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Mexico

Food Service - Hotel Restaurant Institutional

Mexico's Food Service Hotel, Restaurant and Institutional Report for CY 2016

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Report Highlights:

The food service industry in Mexico includes the hotel, restaurant and institutional (HRI) sectors. Mexico's HRI foodservice sector has faced several challenges in 2016 due to an unstable economy and the negative exchange rate fluctuations of the U.S. dollar versus the Mexican peso. An increase in consumer prices (2.82% in 2016 vs 2.71% in 2015) is also slowing down the economic growth. However, the full service restaurant sector kept growing as more independent operators opened in 2016. Mexico is still an attractive market for international foodservice companies. 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 (28 million U.S. tourists) and domestic (18 million Mexican) tourists that visited Mexico in 2016, and a rise in the number of young chefs opening their own restaurants across Mexico. This report focuses mostly on the restaurant sector, highlighting its structure, entry strategy and best products prospects.

Post:

Mexico City ATO

Executive Summary:

Section I. Market Summary

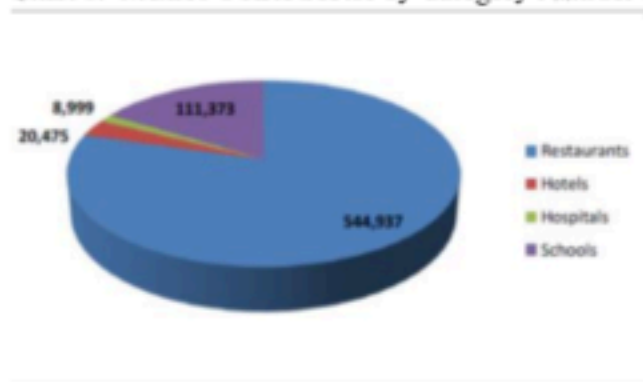
In 2016, Mexico had a GDP growth of 2.3%, slightly lower than the 2.5% of 2015. There was no reduction of unemployment levels, inflation rates were higher than the ones in 2015 (4.6% in 2016, highest rate in the last few years) despite these two key factors, the economy remained steady. NAFTA renegotiation is likely to discourage investment inflows from the U.S. but growth rates are expected to gradually rise (about 2.9% per year in the medium term) depending on the outcome of the pending renegotiation of NAFTA.

Overall, Mexico's top trade partner is by far the United States, which imports 80 percent of all Mexican exports and provides Mexico with 50 percent of its total imports.

During 2016 consumers continued to prioritize foodservice purchases even during times of economic crisis, sometimes at the expense of other affordable indulgences. Still, foodservice in Mexico had to deal with challenging conditions like increases in electricity and gasoline inputs. According to the National Restaurant Chamber (CANIRAC), and the last census from the National Institute of Statistics and Geography (INEGI) there are 544,937 establishments dedicated to food sales in Mexico. Five percent are defined as full-service 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 the HRI sector, restaurants are the biggest segment by number of outlets (see chart below). However, because of the socioeconomic categories it targets, hotels represent a better opportunity for imported products; whereas the price of imports might be a problem for other sectors.

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



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

Restaurant Sector

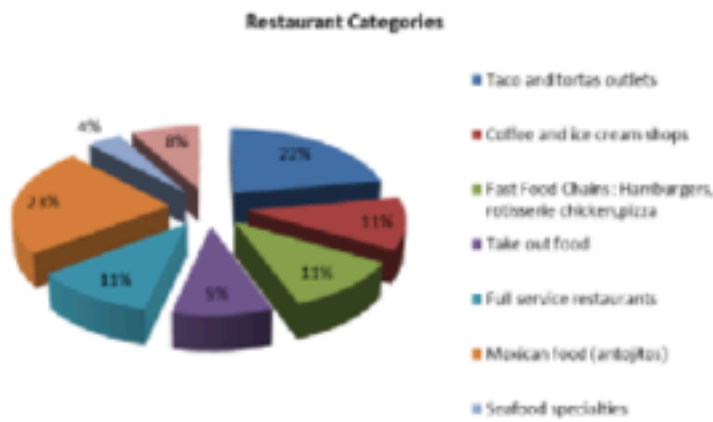
The restaurants industry in Mexico employs about 1.5 million people directly and 3.5 million indirectly. The sector represents 1.5% of the national GDP. According to INEGI, 19.8% of the family budget is destined towards “meals away from home”.

In 2016, the same trend of 2015 was maintained, independent full-service restaurants accounted for the majority of value sales. Chained foodservice companies grew faster than independent ones. 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. Domestic companies Alsea (owners of Chilli’s, PF Chang’s, Burger King and The Cheese Cake Factory) and FEMSA (Fomento Economico Mexicano, part of Coca Cola Bottling) remained the top two players in the Mexican consumer foodservice sector in value sales terms during 2016.

