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Mexico

Food Processing Ingredients Sector

Report

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Report Highlights:

Mexico offers excellent opportunities for suppliers to the processed foods sector. The Mexican market for processing foods has been growing rapidly since 1995 and the processing industry has kept pace; the industry expanded 41 percent between 1996 and 2000. There are 13,177 registered food processing firms in Mexico with a total production of \$30 billion in 2000.

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Market Summary

Overview

Mexico offers good opportunities for suppliers to the processed foods sector. The Mexican market for processed foods has been growing rapidly since 1995 and the processing sector has kept pace; the industry expanded 41 percent between 1996 and 2000. There are 13,177 registered food processing firms in Mexico with a total production of \$30 billion in 2000.

The industry is divided into ten sub-sectors, most of which are dominated by a few large companies. The following chart shows strong growth in each sector, with the exception of basic grains, edible oils and fats, and sugar, which have shown negative growth. From 1999 to 2000, the most significant growth occurred in the beverage (soft drink), confectionery, cocoa and chocolate, and dairy products sectors.

Product Category	1996 (US\$000)	1997 (US\$000)	1998 (US\$000)	1999 (US\$000)	2000 (US\$000)	% Growth 99- 2000	% Growth 96- 2000
Meat Industry	1,723,040	1,991,942	1,992,422	2,120,066	2,440,168	15%	42%
Dairy Products	2,952,713	3,451,794	3,724,457	4,416,912	5,131,077	16%	74%
Preserved Foods	1,666,361	1,879,584	2,016,646	2,314,316	2,487,777	7%	49%
Grains and other Agricultural products	2,731,822	2,232,259	1,908,943	1,753,055	1,722,684	-2%	-37%
Bread Products	1,847,028	1,978,946	2,094,790	2,258,313	2,561,746	13%	39%
Edible Oils and Fats	2,086,266	2,009,166	2,034,145	2,000,872	1,970,172	-1.5%	-6%
Sugar	2,007,362	1,944,535	1,828,749	1,884,996	1,842,418	-2%	-8%
Cocoa, Chocolate, Confectionery	456,151	535,674	577,218	727,887	864,820	19%	90%
Other Processed Foods	2,986,349	3,409,587	3,788,678	4,428,233	4,959,330	12%	66%
Beverage Industry (soft drinks)	3,248,708	3,583,299	4,060,868	4,801,069	6,100,756	27%	88%
TOTAL	21,705,800	23,016,786	24,026,916	26,705,719	30,080,948	13%	41%

Source: INEGI, Mexico's Office of National Statistics

Following are some general characteristics of the Mexican food processing industry:

- *Mexico's agricultural system lacks efficiency.* Farms are numerous and small, for example, 2.3 million out of 3.8 million plots are less than five hectares. Less than half of Mexican farmers use tractors or modern seeds. Yields per acre are extremely low compared to countries with modern farm technology. For example, corn yields two metric tons per acre compared to eight metric tons in the United States. Mexico's agricultural sector is also under-mechanized. When used at all, most agricultural machinery and equipment is antiquated, often between 15 – 25 years old.
- *Food processing facilities range from large, modern installations to small, mom & pop operations.* Of the 13,000 food processing facilities, only 292 employ more than 250 employees while the vast majority have fewer than 15 employees. Many of the largest firms can be classified among the most efficient and mechanized in the world.

- *Packaging* for many products is generally less sophisticated than in the United States in terms of attractiveness and convenience. However, to comply with the increase in demand for processed and packaged foods, Mexican manufacturers are modernizing and purchasing high-tech processing and packaging equipment.
- *Foreign investment.* Mexico has been a prime destination for foreign investment; almost \$8.5 billion was invested in the food and beverage processing industry from 1994 through March 2001.
- *The total market for raw materials in this sector is growing.* Raw inputs to the food processing sector are primarily supplied by Mexican firms. Nevertheless, the import market for these ingredients has been growing steadily for the past three years: from \$36.3 million in 1998 to \$46.4 million in 2000. The growth in demand for raw products is due, in part, to the increased local production of processed products that are in high demand and are expensive to ship long distances.

Sector Trends

The food processing sector is undergoing changes in every aspect of its business. Listed below are some important trends:

Market Size

- *Growth in the market in general.* Mexico's food processing sector has been expanding at an average rate of over nine percent per year over the last three years. Interviewees at the Unilever de México, La Costeña, Grupo Herdez, Land o' Lakes, and the U.S. Dairy Export Council all concur in that the market is growing. Reasons for this growth include:
 - increases in population and purchasing power;
 - increases in dual income families, so convenience is valued;
 - new product development;
 - and lower prices for some inputs, such as US cheese.
- *Loosening of government controls.* Mexico has been moving toward liberalizing the agricultural sector, which is creating new opportunities for foreign companies in the food processing industry.

