. According to the executive chef from one of the main and biggest private hospitals in Mexico (Hospital ABC), the hospital does its own catering and does not outsource it as many other private hospitals do. A private hospital can have a daily average of 60 to 80 patients, who all need different specialized diets and menus. Also the ABC Hospital, for example, has a cafeteria, which caters for around 600 contributors between doctors and employees in addition to patients. In private hospitals, most of their suppliers are local and they buy most of their fresh produce from suppliers in the Central Market. The procurement department usually chooses their suppliers through a bidding process. The ABC Hospital in Mexico City, for example, handles big volumes of food and has their own cold and dry storages.

Volumes are important to evaluate if it will be profitable to purchase certain imported products. It is important for large institutions to work with consolidated distributors and to build a strong relationship with their distributors.

Schools and Universities: In Mexico, most public elementary schools and high schools don't have a cafeteria or catering services; although it is common in higher education institutions. Public elementary schools usually have a school cooperative formed by the parent's association. The cooperative is in charge of selling home-prepared foods during the recess period. The schools where there is a cafeteria in many cases have the service outsourced through a catering company. The Public Education Secretariat (SEP) sets up the guidelines for school menus and the catering company has to follow those guidelines.

Military and prisons: The Mexican military's food purchasing is decentralized. Each military base around the country is responsible for purchasing the food locally. Imported products are generally not considered unless they are price competitive with local products. The military schools usually choose their suppliers through a

bidding process for short term contracts of about a year.

Prisons also source all their food requirements locally. There are three different jurisdictions operating prisons in Mexico: Federal, State, and Municipal. Prison contracts are awarded almost solely on price and imported products are rarely purchased.

Travel and Leisure: In 2011, foodservice sales through travel and leisure together (e.g., airlines, amusement parks, sports clubs, casinos, cinemas etc.) in Mexico totaled approximately 963 million transactions with over \$4.4 billion USD in sales. Leisure locations serve a semi-captive audience with no other options for consumer foodservice than those provided by cinemas, sport stadiums, theme parks, or theaters. These locations do not allow customers to bring in their own food and drinks from outside. In 2011, approximately 46,000 travel and leisure outlets provided foodservice in Mexico.

As shown in Table 3, the consumer foodservice through leisure and lodging had a chronically low share compared to consumer foodservice through standalone locations and retail.

Table 2. Consumer Foodservice Sales by Location: Units/Outlets 2006-2011

000'Outlets	2006	2007	2008	2009	2010	2011
Consumer Foodservice through Standalone	621.1	643.3	656.8	656.9	662.0	677.3
Consumer Foodservice through Leisure	15.6	14.4	14.4	13.7	13.7	14.0
Consumer Foodservice through Retail	46.1	49.0	49.3	48.2	49.9	53.1
Consumer Foodservice through Lodging	7.7	8.7	9.2	9.3	9.6	10.1
Consumer Foodservice through Travel	37.2	38.6	41.5	41.9	43.0	45.0
Consumer Foodservice	727.7	753.9	771.2	777.0	778.2	799.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

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.	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 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	The fluctuation of the exchange rate and inflation rate make U.S food products more expensive than local products
Higher demand of agricultural imports due to the climate change (drought) in northern Mexico	U.S. food purchases will depend highly on price.
Higher income levels and more women in the workforce have increased the demand to eat away from home	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

