

**FOOD DISTRIBUTION IN MEXICO
TO 2010**

Executive Summary

February 2000

Promar International
1101 King Street, Suite 444
Alexandria, Virginia 22314
USA

Tel: (703) 739-9090

Fax: (703) 739-9098

E-mail: promar@promarinternational.com

EXECUTIVE SUMMARY

Introduction

Food distribution in Mexico is still relatively underdeveloped, not only in relation to its other North American trading partners, but even to neighbors in South America. Though there is fairly high concentration and sophistication in the food manufacturing base, the wholesale network is fragmented, regional in nature, and sometimes layers deep; and traditional channels still dominate the landscape both in retail and foodservice.

This situation has begun to change, though, with significant implications for food manufacturers. In this executive summary, we highlight the findings of our research, presenting a picture of distribution as it is today, how it is likely to change, and what this means for food companies.

Basic demographics

Mexico offers a large and growing market to food marketers. The country's population was an estimated 98 million in 1998. The population is growing by 1.4% annually and is expected to reach 117 million by the year 2010. Approximately 77% lives in urban areas; this share is rapidly increasing; by 2010 it is projected to be 82% urban. Moreover, a decade from now, Mexico's largest age groups will be those between 15 and 40 (wage earners).

The average income was approximately \$3,500 in 1999, but Mexico's income distribution is rather skewed. Most households are still in what one might call a "pre-consumer" phase, one in which they cannot yet afford many processed food products.

National buying power by socio-economic group

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D/E</i>	<i>Totals</i>
National buying power (\$bn)	170	45	18	4	273
Household distribution (%)	1.6	11	22	65.4	100
1998 (est.) households (1000s)	301	2,050	4,200	12,280	18,830
<i>Source: Strategy Resource Corporation (SRC)</i>					

The population of Mexico is highly urbanized, with some 77 percent living in urban areas. The key urban centers are Monterrey, Guadalajara, and Mexico City, the capital, which along with its many surrounding suburbs is the largest city in the world.

The key geographic targets for most food processors will be:

- The *major cities* - Mexico City, Monterrey, Guadalajara, and their metropolitan areas;
- The *secondary cities* - i.e., Veracruz, Leon, Hermosillo;
- The *western border region* - including the cities Tijuana, Ciudad Juarez, and Mexicali; and
- *Coastal resorts*, i.e. Acapulco, Cancun, Puerto Vallarta.

Summary characteristics of the five geographic market types

<i>Market characteristics</i>	<i>Major cities</i>	<i>Border region</i>	<i>Coastal resorts</i>	<i>Secondary cities</i>	<i>Rural areas</i>
<i>Consumer purchasing power</i>	High to low	Medium to low	High to low	Medium to low	Low
<i>Import penetration</i>	Medium	High	High to medium	Medium to low	Low to none
<i>Food standard</i>	Premium branded to low cost			Standard to low cost	Low cost
<i>Market drivers</i>	Consumer driven			Consumer/supply driven	Supply driven

Food distribution in Mexico today

< *The basic story*

Food distribution in Mexico is highly fragmented, mixing traditional distribution methods and emerging, more sophisticated ones. Only a few companies (mostly large multinational and Mexican companies) have significant control of their entire distribution chain. Though the system is gradually streamlining and increasing in efficiency, the distribution process today still relies heavily on multiple layers of intermediaries.

From the farm...

Basic food supply is very fragmented. More than 2 million of Mexico's 3 million farmers operate subsistence farms. Very few run large operations or have sizeable holdings. Nevertheless, a small number of large farmers account for a disproportionately large share of output.

...to the manufacturer and wholesaler...

For commodities in which production is highly fragmented, manufacturers generally purchase raw materials from collection and consolidation enterprises rather than deal with farmers directly. This is true for grains, fruits, and vegetables.

Wholesalers play a crucial role in Mexican food distribution, but this segment is also extremely fragmented: most wholesalers only distribute locally or regionally.

...to point of sale

An estimated 90% of food reaches consumers through the retail sector, which can be divided into chained (organized) and independent (fragmented) segments. The chained segment comprises supermarket chains, warehouses, and c-stores, and distributes about 25% of all food. The independent segment, which distributes 65% of food, includes mom & pop stores, called *abarrotes*, government stores, and open and wholesale (also known as "terminal") markets.

Few companies have a comprehensive distribution infrastructure that allows them to reach all points-of-sale nationally. Only very large, organized companies (e.g., Bimbo) cover the whole country.

The foodservice sector distributes the remaining 10% of food. It too is divided into formal (i.e. registered establishments: restaurants, hotels and institutions) and informal foodservice, which includes more than 1 million street food vendors.

< ***Intermediary distribution***

Intermediaries are crucial to the distribution strategy of virtually all food manufacturers selling in Mexico. Because of the highly fragmented nature of both retail and foodservice, with the exception of Bimbo and Sabritas, a company's sales or delivery force cannot cover all sales outlets nationally.

