



Agri-food &
Horticulture

AGRI-FOOD ADDENDUM

Addendum

The purpose of this addendum is to highlight changes in the Agri-food sector and consumer behavior after two years of the COVID-19 pandemic in Mexico.

We recommend reading the initial report **“Opportunities for Dutch Businesses in the Mexican Food Retail Sector”** and then continuing with the addendum for complete comprehension.

HOLLAND HOUSE MEXICO, MARCH 2022

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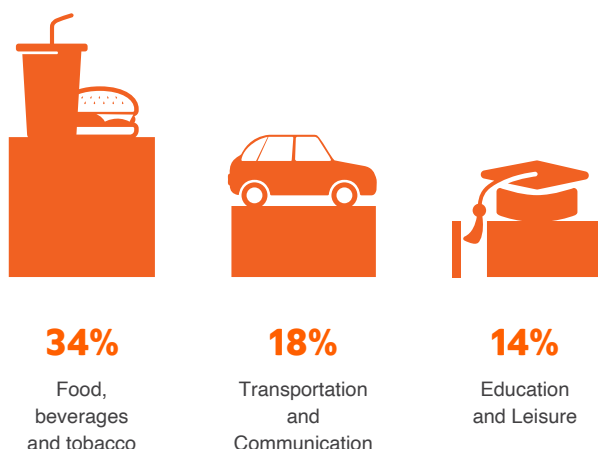
Mexico Overview

With a population of nearly 130 million, a rich cultural history and great diversity, favorable geography and abundant natural resources, Mexico is among the fifteen largest economies in the world and the second largest in Latin America. The country has strong macroeconomic institutions and is open to trade.

During 2020, the economy contracted by 8.3 percent, with a sharp drop in the first half of the year, due to supply and demand shocks stemming from the COVID-19 pandemic. However, the agri-food Gross Domestic Product (GDP) held up and declined by only 0.4% during the same period.

The National Institute of Statistics and Geography, INEGI, estimated that while the country's total manufacturing production stood at 111.4 points in May 2020, the food industry achieved 117.3 points, surpassing the 113.7 points it reached in the same period of 2020. For 2022, The Ministry of Agriculture and Social Development (SADER) estimates that food production will grow by 0.5%, indicating a recovery in the food and beverage sector.

Likewise, it is important to mention that, according to the National Household Income and Expenditure Survey (ENIGH), Mexicans spend their income mainly on food, beverages, and tobacco (34.1%), followed by transportation and communication (18.8%), and finally on education and leisure (14%).



Source: ENIGH 2022

Exports

In the last month of 2021, the value of agri-food exports was 4,117 million dollars, 17.3% higher than that reported in the same period of 2020. The value of imports reached 3,166 million dollars, 21.3% higher than compared to the same month of 2020. As a result, the trade balance remains in surplus with 951 million dollars, 5.5% higher than in December 2020.

At the end of 2021, the value of agri-food exports was 44,058 million dollars, reflecting a growth of 13.7% over the previous year. Merchandise purchases during the reference period reached 35,722 million dollars, an increase of 36.6% compared to the end of 2020.

MAIN PRODUCTS MEXICO EXPORTS¹:

PRODUCT	2019	2020	2021
1° BERRIES	↑ 25%	↑ 8.70%	↑ 25.60%
2° BEER	↑ 8.20%	↓ -3.50%	↑ 19.90%
3° AVOCADO	↑ 17.60%	↓ -7.90%	↑ 14.30%
4° TOMATOES	↓ -2.90%	↑ 20.30%	↓ -2.40%
5° TEQUILA	↑ 19%	↑ 24.30%	↑ 35.80%
6° MEAT	↑ 12.30%	↑ 10.10%	↑ 15.90%

Source: GCMA 2022

Imports

Mexico is one of the world's leading food producers, a position it was able to keep throughout the pandemic. In the first nine months of 2021, the number of agri-food imports reached its highest level since records have been kept.

According to the Bank of Mexico (BdeM), between January and September 2021, Mexico has disbursed 26 billion 223 million dollars for the import of agri-food products, a figure 36 percent higher compared

to the same period in 2020. The largest expenditure in Mexico is for cereals, as according to BdeM, the number of imports between January and September 2021 amounts to 5 billion 661 million dollars, 56 percent more compared to the same period last year.

The second most important item for Mexico in terms of imports is meat, with expenditure recorded in the

first nine months of 2021 totaling 3 billion 877 million dollars, 61 percent more than in the same period of 2020. As for pork imports, there was a 64 percent increase and beef increased by 63 percent in 2021².

There are no records of the share of organic products imported into Mexico, as they receive no particular classification.

Mexico and Covid-19

The pandemic has not only affected the way people relate to each other, live and work, but it has deeply influenced the way people spend, consume, and buy products. Consumer habits towards food consumption have also been influenced by this global condition.

