



Agriculture and  
Agri-Food Canada

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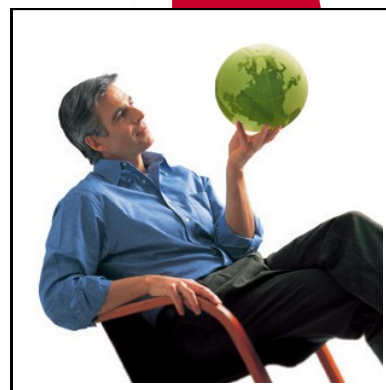
## **Mexico** The Foodservice Industry



Source: Mintel



Source: Mintel



**► EXECUTIVE SUMMARY*****Foodservice Struggles Through Recession***

Since the fall of 2008, the world has learned some harsh lessons. After five year's of economic growth and investment, the economy took a sharp downturn, affecting some countries more than others.

For some time thereafter, Mexico continued to offer great export opportunities for Canadian suppliers of agricultural products for the foodservice sector; however, difficult times have since caught up and have curbed market potential, as foodservice operators fight to stay afloat.

***Mexico's Shrinking Economy***

Mexico, home to 111 million inhabitants (Central Intelligence Agency, 2009), is Latin America's second-largest economy, behind Brazil. Mexico's higher per capita output (23% above the Brazilian level in 2008) just partially makes up for Brazil's significantly larger population (Planet Retail). Mexico's close proximity to the United States (U.S.), allowed it to experience intense economic exchange with this economic superpower, which accelerated its development. Since the implementation of the North American Free Trade Agreement (NAFTA), Mexico has seen consistent growth and has experienced a consistent increase in purchasing power. Growing levels of education have led to higher-paying jobs for Mexican consumers, which has contributed to a growing consumer market. However, as a result of the global recession, the country's dependence on trade with the U.S., together with the devaluation of the peso, have harmed the Mexican economy and hampered growth. This has led the country to suffer its deepest recession since the Tequila crisis in the mid-1990s. In fact, the economic downturn has affected Mexico's economy so strongly that it is said to have suffered more than almost any other Latin American country.

In 2007, Mexico was the world's eighth largest tourist destination with about 2.5% of world tourism; however, as a result of the swine flu epidemic and the recent recession, the tourism sector has decreased significantly. What's more, in the last few years some of the world's largest companies have labeled Mexico as one of the riskiest countries in which to invest, due to an increased level of drug-related crime.

***The Economy and its Effects on Mexico's Foodservice Industry***

Since the beginning of 2008, a series of adverse economic and monetary issues directly affected the overall economic performance of Mexico, causing consumer foodservices to suffer in the last quarter of 2008 and thereafter. Mexico's foodservice companies have, as a result, resorted to cost-cutting measures and aggressive promotion to attract sales. Although many official and private sources anticipate that the economic crisis and its effects will diminish by mid or late-2010, the damage produced by over a year of weak sales may set back profits for a number of years, with fast food and full service restaurants suffering the most.

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Source: Mintel

Conversely, the downturn and other factors have produced some opportunities, primarily within food delivery, takeaway services, and street stalls and kiosks. Still, both fast food and full service restaurants grew in 2008, and are expected to continue along this path in the medium term. Trends toward modernization have also influenced eating habits in Mexico, as more consumers enjoy premium coffee blends and explore a larger variety of foods.



As the trend to health and wellness grows in Mexico, there will be an increased interest in quality foods. The Mexican government has encouraged this trend, as levels of obesity and diabetes in Mexico are high compared to the rest of the world.

## ► MEXICO: COUNTRY FACTS

Today the 11<sup>th</sup> largest economy in the world, Mexico had been making an impressive recovery from the nation's economic crisis in the 1990s. However, since the global financial crisis hit in late 2008, the country has suffered ongoing economic and social concerns. Mexico has, nonetheless, seen opportunities grow in various sectors as socioeconomic influences encourage the market to evolve.

### Demographics

- The Mexican population has increased rapidly, an average of 1.5% per year, or 18 million people, between 1995 and 2007 (Euromonitor). Mexico's population totaled more than 111 million in 2008, however, fertility rates are stagnating, although they are still high in rural areas and among the native population (Central Intelligence Agency, World Factbook). Migration to the United States and Canada has also become significant, with the number of Mexican citizens residing abroad reaching as many as nine million (Planet Retail).
- By 2015, the proportion of individuals aged 30 and older will represent half of all Mexican inhabitants. With a median age of 26.3 years, only a very small percentage of the country's population is currently over 65, meaning that a large percentage of Mexicans are young workers (Datamonitor).
- Mexico's large youth population has led to an increasingly urbanized Mexico, with the majority of inhabitants living in urban centers in 2007. Mexico City is by far the largest city in the country, with its federal district totaling a population of 8.7 million inhabitants, and roughly 20 million in the metropolitan area (Planet Retail). Guadalajara and Monterrey are other major metropolitan cities. According to Planet Retail, Mexico has an urban population of around 75%, as high as France and higher than Italy's. This undoubtedly favors the expansion of modernization and has caused Mexican cities expand dramatically in recent years.

