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The Mexican Market for Soft Drinks

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Product Brief

Approved By:
Erik W. Hansen

Prepared By:
Pia Cortes

Report Highlights:

The U.S. continues to be among the top five suppliers of soft drinks to Mexico despite Mexico's recent imposition of a 20% import duty. Health and wellness campaigns promoted by the Mexican government are expected to continue to the hinder growth of high-sugar carbonates in 2009 and beyond. As a result, market analysts predict that demand for diet soft drinks will continue grow as they are perceived by Mexican consumers as being a healthier option.
The Mexican government is considering issuing a new Official Mexican Standard (NOM) for soft drinks requiring the following health warning on soft drink labels, "El abuso en el consumo de este producto puede causar obesidad" (The consumption of this product may cause obesity).

General Information:

SECTION I. MARKET OVERVIEW

Mexico is the fourth largest market for U.S. low-calorie (diet) carbonated soft drinks after Canada, Australia and Japan. The United States is the fifth largest exporter of carbonated soft drinks after Canada, Japan, South Korea and the United Kingdom. U.S.-origin carbonated soft drinks account for only 2 percent of the import market share valued at $1.8 million USD in calendar year (CY) 2008. This is a 9.1 percent decrease from the previous year. However, U.S.-origin diet carbonated soft drinks account for 7.1 percent of the import market share in CY 2008 – almost doubling the market share from 2007. This increase in diet carbonated soft drinks was caused, in large part, to strong government health campaigns discouraging consumption of high-calorie soft drinks. In addition, private companies are changing their marketing strategies to follow the growing demand for healthy foods and healthier lifestyles.

Mexico is the number one consumer of carbonated soft drinks (per capita) in the world. Impulse sales of soft drinks remain important in spite of the economic downturn as Mexicans to continue to buy soft drinks above all other products to quench their thirst. According to a recent market survey, all Mexicans consume large quantities soft drinks, regardless of social status. However, with the declining economy in 2008, several supermarkets and hypermarkets have increased their promotional activities targeting soft drinks to encourage more sales.

On March 18, 2009, the Secretariat of Economy (SE) published an announcement in the Diario Oficial (Federal Register) modifying the import tariffs of 36 U.S. agricultural products. These modified tariffs were in retaliation over the dissolution of the U.S. - Mexico Cross-Border Trucking Demonstration Project (see GAIN Report MX9010 for more details). The announcement stated that as of March 19, 2009, mineral water from the United States would be subject to a 20 percent duty among various other agricultural commodities.

Table 1. United States: Total Exports of Carbonated Soft Drinks, CY 2006-08, in USD

Country	Jan-Dec 2006	Jan-Dec 2007	Jan-Dec 2008
World	62,806,714	81,027,561	94,677,646
Canada	22,163,617	41,486,176	54,999,597
Japan	21,532,510	17,732,597	13,457,706
South Korea	10,366,398	8,076,008	4,448,133
United Kingdom	80,023	441,028	3,136,759
Mexico	1,509,564	1,967,411	1,802,822

Source: World Trade Atlas

Table 2. United States: Total U.S. Exports of Diet Carbonated Soft Drinks, CY 2006-08, in USD

Country	Jan-Dec 2006	Jan-Dec 2007	Jan-Dec 2008
World	23,371,642	37,612,970	53,952,290
Canada	4,603,603	10,093,700	19,441,420
Australia	5,246	374,182	6,995,888
Japan	5,468,651	5,476,650	4,150,256
Mexico	2,407,977	3,722,081	3,866,467

Source: World Trade Atlas

Table 3. Mexico: Advantages and Disadvantages of Soft Drinks Market

Advantages	Challenges
Brand loyalty remains strong on the carbonates sector	Concern of health and wellness among the population affects consumer perceptions and sales of carbonates. Low calorie carbonates are gaining sales over standard carbonates
Reduced/low calorie carbonates have been well accepted by the Mexican population	High price and misunderstood benefits by low-income consumers remain important challenges to success
Growth of convenience stores and independent small grocers, a very important channel in terms of impulse	In 2008, the Mexican government banned exclusivity agreements and preferential treatments from the largest soft drink companies towards small retailers and independent small grocers. Now all brands can compete on the same ground over the years to come

sales of carbonated products	

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

The carbonated soft drinks sector is dominated by international manufacturers; Coca-Cola Export Corp, Pepsi-Cola Mexicana and Grupo Peñafiel held a combined total volume share of 91% in CY 2008. According to Euromonitor International, the volume of smaller privately labeled Mexican soft drinks increased in CY 2008 as more and more consumers switched to lower cost brands in response to the worsening economy.