Retailing and Distribution of Food Products

- *Bigger stores with more refrigerated / freezer space.* Foreign investment in Mexico's retail sector has meant that stores are modernizing and increasing their capacity in the refrigerated and frozen foods sections. Food distribution practices have changed over the past five years as multi-national chains have brought modern logistics and technology to the sector.
- *Consolidation of the retail sector.* Power in the retail sector is increasingly concentrated among relatively few major chains such as Carrefour, Comercial Mexicana, and Wal-Mart.
- *Direct retail purchases from producers.* Major retail chains are increasingly side-stepping distributors and purchasing directly from processed food producers.

Raw Materials for the Industry

- ❑ *Increased local production of some traditionally imported foods.* Snack foods, salad dressings, pasta sauces, and other processed foods that are relatively inexpensive but have high freight costs will be increasingly produced locally. Similarly, foods whose elaboration requires large amounts of sugar will also be increasingly produced in Mexico.
- ❑ *Increased exports of Mexican foods to the United States to serve a growing Hispanic market.* Mexican food processors are capitalizing on the demand for their products among the large Mexican-American population across the border. This trend increases production in Mexico.
- ❑ *Use of imported ingredients.* The United States dominates Mexican imports of whey protein, tallow, edible lactose, seasonings, sweeteners, colorings, and flavors. Buyers turn to the U.S. for innovative products.
- ❑ *Move toward higher quality ingredients.* There is a sector-wide trend toward better quality ingredients instead of ingredients chosen on the sole basis of their cost, although cost remains a determining factor in selecting ingredient suppliers.
- ❑ *Increased whey protein consumption levels.* A source at Land O' Lakes suggests that as U.S. food processors increase protein levels in their products, their Mexican counterparts will follow suit.

Investment

- ❑ *Foreign investment.* Foreign investment is strong with almost \$8.5 billion dollars going to the food processing sector. The industry is the third most popular sector for foreign investors, representing 19 percent of total foreign direct investment.
- ❑ *Investment in capital equipment.* In 2000 Mexican companies imported \$184 million of food packaging equipment in order to increase the efficiency of their operations.
- ❑ *Major acquisitions in the sector.* There is a trend toward acquisitions among major food processors. For example, International Flavors & Fragrances (IFF) bought out Bush Boake Allen, and ConAgra acquired Sigma Alimentos. It is rumored that New Zealand companies are looking to make major acquisitions in the dairy products sector, and that the Mexican dairy products company, Esmeralda, is on the market. It is also rumored that Nestlé is looking to acquire the Mexican dairy products maker, Chen.

Advantages and Challenges Facing US Products in Mexico

US inputs to Mexico's food processing sector enjoy many advantages, but also face several challenges.

Advantages	Challenges
Growth in almost all sub-sectors in processed foods in Mexico.	Labeling requirements and inspection procedures can be confusing and inconsistent.
Competitive prices of US raw materials and trade advantages over Europe associated with NAFTA	Increasing competition from Mexican companies and, to a lesser extent, European companies.

Belief among Mexican consumers that US products are superior in quality.	Some industrial buyers no longer consider US ingredients to be of superior quality as more suppliers in Mexico are adhering to worldwide standards.
Geographic proximity and logistical advantages for the United States due to transportation, large volumes, and delivery time.	Some government tariffs are still in place to protect national suppliers.
Lower production costs on many inputs.	Transportation and distribution methods within Mexico make it difficult to serve the market.
Increased foreign investment in the food processing industry will increase the inputs needs.	Resistance to Genetically Modified US food ingredients among some international food producers in Mexico, though this resistance is not yet prevalent among consumers.
Increased exports of processed food products to Mexicans in United States will increase demand for inputs for those products processed in Mexico that service the US Hispanic market.	
International firms, such as Gerber, have the responsibility of being able to trace the ingredients they use to their source, which implies an advantage for visible, close-by US suppliers.	

Industry Profile

This section examines the food processing industry by analyzing the individual sub-sectors, company profiles, and the competitive situation.

Subsector Profiles

Much of the Mexican processed foods market is well-established and self-sufficient. According to INEGI, there are 13,177 registered food processing firms in Mexico with total sales of \$30 billion.

Beverages, dairy products and edible oils are the largest sub-sectors within the industry in terms of production. The following table presents detail on the ten main divisions within the Mexican processed foods industry.

Food Processing Industry Production (US\$000s)

