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GAIN Report

Global Agricultural Information Network

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Mexico

Retail Foods

Mexico Retail Sector Report

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Report Highlights:

During CY 2016, Mexico remained the second largest consumer market in Latin America (after Brazil). The retail sector recorded value growth of 5.5% in 2016 compared to 2015; major multinationals and local companies will continue to expand throughout Mexico in the different segments signaling new opportunities in the market.

Post:

Mexico City ATO

Executive Summary:

Despite the constant exchange rate fluctuations of the US dollar versus the Mexican peso, and an increase in consumer prices (2.82% in 2016 vs 2.71% in 2015) affecting the Mexican economy, the internal macroeconomic environment remained steady, keeping the consumption levels constant, reflecting a positive performance across the retail industry.

Grocery sales in Mexico represented more than two-thirds of the overall retail sales in 2016. Grocery retailers and non-grocery retailers are expected to grow.

Lead retailers such as El Puerto de Liverpool SAC de CV, Copper SA de CV and Walmart de Mexico SAB de CV, among others, are expected to continue their dynamism, pushing the retailing industry to grow via new outlets and e-commerce around the country.

Internet retailing was the most dynamic retailing channel in Mexico during 2016, generating strong double-digit value growth. New players entered the e-commerce competitive landscape, including City Market, Chedraui as well as some newly apps like “Corner Shop”, to mention a few.

Trends and developments

In 2016, Mexico had a GDP growth of 2.3%, slightly lower than the 2.5% of 2015. There was no reduction of unemployment levels, inflation rates were higher than the ones in 2015 (4.6% in 2016, highest rate in the last few years) despite these two key factors, the economy remained steady.

NAFTA renegotiation is likely to discourage investment inflows from the U.S. but growth rates are expected to gradually rise (about 2.9% per year in the medium term) depending on the outcome of the pending renegotiation of NAFTA.

Table 1. Mexico: Economy at a Glance

INDICATORS	2014	2015	2016
GDP (% Growth)	2.3%	2.5%	2.3%
Inflation (% Growth)	4.10%	2.13%	4.6%
Exchange rate (Pesos)	\$14.73	\$15.86	\$18.66
Total Imports from U.S. (Billions of USD)	195.28	186.80	179.59
Total Exports to U.S. (Billions of USD)	319.01	308.85	302.64

World Bank/GTA

Table 2. Mexico's Imports and Exports 2016

Major export destinations	2016 Share (%)	Major import sources	2016 Share (%)
Exports (fob) to North America	83.7	Imports (cif) from North America	49.0
Exports (fob) to Europe	5.5	Imports (cif) from Asia Pacific	35.2
Exports (fob) to Latin America	5.3	Imports (cif) from Europe	11.9
Exports (fob) to Asia Pacific	4.8	Imports (cif) from Latin America	3.3
Exports (fob) to Africa and the Middle East	0.3	Imports (cif) from Africa and the Middle East	0.5
Exports (fob) to Australasia	0.2	Imports (cif) from Australasia	0.2

Source: Euromonitor International

Official predictions in terms of exchange rate don't reveal significant declines in exchange value of the Mexican peso versus the US dollar. A significant devaluation of the peso might have a negative influence on inflation rates in the country, and also have an adverse impact on consumption levels meaning consumers would be more cautious when it comes to non-essential purchases. Imported items would be more difficult to buy for a high percentage of families; however the current macroeconomic environment in Mexico supports a positive performance for the retail industry. Many in-country retailers are set to continue their expansion, targeting smaller cities with big potential to grow, due to a lower presence of retail outlets per inhabitant.

The retail environment in Mexico is increasingly competitive due to fierce competition, fast expansion plans, challenges such as multichannel strategies and consumers being more demanding regarding their needs, as well as new value added services offering an interactive and unique shopping experience. Leading retailers will need to improve their customer service in order to maintain their competitive edge.

A black hole in the Mexican economy is the informal sector and this also includes the retail market. The Mexican National Employers' Confederation reported that in the fourth quarter of 2016, 55% of the country's workforce was in the informal sector, a decrease of 3% compared to 2015.

