



**MARKET ACCESS SECRETARIAT  
Global Analysis Report**

# Business Environment

## Mexico

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### EXECUTIVE SUMMARY

Over the past two decades, Mexico has made impressive progress in transforming from an oil-revenue based country, into a modern, diversified economic player that is increasingly integrated into the North American economy and the world. Canada and Mexico are now among each other's largest trading partners.

Mexico is Canada fifth-largest trading partner, and represents the fourth-largest export market for Canada's agrifood and seafood products. Since its enactment in 1994, the North American Free Trade Agreement (NAFTA) has bolstered strong manufacturing industries on both sides of the border, facilitating an active exchange in components along supply chains for various sectors, and particularly the agri-food sector.

Mexico is also an interesting market for Canadian exporters of value-added food products. The Mexican food import market is large, diverse and accessible; most Canadian food products enter Mexico duty-free. The demand for Canadian products imports has grown rapidly over the past 25 years, since the introduction of supermarket food distribution systems in Mexico. With the removal of customs tariff barriers, value-added food products are exported to Mexico from every region of Canada on a regular basis reaching close to C\$2 billion annually.

This report provides information on what suppliers should be aware of regarding Mexico's distribution, retail and regulatory landscape.

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*For comprehensive coverage of the Mexican market, please see the complete suite of Global Analysis reports:*

- *Market Overview*
- *Business Environment*
- *Consumer Profile*



## **COUNTRY SNAPSHOT**

Mexico is the second-largest country and economy in Latin America, after Brazil, due to its large population (second after Brazil's) and relatively high per capita output (the highest in the region after Puerto Rico and Chile). Furthermore, the Organisation of Economic Co-operation and Development (OECD) now classifies Mexico, the world's 14th-largest economy, as a majority middle-class society. Mexico is an attractive market with its large consumer population, and stable economic policies. Mexico is a country of opportunities where half the population enjoys a regular income and affluent lifestyle.

A recent change of government and the election of a new president have resulted in both Mexicans and foreign entities showing a significant level of trust in the economy. This situation has led to increased stability and an influx of both foreign and domestic investments in Mexico.

According to Euromonitor the currency exchange rate between the United States (U.S.) dollar and the Mexican peso has shown good performance, another indication of the confidence in the Mexican economy. The possible reforms promoted by the new president could lead to continued strong performance in the coming years.

In 2013 thus far, the performance of the Mexican economy is very positive. Gross domestic product (GDP) is expected to grow above 2.6%, according to Euromonitor, and in 2014 it is expected to grow by almost 4%. The inflation rate was around 4%, while the employment rate was 3.9% in 2012.

The benefits of the country's recent economic growth are gradually filtering through to an expanding middle class, especially in the urban areas. Domestic demand is also being driven by the emergence of modern retail formats and relatively low interest rates. However, the calibre of this future growth will be closely linked to a lasting economic recovery, according to Planet Retail.

The average income has doubled in the past 15 years; one quarter of the country's homes were built within the past two decades; and the average number of school years Mexicans attend has doubled in the past four decades. Per capita incomes of urban consumers are also rising, increasing the demand for value-added food and beverage products. Approximately 25% of total consumer expenditure goes toward purchasing food and non-alcoholic beverages.

In terms of recognized companies, Mexico has more Walmart outlets per capita than even the United States. Mexico's consumer market is becoming more and more important to large companies ranging from Procter & Gamble to Ford, according to Forbes magazine.

## **FOODSERVICE ENVIRONMENT**

The performance of consumer foodservice is strongly linked to the country's economic health and performance. Mexico's economic expectations are positive in many industries, and the consumer foodservice sector is no exception. It is expected to perform well, led by good investment and growth among leading companies.

Time-pressed urban lifestyles are expected to continue growing within cities, which will undoubtedly generate an increasing demand for practical and quick meal options, and thus foodservice. The increased confidence in Mexico's economy and the increase of disposable income in recent years is likewise reflected in consumer spending. There are a growing number of domestic travellers as more people can afford access to travel services, and those who were already used to travelling are able to increase the frequency of their trips.