There are good reasons why only two companies have their own comprehensive national distribution systems - they are expensive, and for most companies, not the best distribution solution at present. And because wholesalers with broad portfolio coverage and national penetration are few, even the strongest manufacturers must develop relationships with multiple regional wholesalers to ensure broad coverage and to maintain and build their product image.

There are several different types of intermediary distributors/wholesalers in Mexico:

- *Introductores* are individuals or businesses which buy agricultural products (i.e., produce, seafood) from small producers, bundle them into larger volumes, then resell to other participants in the food chain. The role of *introductores*, though diminishing, remains important in certain product segments (e.g., produce, seafood).
- *Specific product wholesalers* - Processed food wholesalers tend to be fairly specialized, often product or sector specific. The average Mexican wholesaler is small in scale, with only regional or local penetration. The typical distributor is a 10-50 truck operation; many are based in Mexico City, which serves as the major distribution hub for the country.
- *Abarroteros* are wholesalers whose primary function is to reach the fragmented segment of the market: the mom & pop stores known as *abarrotes*. Most *abarroteros* are located in terminal markets (*centrales de abasto* - CEDAs for

short), and they distribute both to smaller *abarroteros* and large and medium *abarrotes*. Most *abarroteros*, however, are small independent businesses, lacking distribution systems and good infrastructure.

- *Central de abastos* - major cities have their own terminal markets, better known as *centrales de abastos* (CEDAs), which are wholesale markets operated by private companies which sell a wide range of food products, but focus on fresh local produce, some imported produce and grains, and other products. Organized into independent, permanent stalls, most stores in the CEDA are family owned.
- Foodservice suppliers - companies focusing on distribution to foodservice are still a relatively limited phenomenon. Only 5% of the Mexican foodservice sector (less than 1% of overall food sales) is supplied by these specialists.

There are only two very large, organized food wholesalers operating in Mexico: Grupo Corvi (Casa Sahuayo) and Valores Corporativos (Casa Chapa). They are Mexico's largest, distributing a wide variety of food and beverage products to *abarroteros* and *abarrotes*.

A typical distribution strategy for national coverage would be as follows: a large wholesaler will cover the Mexico City area and establish relationships with three or four large regional distributors to cover other major areas of the country. These generally sell on to abarroteros to service small accounts, smaller towns and rural areas.

< ***Point of sale***

Food distribution at point of sale is also highly fragmented. Supermarkets, warehouse club, and convenience store chains account for only 25% of overall food sales; public markets and government stores, including CEDAs, add an additional 25%; and mom & pop stores sell 40%. Foodservice accounts for the last 10%. Key features of the point-of-sale operators are included as follows:

Organized retail

- Large supermarket chains have expanded their number of units dramatically over the past 5 years, by about 10% annually and continue to do so. The most upscale supermarkets in Mexico are as modern as any in the US, and are frequented by the middle- and upper-income groups.

Most of these large retailers are beginning to transition to a distribution center sourced business (from the historic store-to-store model); for the most part, they already purchase everything centrally. Moreover, most of the large players have access to international retailing expertise: (e.g., Cifra has a joint-venture with Wal-Mart and Comercial Mexicana is allied with Price Costco).

- *Warehouse clubs* emerged in 1991 and have now penetrated the major cities. They serve small businesses and upper income consumers.
- *Convenience stores*, also a relatively new phenomenon in Mexico, are spreading rapidly. The chains OXXO (with over 1,000 stores) and 7-Eleven are leading this growth.

Independent/fragmented retail

- S** *Government stores* sell approximately \$600 million a year and are a crucial source of supply for low income Mexicans. Foods sold are basic products such as corn, dry beans, sugar, edible oil, tuna, cookies, pasta, coffee, and milk.
- S** In addition to supplying independent points-of-sale, CEDAs also sell to the public.
- S** Mexico has over half a million mom & pop stores (*abarrotes* or *changarros*), which are diminishing in number and influence but are still the core feature of Mexico's food retail landscape.
- S** Mobile street markets (*tianguis*) are supplied primarily by the CEDAs and sell mostly fresh produce and meats.

Foodservice

- S** Commercial foodservice in Mexico numbers 184,000 units, almost all of which are small independent operations. Sales, however, are almost evenly split between these and the less numerous business-oriented companies (fast food and restaurant chains, hotels, and professionally managed restaurants).

Most restaurant and fast food chains purchase centrally, but all deliveries are made on a store-by-store basis. Most hotels and institutions buy food locally. Only the largest hotel chains (e.g. Grupo Posadas, Grupo Situr) even have central purchasing, and these still require delivery to each unit.

- S** *Informal foodservice* is dominated by street vendors and small family-run operations, well over 1 million strong, who buy products at the CEDAs and sometimes directly from snack manufacturers.