### Education

- According to Datamonitor, a provider of global business information, Mexico has made an increased investment in education in the past 15 years, due largely to the growing population which has produced more students than in the past.
- The literacy rate for Mexico's total population is 91%; for people aged 15–24 it is 97%. Moreover, as more Mexicans attain higher education levels, more opportunities for higher-paying jobs will become available to them, thereby creating opportunities for Mexicans to upgrade their lifestyles.

### Income Levels

- Disposable incomes in Mexico have nearly doubled in the last decade and continue to increase on a yearly basis; however, per capita income is still one-fourth that of the United States (U.S.).
- Income distribution remains highly unequal in Mexico; wealth tends to be concentrated in large metropolitan zones and in a minority of the population. For example, people residing in the northern states, within areas that border the U.S., have enjoyed a higher standard of living than their counterparts in the rural southern regions, where agriculture remains the dominant sector.
- Mexicans with lower education levels currently have access to many consumer goods and services. In general, Mexico's consumer class has more purchasing power than ever before and is also bigger, in demographic terms (Euromonitor).

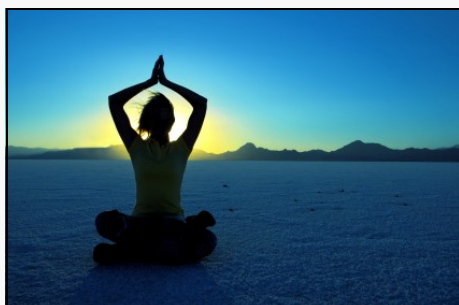


Source: Mintel



### Eating Habits

- ▶ Mexicans tend to eat three times a day, with a light breakfast and light dinner, and a heavy lunch in the middle of the day. They frequently eat at their places of work and meet in restaurants.
- ▶ Mexicans eat a combination of local foods and foreign imports. The population is becoming increasingly accepting of foreign foods, such as American fast food, as well as European and Asian cuisines. However, it remains important to most Mexicans to eat in keeping with their culture, by including tortillas, lime, avocado, peppers and other local ingredients.



Source: Mintel

### Health and Wellness

- ▶ Mexico is the second-most obese nation in the world, after the U.S. The consumption of fatty foods, particularly among youth, is a concern. These foods are cheap, easily accessible and, for those with lower incomes, frequently replace whole meals.
  - ▶ Many low income Mexican consumers are not aware of the benefits of healthier foods nor are they aware of broader nutritional information, and, for the most part, can't afford to pay premiums on products in this sector. The Mexican diet is, however, evolving to ward healthier options.
- ▶ A report from Euromonitor, a provider of global business intelligence and market analysis, stated in January 2009 that health concerns based on issues relating to excess weight, obesity, and diabetes in Mexico are forcing companies to reformulate or adapt their foods. Some items, for example, are now being offered with reduced fat and sugar or increased fiber content. Although there is still a strong correlation between income levels and nutrition, larger players in the market are further expanding their presence in the healthy foods sector.

## ▶ THE FINANCIAL CRISIS: IMPLICATIONS FOR MEXICO

Mexico, Latin America's second-largest economy behind Brazil, is one of the region's more developed markets. Mexico's proximity to the U.S. allowed the country to see per capita income growth of approximately 2% per year between 1995 and 2005; however, the pace of growth has slowed since the U.S. fell into recession.

Mexico's economy is closely integrated with that of the U.S., with exports to that country contributing to a fifth of the country's Gross Domestic Product, causing the country's economy to see considerable damage as a result of the recession. In 2008, plunging demand in the U.S. market affected Mexican exports, causing them to fall by 36% (Datamonitor). The impact of the recession was not just felt through lower commodity prices and hard-pressed exports, but also in the form of a weak currency, restricted access to business and consumer credit, falling industrial output, negative real wage growth and, lastly, rising unemployment. Although Mexico's unemployment rate will remain lower than that of most Latin American countries, half a million Mexicans lost their jobs from October 2008 to February 2009, with as many as 70,000 jobs lost in the travel and tourism industry. These factors were among those that caused the economy to contract in the first quarter of 2009. The decline in Mexico's economy was almost four times that of Latin America as a whole, clearly demonstrating that Mexico is suffering a stronger recession than almost any other Latin American country.

Notably, the economic crisis shaped consumer spending patterns, causing Mexico's consumer confidence to fall by 21% in January 2009, the lowest level ever registered (Datamonitor). During the same month, credit granted by commercial banks to the population for basic consumption also fell by 34%, compared to the same month in 2008, resulting in a fall in spending (Datamonitor).

Following a difficult 2009, the International Monetary Fund (IMF) is forecasting a sluggish recovery beginning in 2010. According to its most recent outlooks, there could be growth of 2.9% in 2010, falling back to 2.7% in 2011, in line with trends in the U.S. (ViewsWire—The Economist). Only later in 2011 is growth expected to return to pre-crisis levels of around 5% per annum (Planet Retail). The severity of the economic crisis in 2009 will decide the fate of many of Mexico's travel and tourism companies and, thus, the foodservice operators that depend on them.

In order of comparison, as shown in table 1 and 2, Mexico's consumer spending decreased by 22% in 2009, while Canada only saw an 8% drop. Mexico's GDP per capita also dropped in 2009, and is still expected to stay below that seen in 2008 in the medium term.