According to the International Labor Organization, Mexican minimum wage is among the lowest in the Americas region (the government raised it to \$73.04 MXN per day in 2016 or 3.9 USD), 35% of the population falls under social class E (very low income), also a large proportion of the population relies on the minimum wage making informal retailing a very attractive alternative to ensure lower-end access to products. A larger proportion of the total Mexican population lives in large urban localities or cities with more than 100,000 inhabitants where informality is prevalent. More than half of Mexico's population (50.6%) lives in poverty.

Table 5. Employment in Retailing 2011 – 2016

	2011	2012	2013	2014	2015	2016
Total Employment ('000 people)	47,405.70	48,961	49,490.60	50,384.40	54,226.80	52,123.67
Employment in retailing ('000 people)	5,202.30	5,363.60	5,470.90	5,580.30	6,019.20	8,350.03
Employment in retailing (% of total employment)	11	11	11.1	11.1	11.1	16

Source: INEGI

The informal sector has gained ground in the trade due to the recently added tax; the “special tax on production and services” (Impuesto Especial a Productos y Servicios, IEPS) that was launched in 2014 affecting the beverage, packed food, alcohol and tobacco industries, according to the National Wholesale Grocers Association (Asociación Nacional de Abarroteros Mayoristas ANAM). Approximately 50% of the alcoholic beverages consumed are bought in the informal market to avoid taxes.

The most affected retail channels are media products, consumer electronics, jewelry and other luxury

products stores.

The competitive environment encourages retailers to have different schedules and remain open for longer periods, large retailers are expected to be open on Sundays and holidays, as well as in larger cities where the standard working hours for most retailers are from 8:00 to 21:00 hours.

National Retail market

During 2016, the retail market grew 9.7% in total stores and 6.3% for same stores compared to 2015. Supermarkets had the lead representing 49.1% of total retail sales (mainly groceries). The shoes and clothes category had a growth of 12.3%, and coming in at third place, was general merchandise with a total growth of 9.4%

According to the National Association of Retailers (Asociación Nacional de Tiendas de Autoservicio y Departamentales ANTAD) the main factors to consider during 2016 were:

POSITIVE	NEGATIVE
<ul style="list-style-type: none"> • Bigger competition from different retail chains. 	<ul style="list-style-type: none"> • Weak internal market (lack of infrastructure within states)
<ul style="list-style-type: none"> • Promotion to consumer’s credit. 	<ul style="list-style-type: none"> • Bigger competition and lower sales margins.
<ul style="list-style-type: none"> • Consumers using different commercial channels. 	<ul style="list-style-type: none"> • Fiscal Reform’s effects.
<ul style="list-style-type: none"> • Assortment and large variety of products. 	<ul style="list-style-type: none"> • Major competition from informal retailers.
<ul style="list-style-type: none"> • Bigger market penetration through retail formats and diversification. 	<ul style="list-style-type: none"> • Exchange rate between USD and MXN.

According to ANTAD reports, during 2015 there were more than 2,658 store openings. Of this total, 10% were supermarkets, 4% department stores and 85% specialized stores.

Top National Retailers

WAL-MART de Mexico y Centroamerica

Leading the retail landscape in Mexico, Wal-Mart kept up its expansion plans, opening new stores in the different formats and betting on its strength as it moves into the e-commerce. Walmart’s operative and administrative efficiency give it increased margins and better services to its many clients.

By 2016, all three business formats of Wal-Mart Mexico had internet retailing, these were; Superama

(medium size supermarkets), Wal-Mart Supercenters (hypermarkets) and Sam’s Club (warehouse clubs). Sam’s Club and Superama are known to target the high and middle-high income segments while Walmart Supercenter target the middle-income segment. Usually lower-income consumers are not familiar with e-commerce and do not have internet access therefore Bodega Aurrera has no plans to be part of the e-commerce strategy as they target mostly these consumers.