Health and wellness campaigns promoted by the Mexican government are expected to continue to the hinder growth of high-sugar carbonates in 2009 and beyond. As a result, market analysts predict that demand for diet soft drinks will continue grow as they are being perceived by the Mexican consumers as being a healthier option.

Small Grocery Stores Play Big Role in Soft Drink Sales

According to a recent report from the National Retailers Association (ANTAD), consumers of soft drinks are buying more and more often from small independent grocery stores and convenience stores than from supermarkets and hypermarkets. In 2008, it was estimated that there were 8,250 convenience stores and 493,000 small independent grocery stores in Mexico – which are the perfect outlets for impulse purchases.

Table 4. Mexico: Off Trade Sales of Carbonates by Sub-Sector, CY 2005-08, in Million USD*

Calendar Year	2005	2006	2007	2008
Cola carbonates	4,408.21	4,586.27	5,575.54	6,148.40
Regular cola carbonates	4,090.48	4,253.12	5,141.26	5,609.16
Low calorie cola	317.73	333.15	434.28	539.24
Non-cola carbonates	1,911.97	2,203.31	2,778.74	2,860.26
Lemonade/lime	393.27	576.12	620.46	650.31
Orange carbonates	1,011.20	1,013.37	1,362.63	1,400.81
Mixers	35.95	35.79	49.35	53.06
Other non-cola	471.55	578.04	746.31	756.10
Carbonates	6,320.17	6,789.58	8,354.28	9,008.68

Exchange rate of 1 USD = 13.22 MX (August 3, 2009)

Source: Euromonitor International

Market Size, Structure, Trends

Sales of carbonated soft drinks in Mexico are expected to continue to be dominated by Peñafiel and the leading international companies Pepsi-Cola Mexicana and Coca-Cola Export Corp (Coca-Cola de Mexico). Coca-Cola Export Corp accounts for more than two-thirds of the total volume sales of carbonates in 2008.

Some companies such as Ajemex and Sociedad Cooperativa Trabajadores de Pascual are extending their portfolios of low priced soft drinks as the economic crisis in Mexico continues. Two new competitors have appeared among the low-cost brands: Jarochito (Embotelladora el Jarocho) and Mister Q (Embotelladora Metropolitana) both of which offer orange and lemonade-lime carbonates in 700 ml bottles and 2.25 liter plastic bottles.

In CY 2008, the economic downturn plus the enforcement of a tobacco ban in restaurants caused many Mexicans to frequent restaurants/bars less often. As a result, on-trade volume sales (sales taking place in restaurants, cafeterias, bars, cantinas, etc) have showed the sharpest decline. In total volume, a slight decline in on-trade sales was registered in CY 2008 due to increased competition from other soft drinks such as fruit and vegetable juices as well as from "functional drinks" (enhanced with added ingredients to provide specific health benefits beyond general nutrition).

In March 2008, an massive marketing campaign was developed by Coca-Cola Export Corp (Coca-Cola de Mexico) announcing a change to it's "Coca-Cola Zero" formula and encouraging consumers to try it using the slogan "Coca Zero improved". Diet carbonates such as Coca-Cola Zero are mainly consumed by middle and upper income consumers while lower income groups prefer the regular carbonates.

In CY 2008, convenience stores and food courts increased the use of fountain machines to deliver soft drinks allowing for large increases in sales of these types of beverages. According to Euromonitor International, fountain sales are significantly more cost-effective over bottled drinks as vendors can mark-up the products by as much as 800%. In CY 2008, approximately 20% of all carbonated soft drinks were consumed in on-trade outlets. Off-trade sales accounted for 80% of total volume sales, mainly through convenience stores and small independent grocery stores.