Foodservice accounts for only a 10% share of Mexican food sales today, but it is a sector that is growing quickly. So far, though it lacks an organized supply system. Beyond a few emerging dedicated foodservice suppliers, most outlets are supplied by either regional wholesalers, abarroteros, CEDAs, or warehouse clubs.

< ***Transportation***

Transportation infrastructure in Mexico remains costly and inadequate to the task of efficient food distribution. This has been changing gradually, as there have been substantial investments in roads, rail, and ports in recent years; these investments continue.

Roads are by far the most important distribution method. Nevertheless, though routes in and between major markets are adequate, the highways in best condition charge high tolls and secondary markets are poorly served by existing routes.

Manufacturers and distribution strategies

Food manufacturers active in Mexico can be grouped into four key player types: *Mexican leaders*, *Globals*, *Transnationals*, and *Followers*. Typically, the top 3 or 4 players in each food segment fit one of these profiles, and together they account for 70% or more of sector sales. Two lesser player types, *Small/regional* and *Importer/trader* are also active in the market but generally account for only a small fraction of supply in any given food segment. Strengths and weaknesses of each player type are shown below.

Player types - strengths and weaknesses

<i>Player type</i>	<i>Strengths</i>	<i>Weaknesses</i>
<i>Mexican leaders</i>	<ul style="list-style-type: none"> • Large volume and scale • Nationwide presence • Strong in advertising & promotion • Broad product portfolio • Innovation 	<ul style="list-style-type: none"> • Too reliant on mass approach • Hierarchical, rigid management culture
<i>Globals</i>	<ul style="list-style-type: none"> • Nationwide coverage • Large volume and scale • Strong in advertising & promotion • Broad product portfolio • Strong consumer brand awareness 	<ul style="list-style-type: none"> • Hierarchical, rigid management culture • Too reliant on mass approach • Slowest to react
<i>Transnationals</i>	<ul style="list-style-type: none"> • Known brands/ products • Some can react quickly 	<ul style="list-style-type: none"> • Little innovation • Limited product portfolio
<i>Followers</i>	<ul style="list-style-type: none"> • High volume and scale • Low production cost • Regional and/or segmented focus • Flexibility 	<ul style="list-style-type: none"> • Innovation: limited to “me too” • Dependent on regional markets
<i>Small/regional</i>	<ul style="list-style-type: none"> • Strong locally/regionally • Moderate volumes and scale • Regional, segmented focus 	<ul style="list-style-type: none"> • Lack of management processes • Dependent on local markets • Weak in advertising & promotion
<i>Importer/trader</i>	<ul style="list-style-type: none"> • Regional/local segmented focus • Low fixed costs • Flexibility 	<ul style="list-style-type: none"> • Limited/ inconsistent supply • Weak in advertising & promotion

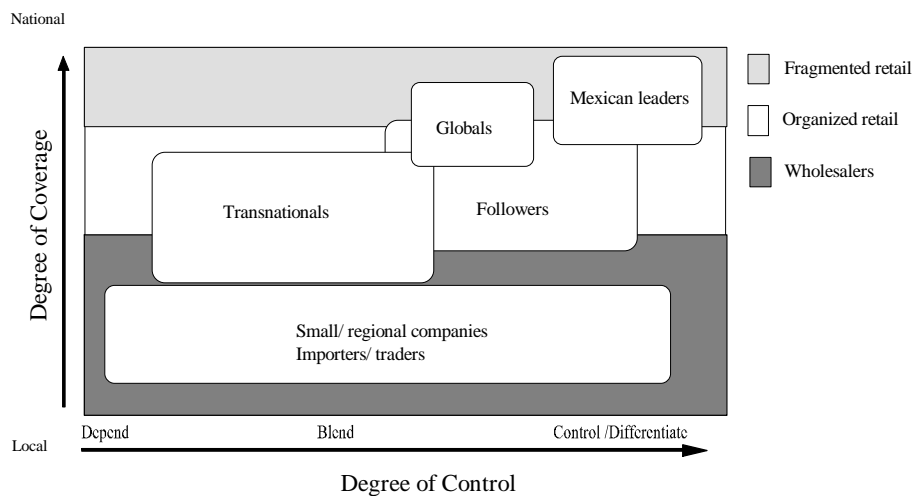
These player types use varied distribution strategies. These are the most common variants:

Distribution strategies

<i>Strategy</i>	<i>Geographic coverage (breadth)</i>	<i>Market penetration (depth)</i>	<i>Distribution ownership</i>	<i>Distribution control</i>
<i>Control</i>	Regional/national	Deep	Yes	Yes
<i>Depend</i>	Local/regional	Moderate	No	No
<i>Blend</i>	Regional/national	Moderate to deep	Partial	Partial
<i>Differentiate</i>	Regional	Shallow	Varies	Yes

In the following graphic, we show the typical distribution positioning of each player type. The horizontal axis represents how much control/leverage a manufacturer has on their distribution chain (in the case of the *differentiate* strategy the manufacturer may not own the physical distribution assets but has the power to monitor and influence the entire distribution channel). And the vertical axis indicates just how deeply - i.e., how many retail units - the manufacturer can reach.