Subsector	No. of Firms	1996	1997	1998	1999	2000
Meat Industry	4,736	1,723,040	1,991,942	1,992,422	2,120,066	2,440,168
Frozen/Packed Fresh Meat	540	261,125	271,568	445,601	206,421	262,187
Slaughter of Livestock/Birds	3,427	695,010	822,262	835,618	967,450	1,140,933
Preserved Meat/Sausage	769	766,905	898,112	897,458	946,194	1,037,048
Dairy Products	1,507	2,952,713	3,451,794	3,724,457	4,416,912	5,131,077
Treated and Bottled Milk	94	1,425,152	1,846,890	1,948,269	2,227,512	2,454,192
Cream, Butter, and Cheese	1,396	803,553	867,064	936,982	1,214,703	1,447,118
Condensed, Evaporated, and Powdered Milk	17	724,008	737,841	839,206	974,697	1,229,766
Preserved Foods	653	1,666,361	1,879,584	2,016,646	2,314,316	2,487,777
Prepared and Canned Fruits/Vegetables	329	922,582	1,026,001	1,175,158	1,328,030	1,456,023
Prepared Soups, Stews, Broth Concentrates	9	459,423	513,269	539,625	711,585	749,630
Frozen/Packed Fresh Fish and Seafood	262	53,553	60,661	50,351	41,797	45,888
Prepared and Canned Fish and Seafood	53	230,803	279,653	251,513	232,904	236,235
Grains and other Agricultural Products	1,108	2,731,822	2,232,259	1,908,943	1,753,005	1,722,684
Rice	40	124,173	130,835	118,758	95,950	93,284
Coffee	260	381,972	435,535	327,283	272,297	274,498
Toasted and Ground Coffee	495	85,835	76,363	65,110	83,282	90,639
Ground Wheat	164	1,228,033	987,146	819,465	752,029	735,165
Production of Corn Flour	149	911,809	602,381	578,327	549,447	529,097
Bread Products	62	1,847,028	1,978,946	2,094,790	2,258,313	2,561,746
Cookies and Pastas	1,033	674,651	675,097	633,429	651,281	707,900
Industrial Bread and Pastries	482	1,172,378	1,303,848	1,423,067	1,607,032	1,853,846
Edible Oils and Fats	76	2,086,266	2,009,166	2,034,145	2,000,872	1,970,172
Edible Oils and Vegetable Fats	76	2,086,266	2,009,166	2,034,145	2,000,872	1,970,172
Sugar	62	2,007,362	1,944,535	1,828,749	1,884,996	1,842,418
Sugar Products and Sugar Cane	62	2,007,362	1,944,535	1,828,749	1,884,996	1,842,418
Cocoa, Chocolate, and Confectionery	179	456,151	535,674	577,218	727,887	864,820
Cocoa and Table Chocolate	160	223,279	239,825	257,970	376,184	418,637
Gum Production	19	232,873	295,849	319,248	351,703	446,183
Other Processed Foods	2,865	2,986,349	3,409,587	3,788,678	4,428,233	4,959,330
Soluble Coffee	7	490,824	562,580	559,671	564,873	672,218
Concentrates, Syrups, Natural Food Coloring	145	914,828	1,020,936	1,159,469	1,321,641	1,498,975
Starches and Yeast	21	450,461	550,932	593,823	679,892	662,938
Powdered Gelatin, Flan and Deserts	121	104,045	106,412	102,452	173,255	181,843
Other Snacks and Corn Products	1,945	957,941	1,094,237	1,301,372	1,614,948	1,853,653
Other Products for Human Consumption	626	68,250	74,489	71,556	73,623	89,703
Non-Alcoholic Beverages	1,929	3,248,708	3,583,299	4,060,868	4,801,069	6,100,756
Soft Drinks and Non-Alcoholic	1,929	3,248,708	3,583,299	4,060,868	4,801,069	6,100,756

TOTAL	13,177	21,705,800	23,016,78	24,026,91	26,705,71	30,080,948
			6	6	9	

Source: INEGI: Mexico's Office of National Statistics

Major Players

Large food processing companies dominate production in Mexico, although they comprise a relatively small percentage of the total number of companies. Many of these businesses are efficient operations that rival the best processors in the world. The following table presents general information on some of the largest companies in the Mexican processed foods industry.

Principal Companies in the Mexican Processed Foods Sector

Company	Sales (US \$000s)	Products	Procurement Channels	Tel/Fax Numbers*
Grupo Industrial Bimbo	2,472,000	Bread	Direct imports	T: 5258-6600 F: 5258-6625
Nestlé	2,000,000	Chocolate, milk, instant coffee	Direct imports	T: 5250-9944 F: 5258-6625
Gruma	1,900,000	Cornmeal, bread, tortillas	Direct imports	T: 8335-9900 F: 8399-3359
Grupo Corvi	1,242,000	Cocoa derivatives, chocolate and marshmallows.	National products	T: 6714-3280 F: 6714-0099
Sabritas	1,182,000	Snacks and sweets	Direct imports	T: 5202-7373
Grupo Industrial Lala	1,072,000	Milk, yogurt, butter, cream, cheese, juice	Direct imports	T: 1750-0504 F: 1750-0209
Industrias Bachoco	957,000	Poultry and eggs	Direct imports	T: 4611-6262 F: 4611-6502
Sigma Alimentos	869,000	Processed meats, dairy products	Direct imports	T: 8399-9000 F: 8399-9075
G a n a d e r o s Productores de Leche Pura	598,000	Milk, cream, yogurt, butter, cheese, flan	National products	T: 5899-2000 F: 5899-2061
Grupo Industrial Maseca	497,000	Cornmeal, bread, tortillas	Direct imports	T: 8333-6011 F: 8399-3359
Grupo Herdez	407,000	Sauces, canned goods	Direct imports	T: 5358-3019 F: 5576-6929
A r a n c i a Corn Products	404,000	Food and chemical corn derivatives	Direct imports	T: 3818-3000 F: 3818-3072
Jugos Del Valle	308,000	Juice	Direct imports	T: 5557-9777