Pandemic shapes Mexico's food industry

The arrival of COVID-19 pandemic meant a boost for Mexicans to become more interested in healthy foods. In 2020 due to the health restrictions, people were forced to work from home, take online classes and reduce their mobility which led to a more sedentary lifestyle.

According to Kantar Mexico, in 2020 there was a 4% increase in the consumption of healthy products, although consumption of treats and junk food also increased by 7%. Consumption of healthier products was linked to people with high or medium purchasing power, whereas consumers of lower purchasing power opted for less healthy alternatives driven by practicality or convenience³.

In addition to this, during the COVID-19 outbreak food service in Mexico was deeply affected by health restrictions. The crisis impacted the sector, causing zero income, the closure of 120,000 restaurants, 20% of the industry, and the loss of 400,000 jobs. In addition, the damage to the restaurant industry had repercussions in

the overall Mexican economy as it represents 2.2% of the national GDP and 13% of the tourism GDP⁴.

State governments applied different measures to mitigate the spread of the virus, some of these measures included: restaurant sanitization, sanitary filters applied to all guests, the distance between tables, time restrictions, a maximum number of guests, and tables allowed or service only available on terraces or home delivery. Due to these containment measures some of the food service outlets closed or operated under very strict conditions, additionally, offices and schools were closed, which led a few months later to a permanent closure of restaurants, cafeterias and small restaurants near office areas called "fondas".

Health restrictions in Mexico caused people to work remotely, which led to more time being spent at home, increasing the need of home cooking, food delivery through applications and the growth of dark kitchens.

On the other hand, Mexicans were more reluctant to purchase groceries online than other products on e-commerce platforms. As online purchases skyrocketed catalyzed by the pandemic, consumers were concerned about the quality of groceries, mainly fruits and vegetables, so they preferred to select their own perishable grocery items in person. But in early stages of the pandemic, the contagion fears, the alcohol shortage (particularly beer), and the scarcity of other

² La Jornada

³ Forbes

⁴ El Economista

products due to the risk of shortage increased the number of e-commerce transactions. According to the Asociación Mexicana de Ventas Online (AMVO; the Mexican Association of Online Sales), e-commerce grew 59% during 2020 and 27% in 2021⁵.

Furthermore, last mile delivery options have been growing consistently in Mexico. In the last two years the pandemic greatly expanded the demand for these services. As a result, supermarket chains and department stores created their own e-commerce platforms, e-grocery applications emerged such as Jüsto and Cornershop, and a large number of transactions were processed on marketplaces such as Amazon and Mercado Libre. In 2022 Mexico, consumers in larger cities can have any item available in a physical store delivered to their doorstep in a matter of mere hours through independent delivery platforms.

Consumer behaviour and trends

Mexican society has been experiencing significant changes in its consumption behavior as a result of the sanitary confinement during the covid-19 pandemic. Pre-pandemic trends have intensified, and new trends of e-commerce and delivery have emerged.

In short, the post-covid Mexican:

- Makes use of e-commerce platforms for groceries and prepared meals
- Enjoys home delivery
- Is concerned with conscious consumption
- May indulge in answer to the prolonged period of restrictions
- Is more focused on a healthy lifestyle
- Has shifted from almost compulsive to much more intentional consumption

The food categories post-covid Mexicans show highest signs of growth in are:

- Plant-Based Products
- Organic Foods
- Healthy Foods
- Frozen Foods

One of the main trends among Mexican consumers is the growing preference for e-commerce. Due to the need to be at home, people stopped going to physical stores and started shopping online. Proof of this is that purchases made online and with home delivery have grown 41% compared to pre-pandemic levels. According to data from the National Commission for the Protection and Defense of Users of Financial Services (Condusef), during the first quarter of 2019, online purchases were authorized for 52 thousand 265 million pesos; but, two years later, in the first quarter of 2021, these transactions reached 101 thousand 15 million pesos, that is, they had a growth of 93.27%.

Today's consumers are ready to leave home and return physically to perform certain activities; however, they have already incorporated online shopping into their habits. It is expected that this practice will continue to grow, with e-commerce accounting for a greater increase in market penetration in Mexico over the next 5 years.⁶

Furthermore, confinement forced consumers to have groceries and prepared meals delivered to their homes. Although grocery stores never closed in Mexico, consumers auto confined in the first months of the pandemic. Having become adjusted to the convenience of home delivery, the delivery industry has positioned itself as one of the most important players contributing to economic recovery of the country.

Data from the Mexican Association of Online Sales (AMVO) indicate that the pandemic digitalized the consumption habits of Mexicans and currently 83% of internet users use delivery platforms, of which 76% order food.