**Table 1: MEXICO - Macroeconomics**

	2006	2007	2008	2009	Forecast 2010
<b>Inhabitants (millions)</b>	104.857	105.791	106.683	107.75	108.828
<b>GDP (USD millions)</b>	950,922	1,024,642	1,069,315	867,850	982,481
<b>GDP / capita (USD)</b>	9,069	9,686	10,023	8,054	9,028
<b>GDP (% nominal growth)</b>	12.2	8	6.5	(-1.7 )	7.6
<b>GDP (% real growth)</b>	5.1	3.3	1.3	( -6.8)	4
<b>Consumer price inflation (%)</b>	3.6	4	5.1	5.4	3.5
<b>Consumer spending (USD millions)</b>	614,687	668,636	710,740	578,023	647,658
<b>Consumer spending / capita (USD)</b>	5,862	6,320	6,662	5,364	5,951

Source: Planet Retail

**Table 2: CANADA - Macroeconomics**

	2006	2007	2008	2009	Forecast 2010
<b>Inhabitants (mn)</b>	32.532	32.882	33.26	33.637	33.988
<b>GDP (USD mn)</b>	1,277,280	1,426,791	1,477,470	1,346,462	1,512,084
<b>GDP / capita (USD)</b>	39,262	43,391	44,422	40,029	44,489
<b>GDP (% nominal growth)</b>	5.5	5.8	2.8	(-2.5)	3.9
<b>GDP (% real growth)</b>	2.9	2.5	0.4	(-2.6)	2.6
<b>Consumer price inflation (%)</b>	2	2.1	2.4	0.1	1.3
<b>Consumer spending (USD mn)</b>	706,683	794,834	837,169	769,204	842,771
<b>Consumer spending / capita (USD)</b>	21,723	24,172	25,170	22,868	24,796

Source: Planet Retail

As early as the first quarter of 2009, consumer foodservice operators reported having fewer customers at lunch and in the evening, and more at breakfast. Fewer desserts and coffees were sold, which is also linked to an anti-tobacco law that was introduced in 2008. As a result of the recession and this recent smoking ban, a notable increase was seen in sales of ready meals and meal solutions at supermarkets, hypermarkets and convenience stores, due to an increased number of workers opting to take their own meals into the workplace.

Increased consumer price-sensitivity in Mexico has led to strong growth in the following food groups during late-2008 and early-2009:

- ▶ Instant soup and noodles;
- ▶ Flavored drinks, including flavored milk drinks, fruit/vegetable juice and drinking yogurt; and
- ▶ Snack bars.

## Monetary Issues

### Currency fluctuations

Foodservices were highly affected by the devaluation of the peso (40%) in the second half of 2008 (Euromonitor). Because of franchising contracts or other legal arrangements, Mexican foodservice companies are forced to buy most of their food supply from foreign suppliers, thereby increasing company costs.

### Rising food Prices

According to Datamonitor, Mexico saw price increases in 2008 for commodities such as wheat, corn and rice, along with increases in prices from domestic producers for other items such as fruit, vegetables, meat and milk. Cereal prices grew by up to 63% in 2008, vegetables grew by 66-157%, poultry prices increased by 23% and pork increased by 37% (Datamonitor).



Source: Shutterstock



## Socioeconomic Issues

While the current recession in the U.S. is the main factor now affecting Mexico's economy, there are a number of other events that have had an impact.



### H1N1 Flu Epidemic

With key hotel, restaurant and catering operators in Mexico already suffering a decline in sales as a result of the recession, the H1N1 flu outbreak of 2009 only threw the restaurant sector into further turmoil. The Mexican government took measures to monitor the spread of the H1N1 flu in April 2009; however, as a result of the pandemic, schools, museums, restaurants and other venues were shut down for a period of 10 days, leading businesses in Mexico City alone to lose the equivalent of US\$50 million per day (Datamonitor). The shutdown, along with the fear of the flu, ultimately affected the country's travel and tourism industry, which is one of the three largest foreign currency sources for Mexico's economy (Euromonitor) and a sector that employs two million people, representing Mexico's second-largest source of employment (Datamonitor).

Source: Mintel

The decline observed in travel and tourism, starting from the last quarter of 2008, adversely affected full-service and fast food restaurants, including food delivery and takeaway services, as well as other consumer foodservice channels that are less dependent on tourists for revenue.

### Smoking Ban

The enforcement of a new anti-tobacco law, which prohibits smoking in public places, generated fierce opposition from consumer foodservice players in 2008. Industry estimates indicate that, prior to the ban, almost one quarter of consumers smoked in restaurants and bars in Mexico, leading industry sources to claim that the ban caused a loss of up to 17% of total sales in the last quarter of 2008, in comparison to the same period in 2007 (Euromonitor). These organizations also claim that the new legislation caused the average transaction price to drop and that thousands of jobs were lost compared to the last quarter of 2007. In light of the recent recession, it is difficult to gauge whether the negative performance of consumer foodservice in the last quarter of 2008 was only a result of anti-tobacco legislation; sales were also affected by the economic downturn, which changed consumer habits, caused the cost of food to rise and eroded purchasing power for most Mexican consumers. Although the anti-tobacco law is expected to negatively impact sales and customer numbers, particularly for foodservice restaurants and bars, the legislation may offer an advantage to street stalls and food delivery and takeaway services.