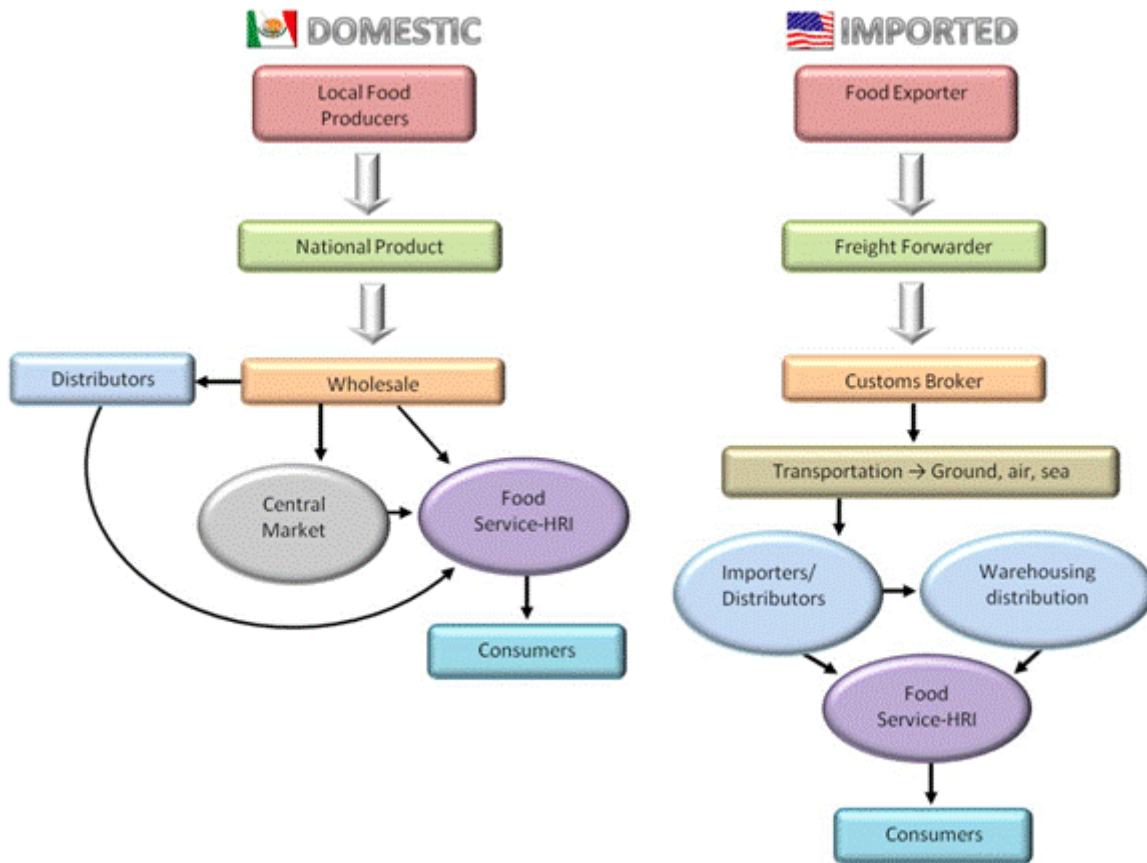
U.S. suppliers are encouraged to look for multiple local distributors in Mexico and identify distributors that service the major cities including Mexico City, Guadalajara, Monterrey, Cancun, and other Pacific coastal cities, where most of the foodservice market is concentrated. Foodservice catering companies, government institutions, and hospitals rarely purchase imported products as hotels and restaurants do.

In general, personal relationships are important. Caterers like to deal with established suppliers and local distributors that provide excellent client services, have the infrastructure to handle a variety of products, and have good cold chain management.

In Mexico, the best way to find a distributor and determine the feasibility of commercializing a product in the market is to travel to Mexico and meet with several distributors. Mexico has a culture where personal business relationships are very important. U.S. companies can take advantage of the USA Pavilions organized by the Agricultural Trade Office in Mexico to exhibit their products and meet key contacts, including officials from large distributors who exhibit at the most important foodservice tradeshows.

A. MARKET STRUCTURE

Distribution Channels for the Consumer Foodservice Industry in Mexico



Distribution Channels for HRI Institutional Sector

The foodservice distribution is as follows:

- Distributors can be divided into the following categories:
 - Independent importers and/or distributors that have their own warehouses and deliver to all HRI sector. They offer import assistance and all the required documentation, such as the certificate of origin, compliance with the different Mexican norms, etc.
 - Distributors who specialize in one product type, such as meat or seafood products.
 - Distributors who specialize in several products such as frozen and/or refrigerated products and dry goods.
- 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 is marketed through the Central Wholesale Market (CA). The institutional food sector source most of their fresh products from CA's.
- 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 institutions can buy specific products directly.

