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Packaged Food in Mexico

PROSPECTS

In 2018, the Mexican economy underwent a slowdown in growth resulting from the uncertainty of the Presidential elections held in July and the ongoing renegotiation of the trade agreement between Mexico, the US, and Canada. These uncertainties led to lower retail volume growth for sales of packaged food in 2018. Growth in 2019 accelerated, however, driven by the expansion of retailers, product innovation and growing awareness among consumers of issues surrounding their eating habits. Convenience was a strong driver of innovation over the review period, with companies developing increasingly sophisticated products. Regarding nutrition, consumers value natural products and prefer alternatives that are low in sugar, salt or fat. Another driver of growth is the expansion of product portfolios by leading companies, as they try to increase their share of mature categories. Over the review period, several leading brands explored the possibility of leveraging on their positioning in certain categories to launch new products to compete in more dynamic areas.

Dairy products made with milk alternatives such as yogurt and drinking non-milk products, for example, gained relevance. Sales of milk alternatives witnessed dynamic growth, with a number of large companies focusing on this category. The Silk brand (Danone de México) launched a wide range of milk alternatives adding several options to its soymilk products. New products included rice milk, oat milk, coconut milk, and mixes such as coconut

and almond, and almond with chocolate, among others. Lala rebranded its brand Soy Lala to Lala Vita offering several alternatives to soymilk such as almond milk, coconut milk, and mixes of different nuts. These types of developments are set to continue to add variety to packaged food over the forecast period.

Packaged products continue to gain share as consumers seek convenience

Although unpackaged flat and leavened bread remained by far the most popular in Mexico in 2019 as these formats are regarded as fresher as they are baked daily, packaged versions continued to gain share from unpackaged. This was also noticeable in sales of chilled meat and cheese. Packaged cheese continued to record stronger growth than unpackaged cheese as modern retailers gained share from traditional channels and the largest chains of modern retailers shifted towards packaged formats. In processed meat, convenience is likely to drive growth as consumers value products that are semi-cooked, easy to store and which can be kept for longer periods of time. Products such as canned chicken breasts offered by Member's Mark at warehouse clubs (Sam's Club), or the Butterfield Farms brand at supermarkets are likely to gain popularity in the future.

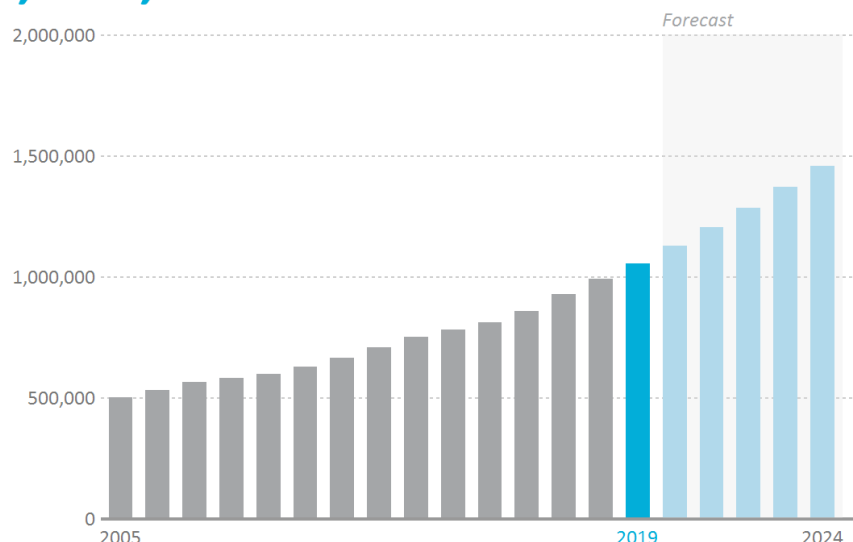
Major players in staples focus on adding value

Many of the major companies in staples focused on developing more valuable and sophisticated products in 2019, such as ready meals. Ready

Sales of Packaged Food in Mexico

Retail Value RSP - MXN million - Current - 2005-2024

1,048,997



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meals are attractive for companies as they contribute to value growth, enabling them to use their well-established staple products to create whole recipes and meals which can be sold for higher prices. Innovation from well positioned brands is likely to boost growth of this category. Brands such as La Costeña, Bachoco, La Huerta, Dolores, Tuny, and Chata, are expected to further expand their product portfolios over the forecast period. The entrance of new brands and companies to ready meals is also expected to drive growth over the forecast period. New brands in the category include Sinaloa, El Gallo, Guisy, and Avilés, among others.