### Future Economic Prospects

After a period of robust growth in Mexico, the global economic crisis took a toll on consumer spending in 2009. The indicator is likely to recover in 2010 amidst renewed economic growth, which should allow Mexico to continue boasting the highest consumer spending per capita in Latin America after Puerto Rico and Chile.

The foodservice industry was expected to take the biggest hit in 2009. Datamonitor reports that businesses suffering from low consumer recognition, those with little access to credit or financial resources, as well as those with large expenses that outpace revenues are not expected to survive the crisis.

At the start of 2010, the world economy looks to be in much better shape than it did a year ago. Economic growth has resumed, but concerns about the robustness of the recovery remain. According to Datamonitor, some recovery is expected for the Mexican economy by the second half of 2010. In the interim, Mexico's consumer foodservice industry will be forced to resort to cost-cutting measures and aggressive promotion to attract sales.

## ▶ MARKET SYNOPSIS – MEXICO'S FOOD AND NON-ALCOHOLIC BEVERAGE INDUSTRY

Mexico's food and beverage sector has grown substantially since 2000, with consumer expenditures rising between 2000 and 2007—expenditures in food grew by almost 31%, while non-alcoholic beverage consumption saw 39% growth. After accelerated growth between 2000 and 2006, growth of spending on food slowed due to increases in food prices in 2007.

Since the recession began, Mexican consumers have returned to their habit of purchasing products at lower prices. However, once the economic downturn has passed, increased purchasing power should encourage Mexican consumers to increasingly opt for higher-end foods such as high quality meats and fish, formerly perceived as exclusive to the upper class. Nonetheless, areas positively affected in 2008 were food preparation products such as some meats, seafood, vegetables and fruit.



The packaged food industry was expected to perform well in 2009. Despite the adverse economic situation and less available income, Mexicans have not stopped buying packaged food. However, a change in consumption patterns is evident. Many people switched to less expensive products or brands, which is benefiting economy products/brands and affecting demand for products considered luxury items.

As for the non-alcoholic beverage industry, Mexico is one of the highest consumers of soft drinks per capita in the world, which means that this is a difficult market to grow, although it is profitable for the companies already in the market or those able to challenge them. Mexicans spend more on soft drinks than they do on hot drinks, as carbonated beverages are consumed at almost every meal.

### **Growth Forecasts and Best Product Prospects by Category**

Research by the United States Department of Agriculture (USDA) and Datamonitor have identified opportunities that may be of interest to Canadian exporters looking to supply products for businesses in the Hotel, Restaurant and Institutions (HRI) business.

Datamonitor forecasts identify categories in which market value will be the highest and where growth will be most prominent in the Mexican market in 2013. Moreover, the USDA's recent study on the HRI sector highlights a few product types that they believe have good sales potential in the Mexican market.

The following five food and beverage categories are expected to hold the highest market value in order of size in Mexico by 2013:

- ▶ Soft drinks (22%)
- ▶ Bakery and cereals (19%)
- ▶ Meat, fish and poultry (11%)
- ▶ Chilled food (9%)
- ▶ Dairy food (9%)

The following five food and beverage categories are expected to experience the highest level of growth in Mexico overall:

- ▶ Savoury snacks (143%)
- ▶ Hot drinks (127%)
- ▶ Canned food (126%)
- ▶ Soup (121%)
- ▶ Meat, fish and poultry (116%)

The USDA study on Mexico's HRI sector indicates the following products have good sales potential in the Mexican market:

- ▶ Meats (pork and beef)
- ▶ Fish and seafood products (lobster, crab, squid and salmon)
- ▶ Ice cream (high quality)
- ▶ Processed fruits and vegetables (potatoes)
- ▶ Egg and other poultry products (duck)
- ▶ Pre-made sauces, dressings and salsas
- ▶ High quality innovative snack foods
- ▶ Healthier foods (low cholesterol, gluten free, low fat)
- ▶ Pre-made appetizers



Source: Mintel



## ► MEXICO'S FOODSERVICE SECTOR

Between 2007 and 2008, the foodservice sector saw growth in every channel, as shown in Tables 3 and 4; however, 2009 has seen harder times, due to economic factors and a loss in consumer confidence. This has created a difficult environment for the consumer foodservice industry. Some channels within the foodservice industry have suffered more severely than others, having been hit by various factors such as the smoking ban, price increases and more cautious consumers. The following sections highlight each channel within the foodservice sector and its performance in these challenging economic times.

**Table 3: Mexico's Foodservice Value Sales (US\$ million)  
Year-on-Year Exchange Rates—Current**

Categories	2003	2004	2005	2006	2007	2008
Chained consumer foodservice	3528.2	3947.8	4581.9	5002.8	5797.7	5708
Independent consumer foodservice	34901.9	35010.1	38830.2	39502.2	41012	42710.2
Cafés/bars	3713.2	3884.5	4124.6	4461.1	4723.1	4982
Full-service restaurants	21920.8	22010	24159.4	25117.5	26230.6	26883.6
Fast food	3257.9	3659.9	4218.3	4605.9	5048.3	5144.2
100% home delivery/takeaway	619	691.2	763	813.7	873.8	906.8
Self-service cafeterias	-	-	-	-	-	-
Street stalls/kiosks	8919.1	8712.3	10146.8	9506.9	9934	10501.7
Pizza consumer foodservice	842.6	971.4	1087	1123.8	1186.1	1213.4