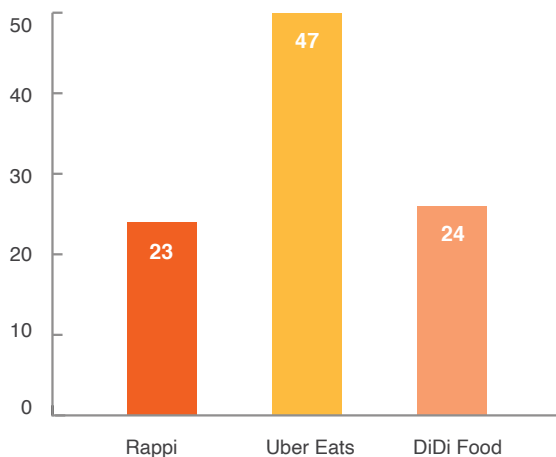
⁵ AMVO

⁶ Deloitte

By the end of 2021, delivery apps in Mexico generated revenues of more than 2.1 billion dollars (mdd), making it the second market in Latin America with the highest turnover for this service⁷.

Is expected that by 2022 there will be 34.4 million home delivery app users in Mexico. Particularly noteworthy is the home food delivery market, which contributed to the emergence of dark kitchens. Among the delivery apps with the largest presence in Mexico in 2021 are the previously consolidated Uber Eats, which in the first half of 2021 registered more than 47 thousand users, Didi Food with 24 thousand and Rappi with 23 thousand, but proposals such as JOKR, iVoy and Veloz also gained traction⁸.

NUMBER OF REGISTERED DELIVERY APPLICATION USER IN MEXICO 2021 (THOUSANDS)



Source: Statista Digital Market Outlook 2021

Furthermore, a noticeable growth in conscious consumption can be observed among Mexican consumers. According to PwC's Global Consumer Insights 2021 survey, 3 out of 10 consumers are willing to pay a higher price for products made from ethical and sustainable practices. Sustainability is on the radar of consumers and this is reflected when choosing products,

PwC's survey identifies that 70% of respondents prefer products from companies that support environmental protection while 69% of the responses indicated that consumers invest their money in biodegradable or eco-friendly products.

On the other hand, Mexico City's government launched a new reform of the law that prohibits the commercialization, distribution and delivery of single-use plastics and disposable in January 2020. This regulation only allows the consumption of products made with compostable or biodegradable materials, which reinforces the trend towards sustainable packaging products. Consumers have been very happily obliged.

Simultaneously, the long period of restrictions has also given way to consumers spending more money on indulgence. Indulgence already being a cultural trade of the typical Mexican, consumers do not shy away of applying a little YOLO philosophy when it comes to A&B consumption.

Nonetheless, in line with the global trend, health has become an intangible and fundamental good in a market that is moving in a healthier direction. According to Findasense, 54% of Mexicans have prioritized healthy consumption in the wake of the health crisis, concluding that eight out of ten users prioritize this type of products. In fact, data shows that by 2022, 80% of consumers will be more conscious about mental and physical self-care⁹.

In October 2020, the Mexican government launched modifications to the NOM-051 or labeling laws for food products; largely in an attempt to aid the population in making healthier choices based on a system with warning seals. Although the program continues to become fully implemented, it appears the system is not contributing to the population's health decision-making process. Almost 90% of the products on the market carry at least one seal, so consumers, instead of abandoning them, have seemingly chosen to ignore them¹⁰.

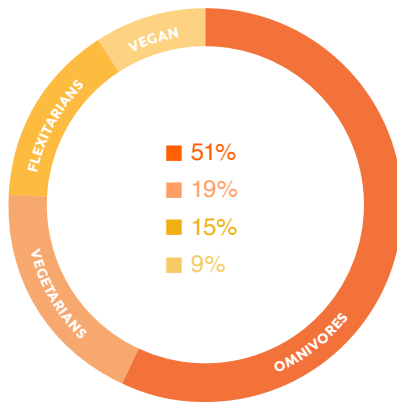
⁷ Emprendedor

⁸ Interesante

⁹ Marketing4commerce

¹⁰ Forbes

POPULATION



Source: Statista Digital Market Outlook 2021

Lastly, one of the most notable changes that in consumer behavior in recent years is the shift from almost compulsive to much more intentional consumption. In this sense, the trend has shifted from definition by quantity of things owned to definition by quality of possessions; the status they bring, and the experiences involved in acquiring them. Even beyond price-based personalization or exclusivity, consumers are beginning to value uniqueness in terms of availability or manufacturing methods. We are moving from mass production to handmade and bespoke products, including an appreciation of locally produced goods.

In terms of food products, occurring trends have been accelerated due to the pandemic. Food categories that show most signs of growth in post-covid Mexico include:

- **Plant-Based Products**

Prior to the Covid-19 pandemic and according to [Excelsior](#), 20% of Mexicans were vegetarian or vegan consumers. This number continues to increase as demonstrated by the growth of plant-based products offered in Mexico. Subcategories include 100% plant-based bakery, snacks, dairy, and meat products.

The organic and vegan sector has grown exponentially in Mexico. In 2021 it was estimated that in Mexico there are 11.3 million vegans, that is, 9% of the Mexican

population is vegan. 19% of the population is Mexican is vegetarian (they do not consume meat). 15% of Mexicans are “flexitarians” (have minimal meat consumption).