Distribution by player type



Mexican leaders (Bimbo, Herdez) have the greatest penetration and control; *Globals* (Nestlé, Unilever) are close behind but lack the same depth and control; *Followers* (Kir Alimentos, Productos del Fuerte) usually have geographical gaps at point-of-sale; and *Transnationals* (Nabisco, Hershey) generally fail to reach smaller retail formats, and lack control through point-of-sale.

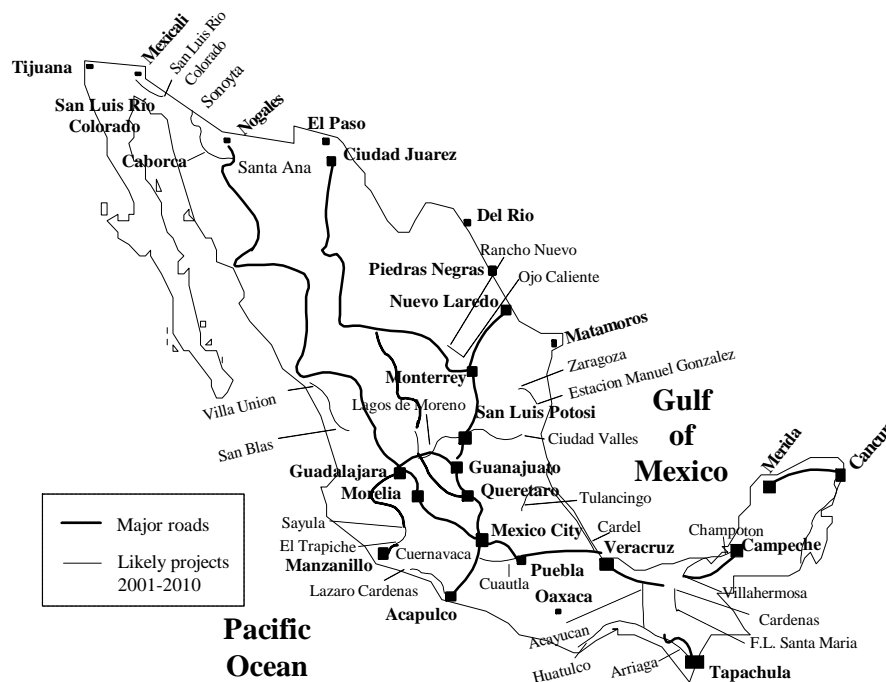
The forces for change

As we have indicated, Mexico’s food distribution environment will undergo significant changes over the next decade. The forces that will shape the market can be grouped into (1) changes in the business environment, (2) consumer-led changes, and (3) consolidation of the chain and changes at point of sale.

< ***Changes in the business environment***

The Mexican government has increasingly turned to liberalization as a tool to improve the economy. Mexico has become one of the most open of the larger developing markets, promoting trade and growth through a number of negotiated agreements (most notably NAFTA); moreover, the country has further opportunities to lower tariffs and promote trade and growth - growth which is likely, though volatility is still an issue for outside investors.

The food distribution business will also be affected by improvements in transportation which are being made by both the Mexican government and the private sector. Roads in particular are slated for major extensions and upgrades. Over time this will make the market more accessible to food manufacturers. The key routes and expected changes are shown below.



Changes in the business environment - Implications

- C Continued market liberalization will lead to good growth (~3.5%/year) in the years ahead; business plans must still consider potential exchange rate volatility and its repercussions, though.
- C Mexico has benefitted significantly from NAFTA; these benefits will expand in the years ahead. Agreements with other potential trade partners are likely to be slow in coming and have little impact prior to 2005, though a pact with Mercosur could adversely affect the competitive position of other food processors.
- C Manufacturers can expect increased functionality of Mexico's highway network. Ports and rail will also improve but with less of an impact on the food distribution system.

< ***Changing demographics and consumers***

Expected regional changes in population are shown in the following table:

Mexican demographics to 2010

<i>Region</i>	<i>Population 1998 (m)</i>	<i>Share (%)</i>	<i>Population 2010 (m)</i>	<i>Share (%)</i>	<i>Average growth (%)</i>
<i>Major cities</i>	33.7	34	38	32	1.0
<i>Secondary cities and urban regions</i>	35.7	36	48	41	2.5
<i>Border cities</i>	3.4	3	5	4	3.5
<i>Coastal resorts</i>	2.5	3	4	4	4.0
<i>Rural areas</i>	23.3	24	22	19	-0.5
<i>Total</i>	98.6	100	117	100	1.4