The institutional segment registered a positive trend with hospitals, caterers, airlines, industry cafeterias and even schools and prisons developing their own professional foodservice providers and creating a large market with several opportunities for specific needs.

CANIRAC divides the Mexican restaurant market into four categories:

- Fine dining and full service restaurants: higher priced establishments targeting middle to high end consumers.
- Casual dining restaurants: affordable, family friendly dining outlets.
- Fast food: known chains like McDonald’s, Burger King, KFC, Subway, Panda Express, etc.
- Quick and casual restaurants: coffee shops, independent restaurants, street and mobile outlets (kiosks, stalls, etc.)



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 one percent of all the restaurants in Mexico and generate six 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 more than 500 restaurants in Mexico City from fast food and full service chains like Fisher’s to gourmet restaurants such as *Eno* and *Tori Tori*. Plans are in place to expand the service to other major cities like Monterrey, Guadalajara and Queretaro.

New concepts in restaurants and hotels with non-traditional cuisines, particularly Asian (Thai, Chinese, Japanese, Indian etc.) are consolidating throughout the country; 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 (farm to table) are being developed, especially in the high- end high-profile Chefs sectors.

Convenience foodservice remains a key factor 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 2016, driven mainly by a growth in outlets (part of the aggressive expansion strategy of FEMSA). 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 vs Chained: Units/Outlets 2016

| Outlets | Independent | Chained | Total |
|------------------------------|--------------------|----------------|--------------|
| 100% Home Delivery/Takeaway | 2,453.0 | 1,286.0 | 3,739.0 |
| Cafés/Bars | 27,035.0 | 2,172.0 | 29,207.0 |
| Full-Service Restaurants | 177,801.0 | 2,901.0 | 180,702.0 |
| Fast Food | 217,738.0 | 28,333.0 | 246,071.0 |
| Street Stalls/Kiosks | 470,284.0 | 776.0 | 471,060.0 |
| Pizza Consumer Foodservice | 28,076.0 | 1,939.0 | 30,015.0 |
| Consumer Foodservice by Type | 895,311.0 | 35,468.0 | 930,779.0 |

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources (total includes street vendors)

Table 2. 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 | The price of food is a key factor in food purchases. For some U.S products if the |

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| products such as meat, poultry, processed food, gourmet food among others. | price is higher, then suppliers will purchase the domestic product. |
| Sharing a land border with 46 legitimate 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 was more than 6.5% and inflation rate 4.6%, 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, especially when the exchange rate favors the peso. |

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.

A good distribution system is the most important factor in food products sales 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:

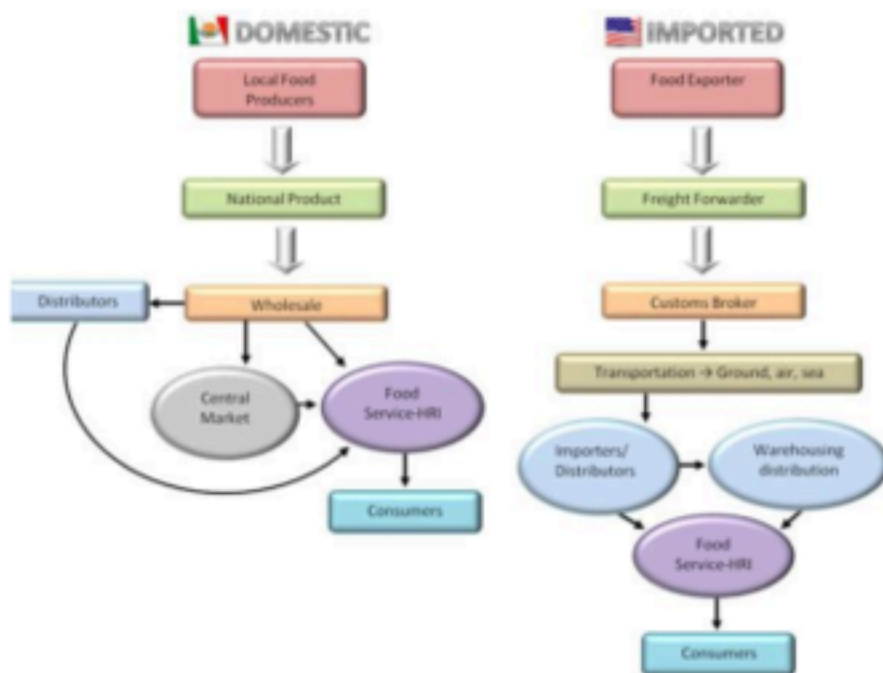
- Independent importers and/or distributors that have their own warehouses and deliver to all HRI sectors. They offer import assistance on all the required documentation like the certificate of origin, compliance with the different Mexican norms, customs regulations and more.
- Distributors who specialize in one product type such as meat or seafood products (Comercializadora Norteamericana for meat and el Sargazo for seafood and Comalca for cheeses and sauces, are just some 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 grown 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 outlets including VIPS, California Pizza Kitchen, Chili's and Domino's Pizza among others
- Price clubs (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 and has begun selling gasoline as well.
- 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 than buyers who focus primarily on price.

