



## Market brief

Processed foods-ingredients,  
private label & nutraceuticals in Mexico

July 2013



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## Overview: Processed food industry in Mexico

### Market overview<sup>1</sup>

The processed food market includes products such as dairy, bakery, confectionery, sauces and condiments, dried, frozen or canned food, among others. Items in this category are subject to a process of conservation either with or without additives.

This market has demonstrated a constant expansion in Mexico, with increased consumption of 250% in the 2003 – 2008 period (MINECO, 2008). Moreover, in 2011, the frozen foods and ready-to-eat meals submarkets were valued at \$698 and \$285 million each respectively (TCS, 2012).

This brief highlights that positive growth trends in the sector represent significant business opportunities for Canadian companies. In addition, Canada's competitive standing, behavior of Mexican consumers, and particular tax exemptions are considerable advantages.

### Market Trends

#### *High levels of consumption*

In Mexico, processed foods have increased in popularity because of changes associated with time constrained lifestyles of the Mexican population.

In 2012, consumption in this particular market was valued at approximately \$130 billion, positioning Mexico as the 3<sup>rd</sup> largest processed food consumer in the Americas.

#### *Positive growth forecasts*

According to Global Insight, forecasted growth in consumption is 7.4% for the 2012-2020 period. This trend will impact Mexican imports, which in 2012 alone were more than \$9 billion.

Foreign investment  
(SE, 2012):  
(2002-2012) \$23  
billion  
Main investors:  
Netherlands - 51%  
United States - 26%  
Switzerland - 17%



Key sector  
for Mexico,  
with high  
value and  
productivity

#### Examples:

-**Dairy**: milk, cheese, yogurt.

-**Bakery**: bread, biscuits, pastries.

-**Confectionery**: chocolates, candies.

-**Dried**: instant noodles, rice, and pasta.



<sup>1</sup> All monetary amounts are expressed in Canadian dollars, unless otherwise indicated. Conversion rate is approximate to rates of Bank of Canada at the time of writing (July 5, 2013).

## Opportunities for Canada

Canadian companies have significant opportunities in the Mexican processed foods market. Canada's reputation as a global food producer with constant innovation and competitive business practices is well known to companies, consumers and the government in Mexico (FUMEC-COMECYT, 2008). Firms interested in the sector can therefore expect not only prospects of participating in a fast growing and profitable market, but also benefit from a solid free trade agreement network and domestic regulations that provide certainty.

Moreover, Canadian processed foods enjoy a substantial competitive advantage as they benefit from duty-free status in Mexico due to NAFTA, compared to other countries that pay up to 20% duties for these goods. Likewise, most of the products that are included in this market are entitled to 0% VAT as part of Mexico's tax exemption regime.

## Considerations for Canadian companies

Mexico is a price sensitive market with long established businesses in this particular sector. Companies should be ready to compete with strong Mexican companies that supply ready-to-eat processed foods with comparable costs. Companies ought to consider innovation and product differentiation, while adjusting to the preferences and customs of the Mexican population; innovations that are not applicable or appealing to the local market will most likely fail.

There are some restrictions for components of processed foods in Mexico, for instance, ground beef from Canada is not yet allowed in Mexico. Hence, products such as pizza that contains Canadian ground beef will not have access. Businesses should be aware of the existing regulations in order to avoid difficulties.

## Main companies in the market



The following Mexican firms are positioned in the market with substantial share and reputation:

- Alpura: Dairy products.
- Bimbo: Bakery.
- La Moderna, Minsa: dried foods.
- La Costeña: Sauces, condiments and canned products.
- Sigma Alimentos: packed and frozen food.

Foreign firms such as Nestlé and General Mills also have significant participation in the sector.



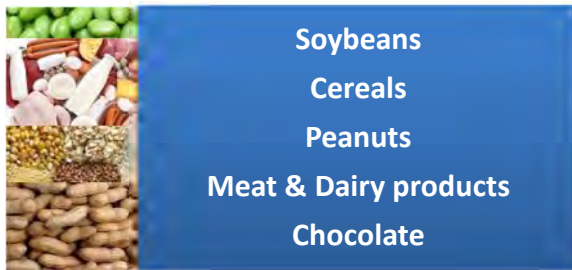
# Food ingredients

## Market overview

Mexico has a substantial shortfall in domestic supply in the processed foods sector and in the ingredients subsector, resulting in imports from other countries in order to satisfy demand. Food ingredients are approximately 57% of the entire processed food market, totaling more than \$48 million according to the latest available information (2009), with a significant participation of imports. Noticeably there are only 12 processors in Mexico registered as “ingredients” producers.