Tourism is one of the most important industries in Mexico, and foodservice entities are adapting menu items to fit a wide range of tourist taste preferences. Mexico is the eighth-most visited country in the world with over 20 million tourists each year, and the arrival of more visitors from countries other than the U.S. has forced the industry to innovate and improve the quality and range of their services. This diversification of incoming tourists is encouraging companies to offer more sophisticated services in order to please a wider variety of customers.

### Consumer Foodservice in Mexico, Independent vs. Chained Outlets, 2012

	Independent	Chained	Total
Total consumer foodservice outlets	730,552	27,061	757,613
Street stalls/kiosks	458,291	706	458,997
Full-service restaurants	223,274	2,655	225,929
Fast food	18,100	21,017	39,117
Cafés/Bars	29,009	1,572	30,581
Pizza consumer foodservice	5,140	1,636	6,776
100% Home delivery/takeaway	1,878	1,111	2,989

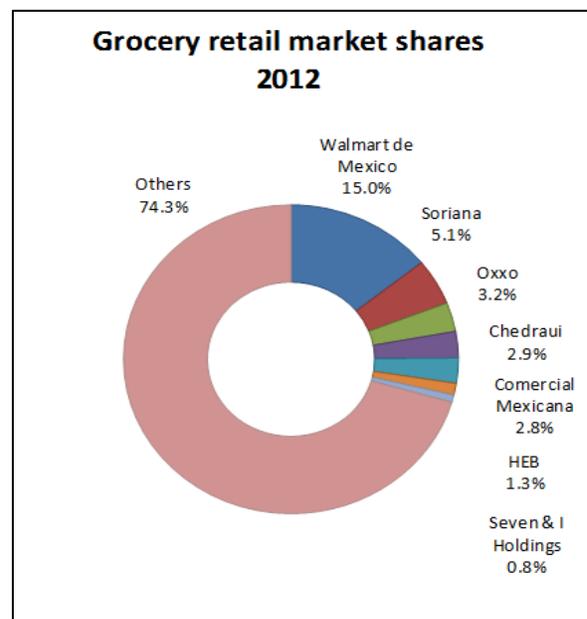
Source: Euromonitor, 2013.

## RETAIL ENVIRONMENT

According to IGD Retail, Mexico has a fairly fragmented grocery retail sector. Very few retailers have genuinely national coverage and the top five food retailers only account for around 30.4% of grocery sales. In Mexico, the large grocery chains tended to be regional until the arrival of Walmart, with its fast-growing network and undeniable leadership. This growing influence has forced other retailers to start stepping outside of their traditional power centres and compete with each other on margins which, in turn, have come under pressure as competition has increased. Profit margin erosion has forced the big grocery chains to centralize buying where possible.

Food retailing through supermarkets and specialized stores accounted for nearly 50% of sales, amounting to more than US\$180 billion. Across the retail market as a whole, street stalls, open markets and traditional stores are still very common, however, in urban centres such as Mexico City, modern retail formats dominate.

According to Planet Retail, the big chains believe that, in time, they can capture another 25-30% of the retail market nationwide. Some of this growth will come as the population (of which 44% is under the age of 20) becomes older, as today's younger generations are more accustomed to, and tend to prefer, the modern retail formats.



Source: IGD Retail Analysis, 2013.



## DISTRIBUTION CHANNELS

Very modern distribution systems exist in Mexico, and elaborate logistics allow direct deliveries from major producers and warehouses, to large-surface department stores. Nevertheless a more traditional distribution system also exists, consisting of a long chain of distributors, wholesalers, retailers, and small corner stores.

### Wholesalers

There are marked differences in size between wholesalers in Mexico, and they usually have limited regional or local coverage. Not all wholesalers have the same logistical capacities to ensure that the products reach retailers and/or consumers on time and in good condition. This is a problem if you want to establish a product in smaller centres.