Sources: Mercametrica, SRC, PROMAR estimates

And the key demographic and consumer shifts will be

- household size shrinking from 5.2 to 4.2 people
- households increasing in number from 19 to 24 million
- real incomes growing from \$3,500 to \$4,500 per capita
- a modest expansion in the B, C, and D socioeconomic groups
- shorter, faster lunches and a relative shift to dinner in the major metro areas

- the growing role of women in the formal workforce, from approximately 36% today to 40%-43% by 2010;
- increasing pressures on women in the home, with pressures leading to the pursuit of convenience and one-stop-shopping
- rising expectations generally

Changing demographics and consumers - Implications

- C Food manufacturers should expect the fastest food demand growth to come from secondary and border cities, though absolute growth in major cities will also be substantial.
- C Shrinking household size, particularly in urban areas, will provide impetus to both foodservice and prepared foods. Snack foods, baked products, pre-washed and cut vegetables, individual serving-size packs, and ready-to-eat products or meals (especially Mexican-style foods) will become more popular in the domestic market in both the near and long term.
- C Niche product manufacturers will see rapidly growing, relatively accessible markets in Mexico's border cities and coastal resorts.
- C Overall food expenditures should expand by approximately 50%.
- C Changing meal patterns, including shorter lunches and the increasing role of dinner, have positive implication for both fast food and meal solutions for dinner.
- C Increasing pressures on women inside and outside the home will further fuel opportunities for "ready food." They will also expand the migration to one-stop-shopping.
- C There will be a strong increase in the importance of retail and foodservice chains.
- C A change that is almost impossible to quantify, but easiest to describe, will be increasing consumer expectations, in terms of food speed, convenience, and availability.

< ***Consolidation in the chain and changes at point-of-sale***

Consolidation in the food chain, along with the expansion of organized retail and foodservice operations, will dramatically alter the operating environment for food manufacturers in the decade ahead.

Food manufacturing and wholesaling will consolidate to the benefit of large players. Though concentration in production in many food segments is already high (with two or three large players dominating), we expect the relative role of these large players to expand, driven by economies of

scale in production and distribution. It is likely that small- and medium-sized players will continue to fold or be acquired, to the benefit of the market leaders.

It is also likely, however, that in many food segments there will be room for some international companies to enter the market. In many cases they will have to rely on help from domestic companies with established distribution systems, or on creative distribution methods.

We expect dramatic consolidation at the wholesale level, with the emergence of a handful of companies with national coverage, such as Grupo Corvi, Casa Chapa, and Autrey; successful wholesalers will increasingly provide other services as well.

< ***Retail expansion***

The role of retail chains is expanding rapidly in Mexico.

Projected growth - Mexican retail food sales

	<i>1999 (\$b)</i>	<i>2010 (\$b)</i>	<i>Growth 1999/2010 (%)</i>
Food sales	40	60	50
Food sales, chained retailing	10	25	150
Organized share of retail food (%)	25	40	--

Source: Various, PROMAR projections

Most of tomorrow's top retail players have already identified themselves and allied themselves with international know-how and capital. The race now is to build units throughout Mexico, especially in the secondary cities which still represent relatively fertile ground.

Geographically, the states with the fastest and slowest rates of retail expansion are highlighted in the following graphic (non-shaded states will experience "average" growth).



Mexican retailers are investing not only in retail unit growth, but also in the establishment of centralized distribution centers (DCs) in their major markets and improved information systems. Along with this expansion in retail will come an emphasis on private label. Though private label's share of sales is only 5-7% today, this figure should easily exceed 10% by 2010.

< ***Foodservice expansion***

The Mexican foodservice sector has recovered from the 1995 recession and is once again in expansion mode. In 1998 total foodservice sales were \$12 billion, roughly a third of which represented (wholesale) expenditures on food. Sector sales are likely to increase to \$27 billion by 2010 (\$12 billion on food) due to a major increase in the number of organized full-service chains and fast food chains.

Changing supply through point-of-sale - Implications for food manufacturers

Consolidation

- C Consolidation in the domestic supplier base will mean fewer potential “piggy-back” (distribution JV) partners - and those that remain will be bigger and more expensive.
- C Manufacturers with low- to standard-priced products that want national distribution may want to consider long-term strategic alliances with emerging national wholesalers, e.g. Grupo Corvi.
- C Yet a third possibility, particularly for manufacturers of specialty foods, is the use of creative distribution systems such as that of Chupa Chups.
- C It will be easier to move large volumes of food through organized channels in the future. This will lessen the stranglehold some of the large players have on distribution, particularly for standard- and higher-priced products. This in turn means that there will be new opportunities, especially for large international manufacturers accustomed to supplying demanding retailers.
- C Consolidation of the chain will reduce the “distance” (time-wise and information-wise) to the consumer and allow for increased feedback, improving the chain’s responsiveness to consumers.