Processed food ingredients are in high demand in Mexico, particularly those that tend to be difficult to obtain domestically. Ingredients for which local supply is insufficient include soybeans, peanuts, cereals, dairy products and certain meat items. This subsector has expanded significantly, evidenced by a value increase of 228% from 2007-2009.

## Main food ingredients



## Market Trends in Mexico

Following the trend of other subsectors such as nutraceuticals, increased health awareness in Mexico has resulted in consumer interest in products that have nutritious and low fat ingredients. Consequently, these have been sought by food processors in the country, most of the time from abroad.

The final customers of products manufactured with high quality ingredients are mid/high income consumers, rather than the population as a whole.

## Current market strategies

Ingredients are normally commercialized by local distributors (Approximately 75-80% of the ingredients (FAS, 2009)).

Approaching distributors could therefore be a feasible initial strategy as they have most of the key contacts and access to the clients of the ingredients (Mexican food processors). However, after a business relationship is established and the market has been tested, the prospect of direct sales is feasible. Canadian companies that intend to enter this market should consider that Mexico is a price sensitive country.

## Considerations for Canadian businesses

Although Canada has significant competitive advantages and assets such as innovation and high quality products, ingredients for processed foods require a long term effort that must follow **strict regulations**.

As well, it should be noted that success in this subsector is conditioned upon access to the processors in the country. Thus, considerations such as price and quality could determine an acquisition prospect.



## Private label

### Market overview

Products in the private label category are manufactured and sold by different companies. These items are cheaper than other main brands and provide to larger firms, (usually distributors, wholesale and retail businesses), the opportunity to compete directly in several sectors with major brands.

In Latin America, approximately 66% of consumers purchase private label items (Nielsen, 2010). The main products in Mexico are rice, cereals and sugar. Events such as the economic downturn at the end of the 2010 decade motivated the growth of this market. Moreover, it is forecasted that 83% of consumers in the region will still purchase private label products after economic stabilization.

### Private Label product categories



**High end private label products:** *value and differentiation from main brands.*

Examples: Superama (Wal-mart) *extra-special*, world tables product line and Chedraui *selectos*.



**Middle range value products:** *compete with leading brands, Cost 15-20% less than their competitors.*

Examples: Wal-mart *Great Value*, Comercial Mexicana's *Golden Hills*.



**Lower end products:** *Consumed by a sector with low purchasing power, abiding to minimum quality requirements.*

Examples: House brands from Wal-Mart, Soriana, Comercial Mexicana.

### Market Trends in Mexico

In Mexico, private label market share is between 6.5-7% (PROCOMER, 2012). Nonetheless, the sector has registered significant growth (23% in 2009-2010), after a sustained flat for several years.

Euromonitor International asserts that in Mexico private label participation is less than in other global markets (5-8% of total sales). Therefore, opportunities for developing this market are substantial.

Frozen foods have the greatest share with more than 16.7% of the overall market. The item with the lowest participation is soup.



## Opportunities and considerations for Canadian businesses

Canadian companies in the private label industry have substantial opportunities in Mexico. A large population and sensitive response to price (privileging low prices), provides private label firms significant prospects for successful business. Hence, it is expected that products commercialised in this format will prevail after economic recovery if quality is maintained when compared to other similar yet more expensive items.

However, there are also challenges for firms intending to operate in this market. Major retail stores have had a strong market position for decades in private label (since the 1950's) which was further strengthened due to the economic downturn.

Suppliers are expected to have the sufficient capability to match demand. Small and medium-sized enterprises (SMEs) that intend to participate in private label subsector should note that purchase preferences of large clients rely not only on the product but also on the ability to supply.

## Current market strategies

The private label market in Mexico is controlled by firms with significant operations and market position. Therefore, interested companies should consider a distributor for initial market entry and subsequent market development. Distributors in Mexico will charge a commission. These have access to key contacts and clients, most likely including the main retailers. Direct sales, while not discouraged, are unlikely at an initial stage. Nonetheless, retailers such as Wal-Mart could directly deal with companies that have innovative products applicable to the characteristics of the Mexican market (considering price and consumer preferences). In this case, personalized attention such as that provided by distributors or intermediaries is not guaranteed and market analysis is advised before conducting business.

Overall, quality standards will be a variable of consideration.

## Main companies in the market



## Nutraceuticals

### Market overview

Nutraceuticals are products that provide health and nutrition benefits due to their medicinal/herbal composition. These claim to be helpful in preventing illnesses and improving health. Examples of nutraceutical products are vitamins, sports nutrition, herbal and weight control supplements.