*Source: Euromonitor International, Consumer Foodservice, 2009, from trade sources/national statistics.*

*Note: Pizza consumer foodservice is the aggregate of three sub-sectors: Pizza fast food, pizza full-service restaurants and pizza 100% home delivery/takeaway. These three pizza sub-sectors are also included within the fast food, full-service restaurants and 100% home delivery takeaway sectors.*

**Table 4: Mexico's Foodservice Value Sales Growth (%) Year-on-Year  
Exchange Rates – Current**

Categories	2003-04	2004-05	2005-06	2006-07	2007-08
Chained consumer foodservice	11.9	16.1	9.2	15.9	-1.5
Independent consumer foodservice	0.3	10.9	1.7	3.8	4.1
Cafés/bars	4.6	6.2	8.2	5.9	5.5
Full-service restaurants	0.4	9.8	4	4.4	2.5
Fast food	12.3	15.3	9.2	9.6	1.9
100% home delivery/takeaway	11.7	10.4	6.6	7.4	3.8
Self-service cafeterias	-	-	-	-	-
Street stalls/kiosks	-2.3	16.5	-6.3	4.5	5.7
Pizza consumer foodservice	15.3	11.9	3.4	5.5	2.3

*Source: Euromonitor International, Consumer Foodservice, 2009, from trade sources/national statistics.*

*Note: Pizza consumer foodservice is the aggregate of three sub-sectors: Pizza fast food, pizza full-service restaurants and pizza 100% home delivery/takeaway. These three pizza sub-sectors are also included within the fast food, full-service restaurants and 100% home delivery takeaway sectors.*



In order of comparison, as shown in table 5 and 6, Mexico's foodservice sales decreased by 18% in 2009, while Canada only saw a 9% drop. Mexico's foodservices sales per capita saw a 24% drop in 2009, and are still expected to stay below those seen in 2008 in the medium term.



**Table 5: MEXICO – Expenditures on Food and Foodservices**

	2006	2007	2008	2009	Forecast 2010
Foodservice sales, net (USD millions)	24,544	26,919	28,838	23,417	26,399
Foodservice sales, net / capita (USD)	234	254	270	217	243
Total food spending, net (USD millions)	152,366	163,780	172,148	140,312	155,850
Total food spending, net / capita (USD)	1,453	1,548	1,614	1,302	1,432

Source: Planet Retail

**Table 6: CANADA – Expenditures on Food and Foodservices**

	2006	2007	2008	2009	Forecast 2010
Foodservice sales, net (USD millions)	42,129	47,673	50,432	46,259	50,752
Foodservice sales, net / capita (USD)	1,295	1,450	1,516	1,375	1,493
Total food spending, net (USD millions)	111,046	124,287	130,456	120,022	131,364
Total food spending, net / capita (USD)	3,413	3,780	3,922	3,568	3,865

Source: Planet Retail



## Foodservice Sector Performance by Channel

### Cafés and Bars

Although the cafés/bars channel has grown in popularity in Mexico in recent years, growth has slowed as a result of the economic crisis. Nonetheless, the cafés/bars channel was less severely harmed than other foodservice channels. In 2008, this channel experienced a reasonable 8% growth rate in value sales, down from a double-digit growth rate seen in the previous year (Euromonitor). The channel also managed to see a 4% growth rate in outlet numbers, reaching 28,000 outlets in 2008 (Euromonitor). Mexico's demographics have helped cafés/bars during the recession, with a large percentage of the population being under 30-years-old. These younger consumers generally have more disposable income and choose to indulge themselves by visiting cafés/bars to socialize. In 2008, 94% of value sales in cafés/bars were eat-in sales, while takeaway food accounted for only 6% (Euromonitor).

The growing interest in coffee consumption in 2008 led to dynamic growth in specialist coffee shops, compared to the previous year. Due to the relatively low level of coffee consumption in Mexico, compared to Costa Rica and Brazil where consumers have three and five times the amount of coffee per person per year, there is an enormous opportunity for growth in this sub-sector.

### Channel Synopsis

- ▶ Independent cafés/bars comprised the majority of outlets in 2008, most of which are family-owned cantinas. Many of these cantinas serve consumers in a particular neighborhood and serve as a social meeting-place, which creates strong customer loyalty.
- ▶ Specialist coffee chains, notably Starbucks, have become more popular among Mexicans as they increasingly opt for specialized coffee blends at premium prices. Starbucks de Mexico was the leader in terms of value share in chained cafés/bars in 2008; however, Italian Coffee, another chain, has quickly gained ground by expanding across the country. This has resulted in a strong rivalry with Starbucks, with Italian Coffee potentially set to challenge for value lead. Instead of competing with Starbucks' storefront approach, the Italian Company has taken a different strategy by opening outlets in forecourt retailing, such as kiosks in shopping malls, and other non-conventional sites for specialist coffee.
- ▶ Premium and imported coffees are drawing interest from wealthier Mexican residents, as a few niche Italian coffee shops, such as Lavazza, increase their presence with outlets in the most affluent areas of Mexico City.
- ▶ McCafé and Café Punta Del Cielo are other chained coffee specialists that have reached the Mexican market. Cafe Punta Del Cielo offers high-quality coffee products at high prices, with similar positioning to Starbucks but a strong emphasis on its products' domestic origin. Meanwhile, consumer attitudes to McCafé remain unclear, with mass acceptance uncertain. McCafé will benefit from the strong branding and financial support of its parent company, McDonald's, but it is too early to predict its success or failure.
- ▶ Cafés/bars saw a value sales split of 23% for food and 77% for drinks (Euromonitor). The most popular food types at specialist coffee shops are cookies, cake, donuts and, much less frequently, sandwiches.