Purchasing decisions by large institutions are usually made by the purchasing manager. Smaller catering services generally work with smaller food suppliers.

Transportation

Approximately 80% 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. However on March 18, 2009, the Secretariat of Economy (SE) published in the *Diario Oficial* (Federal Register) an announcement modifying the import tariffs of 90 U.S. agricultural and industrial products. This announcement was retaliation by the Government of Mexico (GOM) over the dissolution of the U.S.-Mexico Cross-Border Trucking Demonstration Project. The list included 36 agricultural products worth an estimated trade value of \$864 million. On October 21, 2011, both governments agreed to a resolution to the dispute. Mexico agreed to lift the tariffs applied to 99 U.S. agricultural and industrial products in exchange for allowing Mexican trucks in the United States.

SECTION III. COMPETITION

U.S. exports of agricultural products to Mexico were valued at 17,836,179 million U.S. dollars in 2011. Mexico is the third largest U.S. trading partner after China and Canada. The United States still dominates Mexico's food imports with around 70% of the total market. The main products the United States exports to Mexico are: grains (corn, rice, and wheat), beef, soybeans, dry beans, apples, turkey, and sugars and sweeteners.

Competition among suppliers is based on price, quality, service, and volume sizes.

The main competition for U.S. suppliers in Mexico is:

- **Local Manufacturers:** Large local food processors like Bimbo and Herdez have the greatest market penetration, dominate the foodservice sector, and have an advanced distribution system. Bimbo is the leading company in the country for bread, pastries, and snacks. Grupo Herdez is the leader in processed and canned food and also owns Barilla Dry Pastas and has a joint venture with Hormel and McCormick Companies.
- **Transnational Companies:** Global companies like, Nestlé, Unilever, and Kraft Foods Mexico are also active local suppliers. Nestlé supplies 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. Unilever has a food solutions division that offers specialized training to restaurants and caterers on the use of ingredients to add taste and simplify the cooking process. Much of their success is due to their strategic alliances with the largest chained foodservice operators, such as Food Service de México, to supply them with a wide variety of products ranging from sauces, dressings, and condiments, to dairy products and baked goods.

Worldwide food prices increased significantly during 2011 for a number of products such as meat, tomatoes, sugar, grains, and legumes, a situation that will continue to affect the profit margins of foodservice providers. Together with the fluctuation of the exchange rate and the increase in food prices, institutional caterers will continue to purchase more local products rather than the more expensive U.S. products.

Table 4. Competition

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Products Net imports: 34,487,906 liters	United States 92% Uruguay 5% New Zealand 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 and Pasteurizadora
Fresh Fruit Net Imports: 441,789 Tons	United States 87% Chile 10% Argentina 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: 217,934 Tons	United States 93% Chile 3% Canada 2%	-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- 499,724 Tons Beef- 166,160 Tons	United States: 90% Canada: 9%	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- 698,288 Tons	United States 98% 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: 81,618 Tons	United States 61% Canada 13% China 6% Guatemala 4%	-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.

USDA: Global Trade Atlas

SECTION IV. BEST PROSPECTS

Products with high sales potential in the institutional foodservice sector:

- Meat (pork and beef), cold cuts

- Processed fruits and vegetables (frozen potatoes)
- Single-serve packaged food - nut mixes, (trail mixes), small chips bags, single-served fruit in syrup
- Healthier foods (Low sodium, low-fat, reduced sugar)
- Dairy- cheese, powder milk

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:

Alimentaria

Date: June 4-6, 2013
 Location: Centro Banamex Convention Center, Mexico D.F.
 Website: www.alimentaria-mexico.com

Exphotel Cancun

Date: June 12-14, 2013
 Location: Cancun Convention, Center Quintana Roo
 Website: www.exphotel.net

Abastur

Date: August 26-29, 2013

Location: Banamex Center, Mexico D.F.

Website: www.abastur.com

Sources:

National Chamber of the Restaurant Industry (CANIRAC)

Mexican Statistics and Geography Institute (INEGI)

Euromonitor International

Comedores Industriales Magazine

Newspaper "El Economista" – Agointeligente Bimonthly Supplement

USDA official data