Retail expansion

- C Heavy investment by large retail players means that a greater share of food sales will be moving through them in 10 years’ time. The share of chained retailers may expand from 25% to 40%.
- C In the short term, all urban areas will be targets for investment. Over the long term, growth will remain highest in mid-sized cities. Coastal resorts and rural areas will be the least likely targets for heavy supermarket investments.
- C Manufacturers must be prepared to keep up with large retailers’ investment in IT, which is likely to grow significantly.
- C Food manufacturers must keep up with the growing retailers, particularly Cifra/Wal-Mart, which will become more demanding in terms of pricing and service. Small players will be at a disadvantage in meet these demands, and are will miss out on most of the future growth.
- C Branded players should be ready to face private label competition, particularly as the use of DCs by retailers expands, making broad geographic coverage possible for low-cost suppliers.

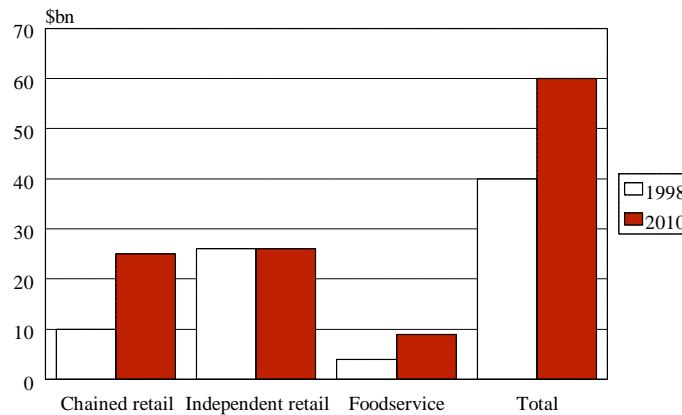
Foodservice - growing up

- C Organized foodservice, a very limited market at the moment, will grow from its small base of 5% to represent 15% of foodservice sales over the next decade. A limited number of manufacturers that get their foot in the door to supply them will benefit here.
- C New opportunities will emerge to supply organized foodservice chains (especially for large manufacturers) with standard-positioned products, both branded and unbranded.

Food distribution in 2010

This graphic shows in broad terms how distribution of food at point-of sale will change over the next ten years.

Food distribution by point-of-sale, 1998/2010



Our projections are identified more specifically in the table below

Food distribution by point-of-sale, 1998/2010

<i>POS</i>	<i>1998 sales (\$bn)</i>	<i>Food sales share (%)</i>	<i>2010 sales (\$bn)</i>	<i>Food sales share (%)</i>
Chained retail	10	25	25	41
Independent retail	26	65	26	43
Foodservice	4	10	9	15
Total	40	100	60	100

Source: PROMAR estimates

The chained retail sector will distribute more than \$25 billion of food by 2010, with a 41% share of total food sales. The number of independent retailers is expected to contract while sales stay flat. The foodservice sector will expand from \$4 billion to \$9 billion spent on food (with nominal sales increasing from \$12 billion to \$27 billion - only a third of which is food).

< **Retail**

Retail food sales in Mexico should expand from \$36 billion to \$51 billion by 2010 as follows:

Retail food sales by channel to 2010

<i>Format</i>	<i>Units 1999</i>	<i>Units 2010</i>	<i>Food sales 1999</i>	<i>Food sales 2010</i>
<i>Organized</i>				
<i>C-stores</i>	2,500	7,000	0.9	2.0
<i>Supermarkets</i>	1,200	2,000	7.0	20.0
<i>Warehouse clubs</i>	50	80	0.8	1.5
<i>All others</i>	--	--	1.3	1.5
<i>Subtotal</i>	--	--	10.0	25.0
<i>Traditional</i>	600,000	400,000	26.0	26.0
<i>Total</i>	--	--	36.0	51.0

Source: PROMAR estimates

Convenience store food sales should more than double over the next decade, to about \$2 billion, while outlets triple. These chains will continue to expand but the sector will really be fueled by the expansion of independents, either new family start-ups or current *abarrotes* shifting upscale.

Supermarkets should expand significantly over the next decade from 1,200 to 2,000. Sales per store should increase also.

The strong initial build-out phase of the warehouse clubs has already taken place. They are set up in the major markets and largest secondary cities already - Cifra/Wal-Mart and Comercial Mexicana/Price Costco already have over 50 units between them - and they are building volume. Most of the unit growth over the next decade will likely come from the emerging/mid-size secondary cities which are not yet home to any warehouse clubs. Mexico might see another 30 warehouse clubs being opened over the next decade.

Sales through traditional channels will probably stay about the same in real terms. While sales of CEDAs should stay the same or increase slightly, *abarrote* and open market sales will drop.

< ***Foodservice***

Foodservice sales should grow in all channels, but especially in the fast food and full service segments. Income growth and working patterns will help fuel this growth.