### Channel Prospects

- ▶ Expansion plans for the cafés/bars channel are not likely in the short term, as a result of lower consumption levels and lower average transaction prices. The economic crisis is expected to continue to affect this channel, as will price increases of raw materials, for example, milk and wheat flour. Although operators of cafés/bars are expected to keep price increases to a minimum, increases in the price of food may force players to pass on price increases to the consumer.

## Full Service Restaurants



Of all the channels in the foodservice sector, the Full Service Restaurants (FSR) channel was the most severely affected by the economic downturn in the last quarter of 2008. As for 2009, the year was described by some trade sources as a survival period. In order to stay afloat, many FSRs were forced to focus on promotional activities to attract customers, even at the high-end chain level. The largest brands in FSRs, in terms of outlet volume, are supported by large commercial conglomerates such as Wal-Mart. These retailers and commercial holdings are generally strong in terms of financial resources and have effective management practices, using their business knowledge to develop the largest FSR chains in the country. To increase the effectiveness of promotional activities, large conglomerates in Mexico combined promotions for various businesses under their ownership in order to encourage consumption.

In addition to a decrease in spending, the faster pace of life in large and mid-sized urban areas increasingly forced workers to eat faster or eat lunch at work in 2008, leading to an increase in the share of takeaway expenditures. Nonetheless, eat-in sales still dominate, with sales accounting for 94% of value sales in FSRs in 2008 (Euromonitor).

### Channel Synopsis

- ▶ Chili's Grill & Bar, Applebee's Neighborhood Grill & Bar and La Mansion were the strongest performers in the business, allowing North American FSRs to see the fastest growth in 2008, increasing current value sales by more than one quarter over the previous year. The average transaction price at these chains is high, therefore, expansion helped boost overall sales. Consumers seemed to appreciate the youthful ambience of these outlets, resulting in growth. According to Euromonitor, this achievement is particularly notable given that chained European FSRs saw only a 1% increase in current value sales in 2008, while all remaining chained channels saw current value sales decline by 4-6% in 2008 over the previous year.
- ▶ In terms of expansion, chains accounted for only 1% of total outlet numbers in overall FSRs in 2008. Meanwhile, independents dominated in this category because most of these restaurants primarily focus on traditional Mexican dishes, such as tacos, tortas, quesadillas and pozole, and are less expensive to launch. Most FSR brands are domestic in Mexico, even those identified with a foreign cuisine such as Sushi-itto, Italianni's or Ginos. In terms of outlet volume, around three quarters of total outlets are operated by domestic owners, leaving only a quarter to international players.
- ▶ The least significant channel was pizza FSRs, with most Mexican consumers viewing pizza more as a fast food or delivery and takeaway food, than as a dish to be eaten in a FSR.

### Channel Prospects

- ▶ Many official and private sources anticipate that the economic crisis and its effects will diminish by mid or late-2010. For now, expansion plans for most FSRs will be put on hold. Ongoing increases in the price of food will continue to put pressure on the consumer foodservice sector as a whole, allowing FSRs to grow very little between 2008 and 2013, according to Euromonitor forecasts. Some of the larger players in the industry have other expansion plans. Alsea, for example, has pledged a large part of its budget to expanding the Starbucks and Domino's Pizza brands in cafés/bars, fast food and home delivery and takeaway services. According to Euromonitor, FSR operators are expected to increasingly offer home delivery or takeaway services as they seek to gain more consumers. They are also expected to launch customer loyalty programs, encouraging repeat visits.
- ▶ The main focus for FSRs in the short term will be to control costs. Leading players will seek less expensive supply contracts and will introduce more affordable menus. Companies with supply contracts with foreign companies will suffer, as these contracts became more expensive following the currency devaluation seen at the end of 2008 and beginning of 2009. FSR operators will try to keep prices as low as possible in the short term, passing price increases on to consumers only when there is no other choice. During times of economic crisis, consumers become more sensitive to price and, thus, price increases can harm transaction volume levels. Promotional initiatives are expected to continue until the economy begins to recover.



Source: Mintel



## ► MEXICO'S FOODSERVICE SECTOR (Contd.)

### Fast Food Restaurants

The economic crisis had a strong effect on fast food sales in the last quarter of 2008 and in early 2009. Most fast food channels grew only marginally or saw a decline in current value sales in 2008. However, players in this sub-sector softened the blow of the economic downturn by minimizing price increases, cutting costs and engaging in aggressive promotions to maintain consumer interest. The launch of price promotions is common in fast food; however, the economic climate increased promotions dramatically in the sector, with individual meal deals and family packs.