Conscious consumers have rapidly increased the consumption of plant-based products in their diets, which is reflected in a study conducted in 2021 by Ingredion Mexico, related to the consumption preference of Mexicans. The results show that 58% of interviewed are interested in consuming plant-based foods and beverages.

Market response to plant-based offers has been very positive, since the development and launch of new solutions that incorporate ingredients from sources such as peas, beans, chickpeas and lentils in their formulas have multiplied. Hence, new plant-based product launches have grown 53% from 2019 to 2020 in Mexico.

The plant-based market offers a new world of innovation for the development of products never seen by the Mexican consumer. Textures and flavors such as soy are being displaced by products that, in taste, texture, and nutritional contribution, are as close as possible to animal-based proteins¹¹.

In comparison to countries such as The Netherlands, plant-based alternatives are only just considered by consumers hence showing signs of a beginning trend. In comparison, Mexico is about 10 years behind on how trends are playing out in The Netherlands on this topic.

- **Organic Foods**

Demand for organic products is expected to grow, as per trends observed in developed countries. Mexico is just about passing the early adopters’ stage and ready to establish organic foods as part of everyday grocery shopping. Increasingly more foreign companies are entering the market as consumers are increasingly demanding organic alternatives. The market for organic products is expected to grow with a value CAGR of 6.4% for the forecast period 2019-2024, reaching a value of US\$69.8 Mn by 2024¹².

¹¹ Food Tech

¹² Global Organic Trade

Organic products in Mexico have benefitted from broader product availability, particularly within packaged food. The wider product availability is helping drive volume growth, catering to increasingly specific consumer requirements. An example is organic milk brand Bové, which has expanded its product portfolio with lactose-free and semi-skimmed versions of organic cow's milk.

With the demand for organic packaged food increasing in Mexico, several major brands are launching products within organic packaged food. This has led to an increasing level of competition, with more brands set to enter the category.

Moreover, the increasing number of households where both parents are working, particularly in urban areas is driving demand for organic baby food, that is ready to eat and easy to transport, but is also healthy and clean. Furthermore, with the Mexican economy expected to recover and disposable income expected to grow further, organic baby food is expected to witness a steady increase in demand over the forecast period 2019-2024.

In addition to this, there is a growing trend of brands innovating within categories that are witnessing maturity or saturation, in an attempt to sustain demand. For example, Grupo Lala launched an organic milk, following Kraft Heinz launching its Heinz organic ketchup. Other popular categories are also witnessing the launch of organic products. This trend presents an opportunity for other organic players to enter these categories and leverage their positioning.

Simultaneously, organic products produced in Mexico are mainly produced for export purposes, as the high prices and relatively unknown character of products remain a barrier for mass consumption. For the moment, the organic market remains a niche with a growing yet limited consumer base of high- and mid-high income and health conscious consumers keen on obtaining the value and benefits offered by organic alternatives. For example, brands operating in premium categories such as coffee pods are witnessing positive demand with organic launches appealing to high-income consumers.

Rising awareness of the benefits of organic products, coupled with a decline in prices to make organic products more affordable can help boost demand and cater to a diverse number of consumers' requirements.

• Healthy Foods

In the face of a possibly life-threatening disease and subsequent sedentary lifestyle and reduced mobility during confinement, consumers became more concerned with health and healthy nutrition. A study conducted by Simplot mentioned that in general, the consumer is looking for new flavors and the resurgence of certain kinds of food is expected, even in fast food chains. For this reason, home-made options and healthier menus with vegetable protein and organic options are on the rise.

On the other hand, healthy snacks have gained great ground in the food industry, which is betting on healthy alternatives, such as vegetable creams or guacamole as a "dip", hummus, nuts, seeds, vegetables, olives, and dehydrated tubers. Furthermore, consumers are turning more to the side of the so-called "superfoods", such as almond milk, coconut and other seeds like chia and quinoa.

Foodservice operators in the country will need to include more plant-based and healthy food and beverage options to cater for this trend. This is a response or alternative to the health and wellness trend in the consumption habits of Mexicans, who show a need for this offer in their favorite establishments¹³. Healthier menus, food service with a diversity of options and a preference for homemade meals and healthy ingredients will be constant in restaurants in 2022.

• Dairy

Cheese continues to be an important staple of local cuisine. National cheese consumption is increasing steadily and is expected to grow by 1% in 2022. This growth is mostly driven by the reopening of hotels, restaurants and the institutional sector, and not so much by household consumption, which remains steady.

The dairy market has proven resilient during the pandemic. Vertical integration increased and benefited bigger dairy companies with the resources to buy out some of these smaller producers and stay afloat. Some troubled milk producers were able to save their farms by joining or forming cooperatives.