The global nutraceutical market has expanded in the last decade, motivated by factors such as changes in consumer behavior due to health awareness. Moreover, Mexico and other emerging economies are considered to be among the main markets for these products. According to ProMexico, the global nutraceutical industry will grow more than 7% in the coming years reaching an expected value of 24 billion dollars.

### Main nutraceutical products



**Meal replacement - slimming products:** Powders, bars and ready-to-drink.



**Vitamins and dietary supplements:** herbal, calcium, cod liver oil (fastest growing product).



**Sports nutrition:** Protein powder (Over 70% of sales), protein bars.

### Market Trends in Mexico

Mexico has major issues with particular health conditions such as obesity and diabetes, consequently motivating expenditure in products (i.e. nutraceuticals) as an effect of increasing health awareness.

These products are purchased mainly by high income population sectors. This market has grown significantly in the past decade. From 2005-2009, for example weight control nutraceuticals increased in sales from approximately 70 to 107 million dollars. In addition, vitamins and sport nutrition products also increased sales by 13% and 150 million respectively.





## Opportunities and considerations for Canadian businesses

Canada is a top supplier in nutraceuticals with more than 300 active companies in the sector, providing products such as bioactive ingredients, omega-3 (fish oil) and probiotics. The Canadian nutraceutical industry invests substantially in innovation and maintains high standards of safety under strict regulations (AAFC, 2013), considerable advantages for operations in Mexico. However, products intended for sale and distribution in the Mexican market are expected to comply with Health Ministry, COFEPRIS and local regulations.

Canada has been exposed to similar health issues longer than Mexico motivating the growth of the nutraceutical industry. Canadian products have a competitive position in the global market due to their innovative characteristics and quality, hence resulting in plausible advantages for a young Mexican market.

## Current market strategies

Most of the nutraceuticals in Mexico are sold by non-grocery retailers such as pharmacies or specialized health shops (37.4%) as well as through direct selling (28.3%). Grocery retailers only represent 17.2% of the sales distribution (AAFC, 2010). Canadian companies interested in the Mexican market should note that approaching specialized distributors and shops is an optimal choice for initial business development rather than directly focusing on wholesale or retail grocery stores.

## Main companies in the market



### The main firms are:

- Unilever group (main product Slim fast with 4.6% of the market).
- Herbalife (4.1% of market).
- Boehringer Sohn (Pharmaton with 2.8%).

### Of which the following are Mexican companies:

- Pronat (Prowinner sport supplements with 2.6%).
- Farmacias similares (Dr. Simi supplement with 4.2% of share).

## Key trade shows / forums

- **Alimentaria Mexico:** *Yearly trade show concentrating most of the national and international firms in the foods market.* Last event: Mexico City, June 4-6, 2013. Website: [www.alimentaria-mexico.com](http://www.alimentaria-mexico.com)
- **Expo-Antad:** *Major event aimed to a wide variety of consumer products, including processed foods, intended for wholesale and retail distribution in Mexico.* Next event: Guadalajara, Mexico, on March 12-14, 2014. Website: [www.expoantad.net](http://www.expoantad.net)
- **Expo Tendencias Gastronómicas:** *Trade show of the food and drink industry in Mexico.* Last event: Guanajuato, Mexico, on June 6-8, 2013. Website: [www.expotendenciasgastronomicas.com](http://www.expotendenciasgastronomicas.com)
- **Congreso para Socios Mayoristas ANAM:** *Congress of the Mexican grocery wholesalers.* Last event: Cancun, Mexico, May 6-8, 2013. Website: [www.anam.mx](http://www.anam.mx)
- **Expo Abarrotes y Misceláneas:** *Trade show for the wholesale industry featuring several service and product providers.* Website: [www.imicam.org](http://www.imicam.org)
- **Expo Ser:** *Alternative health show in Mexico.* Last event: May 17-19, 2013. Website: <http://exposer.mx/>
- **Expo Naturista Internacional Anipron:** *Trade show focused to supplements, nutraceuticals, naturist products.* Website: [www.anipron.org.mx](http://www.anipron.org.mx)
- **Expo Alternativas Saludables:** *Expo for companies in the health-alternative sector.* Next event: August 2-4, 2013. Website: [www.expoas.com.mx](http://www.expoas.com.mx)

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**\*Canadian companies and organizations interested in pursuing commercial opportunities in Mexico should note that the Trade Commissioner Service (TCS) may assist you with several services available at**

[www.tradecommissioner.gc.ca](http://www.tradecommissioner.gc.ca)

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SERVICE



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