### Channel Synopsis

- ▶ Latin American fast food, a favorite of the Mexican population, saw growth and is by far the most significant type of fast food in Mexico, with a large number of independent taquerias, torterias and other small establishments across the nation. While large fast food chains are constrained by standardized production, independent outlets are free to offer more creative promotions.
- ▶ Chained outlets accounted for almost half of value sales in 2008, with fast food franchising being the strongest in this area of the foodservice sector, which allowed the sector to grow rapidly in recent years. Nonetheless, within chained fast food services in Mexico, convenience store chains are the largest companies in terms of outlet volume.
- ▶ The split between domestic and international companies varies across different fast food channels. International companies dominate in only a few areas, such as burger fast food, with Burger King and McDonald's, bakery product fast food, with Subway, and chicken fast food, with KFC (Euromonitor). Meanwhile, all other fast food channels are dominated by domestic brands. This includes channels with a foreign positioning, such as Asian fast food and Middle Eastern fast food, which are also controlled by domestic players.



Source: Planet Retail

### Channel Prospects

- ▶ As Mexico slowly recovers from the economic downturn, the fast food sector will work to regain the profits lost over the recessionary period. Most fast food companies will, therefore, put expansion plans on hold for the next year or so.
- ▶ Fast food franchise operators are expected to push for changes to their franchise agreements due to the devaluation of the currency, as most are forced by contract to purchase ingredients abroad, mainly in the U.S.
- ▶ Fast food players are expected to boost sales through product expansion in the medium term, as leading fast food companies try new products and replace or improve existing offers to better adapt to changing consumer demands.
- ▶ In 2007, a proposal was introduced to regulate the advertising of junk food in the mass media in response to increased levels of obesity. Since obesity has spread among Mexico's youth, the law is also expected to regulate or even prohibit junk food in primary and secondary schools. Strong lobbying activity from packaged food and fast food companies interested in blocking this legislation has delayed implementation, but the issue may re-emerge once the recession has passed.



## Home Delivery and Takeaway Services

Although home delivery and takeaway services in Mexico only accounted for 1% of total sales in the foodservice sector, the sub-sector saw strong growth between 2003 and 2008 (Euromonitor). The economic crisis had a less damaging effect on the sub-sector in 2008, with growth of almost 6% (Euromonitor).

Several elements determined value growth levels, including an increased number of foodservice outlets in Mexico and a growing trend toward convenience among Mexicans. The rising cost of ingredients and drinks led to a price increase in 2007, resulting in an increase in value growth. This, however, reduced demand, as transactions fell in 2007. The smoking ban of 2008 further boosted sales for the home delivery and takeaway service, as more Mexicans were deterred from eating out and socializing at restaurants and fast food outlets.

As a result of the recession, consumers began to find home delivery and takeaway services more appealing than more expensive FSRs or fast food options toward the end of 2008. Nonetheless, growth slowed in 2008.

### Channel Synopsis

- ▶ In 2008, over half of value sales in the home delivery and takeaway service came from chained establishments, due largely to greater average transaction prices. Pizza was the dominant food delivery channel. While other channels increasingly offer home delivery, notably Latin American fast food, players in these channels are on a much lower level in terms of sophistication, national coverage and points of sale, in comparison to pizza companies. While there is room for growth in various home delivery and takeaway services, the fact remains that these opportunities have not yet materialized, and the offering of other types of food is still a small portion of the total.
- ▶ Domino's Pizza is by far the strongest brand in home delivery and takeaway services. Alsea, the largest franchisor of Domino's Pizza in Mexico, saw strong growth by expanding the brand throughout the country. Mexico is listed as the second most significant country in the world, after the U.S., in terms of sales for Domino's Pizza. Other home delivery and takeaway services include newly-opened Italianni's Pizza takeaway—a successful FSR chain in Mexico that ventured into this sub-sector in order to diversify their offering. While home delivery and takeaway services are expected to widen, particularly within Latin American fast food, pizza will remain the favourite in this sub-sector. However, pizza companies are expected to expand their food menus to counteract the increased availability of home delivery by other fast food chains.
- ▶ Large retailers will continue to pose a strong threat to established businesses in home delivery and takeaway services by offering prepared food by the kilo. These outlets benefit from a large network of retail stores, unmatched by any chains in this sub-sector.



Source: Planet Retail

### Channel Prospects

- ▶ The economic crisis is expected to be less damaging to this sub-sector, which should see outlet numbers grow from now until 2013, according to Euromonitor. The home delivery and takeaway sector will continue taking advantage of the recession and consumers' increased price-sensitivity. The offerings in this sector are expected to widen, as operators see opportunities in expanding the offer of Latin American fast food as takeout.



## Street Stalls and Kiosks

In contrast to the FSR sector, street stalls and kiosks saw strong outlet volume growth, despite the economic crisis. Street stalls and kiosks are fairly easy to manage, require a small investment and offer low entrance barriers, with fewer stringent, official regulations. Therefore, for unemployed and under-employed Mexicans, launching a business in street stalls and kiosks is a popular option. Moreover, prices within this channel are very low, thereby attracting more consumers during the downturn. Fuelled by the economic crisis, 2008 saw value and volume sales increase at a stronger pace than those seen in 2007, as a result of strong outlet number expansion.