Mexico's cheese consumption has room to grow. According to the National Milk Processors Association (CANILEC), Mexico's per capita consumption for cheese is close to 4 kg per year, considerably lower than the United States at 17 Kg per year or Canada at 14 kg per year. Marketing innovative and ready-to-go cheese products, as well as promoting cheese's nutritious qualities, could help increase cheese consumption.

Cheese imports in 2021 were 8% higher than in 2020, but are not expected to increase in 2022, due to the above-mentioned economic situation. Most of the cheese imported by Mexico does not directly reach consumers, but it is used as ingredients in other food products, like pizzas. Most Mexican consumers buy locally produced and more affordable cheeses¹⁴.

• Frozen Foods

While the frozen food market is still half the size of fresh, the health emergency saw a boom in preference for these options. Largely because consumers decreased the frequency of their food purchases and perishable products can't remain long time without deteriorating.

Similarly, it is important to highlight the ability of consumers to store frozen foods without generating waste, believing that packaged food will remain in that

state for much longer than those products that are not sold in package.

Additionally, the perception that today's frozen food is not the frozen food of the past, it has a better quality, it presents a better variety, as well as several premium options. Today's frozen foods also emphasize their nutritional and health attributes as their taste or convenience¹⁵.

Retail

The impact of covid-19 reshaped the world and the food industry. Brands and stores modified their practices in order to satisfy new consumer behavior and adapt to a "new-normal". Main retail chains rapidly adopted new technologies and introduced their e-commerce sites in order to increase their participation in the sector.

Consumption in Mexico has maximized in the retail landscape. In the first months of the pandemic, supermarket chains and food stores were considered essential activities, allowing stores to remain open during the pandemic. Hence the industry continued regular activities.

The mass grocery retail in Mexico is concentrated; the leading operators accounting for more than 60% of all sales. Mexico possesses a well-developed retail segment with a small number of leading chains for most sales. Supermarkets, department stores and specialized stores incorporated into ANTAD grew by 10.1% units in September 2021, in comparison to 2020¹⁶.

Retail chains in Mexico



Walmex leads the retailing landscape in Mexico, pursuing an aggressive store expansion,

focusing on its core, the grocery business, while also moving into e-commerce. In 2020 Walmex implemented a new store format under the name of

¹⁴ USDA

¹⁵ Deloitte

¹⁶ Forbes

Walmart Express, focusing on developing greater e-grocery capabilities and converting 93 Superama stores into the Walmart Express concept¹⁷.

Furthermore, Walmex is expected to expand its discount stores into secondary cities and less affluent rural areas where consumers have limited access to modern retailing outlet, it has also announced their plans to enter into the convenience store segment, at the moment only with the project of the gas service stations of Gazpro¹⁸.



Soriana, acquired the majority of Comercial Mexicana network, which boosted its presence in the market,

they also have plans to expand its offering at the premium end of the market. These upper market stores will offer premium and organic products, including imported wines and specialty cheeses and will target Mexico's rapidly expanding upper-middle class.



Chedraui, Mexico's third-largest retailer is growing in a very solid position with their retail formats

such as Chedraui Selecto, Super Chedraui and their convenience stores Super Che and Supercito. During 2022, Chedraui will open 31 stores in Mexico and one in the United States and they have recently announced their plans to compete in the wholesale segment against Costco and Sam's, committed to growing Smart & Final in Mexico an American retail firm, bought in 2021 by Chedraui.



Wholesaler Costco has fallen back on its previous plans to add 3 new stores in Mexico yearly. The

company expects a modest rate of expansion in sales, while they continue to develop Costco Gas petrol stations. In addition to these measures, they also operate an e-commerce site in Mexico. (orgánico)

Hypermarkets are the most prevalent format in the country, with the segment becoming increasingly mature. Smaller stores and street markets still have a significant share of Mexican food retail, catering mostly to low-income consumers and people looking to make quick purchases.

More formalized convenience stores are located mainly in large and medium cities usually in the middle to upper income neighborhoods. They are the fastest growing store format and are increasingly forcing small traditional outlets out of the market.

The number of convenience stores at gas stations is growing, led by Femsa's convenience stores Oxxo, according to Femsa there are more than 20,000 stores in Mexico, expanding at a pace of more than 50 new gas stations a year, reflecting that it is a highly profitable segment offering great growth potential¹⁹.

Vegan & Organic stores

As a result of growth in consumer demand, specialized stores offering vegan and vegetarian products are growing exponentially and new stores are emerging. Starting in capital Mexico City, new concepts are spreading rapidly. An example is Mr. Tofu, a chain of vegan shops that started 7 years ago and today has 24 branches throughout the country.

Prior to the pandemic, there was a handful of vegan and organic stores available in Mexico, always located in higher income areas of Mexico. The pandemic accelerated the growth of the industry, as more and more people are making the switch to a (flexible) plant-based diet.