### Distributors

Distributors traditionally ensure that they have good reach and sufficient capacity to ensure continuous delivery to retailers (staff, logistics, warehouse space etc.) which is a major factor for the success of imported products on the Mexican market.

### Key Retailers

There is a wide spectrum of retailers in the Mexican market, ranging from small convenience stores to large-scale locally-owned and foreign-owned retail chains.

Walmart Mexico (Walmex) operates a large mixture of different formats. These include hypermarkets, discount stores, membership warehouses and supermarkets as well as restaurants and clothing stores.

The other important player in the Mexican retail scene is OXXO. This retailer is part of FEMSA Comercio and operates the largest convenience store chain in Latin America. Oxxo is the largest vendor of beer, bread, soft drinks and snacks in Mexico according to Planet Retail.

Soriana is the most focused of the big retailers, operating mainly hypermarkets. In order to increase its market share, the retailer launched a warehouse club membership store format under the City Club banner, and the Mercado Soriana superstores.

The fourth major player in the market is Chedraui. Following the takeover of Carrefour's operations in Mexico, Chedraui has positioned itself as one of the main players in the North American country.

**Top Grocery Retailers in Mexico, 2012**

Retailer	Grocery sales in \$US millions	% Change in grocery sales 2011-2012	Grocery retail market share (%)	Number of grocery stores
Oxxo	3,986.6	4.3%	3.2%	10,567
Walmart de México	18,444.8	2.9%	15.0%	1,740
Seven & I Holdings	973.7	7.4%	0.8%	1,429
Soriana	6,341.0	0.7%	5.1%	573
Comercial Mexicana	3,413.4	-1.0%	2.8%	199
Chedraui	3,626.5	-0.8%	2.9%	198
HEB	1,618.9	7.5%	1.3%	41

Source: Planet Retail, 2013.



### **Private labels**

Private label penetration in Mexico, at about 10% by 2011, is still low by European standards. However, the proximity of the United States (where there are alternative suppliers), the involvement of Walmart and Costco in the market, and price competition have also stimulated its development. Most chains use private labels to reduce prices rather than gain extra margin.

## **INFRASTRUCTURE AND LOGISTICS**

The most common methods of shipping goods from Canada to Mexico are by truck, rail, air and sea, or a mixture of two or more of these. A freight forwarder can assist Canadian companies when deciding which method of shipment would work best.

### **Seaports**

There are 60 commercial seaports in Mexico. The most important ports are Port of Manzanillo, one of Mexico's busiest ports, and the Port of Lazaro Cárdenas, Mexico's only deep-water seaport. Both of these ports are located on Mexico's Pacific coast.

### **Airports**

In total there are 250 paved-runway airports in Mexico. The five largest are: Cancun International Airport, Mexico City International Airport, General Mariano Escobedo International Airport (Monterrey), Don Miguel Hidalgo y Costilla International Airport (Guadalajara), General Juan N. Alvarez International Airport (Acapulco).

### **Land-entry**

San Ysidro-Puerta is the most frequented international land-entry port in the world accounting for one out of every ten people entering the U.S. via sea, land, or air, and is located on the Mexico-California border.

San Luis II Port on the Mexico-Arizona border is another very important entry point for exporters. This new commercial port offers 10 commercial inspection processing lanes, and Free and Secure Trade (FAST) lanes.

Located on the Mexico-Texas border, the World Trade Bridge port of entry connects Nuevo Laredo, Tamaulipas to Laredo, Texas.

## **TARIFFS AND REGULATIONS**

Please note that tariffs and duty rates are constantly revised and are subject to change without notice. AAFC strongly recommends that you reconfirm these prior to selling to Mexico.

According to the North American Free Trade Agreement, goods made in the U.S. or Canada may be eligible for duty free treatment or reduced duty rates when entering Mexico. The importer must provide proof of origin to Customs in the form of a Certificate of Origin and/or country of origin marking on the goods. The exporters should be able to provide the importer with such certificate of origin.