Table6. Walmart de Mexico Sales

	2014	2015	2016
Net Sales *MXN millions	324,975	348,155.55	428,743

Source: Walmart De Mexico y Centroamerica

Launched in 2012, Superama Movil (Internet retail application for mobile devices) was very successful reaching 60,000 downloads by the end of the same year and accounting for 20% of all Superama internet sales. By mid-2013 Walmart Supercenter launched its e-commerce site, mainly focused on electronics, leisure and personal accessories and other general merchandise.

In 2016, Walmart de Mexico y Centroamerica renovated its internet sites, the in-store e-commerce kiosks could be found on the sales floor and free wireless internet service has begun to be offered in some stores. Also the strategy of Click & Pick has been initiated where customers can buy their products with the option of picking up directly at the store.

Walmart de Mexico y Centroamerica has been leading the retail market in Mexico for several years. Since entering the market in 1991.

It’s important to mention that the company avoids bringing too many imports, careful to avoid further currency devaluations. Walmart has a very strong negotiating power and suppliers usually comply with the high demands from the company (payment terms, delivery conditions, special packaging, sustainability, field practices and more).

In the future, Wal-Mart plans are to continue expanding throughout the country (92 new outlets were opened in 2016) and placing new formats in new locations to accommodate the shopping needs of particular consumer groups (mainly discounter stores “Bodega Aurrera”) in small urban areas with fewer than 100,000 residents, thus capturing a market that has remained under the radar of chained grocery retailers in the past. They also plan to push more for e-commerce in their three formats.

Organización Soriana

During 2016 , Organizacion Soriana integrated the acquired hypermarkets and discounter formats they bought from *Controladora Comercial Mexicana SAB de CV*. Soriana has the right to use Comercial Mexicana brands and logos in order to ensure gradual transition to their brand in the acquired outlets. Regarding internet retailing, Soriana has developed more its e-commerce strategy and worked more on its mobile applications and website “sorianadomicilio.com”

Table 7. Organización Soriana Sales

	2014	2015	2016
Net Sales *MXN millions	109,340.90	155,225.30	159,522

Source: Organización Soriana

Soriana manages five store-based retailing formats: Hypermarkets (Hipermercado Soriana/MEGA), supermarkets (Supermercado Soriana/Comercial Mexicana), discounters (Mercado Soriana and Soriana Express/Bodega Comercial Mexicana and Al Precio), convenience stores (Super City) and warehouse stores (City Club).

Following the strategy of offering new products and services to its clients, Soriana started to include health centers at its hypermarkets and supermarkets, providing prescription consultations at very low prices.

Soriana has a privileged position in Mexico’s retail market. Having the different formats to meet the demands of different population segments and with the acquisition of the 160 stores from Comercial Mexicana in 2015, Soriana showed growth in the market becoming the second largest retail company in Mexico after Wal-Mart with 827 outlets across Mexico.

Controladora Comercial Mexicana

After selling 160 stores to Organizacion Soriana, Comercial Mexicana started to give priority to developing its high-end sector through its formats Fresko and City Market which have wide variety of imported and healthy products.

After selling most of its stores, Comercial Mexicana plans to expand the high-end formats (City Market, Fresko and Sumesa) with an investment of 3.2 billion MXN between 2015 and 2020.

Comercial Mexicana had sales of \$14,757 MXN millions representing a 5.5% increase in comparison to 2015 having a total of 61 outlets around main urban zones of central Mexico.

Total Imports into Mexico and Main Competitors 2016

Mexico Import Statistics							
Commodity: 08, Edible Fruit And Nuts; Peel Of Citrus Fruit Or Melons							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	KG	676057163	\$ 1,058,135,737.00	100	575441074	\$ 942,558,970.00	100
United States	KG	592720979	\$ 858,205,310.00	81.11	494836787	\$ 765,918,263.00	81.26
Chile	KG	52852538	\$ 109,170,029.00	10.32	48272974	\$ 88,149,290.00	9.35
Peru	KG	1917393	\$ 4,188,483.00	0.40	11657752	\$ 25,951,665.00	2.75
Argentina	KG	10314544	\$ 26,351,300.00	2.5	4702607	\$ 22,574,396.00	2.40