¹⁷ Business Monitor International - Food & Drink Report Q1, 2021

¹⁸ El Financiero

¹⁹ El Financiero

Furthermore, stores have expanded their offer both in physical and online stores. Many stores also added restaurant services to their concept, as is the case of Green Corner and Origenes, just to name the most important ones.

E-commerce

Undoubtedly, Mexicans have adopted new ways of purchasing. Consumers' shopping habits have changed, consumers are now looking for convenience, simplicity and speed. According to AMVO e-commerce increased 27% in 2021 in relation to 2020, food delivery represented 66% of online purchases and supermarkets as a category increased in 40%. According to PwC in the General Consumer Insight Survey 2021–Mexican Chapter, consumers in Mexico purchase through online platforms categories such as food 72%, home improvement products 65% and workout machines in 65%.

A recent study carried out by Euromonitor reveals that by 2025 the e-commerce will represent 24% of the total volume of sales in the retail sector in Mexico. However, the brick-and-mortar stores are still relevant for the market, so achieving a successful omnichannel strategy remains a challenge for 2022.

After the pandemic consumers located mainly in urban areas have chosen to avoid the crowds in stores and make their purchases online. Consumers have been conscious about the benefits of online shopping, especially the fact of receiving the products at the front of their door or just saving time.

Although e-commerce has flourished, the Mexican Food and Beverage Consumption Following Covid 19 Survey mentioned that people still show some hesitancy toward buying fruits and vegetables via the internet or delivery apps. People argue that sometimes when they buy fresh food on shopping apps, they received a lower quality or different item than what they would have purchased themselves. Some exceptions were mentioned: Justo, Cornershop, and Walmart Express. Price Clubs such as Sam's Club and Costco are perceived to offer a special

shopping experience and are perceived as good to find specific products they don't find in other stores or to buy nonperishable products that can be bought on large scales²⁰.

Retail chains with E-commerce

When covid-19 broke out, supermarkets were only just exploring their options in the online marketplace in Mexico. Supermarkets that were in the transition towards an omnichannel strategy had to quickly develop e-commerce platforms to cater for new customer demands, a challenge that has certainly not yet overcome child diseases.

EXAMPLE OF COMMERCE SITES OF BIGGEST RETAIL CHAINS

WALMART	www.walmart.com.mx
WALMART EXPRESS	www.super.walmart.com.mx
BODEGA AURRERÁ	www.bodegaurrera.com.mx
LA COMER	www.lacomer.com.mx
SORIANA	www.soriana.com
CHEDRAUI	www.chedraui.com.mx

Although e-commerce transactions increased for the retail chains in the last two years, the logistics involved in the fast delivery of products cannot satisfy customer demand. Hence, there is a great opportunity for improvement in the last mile delivery. In general, the e-commerce marketplace leaves ample room for improvements and growth. Customer experience, usability, efficiency, and stock management are only some of the issues that require further adaptation to the digital era.

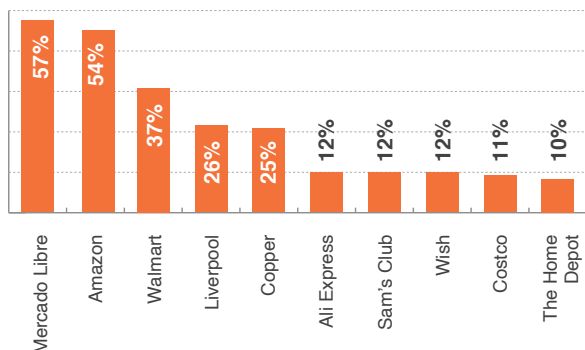
Online Marketplaces

On the other hand, marketplaces such as Amazon and Mercado Libre have seen benefits from electronic commerce. These marketplaces are positioned in the

top places for preferred e-commerce sites in Mexico according to Statista Global Consumer Survey 2021²¹.

PREFERRED E-COMMERCE SITES IN MEXICO - SURVEY

Where have you bought something in the last 12 months?



Source: Statista Global Consumer Survey 2021

Additionally, Mercado Libre has recently launched Wabi2B in Mexico, a B2B marketplace for wholesalers where grocery stores can purchase directly from brands and distributors. Currently, this app is only available in 6 cities across the country, and it could be an interesting option to consider in the future as it is expected to extend its network with small businesses in Mexico during the following years.

Retail Delivery apps

Another equally important subject in relation to e-commerce transition is the introduction of delivery apps, such as Jüsto, Cornershop, Rappi, among others. These apps fall in the e-grocery category, where consumers can buy fresh products, food and groceries with relative competitive prices and receive them the same day. Data from Statista Digital Market Outlook considers that Mexico has 33.4 million users of delivery apps in 2022 and according to AMVO 83%

of internet users have already purchased through a delivery app²².



Jüsto is a digital supermarket, users can purchase more than 5,000 items in main categories of a traditional supermarket; fruits, vegetables, groceries, household cleaning, personal care, among other. Products can be delivered the same day of the purchase, or they can be scheduled up to 30 days in advance²³.