				F: 5395-8918
Productos de Maíz	299,000	Food and chemical corn derivatives	Direct imports	T: 5752-4005 F: 5754-2740
Lechera Guadalajara	236,000	Milk, yogurt, butter, cream, juice	National products	T: 3657-9297 F: 3657-9937
Grupo La Moderna	215,000	Pasta, flour, snack food	National products	T: 7279-7901 F: 7279-7980
Grupo Viz	209,000	Beef	National products	T: 6714-3280 F: 6714-0099
Grupo Minsa	205,000	Flour	National products	T: 5390-7068 F: 5565-5951
Grupo Chilchota	194,000	Milk, cream, butter	National products	T: 1719-2444 F: 1719-2445
Grupo Bafar	169,000	Processed meat	Direct imports	T: 1439-0100 F: 1434-0023
Industrial Patrona	145,000	Vegetable oil	Direct imports	T: 2712-5599 F: 2714-3243

Source: Expansión; *the prefix to call Mexico, D.F. is 011-52-55

While the above companies are the largest, they are by no means the only firms with a strong presence on the shelves in Mexico. The following information was gathered from the shelves of several retail outlets in Mexico City. Under each category, products are listed by their brand name followed by the name of the manufacturer. The order in which they are listed indicates their dominance on the shelf in that category. Imported products are not listed.

Canned Fruit, Vegetables, Tomato Paste, Beans, Chiles: Herdez/Herdez SA; Del Monte/Productos del Monte, S.A. de C.V.; La Costeña/Conservas la Costeña S.A. de C.V.; Del Fuerte/Alimentos Del Fuerte, S.A. de C.V.; Clemente Jaques/Anderson Clayton, S.A. de C.V.; La Sierra/SaborMex S.A. de C.V.; Monteblanco/Hongos de Mexico, S.A. de C.V.; Maggi/Nestlé México; Verde Valle/Productos del Valle.

Butter, cream, milk, cheese, yogurt: Nestle/Nestlé de México S.A. de C.V.; Alpura/Ganaderos Productores de Leche Pura, S.A. de C.V.; Lala/Lala Derivados Lácteos, S.A. de C.V.; Esmeralda/ Derivados de Leche la Esmeralda S.A.de C.V.; Kraft/Kraft Foods de México S de R.L.; Los Volcanes/Evaporadora Mexicana S.A.de C.V; Caperucita/Zwanberg de México S.A.de C.V; Chipilo/Grupo Prolesa S.A. de C.V.; Danone/Danone de Mexico S.A. de C.V.; Iberia and Primavera/Anderson Clayton and Co. S.A.de C.V.; Yoplait and Chalet/Sigma Alimentos; Parmalat/Parmalat de Mexico, S.A. de C.V.; Baden/Evaporadora Mexicana, S.A. de C.V.; Boreal/Evaporadora Mexicana, S.A. de C.V.; San Marcos/Pasteurizadora Aguascalientes, S.A. de C.V.; La Franja/Lácteos Finos Mexicanos S.A. de C.V.; Chen/Lácteos del Norte S.A. de C.V.

Frozen, Ready to Eat Foods: Delimex/Delimex S.A. de C.V.; Doña Carmen/Industrias Alimenticias de Querétaro, S.A. de C.V.; Nicolasa/Maristmo S.A. de C.V.; La Ibérica/La Ibérica S.A. de C.V.;

Lonchibon/Suandy de Mexico, S.A. de C.V. ; El Cazo/Sigma Alimentos Congelados, S.A. de C.V.

Frozen Vegetables: La Huerta/Frigorizados La Huerta S.A.de C.V.; El Gran Portal/Expohort S.A. de C.V.

Salsas: Del Monte/Del Monte; Herdez and Búfalo/Herdez S.A. de C.V.; La Costeña/Conservas la Costeña; Valentina and Tamazunta/Salsa Tamazula S.A. de C.V.; Clemente Jaques/Anderson Clayton S.A. de C.V.; La Gloria/Cremería Americana S.A. de C.V; San Marcos/Empacadora San Marcos S.A. de C.V.

Chips and Salty Snacks: Sabritas/Mafer/Barcel.

Crackers: Gamesa/Grupo Gamesa, S.A. de C.V.; Nabisco/Nabisco S.A. de C.V.; Cuétara/Nueva Galletera Veracruzana S.A. de C.V., Lara/Grupo Bimbo.

Juices: Del Valle/Jugos del Valle, S.A. de C.V.; Jumex/Jugomex, S.A. de C.V.; Boing/Sociedad Cooperativa “Trabajadores de Pascual”, SCL; Sonrisa/Valle Redondo S.A. de C.V.; Florida/ Zano Alimentos S.A.de C.V.; Herdez/Herdez S.A. de C.V.; Nestle/ Nestlé México S.A.de C.V.; Parmalat/ Parmalat, S.A. de C.V.; Ades/Productos de Maíz; Campbell’s; Con Frutta/Valle Redondo S.A. de C.V.

