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GAIN Report

Global Agricultural Information Network

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Mexico

Food Service - Hotel Restaurant Institutional

HRI - Hotel Foodservice Sector

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Report Highlights:

The foodservice industry in Mexico includes the hotel, restaurant, and institutional segments. There are many export opportunities for U.S. suppliers of food and beverages interested in this market, so it is important to analyze each segment separately. This report focuses on the hotel segment, highlighting its structure, entry strategy, and best product prospects.

Post:

Mexico City ATO

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SECTION I. MARKET SUMMARY

Mexico is the third largest U.S. trading partner after China and Canada. In 2012, U.S. exports of agricultural products and fisheries to Mexico were valued at \$18.95 billion, and around 70% of Mexican agricultural and fisheries exports went to the United States. In 2012, the United States' major agricultural exports to Mexico were: coarse grains (\$2.95 billion), red meats (\$1.97 billion), soybeans (\$1.86 billion), dairy products (\$1.23 billion), wheat (\$1.12 billion), poultry meat (\$1.05 billion), and sugar/sweeteners (\$887 million).

In 2012, the foodservice sector in Mexico saw a stronger recovery after the economic downturn and the negative image generated by drug-related violence since 2009. Even though sales began to pick up as early as 2010 and have increased in 2011 and 2012, the recovery is still not complete, affected by the global increase in food prices, a still uncertain economic outlook for Mexico's main trade partner: the United States, and the negative reputation of Mexico as an unsafe tourist destination.

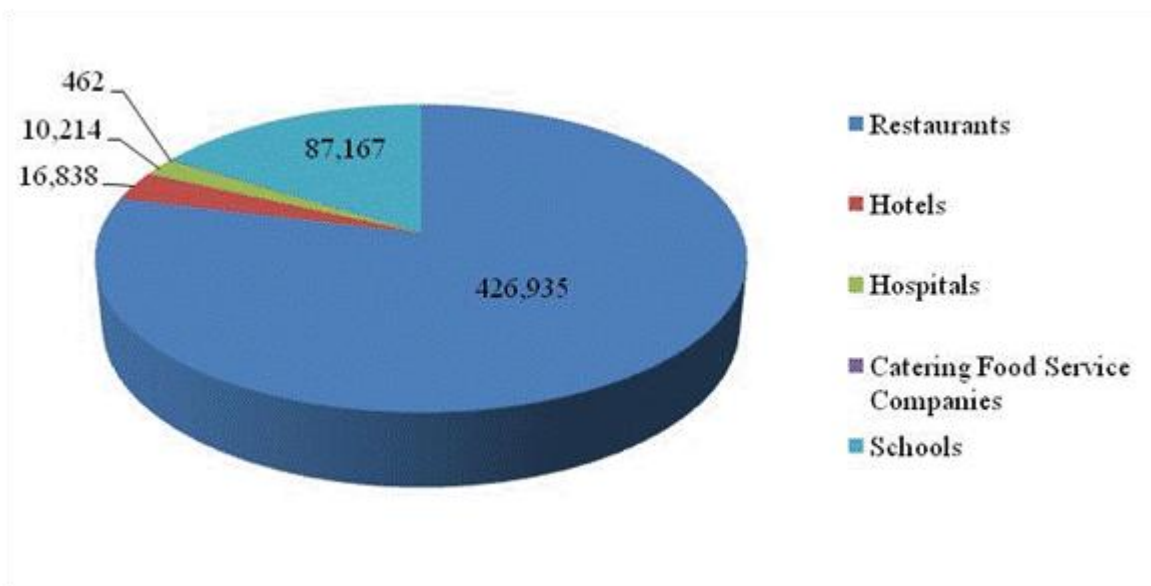
Still, because the purchasing power of the Mexican consumer is expected to continue to increase as the Mexican economy shows clear signs of stability and growth, overall consumer foodservice is expected to perform well. As explained in previous reports, restaurants continue to grow, especially those offering home delivery, a trend driven by both the fast pace lifestyle in large metropolitan areas or because of the sense of insecurity in some cities. Similarly, the institutional segment registers a positive trend, with hospitals, caterers, airlines, industry cafeterias, and even prisons and schools evolving into professional foodservice providers, creating a large market with several opportunities for specific niches. Hotels, the main subject of this year's report, are no exception: Mexico's Ministry of Tourism ([SECTUR](#)) highlighted that in the 2007-2012 period, private investment in the tourism sector, led by the hotel industry (about 40% of the total), totaled over \$19 billion.