Cornershop by Uber started as a delivery app, connecting “personal buyers” and supermarkets.

Currently, it operates as a marketplace with more than 500 stores with a great variety of products, such as bakery and pastry, gourmet, vegan and organic products, pet supplies, technology, among others. In 2021 Uber acquired Cornershop and now this platform is also available through Uber rides and Uber Eats.



Rappi is recognized as an express delivery app connecting a wide variety of services with customers.

Rappi’s sections include supermarkets, restaurants, pharmacies, convenience stores, pet stores, ATMs, insurance, travel, liquors, and customers can even request a specific task. Delivery is expected in a range of maximum of 45 minutes and purchases can be also scheduled for larger items such as furniture.

Experts consider that online sales and food delivery will maintain their growth rate during 2022. In this sense, companies must implement an omnichannel strategy and vision for the online and physical channels. Therefore, these actions will allow greater communication and provide better service to users in order to satisfy the new consumer habits²⁴.

²¹ Statista Global Consumer Survey 2021

²² Interesante

²³ El Economista

²⁴ Teamcore

Food service

Food service in Mexico was very affected by restrictions during the first stages of the COVID pandemic. Health restrictions in Mexico also caused people to modify their consumer habits, increasing the need of home cooking, food delivery through applications and the growth of dark kitchens.

The Mexican foodservice industry saw a considerable reduction of half of its value after the health emergency, there was a partial recovery in 2021, but predictions state that it will not return to pre-pandemic levels until 2024.

The foodservice market in Mexico was valued at USD 36,232.25 million in 2020, and it is projected to register a compound annual growth rate of 5.30% during 2021-2026²⁵. As consumer confidence in visiting public places returns, dining reservations are estimated to grow 29.7% each year until 2025. Over the same period, sales in the quick service restaurant channel are expected to grow at a rate of 14.9% per year, with international establishments dominating for the moment.

The Mexican foodservice market is highly competitive owing to numerous local small, medium and large international players capturing the market. Some of the leading players, including Alsea, Restaurantes Toks, Arcos Dorados México, CMR, and FEMSA – Oxxo, are holding significant market shares. This is attributable to their higher market penetration, reflecting a strong industry grip through subsidiaries and brands. International fast-food chains continued to dominate the pizza consumer foodservice and fast-food sectors in the country, such as KFC, McDonald's, Burger King, Subway, Little Caesar's Pizza, and Domino's Pizza. However, there is a trend towards domestic operators entering the market and capitalizing on new and different products.

Apart from normal strategic expansion strategies, like product launches, foodservice operators are focusing on gaining consumer trust and interest by offering unique

services in terms of providing discounts and schemes with delivery applications.

Food delivery applications

The Mexican foodservice industry has expanded its number of home delivery and created partnerships with the most important delivery platforms in the country. According to Statista Digital Outlook, delivery apps in Mexico could generate up to 2,100 million USD by 2021, positioning Mexico as the second Latin American Market.



Uber Eats, this app is a branch of Uber, the transportation service and is the most used food delivery application in Mexico. Users can order from local restaurants from their app or website and receive their products at their door.



DiDi Food is an app used for food delivery, it is an extension of Didi, a Chinese transportation provider. In the last two years, they extended their services from 3 cities to currently 70 cities and works with over 50,000 local businesses.



Rappi, is an app dedicated to the delivery of groceries, food, and other products and services. As consumers are looking for fast services, Rappi has developed a new version of its services called Turbo, working closely with partner restaurants that are already part of their offer and with ready-to-eat food, orders can be placed, and they will be delivered in 10 minutes without affecting the quality of these products²⁶.

Dark Kitchens

The continuing growth in food delivery applications and the pandemic have also driven changes in customer behavior, increasing the importance of dining at home or

²⁵ Mordor Intelligence

²⁶ Milenio

out of the restaurant and forcing traditional restaurants to streamline costs and digitalize their operations to offer quality services for the new digital clients.

Dark kitchens emerged during the pandemic and the main characteristic of these kitchens is to prepare food only for home delivery without the need for physical space, these businesses heavily rely on delivery applications or home delivery services.

This trend gained many followers due to the need to optimize delivery services while looking for more efficient ways to comply with health regulations without losing profitability. These kitchens offer the same quality on dishes, but they increase their effectiveness with a more agile and dynamic work model.

Experts consider that this type of business model will continue to grow in the following years, as it allows restaurants to modify their offers with greater flexibility.

New menus

Another consequence of the new normality is the rising numbers of people concerned about their health. Physical and mental health are closely linked to food, so new healthy options now appear on restaurant menus.

Restaurant menus have increased their healthy options, including organic and plant-based meals, gluten free foods and even superfoods. Moreover, a constant demand for higher quality food will increase, there is a growing tendency related to food of natural and fresh origin²⁷.

Also, the plant based gastronomic trend is becoming popular among people who only want to reduce their meat consumption, vegan alternatives to favorite foods are also being created.