Spices: Spice Island/Rus International S.A. de C.V.; French’s/Reckitt and Coleman S.A. de C.V; McCormick/Herdez S.A. de C.V.; Carmencita/Proalimient Jesús Navarro S.A.; Knorr (powdered chicken broth)/Productos de Maiz S.A. de C.V.; Escosa/Ernesto Ibarra y Compañía; Catarinos/Alimentación Típica Nacional; Mauri/Alimentos y Condimentos Mauri.

Liquid Seasonings: Maggi/Nestlé Mexico S.A. de C.V.; Crosse & Blackwell/Nestlé.

Canned Soup: Campbell’s/Campbell’s.

Pastas: Pinerolo/Pastas Cora S.A.de C.V.; Barilla/Barilla S.A. de C.V. ; La Moderna/Fabrica de Pastas; Alimenticias La Moderna S.A.de C.V.; Cora/Pastas Cora S.A. de C.V.; Tres Estrellas/Nabisco, S.A. de C.V.; Italpasta/La Italiana, S.A. de C.V.; Rex/Pastas Cora, S.A. de C.V.; Gamesa/Grupo Gamesa S.A. de C.V.

Flour: Tres Estrellas/Nabisco S.A. de C.V.; Selecta/Molinera de Mexico S.A. de C.V.; San Blas/Molino Harinero San Blas S.A. de C.V.; Maseca/Grupo Industrial Maseca; Mi Gorda/Agroindustrias Integradas del Norte.

Non-sugar sweeteners: Savien/Otto Heinz Lara; Sussly/Técnica Mexicana de Alimentación, S.A. de C.V.; Dilis/Técnica Mexicana de Alimentación, S.A. de C.V.; Sucrel/Laboratorio Columbia, S.A. de C.V.

Soup Mixes: La Sierra/Sabormex; Maggi/Nestlé Mexico, S.A. de C.V., Campbell’s; Knorr/Productos de Maíz.

Competition

US food processors in Mexico face very strong competition from Mexican companies that dominate many of the sub-sectors and are large, self-sufficient operations. Competition from European companies is strong in certain sub-sectors, (e.g. confectionery and candy) but is less pervasive throughout the rest of the market. The following table illustrates the competition by sub-sector in the Mexican processed foods industry:

Level of Competition by Sub-Sector in the Mexican Processed Foods Industry *

Sub-Sector	Level of Competitiveness
Beverages	High
Canned Goods	Medium, especially from frozen fruits/vegetables
Cereals	Low
Confectionery and Candy	High; Nestlé dominates the industry
Dairy Products	Medium; Very high for yogurt, and high end cheeses
Edible Oils	Medium
Processed Meats	High, except on gourmet deli goods.
Salty Snacks	High

Source: Industry interviews.

* Competition is defined as the level of competition faced by new market entrants.

In food ingredients, United States dominates the supply of imports to Mexico. The following list provides the major ingredients supplied by the United States to Mexico.

- ❑ *Whey Protein.* The United States supplies almost 80 percent of Mexico's imports with the balance divided France, New Zealand, and Switzerland.
- ❑ *Food Starches.* Mexico is fairly self-sufficient in starches, exporting 58 percent as much as it imports. The United States supplies half of all Mexican imports with Germany as the largest competitor.
- ❑ *Tallow.* Mexico is almost totally dependent on the United States for tallow.
- ❑ *Edible Lactose.* Mexico does produce edible lactose, some of which is exported. 99.9% of Mexico's imports come from the United States.
- ❑ *Seasonings.* Mexico has strong production, exporting 88 percent as much as it imports. The United States has a 94 percent share of all imports.
- ❑ *Natural and Artificial Sweeteners, coloring, flavoring, dough conditioners, beverage bases.* Mexico also has a significant national production, exporting 35 percent of what it imports. The United States dominates imports with almost 82 percent of the total, with Canada, Jamaica, and Denmark supplying the balance.
- ❑ *Enzymes.* Mexico is fairly dependent upon imports for its needs. The United States has 60 percent of the import market, with the rest supplied by Denmark, Germany, Finland, and Ireland.

Food Ingredient – Imports and Exports (US\$000)