The fact that Mexicans are becoming more cosmopolitan in their consumer behavior and that one third of the population is between 20 - 40 years old also has an impact on new opportunities for the foodservice industry. New concepts in restaurants and hotels with non-traditional cuisines (Thai, Chinese, Mediterranean, Ethiopian, Vietnamese, etc.) are appearing throughout the country, and Mexican consumers, prone to grant themselves certain "luxuries" when additional income is available, are travelling and eating outside their homes more often.

While the restaurant and institutional segments have seen positive adjustments in terms of value growth, the 2011 and 2012 HRI GAIN Reports focusing on said segments remain current. This report will focus on the hotel segment, although most of the information reported previously for the restaurant and institutional segments, such as market entry strategy, competition and best prospects is very similar and minor differences will be pointed out in each section.

According to the Mexican Institute of Geography and Statistics ([INEGI](#)), out of the three segments in HRI foodservice, hotels are the smallest segment by number of outlets (see chart below). However, because of the socio-economic categories it targets, hotels represent a better opportunity for imported products, where price differential might be an issue for other markets.

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



Source: INEGI - DENUE Database

The HRI sector is served mostly through independent distributors. Given that very few hotels and restaurants import directly, U.S. suppliers will most likely need to service the market through an established distributor. Please refer to “Section 2 – Road Map for Market Entry” below for more details.

As previously reported, the HRI industry sources almost 90% of its food and beverages from two sources: first, through supermarket chains, specifically the price club stores like Sam’s Club, COSTCO, and City Club (you can find a more detailed analysis of this distribution channel in our latest GAIN Retail report). Second, through the traditional wholesale markets, also known by their Spanish term: *Centrales de Abasto (CEDA)*. The CEDAs are part of the food distribution chain as most of the food supply of the Mexican population passes through them. For example, it is estimated that over 50% of all food products sold in Mexico, go through the Mexico City CEDA, supplying more than 700,000 traditional public markets, outdoor informal markets called *tianguis*, street vendors, mom and pop stores, and the retail and HRI industries.

The main CEDAs are located in Mexico City, Guadalajara, and Monterrey, serving nearly 30 million people in the country's three major metropolitan areas. As points of entry in to Mexico, the CEDAs offer unique opportunities for U.S. products and it is an indirect way to target the foodservice sector.

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

| | Produce | 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% |

Note: Percentages do not add up to 100%, because foodservice companies source in different outlets

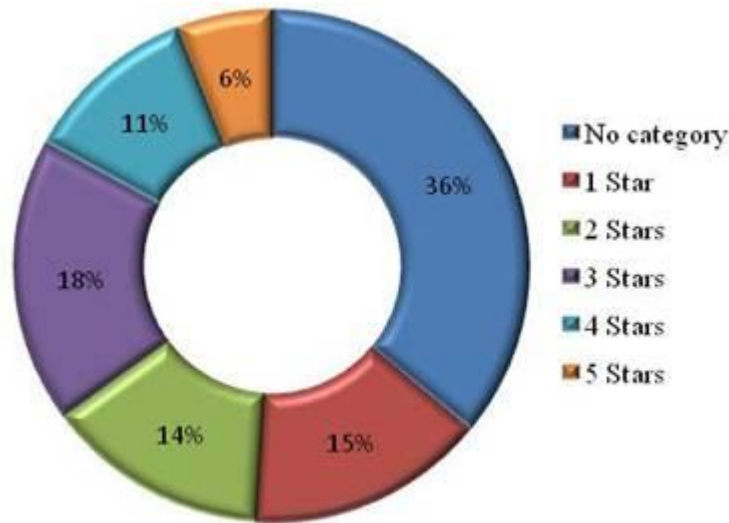
Source: El Economista. Agointeligente Supplement June 2011

Hotel Segment Profile

In 2012, Mexico ranked 10th on the world's main tourist destinations by number of foreign arrivals, with a little less than 24 million international tourists from a record-high 143 different countries, but 23rd when based on tourism revenues, with almost \$12 billion reported. Additionally, SECTUR estimates 177 million domestic travelers in 2012 with a rate of growth of 4% per year. These numbers do not include nearly 60 million foreign visitors that also come to Mexico via land borders (mainly from the United States) and cruise ships, since their travel is less than 24 hours or does not include lodging.