According to the National Chamber of Restaurants and Seasoned Foods, establishments known as casual dining, that is, those with an average check of fewer than 600 pesos and that generally offer this type of food, had a growth of 27% with respect to 2019.

Of these, many are dedicated to the gourmetization of fast food, i.e.: offering hamburgers, yes, but well done. Using quality meat and traceability, bread without preservatives and local vegetables. The same goes for pizzas, sushi and sandwiches.

High-end restaurants -also known as fine dining- already include in their menu's street and casual options, but are prepared with school techniques and higher quality ingredients.

²⁷ Forbes

Update Mexican Official Standard NOM-051

In October 2020, NOM-051 on the labeling of processed foods and non-alcoholic beverages came into force in Mexico. One of the expected impacts of this standard was a reduction in the consumption of Traditional Snacks and an increase in the Healthy Snacks category.

In March 2021, NOM-051 was modified to impose new regulations on the front labeling of pre-packaged

products, to warn consumers about nutritional information and prohibit the inclusion of images, visual games and/or digital downloads that promote consumption by children.

The purpose is to decrease the consumption of products with a low positive nutritional impact on children by removing the attractiveness of product packaging.



Results

The National Institute of Public Health (INSP) is developing a study to evaluate the effectiveness of front-of-pack labelling and to document whether there is a change in the diet and consumption habits of the population after the full implementation of the Mexican Official Standard NOM-051-SCFI/SSA1-2010.

Through a cohort study, which follows a group of people over a certain period, the characteristics of the diet and types of food consumed before and after the implementation of front-end labelling are evaluated, so the impact on the health of the Mexican population can be observed in one or two years, when the first results are presented.

The INSP said that for now it is too early to make a comparative analysis by brand and evaluate changes in dietary habits, due to the existence of new products on the

market with no history of sales since the implementation of warning labelling, which could lead to a bias in the results²⁸.

Simultaneously, according to Alianza por la Salud Alimentaria, changes have been observed in the formulation of product ingredients, gradually increasing the number of products free of seals and legends, for example, of boxed cereals, 5.9% before implementation had seals and now 11% no longer require them.

Furthermore, the restriction of characters on products with seals or legends has been successful, for example, in sugary drinks aimed at children, 39% had characters in March 2020 and by July 2021 the percentage dropped to almost 0%, showing that the entry into force of NOM-051 specifications were effective in regulating unhealthy products that used to appeal to children²⁹.

²⁸ Secretaría de Salud

²⁹ Alianza por la Salud alimentaria

CONCLUSIONS AND OPPORTUNITIES

On the other hand, despite the pandemic and the economic crisis, total snack sales in Mexico (potato chips, chips and popcorn, pretzels and other sweet and salty snacks) reached 3.986 billion dollars in 2020, a 5.5% growth compared to 2019, according to Euromonitor International.

This means that the psychological response of the consumer to the NOM-051 seals and legends is not what the promoters of the new labeling expected.

In addition, consumers with less purchasing power are more indifferent to labeling than a consumer with

more purchasing power. The former type of consumer seeks to satisfy his need with the resources he has, while the latter can contemplate other product options in the same category and choose the one that is most convenient for him.

For further information, we encourage you to check [The Food and Beverage Market Entry Handbook: Mexico](#) made by The European Union in 2019.

- Organic labeling & Intellectual property rights (p.43;45)

Conclusions and Opportunities

The covid-19 pandemic has catalyzed existing trends and opened doors for new solutions in light of global challenges. Mexico is no exception. Based on the information provided in this addendum, there is sufficient information to reflect a strong transition in consumer habits, new delivery options, changes in retailing, food service, growth indicators in niche segments in several food categories in Mexico.

Certainly, consumers modified their consumption habits, becoming more responsible and conscious of the environment as well as their health, while not forgetting to indulge at times – particularly when it comes to the convenience of home delivery.

In short, the post-covid Mexican:

- Makes use of e-commerce platforms for groceries and prepared meals
- Enjoys home delivery
- Is concerned with conscious consumption
- May indulge in answer to the prolonged period of restrictions
- Is more focused on a healthy lifestyle
- Has shifted from almost compulsive to much more intentional consumption

The food categories post-covid Mexicans show highest signs of growth in are:

- Plant-Based Products
- Organic Foods
- Healthy Foods
- Frozen Foods

Food industry players in Mexico are implementing strategies to adopt to new trends. This is evident in home-deliveries, which have grown exponentially, both in terms of ready-to-eat meals as well as full supermarket orders. Large retail chains have decided to include a greater variety of products on their shelves and to expand the organic and healthy section, mainly, and have had to modify their sales channels, incorporating e-commerce.

Furthermore, consumer trends support the growth of specialty stores, which over the past two years have grown in quantity and size. In the case of food service, restaurants have had to include in their menus healthier, gourmet options and incorporate home delivery options.

In short, Mexico is ready for more business. Are you?



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