Foodservice sales by channel to 2010

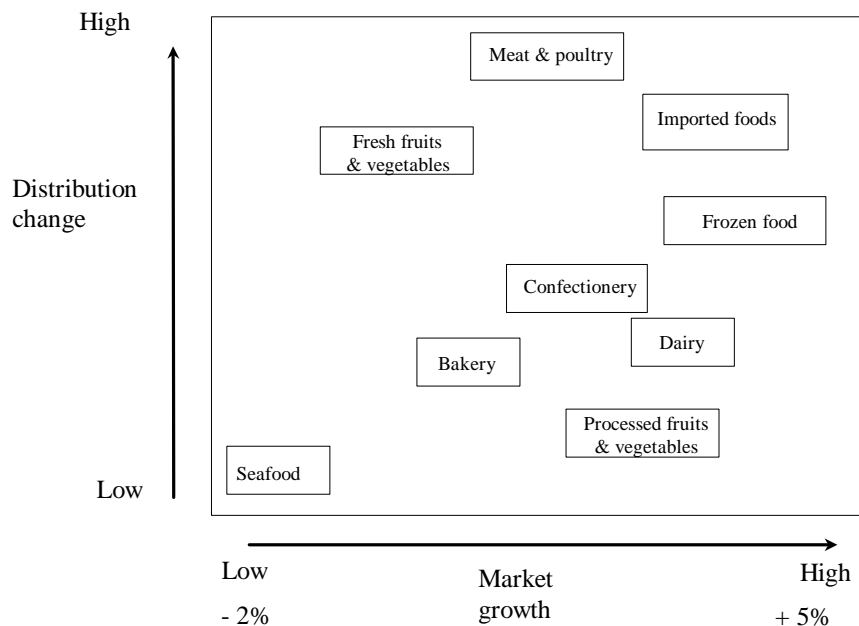
<i>Format</i>	<i>Units 1999</i>	<i>Units 2010</i>	<i>Sales 1999 (\$b)*</i>	<i>Sales 2010 (\$b)*</i>
<i>Organized</i>				
<i>Fast food</i>	1,500	7,000	3.9	9.1
<i>Full service</i>	5,800	17,000	1.5	5.2
<i>Traditional</i>	176,000	210,000	6.6	12.7
<i>Total</i>	183,000	234,000	12.0	27.0

Source: PROMAR estimates

*Note: we estimate that 1/3 of these sales represent food

Changes by food segment

Overall, both growth opportunities and distribution chain will be significant. Segments will all evolve differently, though. The table below shows the level of distribution change and sales growth we expect to see in each food segment over the next decade.



The segments that will experience the greatest change in the way goods are distributed are *meat & poultry*, *imported food* and *fresh fruits & vegetables*. In these segments manufacturers (and produce suppliers) will develop much closer ties with retailers, as they increasingly distribute directly and depend less on intermediaries. The segments which will change the least are *seafood* and *processed fruit & vegetables*.

In terms of sales, higher value-added foods will grow the fastest.

Player types and strategic issues

In the pages that follow we conclude with considerations for each player type over the next decade.

Mexican Leaders 2010

<i>STRENGTHS</i>	<i>WEAKNESSES</i>
<ul style="list-style-type: none"> C Large volume and scale C Nationwide presence C Strong in A&P C Broad product portfolio C Innovation 	<ul style="list-style-type: none"> C Predominantly marketing led C Too reliant on mass approach C Hierarchical, rigid management culture
<i>OPPORTUNITIES</i>	<i>THREATS</i>
<ul style="list-style-type: none"> C Growing mass consumer market C Growing household incomes C Expanding opportunities elsewhere in Latin America C Distribution cost savings from servicing fewer POSs with higher volumes C Supplying foodservice C Establishment of marketing alliances with foodservice chains 	<ul style="list-style-type: none"> C Several large wholesalers will develop national distribution coverage, rivaling the Mexican Leaders' own networks C Connecting with large audiences for their mass standard products will become much more difficult as media fragment C Competition from nimbler companies (e.g. particularly <i>Followers</i> and <i>Transnationals</i>) C Increasing sales role of organized channels to which competitors can more easily distribute C Increasing competition from private label

<i>Mexican leaders - Strategies to consider</i>
<p><i>Distribution</i></p> <ul style="list-style-type: none"> C Anticipate changes you need to make to your distribution chain; avoid being burdened by it. C Solidify your position in all growing secondary cities. Key markets include Hermosillo, Culiacan, Merida, Leon, and Chihuahua. C Develop/strengthen your foodservice division in the years ahead, with an eye towards both the organized chains and independent players. C Establish alliances with the growing foodservice chains. C Leverage your distribution chain by encouraging distribution alliances with companies that produce products that are complementary to yours. <p><i>Other areas</i></p> <ul style="list-style-type: none"> C Be prepared to quickly develop "me too" versions of high end products that <i>Globals</i> and <i>Transnationals</i> are likely to introduce. C Be aware of media fragmentation and find effective and creative ways to overcome it.