Modern grocery retailers begin to favor packaged products

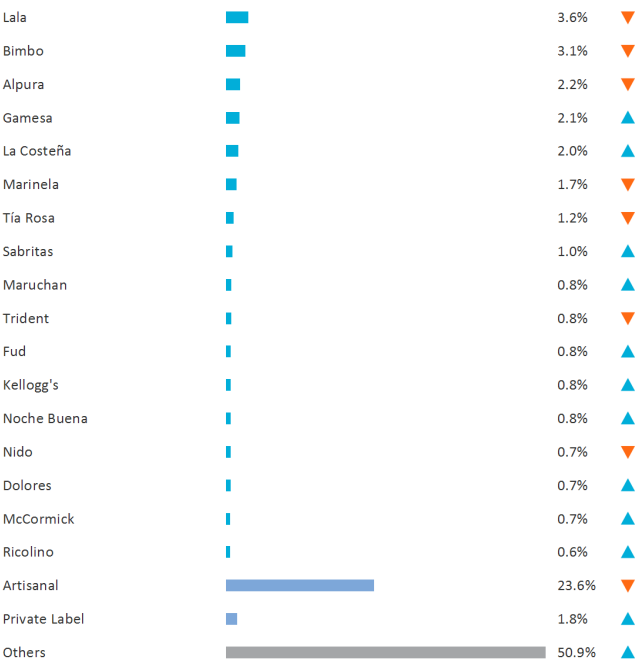
Over the review period, modern grocery retailers adjusted their offer and display of products to become more efficient and to attract consumers. A relevant change during this time was the shift from favoring unpackaged products in specific categories, such as cheese or chilled meat, towards favoring the offer of pre-packaged products. Unpackaged products were commonly offered in bulk, thus allowing consumers to try different brands and order specific amounts that were adapted to their available budget. Over the review period, however, retailers either reduced or eliminated areas of unpackaged products, making space for more fridges where pre-packaged products are displayed. This increased the relevance of packaging and encouraged companies to launch new formats and to add more

information to their labels. Within modern grocery retailers, pre-packaged products are also gaining relevance within freshly baked products, nuts and seeds and prepared salads. The advantages of packaged products include easier management of the items within the stores and increased convenience for consumers, who can pick the products right away instead of having to wait in line to order and then wait for the products to be portioned and packed.

Positive performance expected

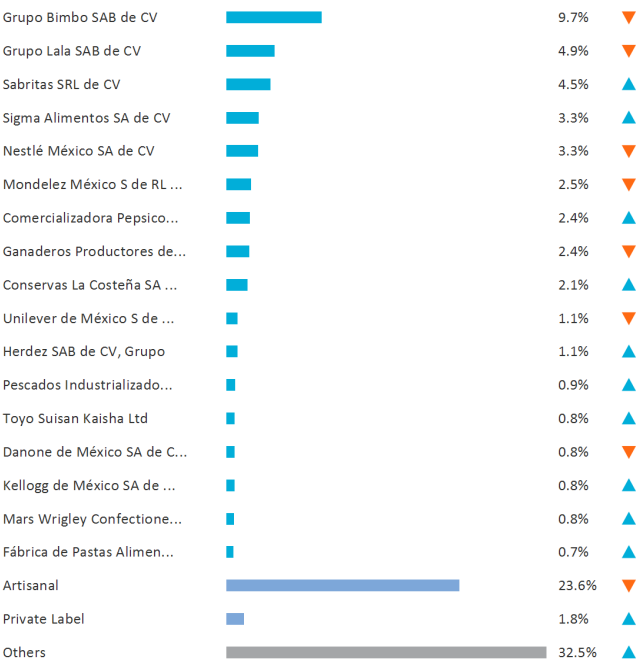
Packaged food is expected to record accelerating growth over the forecast period compared to that witnessed over the review period. Positive indicators include an increase in domestic consumption as the uncertainty of the elections passes. The reduction in uncertainty is also expected to have a positive impact on investment and overall on economic growth. The market is expected to be driven further by the busier lifestyles of consumers, who will continue favoring convenience and the effective delivery of nutrients. These trends are likely to drive the value performance of the packaged food industry, as companies develop more sophisticated products over the forecast period. As the frequency of eating out increases, categories such as staples and cooking oils and fats might lose share to more convenient alternatives, such as shelf stable meat and seafood, ready meals and prepared salads. As a result, more competition is expected from these increasingly dynamic categories.■

Brand Shares of Packaged Food in Mexico
% Share (LBN) - Retail Value RSP - 2019



▲ Increasing share ▼ Decreasing share — No change

Company Shares of Packaged Food in Mexico
% Share (NBO) - Retail Value RSP - 2019



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