Product	1998	1999	2000
0404 Whey Protein			
Total Imports	43,933	36,582	38,591
Total Exports	0,052	0,103	0,392
Imports from U.S.	34,366	28,902	30,773
Exports to U.S.	0,032	0,084	0,168
1108 Food Starches			
Total Imports	17,581	18,547	19,384
Total Exports	13,349	12,125	11,215
Imports from U.S.	9,576	9,183	9,529
Exports to U.S.	3,398	3,091	2,711
1501 Tallow			
Total Imports	16,972	13,892	10,906
Total Exports	0,087	0,145	0,023
Imports from U.S.	16,270	13,891	10,896
Exports to U.S.	-	-	-
1702 Edible Lactose			
Total Imports	91,677	82,294	101,652
Total Exports	12,722	12,670	17,063
Imports from U.S.	89,061	79,583	94,533
Exports to U.S.	3,426	3,205	5,321
2103 Seasonings			
Total Imports	54,949	59,462	80,521
Total Exports	39,165	62,442	70,788
Imports from U.S.	51,946	56,092	74,201
Exports to U.S.	32,799	43,081	49,226
2106 Natural and Artificial Sweeteners, coloring, flavoring, dough conditioners, beverage bases			
Total Imports	144,764	200,048	221,900
Total Exports	67,006	75,758	76,681
Imports from U.S.	120,627	168,885	181,328
Exports to U.S.	34,475	47,830	45,943
3507 Enzymes			
Total Imports	36,332	45,178	46,405
Total Exports	6,885	7,883	8,778
Imports from U.S.	24,413	23,050	27,742
Exports to U.S.	3,216	2,662	3,765

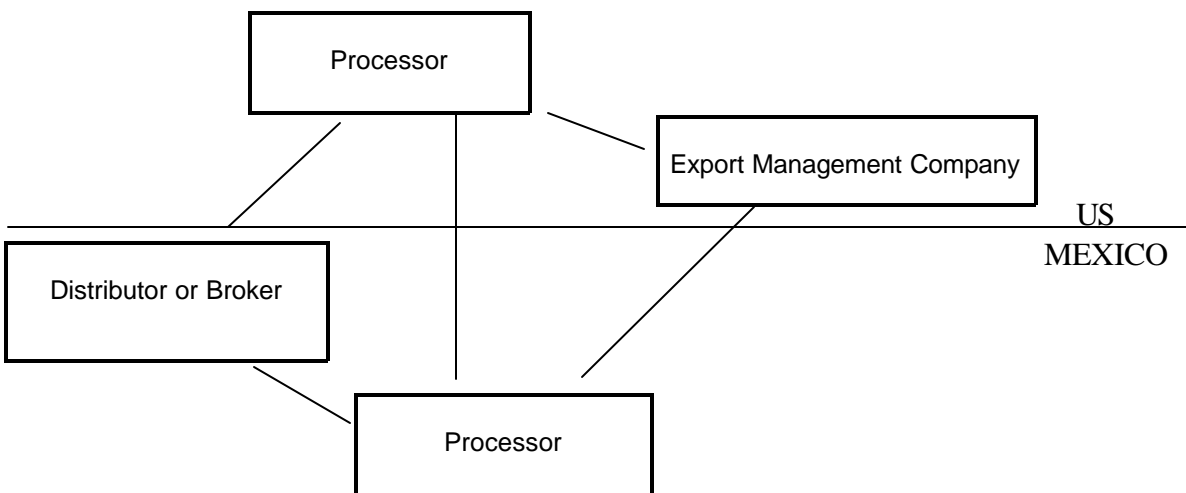
Road Map for Market Entry

This section discusses the unique aspects of Mexico's food processing sector and examines the best method for approaching the market. First, the distribution system to the industry will be examined. Second, transportation and import requirements are addressed. Finally, a market entry strategy is presented.

Distribution

Distribution is both the most important element of any product's success in Mexico, and one of the most problematic. This section will detail the distribution system to the food processing sector.

For the most part, food ingredients are distributed directly from the U.S. exporter to the processor in Mexico. Most major food processors contacted for this study reported that they import raw materials directly. The following chart shows the flow of processed foods in Mexico.



Despite the fact that the majority of Mexican food processors import raw materials directly, they often rely on foreign suppliers' local representatives or distributors to carry out the process. Thirty to 120-day financing is standard in selling to Mexican buyers. The following lists a selection of major food processing firms in Mexico and describes the process by which they import raw materials:

- *Grupo Herdez*, the biggest player in the salsa and canned goods sector, prefers to import raw materials directly from their foreign suppliers (primarily Hormel) but also buys from a local distributor. Ten percent of their raw materials are imported, 80 percent of which comes from the United States. Foreign suppliers give Herdez 30 to 60 days of credit.

- *Bimbo*, the largest bread and baked goods producer in Mexico, imports its products directly from a foreign company, but relies on a local representative when their supplier cannot provide the product quickly. Bimbo pays its raw material suppliers in 30 days.
- *La Costeña*, a major canned foods maker, imports 20 percent of its raw materials. Of this, 60 percent is from the United States, and the remainder from a range of countries including Brazil, France, Spain, Holland, Japan, and Korea. La Costeña pays one supplier 25 percent down and 75 percent against shipment.
- *Unilever de México*, maker of brands such as Knorr, Hellman's, Maizena, and Ades, imports only five percent of its raw materials from the United States, acquiring the remaining 95 percent nationally. The company acquires ten percent of its fat needs from the US, and all of the Ades soy products are produced from US soybeans.