Globals 2010

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> C Nationwide coverage C Large volume and scale C Strong in A&P C Broad product portfolio C Strong consumer brand awareness 	<ul style="list-style-type: none"> C Hierarchical, rigid management culture C Too reliant on mass approach C Slowest to react C Ambitious to achieve broad national coverage may clash with need to expand selectively
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> C Growing mass consumer market. C Growing household incomes. C Ability to anticipate retailer needs, negotiate effectively with them, and drive larger volumes. C Bringing in high end products from overseas markets C Expansion of foodservice distribution C Establishment of marketing alliances with foodservice chains 	<ul style="list-style-type: none"> C Connecting with large audiences for their mass standard products will become more difficult as media fragment - but they should be able to transfer lessons learned from other markets. C Competition from nimbler companies (e.g. <i>Followers</i> and <i>Transnationals</i>) C Increasing competition from private label

Globals - Strategies to consider
<p><i>Distribution</i></p> <ul style="list-style-type: none"> C Apply lessons learned internationally in dealing with large retailers to activities in Mexico. C Expand your operations supplying foodservice - <i>Globals</i> will have the most know-how in this area. C Make sure to be present in growing secondary markets, either with your own distribution infrastructure (warehouses) or with sales teams. C Establish alliances with growing foodservice chains. <p><i>Other areas</i></p> <ul style="list-style-type: none"> C Apply lessons learned from mass market fragmentation in other markets to Mexico. C Introduce appropriate high-end products from other markets. C Acquire companies with distribution clout in product categories that fit with your international product portfolio, and with strong potential synergies, savings, and growth opportunities.

Transnationals 2010

<i>STRENGTHS</i>	<i>WEAKNESSES</i>
<ul style="list-style-type: none"> C Known brands/products C Some can react quickly 	<ul style="list-style-type: none"> C Limited innovation C Limited product portfolio
<i>OPPORTUNITIES</i>	<i>THREATS</i>
<ul style="list-style-type: none"> C Growing mass consumer market C Growing household incomes C Tailoring products to the Mexican market C Bringing in new products from other markets C Expanding distribution by tapping the wholesalers developing nationwide coverage 	<ul style="list-style-type: none"> C Increased margin pressure from retailers C Competition from larger or faster companies

<i>Transnationals - Strategies to consider</i>
<p><i>Distribution</i></p> <ul style="list-style-type: none"> C Develop/strengthen your relationships with large wholesalers, especially those likely to develop national coverage. C Increase the use of third party logistics and/or partner with third parties. C Take advantage of consolidation at point-of-sale to enter new channels, particularly convenience stores and supermarkets in secondary cities, border areas, and resorts. <p><i>For new entrants</i></p> <ul style="list-style-type: none"> C Consider joint venture with a complementary food manufacturer for distribution, e.g. with a <i>Mexican Leader</i> or large <i>Follower</i>, particularly for perishable, high value-added products. C Partner with national wholesalers (e.g. Mars+Grupo Autrey). C Establish a sales office in any of the major cities and start importing premium products that are suitable for the Mexican market. Mexico City is typically the first point of entry due to its potential consumption volumes and relatively developed distribution infrastructure. Monterrey is also a good option for North American companies. <p><i>Other areas</i></p> <ul style="list-style-type: none"> C Focus on higher-value added products, introducing new ones from other markets as appropriate. C Tailor products to meet Mexican consumer tastes.

Followers 2010

<i>STRENGTHS</i>	<i>WEAKNESSES</i>
<ul style="list-style-type: none"> C Low production costs C Regional and/or segmented focus C Flexibility 	<ul style="list-style-type: none"> C Innovation limited to “me too” products C Dependent on regional markets and wholesalers C Family ownership may limit company’s vision C Limited portfolio C Access to finance may be limited
<i>OPPORTUNITIES</i>	<i>THREATS</i>
<ul style="list-style-type: none"> C Growing opportunities for expansion in market reach C Distribution partnerships C Growing demand C Developing national brands <i>or</i> focusing on low cost/private label C Developing a strong brand worth acquiring 	<ul style="list-style-type: none"> C Failing to keep up with retailer needs C Increased margin pressure from retailers C Failure to keep up with consumer needs C Competition from <i>Globals</i> and <i>Mexican Leaders</i>

<i>Followers - Strategies to consider</i>
<p><i>Distribution</i></p> <ul style="list-style-type: none"> C Place a high priority on keeping up with increasingly sophisticated retailers and their requirements. C Solidify position in growing secondary cities. C Compete aggressively for large organized foodservice clients. C Partner with chained retailers to manufacture private label products. C Maintain/develop relationships with emerging national wholesalers. C Network with other food manufacturers to lower distribution costs. <p><i>Other areas</i></p> <ul style="list-style-type: none"> C Be prepared to quickly develop “me too” products. C Look into opportunities for private label production for large retail partners.