China	KG	3591876	\$ 19,642,731.00	1.86	2911010	\$ 7,664,023.00	0.81
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Source of Data: INEGI [2006-present]

Mexico Import Statistics							
Commodity: 0808, Apples, Pears And Quinces, Fresh							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	KG	391502239	\$ 375,686,809.00	100	280616052	\$ 323,150,717.00	100
United States	KG	385362019	\$ 368,326,413.00	98.04	271253506	\$ 310,905,955.00	96.21
Chile	KG	2551664	\$ 2,851,271.00	0.76	4916526	\$ 5,837,489.00	1.81
Argentina	KG	2071314	\$ 2,758,785.00	0.73	3492846	\$ 5,277,020.00	1.63
Canada	KG	649456	\$ 684,202.00	0.18	628940	\$ 739,675.00	0.23
China	KG	95730	\$ 118,552.00	0.03	303066	\$ 360,674.00	0.11
New Zealand	KG	772056	\$ 947,586.00	0.25	21168	\$ 29,904.00	0.009

Source of Data: INEGI [2006-present]

Commodity: 0207, Meat And Edible Offal Of Poultry (Chickens, Ducks, Geese, Turkeys And Guineas), Fresh, Chilled Or Frozen							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	KG	904421126	\$ 1,108,433,046.00	100	938678013	\$ 1,008,229,726.00	100
United States	KG	851983577	\$ 935,571,868.00	84.40	855144538	\$ 818,714,169.00	81.20
Brazil	KG	26812972	\$ 63,684,083.00	5.75	59383188	\$ 108,247,881.00	10.74
Chile	KG	25571597	\$ 109,093,324.00	9.84	24065506	\$ 80,827,736.00	8.02
Cayman Islands	KG	0	\$ -	0	52008	\$ 351,528.00	0.03

Canada	KG	0	\$ -	0	32773	\$ 88,412.00	0.009
Argentina	KG	52980	\$ 83,771.00	0.008	0	\$ -	0

Source of Data: INEGI [2006-present]

Mexico Import Statistics							
Commodity: 0202, Meat Of Bovine Animals, Frozen							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	KG	7837000	\$ 44,555,325.00	100	11748558	\$ 43,241,695.00	100
United States	KG	5089055	\$ 29,729,665.00	66.73	10152367	\$ 36,261,919.00	83.86
Canada	KG	560993	\$ 4,415,290.00	9.91	635407	\$ 3,281,147.00	7.59
Nicaragua	KG	946023	\$ 2,849,555.00	6.40	459639	\$ 2,034,140.00	4.70
New Zealand	KG	484258	\$ 3,236,077.00	7.26	429706	\$ 1,168,977.00	2.70
Australia	KG	662239	\$ 37,837.00	0.08	58358	\$ 306,673.00	0.71
Chile	KG	9873	\$ -	0	13081	\$ 188,839.00	0.44
Uruguay	KG	84559	\$ -	0	0	\$ -	0

Source of Data: INEGI [2006-present]

Mexico Import Statistics							
Commodity: 0201, Meat Of Bovine Animals, Fresh Or Chilled							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	KG	115095735	820,921,889	100	119659942	689,145,448	100
United States	KG	95605388	693,549,660	84.48	99150380	583,657,860	84.69
Canada	KG	14891567	105,137,546	12.81	13527328	77,794,217	11.29
Nicaragua	KG	4094060	18,617,018	2.27	6654114	25,541,846	3.71

Uruguay	KG	418060	3,225,842	0.39	260791	1,735,074	0.25
Australia	KG	85790	324,721	0.040	65991	293,873	0.043
Japan	KG	870	67,102	0.008	1338	122,578	0.018

Source of Data: INEGI [2006-present]