There are several alternatives to selling through a local distributor or directly to the end-user. An *Export Management Company* (EMC) can act as a representative to turn export sales into domestic sales. For companies looking to maintain the low risk of a domestic transaction, an EMC may be the best way to sell to Mexico. The EMC holds the receivable and is therefore vulnerable to any economic turbulence in the Mexican economy, such as a devaluation of the peso, or changes in the exchange rate. A *broker* is a "trader" that will identify niches or temporary shortages in certain international markets and will source and supply as needed. A *manufacturer's representative* will go further to act as a foreign producer's sales arm in supplying products to Mexico.

US companies often begin their sales to Mexico after being contacted by end-users or brokers. Following a successful period of growing sales, the US company may establish their own sales subsidiary. The local representative should have experience working with foreign suppliers and be well-connected in the food processing sector in Mexico. The U.S. Agricultural Trade Office (ATO) can identify distributors for specific products. For specific inputs to dairy products, the U.S. Dairy Export Council also maintains listings of potential importers.

Transportation

The first step toward distributing in Mexico is moving the product across the border. Since the largest Mexican markets for processed food products are located in the interior of the country, ground transportation is the most logical option for delivery. The Mexican national railway is antiquated and disorganized, although recent privatization will increase its usage for bulk shipments. Maritime transportation of bulk commodities may be considered for delivery to Cancun. Bimbo, for example, imports wheat from the United States which is shipped to Cancun and is then transported by truck to its main processing plants.

Import Requirements

Starting in 1994 NAFTA reduced tariffs on US food exports to Mexico. All tariffs will be eliminated by 2004. Please contact the Foreign Agricultural Service of the Department of Agriculture in Washington, DC or the US Agricultural Trade Office in Mexico City for tariff information on specific products.

Local importers report that US exporters should have no problems importing goods into Mexico, provided Mexican requirements are followed. Grupo Herdez reports that although they do not have any formal problems importing products, labeling issues can be problematic. The Country Commercial Guide for Mexico (2001) reports that the following labeling requirements are necessary for the importation of agricultural goods from the United States into Mexico:

- ❑ Trademark or commercial name brand of the product;
- ❑ Importing company name, address and fax number;
- ❑ Net Content, as required by current Mexican Regulations (NOM-030-SCFI-1993), (A comma must be used as the decimal point);
- ❑ Warning about risks and precautionary measures, in case of dangerous products as required by Mexican Regulations;
- ❑ Directions for usage, handling and preserving the product, as appropriate;
- ❑ Expiration date for dairy products, chocolates, prepackaged foods, nonalcoholic beverages, fats and oils;
- ❑ Country of origin; and
- ❑ List of ingredients.

Products packaged for retail consumption in Mexico must be labeled according to regulations issued by the Mexican Secretary of Economy (SE). All information must be in Spanish with the exception of the product description. Bilingual printed packaging is recommended. Stickers are allowed, but the font, colors, and printing must be consistent with the information in English. Also, the sticker must be prominent, clearly showing product information in Spanish to the consumer. Labeling requirements can be quite complex, and Mexico is still in the process of revising many of its labeling regulations and official standards. Therefore, the US exporter should rely on their local representative for up-to-date information. It should be noted that food product ingredients bypass these labeling requirements since they do not go directly to the retail shelf.

For more information on import requirements for a variety of products, please see GAINS report number MX1205 from November 2001. In addition, a GAINS report on labeling will be released by the ATO Mexico City in December 2001.

Market Entry Strategy

US companies wishing to serve the Mexican food processing sector must first identify specific Mexican firms using their product. Then, it is recommended that the US company visit with buyers at those companies to determine their level of competitiveness.

Visiting with buyers at food processing firms accomplishes several objectives. First, it gives the US company a general feel for the market and the types of companies in their particular sub-sector. Second, it allows the US company to identify specific needs and how to fulfill them. Third, it will tell them whether the market is worth pursuing. Finally, such visits can reveal the best method to distribute a US product. Also, suppliers who choose to work with a distributor may ask Mexican buyers for recommendations on distributors.

Participating in a trade show can be an efficient way to identify market opportunities. Trade shows allow US firms to simultaneously investigate the market, meet with buyers, and interview potential distributors. This trip can be combined with interviews set up by the US Foreign Commercial Service. Listed below are major trade shows held in Mexico. For a more comprehensive list of promotion opportunities see GAINS report number MX1172 from September 2001.

ANTAD 2002/2003**When:** March 15-17, 2002**Where:** Expo Guadalajara, Guadalajara, Mexico**Contact:** Carlos Zertuche, U.S. Agricultural Trade Office (ATO)-Mexico City**Tel:** (011-52-55) 5280-5291; **Fax:** (011-52-55) 5281-6093; **Email:** atomexico@fas.usda.gov**Show Type:** Mexico's largest retail and supermarket show. This is the fifth consecutive year that the ATO is organizing a U.S. Pavilion within the show.**EXPHOTEL 2002****When:** June 12-14, 2002**Where:** Convention Center, Cancun, Mexico**Contact:** Lourdes Guzman, U.S. Agricultural Trade Office (ATO)-Mexico City**Tel:** (011-52-55) 5280-5291; **Fax:** (011-52-55) 5281-6093; **Email:** atomexico@fas.usda.gov**Show Type:** Mexico's largest hotel, restaurant and hospitality industry show for the Caribbean region. This is the fifth consecutive year that the ATO is organizing a U.S. Pavilion within the show.**ABASTUR 2002****When:** October 2-4, 2002**Where:** World Trade Center, Mexico City, Mexico**Contact:** Lourdes Guzman, U.S. Agricultural Trade Office (ATO)-Mexico City**Tel:** (011-52-55) 5280-5291; **Fax:** (011-52-55) 5281-6093; **Email:** atomexico@fas.usda.gov**Show Type:** Mexico's largest hotel, restaurant and hospitality industry show for the Mexico City metropolitan area. This is the third year that the ATO is organizing a US Pavilion within the show.**Products Present in the Market Which Have Good Sales Potential**