According to SECTUR's 2011 Lodging Availability Report, there are 17,294 hotels, with over 651,160 rooms registered in Mexico. Of the registered available rooms, over 25% belong to one of the 85 hotel chains (both foreign and domestic) located in Mexico. Like many other countries, hotel chains concentrate the top tiers of lodging categories (3 stars and up), with a few specialized high-end individual resorts. It is in these sub-segments where imported food products are of high demand and where most of the business opportunities for U.S. exporters arise.

Chart 2. Hotels in Mexico, by Category, 2011



Source: SECTUR, Mexican Tourism Statistics Yearbook, 2012

Of the approximately 200 million travelers reported in 2012, 43% stayed in a hotel, motel, or registered lodging facility. According to SECTUR and the Mexican Central Bank ([BANXICO](#)) domestic tourists have an average stay of 4 nights, with an average spending of \$445.5; meanwhile, foreign tourists stay for a longer period of time: 10 nights, and have an average expenditure of \$770.7. Of the total expenditures, travelers spend on average almost 20% on lodging and 12% of the total on food and beverages.

Table 2. Average Expenditure when Traveling

| Concept / Category | Percentage of total expenditure |
|----------------------------------|---------------------------------|
| Lodging | 19.4% |
| Transportation (incl. local) | 18.6% |
| Food and Beverages | 12.6% |
| Entertainment | 19.9% |
| Health / Accessories / Souvenirs | 17.7% |
| Other | 11.8% |
| TOTAL | 100.0% |

Source: SECTUR, Tourism Expenditure Survey, 2011

Table 3. Advantages and Challenges of U.S. Products in the Foodservice Sector

| Advantages | Challenges |
|---|---|
| All U.S. products can enter Mexico tariff-free | With the exception of some high-end markets, price of food is the key factor in food purchasing decisions |
| Sharing a land border with over 45 crossings, gives U.S. exporters a competitive advantage over third country suppliers | Transportation and distribution methods inside Mexico are undeveloped in many regions |
| U.S. food products are usually regarded as high-quality and safe | Other countries are now able to deliver products more efficiently to the Mexican market |
| Higher income levels and more women in the workforce have increased the demand to eat away from home | Local producers and food processors are rising to the challenge of producing quality goods, adapting to growing demands |
| The Mexican peso continues to be relatively stable in its relation to the U.S. dollar, making unexpected price fluctuations less likely | Mexican import regulations can change rapidly and without notice, creating potential border issues and delays |

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

U.S. suppliers are encouraged to look for multiple local and regional distributors in Mexico and identify distributors that service the major cities including Mexico City, Guadalajara, Monterrey and Tijuana, plus the main beach destinations, such as Cancun, Los Cabos, Acapulco, Puerto Vallarta, and Mazatlan, where most of the foodservice market is concentrated. Since these distributors already have an established relationship with key contacts, it is highly recommended to approach these distributors first when entering the market.

Purchasing decisions by large institutions like hotel chains are usually made centrally by the chain supply manager, with occasional input from the hotel's chefs. For small volumes of products they turn to price clubs/wholesale stores. Foodservice companies 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.

As previously reported, HRI companies in general:

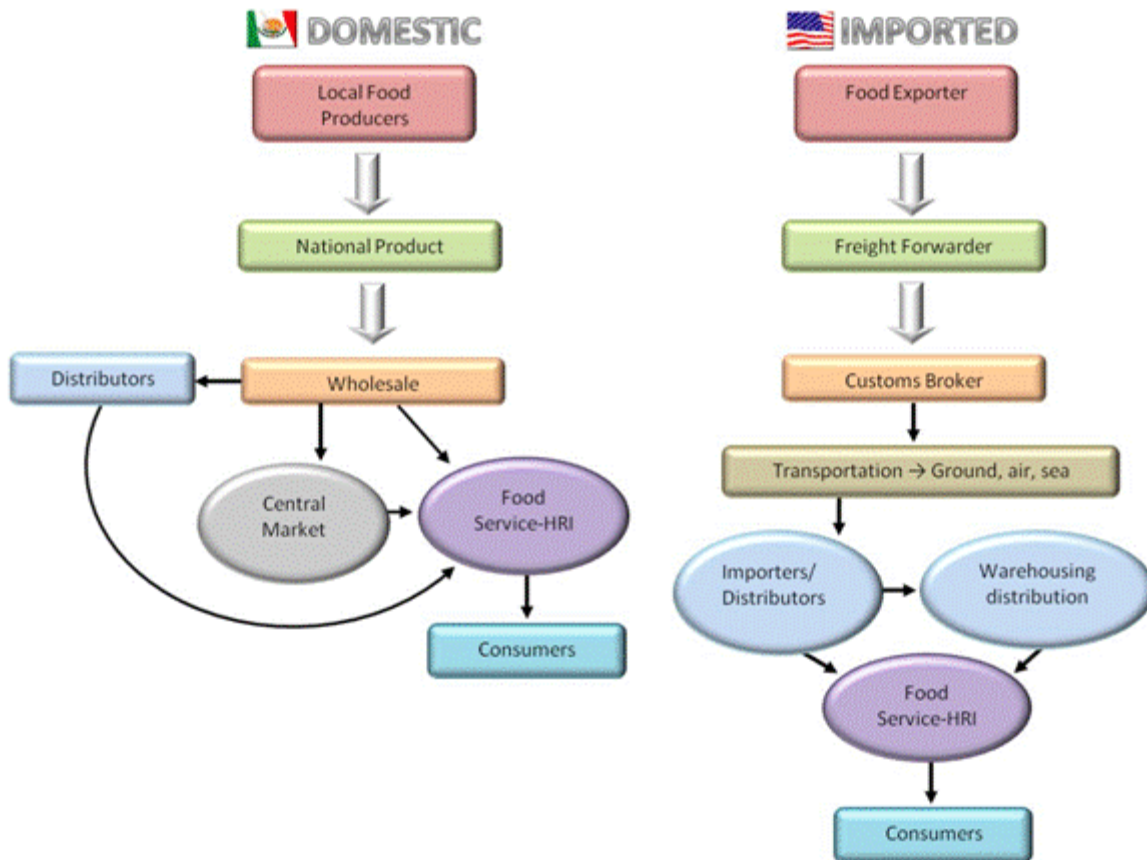
- Are looking for products that help them reduce costs, reduce preparation times, and have stable prices.
- Seek, in order of preference: price, quality, and service. The key is price competitiveness and quick access/availability of products.
- Have their demand directly linked with the size of the business. Products with the biggest volumes are meat, processed foods, and cold meats.
- Look for suppliers that can also offer product variety and emergency necessities.
- Purchase 80% of their fresh produce directly with a supplier at the CEDAs.
- Offer a variety of products depending on general preferences, unless they have specialized needs.
- Source imported specialty products from local/regional distributors, due to volume.

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 U.S. pavilions organized by the Agricultural Trade Offices in Mexico City and Monterrey to exhibit their products and meet key contacts, including officials from large distributors who exhibit at the most important foodservice tradeshow. In many of these shows and trade missions, U.S. exporters will also have an opportunity to showcase their products to their potential final customer, like chefs and purchase managers.

B. MARKET STRUCTURE

Distribution Channels for the 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 the entire 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 *Centrales de Abasto* (CEDA). The foodservice industry sources most of their fresh products from CEDAs.
- Price clubs/club stores (COSTCO, City Club, and Sam’s Club) sell and distribute basic dry goods and some fresh products. They have accessible locations, affordable prices, and accept credit cards.
- Direct sales are rare, but some institutions can buy specific products directly.

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. Main ports of entry for imported products to Mexico use mainly: a) the land border crossing points in Tijuana, Ciudad Juarez and Nuevo Laredo, b) the ports of Tampico, Veracruz and Progreso in the Gulf of Mexico, and c) the ports of Mazatlan, Manzanillo and Lazaro Cardenas in the Pacific. From there it can be delivered through a relatively modern and well-maintained internal highway system to different destinations in Mexico (see map below).