Smaller restaurants generally work with smaller food suppliers and distributors. 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



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. Tourism in Mexico is the third largest source of national income, with strong growth rates for both

domestic and international tourists being seen every year. In this regard, the diversity of Mexican cuisine, and its appeal for tourists, provides significant investment opportunities for foodservice operators in the country. This includes domestic competitors that offer attractive and innovative concepts, as well as popular multinational chains catering to tourists who feel more comfortable with well-known brands. Popular tourist destinations that provide expansion opportunities for foodservice companies include Cancun, Puerto Vallarta, Playa del Carmen, Nuevo Vallarta, Los Cabos, Cozumel and Mazatlán.

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. More information can be found on the following link: <http://comedores-industriales.com.mx/>

Section III. Competition

Competition among suppliers is based on price, quality, service, and volume sizes. The key is price competitiveness and quick access and availability of products. Suppliers prefer to have their demand directly linked with the size of the business. Products with the biggest volumes are meats and processed foods. The foodservice sector looks for suppliers that can also offer product variety and emergency necessities. They purchase 80% of their fresh produce directly from 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 and 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 3. Competition

| Product Category | Major Supply Sources | Strengths of Key Supply Countries | Advantages and Disadvantages of Local Suppliers |
|------------------|---|-----------------------------------|--|
| Dairy Products | <ul style="list-style-type: none"> • United States 73% | | The industry is highly fragmented with a large number of small-scale artisanal producers that distribute products locally. |
| Net imports: | | | |

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| 564,230,347 Kilograms | <ul style="list-style-type: none"> New Zealand 11.8% Netherlands 8.1% | -U.S. is the major supplier of dairy ingredients, whey and milk powder | 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: 575,441,074 Kilograms | <ul style="list-style-type: none"> United States 86% Chile 8.4% Peru 2% | <p>U.S. remains the leading provider of apples, pears and stone fruits in Mexico</p> <ul style="list-style-type: none"> -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: 518,397,257 Kilograms | <ul style="list-style-type: none"> United States 85% Canada 9% Chile 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 (Beef) Beef- 119,630,942 Kilograms | <ul style="list-style-type: none"> United States: 82.9% Canada: 11.3% Nicaragua 5.6% | 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- 938,678,083 Kilograms | <ul style="list-style-type: none"> United States 91.1% Brazil 6.3% Chile 2.6% | <p>U.S. major supplier of chicken parts and turkey</p> <p>U.S. poultry is regarded as high quality.</p> | Local poultry producers are major suppliers. - Some local distributors could have a poor cold chain management |
| Processed Foods - Snack Foods Net Imports: 81,311,097 Kilograms | <ul style="list-style-type: none"> United States 75% Canada 6% | <p>U.S. is a major supplier for ingredients of snack foods processed in country.</p> <p>Canada also imports food ingredients for snacks.</p> | 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. |

| | | | |
|---|---|---|---|
| | <ul style="list-style-type: none"> Guatemala 5% | | |
| <p>Beer Net Imports: 252,941,751 liters</p> | <ul style="list-style-type: none"> United States 96% Belgium 2% Netherlands 0.8% | <p>U.S. is the major supplier for beer and wine combined.</p> | <p>Mexico is the number one exporter of beer to the U.S. Mexican Craft brews are on the rise trying to capture a differentiated market.</p> <p>European wines are well accepted and regarded among Mexican consumers.</p> <p>Local wine is well</p> |
| <p>Wine Net Imports: 68,147,453 liters</p> | <ul style="list-style-type: none"> Chile 31% Spain 30% United States 5.4% | | |

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 and pastries.
- 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:

U.S. Agricultural Trade Office in Monterrey, Mexico

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Related Tradeshows in Mexico in 2018:

SIRHA – Foodservice Show

Date: April 11-13, 2018

Location: World Trade Center Mexico City

Website: www.sirha-mexico.com**Exphotel Cancun**

Date: June 12-14, 2018

Location: Cancun Convention, Center Quintana Roo

Website: www.exphotel.net**Abastur**

Date: August 28 - 30, 2017

Location: Banamex Center, Mexico D.F.

Website: www.abastur.com**Restaurant Industry Contacts**

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|--|--|---|
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| Mexican Restaurant Association AMR | direcciongeneral@amr.org.mx | Tel: (55) 5250-1146 |
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