The best product prospects in terms of food ingredient inputs are shortenings, natural and artificial flavorings, colorings and bases, whey protein, and seasonings.

- ❑ *Shortenings* represent the largest potential with regards to both volume and value in the Mexican market.
- ❑ The market for *natural and artificial flavorings*, colorings, and bases is second to that of shortenings, but may represent the most lucrative opportunities for U.S. companies.
- ❑ The U.S. Dairy Export Council and Land O' Lakes suggest there is strong potential for *whey protein concentrates*, given their multiple uses in the processed foods sector.
- ❑ *Spicy seasonings* also have strong potential. As Mexican tastes become more international, the demand for non-traditional seasonings will grow as well. Grupo Herdez reports the need for more imports of spices for their seasonings and salsas.
- ❑ Nearly every interviewee in the food processing industry suggested that the strongest trend in the market is towards "light" food. Additives such as *fat substitutes or artificial sweeteners* may show particular promise in the near future.
- ❑ A buyer at Bimbo, mentioned the market's need for *texturizers, emulsifiers, and bread softeners*.
- ❑ The Purchasing Manager at Unilever de México named the following current specific import needs: *whey protein concentrates, soy, corn, and chicken meat*.
- ❑ Mexico is the largest powdered milk importer in the world. A new Mexican social program designed to distribute more than 100,000 metric tons of powdered and fluid milk to the poor combined with the break up of the former government dairy agency, CONASUPO, presents obvious opportunities for suppliers of inputs of such products as *milk powder*.
- ❑ The US Dairy Export Council also suggests that there is a tremendous potential for *skim milk powder*. Europe has traditionally dominated the Mexican market for skim milk powder by essentially exporting it under a different classification, "food preparations", which are subsidized in Europe. As the Mexican authorities take measures to limit the amount of "food preparations" imported from Europe, opportunities will open up for US suppliers.

Products Not Present in Significant Quantities but Which Have Good Sales Potential

Clearly, the best product prospects are those products with limited availability in Mexico. To this end, edible lactose and enzymes have strong growth potential. The market for enzymes is a young, growing market. Although the United States faces significant competition from Canada, Germany, France, and Japan, U.S. exports are expected to rise. Thickeners, texturizers, preservatives and spices also represent strong prospects.

Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting processed food products to Mexico, please contact the U.S. Agricultural Trade Office in Mexico City at the following address:

The U.S. Agricultural Trade Office

Jaime Balmes No. 8-201

Col. Los Morales Polanco

11510 Mexico, DF

Tel: (011)(52)(55) 5280-5291, Fax: 5281-6093

U.S. Mail: P.O. Box 3087, Laredo, TX 78044

Organization	Address	Telephone
U.S. Foreign and Commercial Service	Liverpool 31 Col. Juárez México DF	T: (011)(52)(55) 5140-2600 F: 5566-1111
National Association of Supermarkets and Retailers (ANTAD)	Homero 109 Piso 11 Col. Polanco 11560 México DF	T: (011)(52)(55) 5545-8803 (011)(52)(55) 5254-1714 F: 5203-4495
National Association of Grocers	Tolsa 54 Col. Centro CP 06040 México DF	T: (011)(52)(55) 5709-3697 F: 5709-3701
Mexican Association of Restaurants (AMR)	Torcuato Tasso 325-103 Col. Polanco 11560 México DF	T: (011)(52)(55) 5250-1146 (011)(52)(55) 5531-0911 F: 5545-8671
National Chamber of the Industry of Restaurants and Food (CANIRAC)	Aniceto Ortega 1009 Col. Del Valle 03100 México DF	T: (011)(52)(55) 5604-0238 F: 5604-4086
Mexico City Chamber of Commerce	Paseo de la Reforma No. 42 Col. Cuauhtemoc México, D.F. 06048	T: (011)(52)(55) 5592-0371 F: 5592-3571

American Chamber of Commerce	Lucerna 78 Col. Juárez 06600 México D.F.	T: (011)(52)(55) 5724-3800 F: 5703-3908
Cámara Nacional de la Industria de Transformación	Av. San Antonio Col. Ampliación Nápoles 03849 México D.F.	T: (011)(52)(55) 5563-3400 F: 5611-2387