Mexico Import Statistics							
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi							
Annual Series: 2015 - 2016							
Partner Country	Unit	2015			2016		
		Quantity	Value	Share %	Quantity	Value	Share %
World	L	59920554	224,598,457	100	68147453	236,153,005	100
Chile	L	16906407	66,482,205	29.60	21042599	66,799,098	28.29
Spain	L	18185370	39,350,449	17.52	20174222	41,144,117	17.42
Italy	L	8961103	40,155,143	17.88	11450645	40,596,192	17.19
Argentina	L	6057308	30,856,493	13.74	7582626	36,265,681	15.36
United States	L	3904414	23,002,267	10.24	3665742	28,338,121	12.00
France	L	3218411	19,191,650	8.54	3121467	17,898,069	7.58
Germany	L	572188	1,624,148	0.72	417678	1,292,939	0.55
Australia	L	231528	1,398,654	0.62	223396	1,271,627	0.54
Portugal	L	228026	1,082,742	0.48	210074	1,023,875	0.43

Source of Data: INEGI [2006-present]

Best Products Prospects

Recently, Mexico's growth has been slow but it still has some appeal making the market attractive for new products. A more educated population, expansion of urban lifestyle in small cities, credit availability as well as the growing Double Income No Kids (DINK) couples, all open several possibilities for imported products of high quality and value. Keep in mind the boom of and fast pace of commercial centers being built each year despite the slow pace of the general economy in the country.

As we mentioned before, retailers are expanding their high-end formats where import products are the main spot for consumers. Given the rapid expansion of stores in these niches, in order to keep their customers and expand the market, retailers need to offer products in the following categories:

- Health and wellness products (Body care products, dietary supplements)
- Fresh food (organic).
- Ready to eat food. (Snacks, instant meals)
- Wines/Spirits/Craft Beer
- Technology/Media

Mexico: Advantages and Challenges for U.S. Exporters

ADVANTAGES	CHALLENGES
Industry leaders are hiring and partnering with sophisticated security companies to insure commerce continues uninterrupted.	Security issues are real, but businesses continue operating.
Constant retail consumption flow by Mexican population.	New jobs creation in Mexico is not keeping pace with the population growth, forcing unemployment to remain unchanged.
Mexican retailers are very familiar with U.S. retail best practices.	Local manufactures are adapting quickly to meet retailers needs and specifications bringing new competition to U.S. products.
Western style supermarkets are gaining wider acceptance in every segment of the retail environment, especially in high and low-end stores.	Local retailers are demanding more often that products be delivered locally with local servicing and attention.
Mexican consumers are becoming more knowledgeable about what they buy, looking for quality and price with retailers reacting by opening high end supermarkets.	While U.S. products are of very high quality, many times they come at a higher cost i.e. exchange rate, than sourced locally, limiting the stores where they can be sold.
Industry practices are becoming more sophisticated insuring: <ul style="list-style-type: none"> • Cold chain distribution for wider penetration nationwide. • Increased use of technology at the POS. 	While cold chain distribution is now available nationwide, it has not been implemented throughout lower levels of the distribution chain, such as wet markets. Regional distribution south of Mexico City is still being developed.
Greater knowledge about organic products is opening new product opportunities at the retail level.	Mexico exports large volumes of organic produce, offering direct competition to American organic producers.
Industry-wide investments are continuously being made, insuring the better infrastructure and logistics.	Lower-end, smaller supermarkets and convenience stores are the fastest growing segments in retail, which are not the primary locations for more expensive U.S. products
Growth in retail is driven by new store openings both at the supermarket and convenience store levels, expanding opportunities for U.S. products nationwide.	Approximately more than 30% of Mexican workers are employed in informal, non-taxpaying jobs which places a large burden on the tax system, limiting funds in the market.
Local producers are rising to the challenge of producing quality goods with an increase in variety, learning, and adapting to growing demands.	Mexico is the country with the most free trade agreements in Latin America, opening the door to many competitors delivering products into the market with few to no tariff barriers.
Increased awareness in obesity issues is	Due NAFTA renegotiation, Mexico is looking to

creating greater demands for healthy products, positioning U.S. produce and its huge array of products at an advantage.	diversify its imports away from the U.S. so that the dependency on its neighbor is reduced.
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Mexico has not had the explosive growth but growth and expansion nonetheless and repositioning via mergers and acquisitions among the major players will continue.

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