Table 5. Mexico: On-Trade vs. Off-Trade Sales of Carbonates, CY 2005-08, in Million USD*

Calendar Year	2005	2006	2007	2008
Off-trade	6,320.17	6,789.58	8,354.28	9,008.68
On-trade	3,915.85	4,293.18	4,813.00	5,034.85
Total	10,236.02	11,082.76	13,167.28	14,043.52

Exchange rate of 1 USD = 13.22 MX (August 3, 2009)

Source: Euromonitor International

Table 6. Mexico: On-Trade vs. Off-Trade Sales of Carbonates, CY 2005-08, in Million Liters

Calendar Year	2005	2006	2007	2008
Off-trade	11,653.8	12,537.9	12,734.2	12,646.5
On-trade	2,843.9	3,011.8	3,083.5	3,064.6
Fountain on-trade food stores	391.4	399.3	399.8	409.7
Fountain on-trade convenience stores	56.1	51.9	55.8	68.5
Total fountain on-trade volume	447.5	451.2	455.6	478.3
Total	14,497.7	15,549.7	15,817.7	15,711.1

Source: Euromonitor International

SECTION III. COSTS AND PRICES

Standard unit prices of carbonated soft drinks are not expected to increase significantly in the near future. On the contrary, prices have remained stable in 2009 as more and more outlets continue to offer more incentives such as more frequent sales and other discounts. Companies are aware that they need to offer attractive prices if they plan on competing with the low-cost brands. This is especially true for the larger well-established brands such as Coca-Cola and Pepsi-Cola.

In CY 2008, Coca-Cola Export Corp dominated the Mexican carbonated soft drinks market with a 70% share of total volume sales and sustained by a 73% total volume share of cola carbonates and a 57% total volume share of non-cola carbonates.

In CY 2008, diet carbonated soft drinks reported the highest total volume growth of 11% reaching 982 million liters sold. Diet carbonated soft drinks also report the highest increase in unit price at 16% to MX $15.5 per liter, while the unit price for regular carbonated soft drinks increased just 7% to MX $11.82 per liter.

SECTION IV. MARKET ACCESS

The basic Mexican import document is the import permit "Pedimento de Importación" (customs entry document), which must be presented to Mexican Customs along with a commercial invoice in Spanish and a bill of lading. Products qualifying as "North American" must be accompanied by the NAFTA certificate of origin to receive preferential treatment. This is issued by the exporter and does not have to be validated or formalized.

Mexican Customs Law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to partner up with reputable Mexican importers and/or custom brokers.

Imported health foods to be sold in the retail sector must be labeled according to the Mexican government specifications in **NOM-051-SCFI-1994,** "General labeling specifications for pre-packaged foods and non-alcoholic beverages". Under this NOM, nutritional information is voluntary, unless a nutritional claim is made and in this case the label must me evaluated by the Mexican Department of Health's Federal Commission for the Protection Against Sanitary Risk (COFEPRIS). This NOM applies to most food items. Some U.S. suppliers choose to develop special packaging for the Mexican market. This is fine as long as a label is affixed to each package of the exported product prior to entering Mexico. All the information on the label must be in Spanish and must include the following data [1]:

-Commercial/brand name
-Producer's name and address
-Exporter's name and address
-Country of origin (i.e., Product from/de EE.UU.)
-Importer's name, address and RFC number (taxation number)
-Product description in Spanish
-Product description in English
-Preparation and handling instructions
-Net weight in metric units
-Date of expiration
-Ingredients
-Special warnings*

*Effective January 7, 2004, all labels with special information must be translated by specialized translators authorized by the Secretariat of Health for such purposes. A list of these translators may be obtained through COFEPRIS. The translator must receive the original label (not translated) including the product's contents list and its formula. Based on this the translated label will be amended based on the COFEPRIS' definition if the product is or not a food supplement.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

U.S. Agricultural Trade Office, **Mexico City**
W. Garth Thorburn II, Director

Liverpool # 31
Col. Juárez
06600 México, DF
Tel: (011-5255) 5080-2000
E-mail: atomexico@usda.gov

U.S. Agricultural Trade Office, Monterrey
Richard Battaglia, Director
Oficinas en el Parque Torre ll
Blvd. Díaz Ordaz No. 140, Piso 7
Col. Santa María, 64650
Monterrey, Nuevo León
Tel: (011-5281) 8333-5289
Fax: (011-5281) 8333-1248
E-mail: atomonterrey@usda.gov

[1] For a detailed study of Mexican Regulations for Exporting/Border Crossing, Import Requirements and additional information on labeling NOMS, please see Gain reports MX8313, MX8314, and MX1223 at http://www.fas.usda.gov/scriptsw/attacherep/default.asp