## **LABELLING**

All labels on packaged food products must appear in Spanish and must be at least the same size as those in other languages. There are many other requirements pertinent to the varying commodities being exported.

An exhaustive list of requirements is available on the Canadian Food Inspection Agency (CFIA) website. Please consult with the CFIA to ensure your product meets the most up-to-date standards (see link on page 7). It is also strongly recommended that exporters consult with their importers for further specifics concerning Mexican labelling requirements.

## **PACKAGING**

In addition to specific labelling requirements, all products exported to Mexico must comply with the country's packaging standards. The following are some examples:

- Marking on packages should indicate net, gross and legal weights, marks and numbers, as specified. Marks should be applied by brush or stencil and must be written in Spanish.
- Labels on products registered at the Mexican Department of Health and Sanitation must indicate the license number.

## **MARKET CHALLENGES**

Canada's main foreign competition in the Mexican agri-food market comes from the U.S., which currently controls over 70% of the US\$27 billion agri-food import market. Large U.S. firms such as Wal-Mart and Costco account for half the retail food sales in Mexico. U.S. suppliers also dominate the hotel and restaurant segment and are well established in tourism destinations such as Los Cabos and Cancun thanks to the proximity to the markets and ease of transportation.

The growing global attractiveness of the Mexican market makes this market more competitive for Canadian producers. The influence of other competitors, such as China, the European Union, Australia, New Zealand and South America has to be taken seriously as their position has been growing. Many of these competitors are gaining ground in Mexico as a result of various Free Trade Agreements.

One of the main challenges in the agri-food sector in Mexico is the complex regulatory system. In order to ensure smooth border clearance, exporters need to keep abreast of ever-changing regulations and document requirements. The border clearance requirements are applied to all shipments coming into Mexico.

## **MARKET OPPORTUNITIES**

Market research indicates that there are opportunities in Mexico for sales of processed foods, ready-to-eat products, meat and processed meats, food ingredients, snack foods, private-label products, frozen and prepared foods, and health and wellness products where Canada has a great variety of products that are seen as novel or innovative.

Trade commissioner services also indicate that there is also a growing commodity market for ingredients where Canada is established as a world class provider of high quality products such as wheat and oat-based products, pulses, barley, oilseed oils, soy concentrates, organic and sugar-free ingredients, baking and multigrain mixes, frozen blueberries and wild rice.



With Mexico gearing up to be one of top tourist destinations by 2020, undoubtedly there is an appetite for high-quality Canadian food and beverage products for the hotel and restaurant industry in Mexico. Products such as fruits and vegetables, pork, beef, lamb, deli-style meats, sauces, condiments and spices, ready-made meals, specialty grains, canned goods, alcoholic beverages, carbonated beverages, and bottled water and juices are in demand and there is a potential for higher market share.

## **FOR MORE INFORMATION**

### **Market Intelligence**

For more information on opportunities in the Mexican market, many more reports can be found on the Agriculture and Agri-Food Canada website.

- Statistics and Market Information: [www5.agr.gc.ca/eng/?id=1361289956531](http://www5.agr.gc.ca/eng/?id=1361289956531)

### **Export Assistance**

If you are considering exporting to Mexico, you may want to consult with our trade commissioners in the Canadian Embassy in Mexico and/or customs authorities. These organizations can help classify your product, and provide information on requirements products must comply with when entering the country.

- Trade Commissioner Service: [www.tradecommissioner.gc.ca](http://www.tradecommissioner.gc.ca)

### **Labelling Requirements**

- Canadian Food Inspection Agency: [www.inspection.gc.ca](http://www.inspection.gc.ca)

### **Upcoming Trade Events**

The latest event schedule and more information on international trade shows attended by the Canada Pavillion, can be found on the Agriculture and Agri-Food Canada website.

- Trade Events: [www.ats-sea.agr.gc.ca/eve/eve-eng.htm](http://www.ats-sea.agr.gc.ca/eve/eve-eng.htm)

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### **Business Environment: Mexico**

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