Depending on the delivery terms, additional costs might need to be considered, especially for high-end, secluded destinations like Los Cabos, Puerto Escondido, or even Cancun, where air freight is more common, due to distance or availability of refrigerated infrastructure/equipment.

| Destination | Route | Distance (KM) | Time (Hours)* |
|-------------|---------------------------------|---------------|---------------|
| Mexico City | Tijuana-Mexico City | 2,760 | 35 |
| | Ciudad Juarez-Mexico City | 1,785 | 24 |
| | Laredo-Mexico City | 1,110 | 14 ½ |
| Monterrey | Laredo-Monterrey | 225 | 3 ½ |
| | Mazatlan-Monterrey | 910 | 14 |
| | Mexico City-Monterrey | 900 | 12 ½ |
| Los Cabos | Tijuana-Los Cabos | 1,700 | 24 |
| | Mexico City-Los Cabos (w/ferry) | 1,580 (roads) | 30 |
| Cancun | Laredo-Cancun | 2,700 | 35 |
| | Mexico City-Cancun | 1,673 | 18 |
| | Progreso-Cancun | 350 | 4 ½ |

*Note: Times are approximate for an average 3-axis truck and do not consider stops or detours of any kind; they are calculated with constant speed and optimal daytime road/travel conditions

Source: Route Calculator, Ministry of Communications and Transportation ([SCT](#))

SECTION III. COMPETITION

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

Additionally, in some specific markets like wines, dairy, and seafood, other countries like Chile, Spain, France, Italy, and China, have a significant presence, and carry on aggressive marketing strategies in order to increase their market share, thus representing competition for U.S. products.

Table 4. Competition

| Product Category | Major Supply Sources | Strengths of Key Supply Countries | Advantages and Disadvantages of Local Suppliers |
|------------------|---------------------------------|---|--|
| Dairy Products | United States 92% Uruguay | 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 and four companies |

| | | | |
|--|---|---|--|
| Net Imports: 34,487,906 liters | 5% New Zealand 1% | | concentrating about 60 percent of the total dairy market |
| Fresh Fruit Net Imports: 441,789 MT | United States 87% Chile 10% Argentina 1% | U.S. remains the leading provider of apples, pears and stone fruits in Mexico | Local production of deciduous fruits is not sufficient to address the domestic demand. |
| Fresh Vegetables Net Imports: 217,934 MT | United States 93% Chile 3% Canada 2% | U.S. is a key supplier of seasonal veggies like yellow onions and 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 MT Beef: 166,160 MT | United States 90% Canada: 9% | U.S. dominates meat imports, 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 MT | United States 98% Chile 2% | U.S. major supplier of chicken paste and turkey; U.S. poultry products are regarded as high quality | Local poultry producers are major suppliers and some local distributors have poor cold chain management |
| Snack Foods Net Imports: 81,618 MT | United States 61% Canada 13% China 6% Guatemala 4% | U.S. is a major supplier for ingredients of snack foods processed in country | 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

It is important to highlight that although the following products have high sales potential in the hotel foodservice segment, volumes required might be small, so exporters should take this into account when preparing for shows and exhibitions, or trade missions:

- Meat (pork and beef), cold cuts; in some specific regions, duck and lamb
- Processed fruits and vegetables, including juices and mixes
- Salmon, crab, and other seafood products that Mexico does not produce
- Single-serve packaged food - nut mixes, (trail mixes), small chips bags, single-served fruit in syrup
- Healthier foods (Low sodium, low-fat, reduced sugar)
- Specialized food products for specific food-styles (Thai, Korean, Mediterranean, etc.), including dressings and salsas
- Desserts, like high-end bakery, cookies and pastries; ice cream
- Dairy: cheese and 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:

Feria Nacional de Abastecedores ANCH

April 11-12, 2013

Barcelo Maya Beach Resort, Cancun, Q.R.

www.anch.com.mx/html/feria.html

Alimentaria

June 4-6, 2013

Location: Centro Banamex Convention Center, Mexico, D.F.

www.alimentaria-mexico.com

Exphotel Cancun

June 12-14, 2013

Cancun Convention Center, Cancun, Q.R.

www.exphotel.net

Expo Proveedores del Restaurante

August 6-7, 2013

Cintermex Convention Center, Monterrey, N.L.

www.paraelrestaurante.com

Abastur

August 26-29, 2013

Centro Banamex Convention Center, Mexico D.F.
www.abastur.com

Sources:

Euromonitor International
El Economista, including its Agointeligente supplement
Mexican Association of Hotels and Motels (AMHM)
Mexican Institute of Statistics and Geography (INEGI)
Mexican Ministry of Tourism (SECTUR)
National Chamber of the Restaurant Industry (CANIRAC)
UNWTO World Tourism Barometer 2013
U.S. Bureau of the Census Trade Data

Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at <http://www.sagarpa.gob.mx> and Mexico's equivalent to the U.S. Department of Commerce (SE) can be found at <http://www.economia.gob.mx>. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.