### Channel Synopsis

- ▶ Street stalls and kiosks generally offer menus based on traditional Mexican food such as tacos, quesadillas, tostadas, tortas and tamales. North American fast food dishes, such as burgers and hot dogs, are also important, with other popular menus being based on ice cream, pizza, fruit/vegetable juice and peeled fruit. Mexicans have demonstrated a fondness for light snacks, such as:
  - ▶ Peeled fruit, like mangos, oranges and apples; and
  - ▶ Peeled vegetables, like jicamas, carrots and cucumbers sprinkled with chili powder and salt.
- ▶ As for formats, there are two types in the street stalls and kiosk channel:
  - ▶ Permanent metal structures firmly attached to the pavement—most often grouped on a site.
  - ▶ Mobile kiosks—typically in areas with a low presence of street stalls and kiosks, often seen in shopping malls.

The large majority of street stalls and kiosks were independent in 2008, with only around 1000 chained outlets. Both chained and independent street stalls and kiosks are dominated by domestic brands (Euromonitor). The leading company in this sub-sector, in terms of outlet volume, was Macrepasa SA de CV in 2008.

### Channel Prospects

In 2009, economic conditions deteriorated even further. This has resulted in street stalls and kiosks becoming a refuge for many who are struggling to earn a living. Street stalls and kiosks will likely see healthy growth for the next few years, with outlets reaching over 740,00 by the end of 2013, according to Euromonitor forecasts.





Table 7: Large Restaurant Operators in Mexico

PARENT COMPANY	RESTAURANT	TYPE
Grupo ALSEA	Dominós Pizza	Pizzas
	Starbucks Coffee	Coffee Shop
	Burger King	Fast Food
	Chili's	Casual Dinning
	Popeyes	Casual Dinning
Franchises Subway	Subway	Fast Food
Grupo Carso	Sanborns	Family Cafeterias
Grupo Yum	Pizza Hut	Pizzas
	KFC	Fast Food
Wal-Mart	VIPS	Family Cafeteria
	El Portón	Mexican
	Tratoria Ragazzi	Italian
	La Finca	Mexican
Operadora Suiza Mexicana	Taco Inn	Fast Food
	Alpen House	Casual Dinning
CMR	Wings	Family Cafeteria
	Barón Rojo	Bar
	Chili's	Casual Dinning
	Other	Casual Dinning
Grupo Gigante	TOKS	Family Cafeteria
	Casa Rodrigo	Fine Dinning
	El Campanario	Mexican Food
	Tutto Bene	Italian Food
Comercial Mexicana	Restaurante California	Family Cafeteria
Grupo Anderson's	Carlos & Charlie's	Casual Dinning
	Sr. Frog's	
	Mama Romas	
	Shrimp Bucket	
	Andersons	
Grupo IRC	La Mansión	Fine Dinning
	Bistro Mosaico	Fine Dinning
	Casa Ávila	Fine Dinning
	Cucara Macara	Casual Dinning
	Sala 21	Fast Food
	Tatanka	Casual Dinning
	Las Chalupas	Fast Food
	Champ's Elise's	Fine Dinning
Grupo Garabatos	Garabatos	Coffee Shop
	Casa del Pastor	
Wenco-Mexico	Wendy's	Fast Food
Grupo ECE	Hard Rock Cafe	Casual Dinning
	Planet Hollywood	Casual Dinning
	Rain Forest Cafe	Casual Dinning
	Hooters	Casual Dinning
Grupo Refran	Sirloin Stockade	Fast Food
Grupo Castellanos	Centro Castellano	Fine Dinning
	Casa de Castilla	Fine Dinning
	Torre de Castilla	Fine Dinning
Beer Factory	Beer Factory	Casual Dinning

Source: USDA Gain Report—MX8310 (2008)



## ► CONCLUSION

Overall, despite Mexico's ongoing growth in recent years, the country has suffered greatly in its worst recession since the Tequila crisis in the mid-1990s. The adverse economic factors identified in this report have affected the consumer foodservice sector. Falling consumer expenditures, resulting from both the recession and the smoking ban, have hit the industry dramatically, affecting mostly full service and fast food restaurants. The challenges of the crisis have resulted in the introduction of price promotions and low-priced meals, as players try to revitalize sales and attract customers. National Chamber of Restaurants sources expect a 9% decrease in the consumer foodservice sector's constant value sales compared to 2008 (Euromonitor). A slow recovery is expected, with forecasters indicating that Mexico will continue along the current path until mid-way through 2010 and possibly into early 2011.



**Source:** Planet Retail

As Mexico slowly recovers from the recession, opportunities for Canadian manufacturers and suppliers will arise again. Mexico will increasingly demand healthier foods as the government focuses more and more attention on the country's rising obesity levels.

As consumer lifestyles change in Mexico, convenience has also grown in popularity as a result of the accelerating pace of life. Options such as home delivery and takeout services, as well as more affordable meals sold through street stalls and kiosks, will continue to see growth through the economic crisis, while FSRs and fast food channels wait impatiently for the Mexican consumer population to regain confidence.

With local foods remaining important to the Mexican population, it is expected that the trend toward combining convenience with Latin American foods through takeout foodservice will continue in the medium term. Meanwhile, other channels will slowly make their way into the market, as Mexicans become more accepting of foreign foods.

As Mexico's consumer class grows and becomes increasingly educated, the country will return to its status as a growing purchasing power.

In sum, a combination of healthy ingredients, convenience, and competitive price points will give Canadian suppliers and manufacturers a strong competitive advantage in the Mexican marketplace. However, patience will be required as the country slowly regains economic stability.

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