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Selling High-Quality Consumer Goods to Mexico

Industry Supplement to "Doing Business in Mexico"

June 2002

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Project “Perspectivas México”

http://www.perspectivas-mexico.ch

This publication is the result of a joint effort undertaken by business associations, public institutions and individual corporations in Mexico and Switzerland. The objective of the project is to encourage Swiss small and medium-sized enterprises (SMEs) to have a closer look at the potential of Mexico and to provide interested SMEs with relevant information and advice for the development of their business activities in Mexico.

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1 Introduction

In September 2001, a survey was carried out among members of the Mexican-Swiss Business Association (Asociación Empresarial Mexicano-Suiza) in Mexico in order to identify business opportunities for Swiss exporters in the Mexican market. Many survey participants – mostly high ranking business executives with a good knowledge of both the Swiss and the Mexican business environment – said they saw good business opportunities for Swiss producers of high quality consumer products. The focus on "high quality" is only natural in the light of the Swiss export offer: In general, Swiss-made consumer goods are not designed for price-sensitive mass markets, but they are rather made up by differentiated, high-quality goods, and they usually sell at corresponding prices.

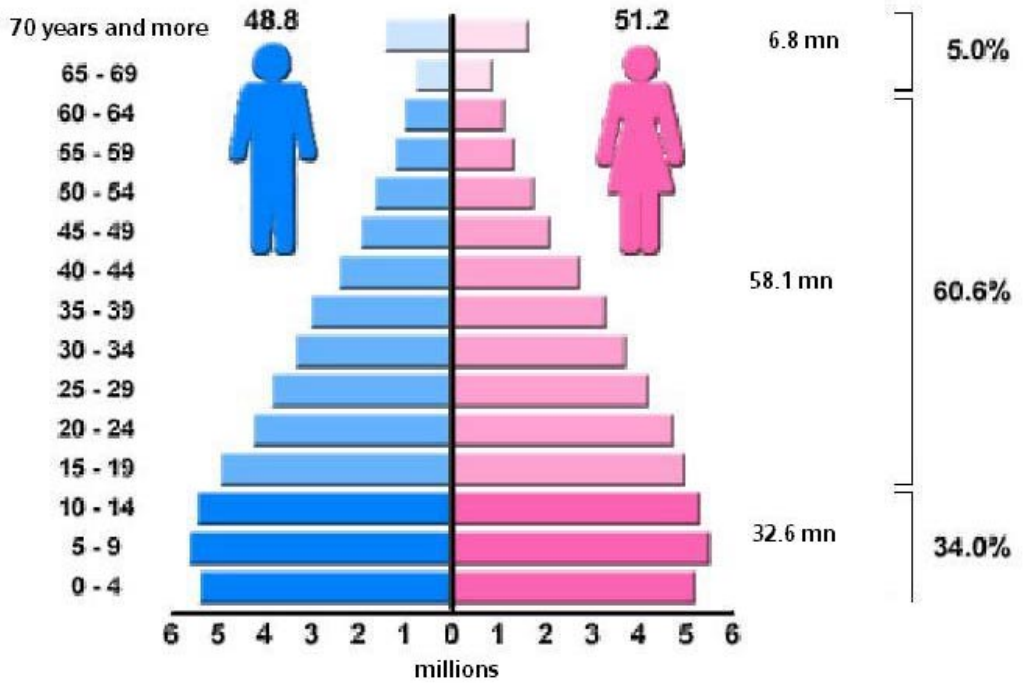
This industry supplement to the guide "Doing Business in Mexico"* contains some additional information required for an evaluation of the Mexican market for consumer goods. Both publications have been prepared as part of the project "Perspectivas México" (see page 2; http://www.perspectivas-mexico.ch). It goes without saying that this introduction can only be very general: "High quality consumer goods" include a wide range of consumer products which stretch from processed food over cosmetic products or fine textiles to electronic or technical devices for domestic use, to name only a few. Variables such as market access, the need for an adaptation to local consumption habits and others differ sharply from product to product. Accordingly, we will limit ourselves to presenting some cursory data on the socio-economic situation of Mexican consumers, their consumption habits and a brief outline of the retail sector. All further research will have to be carried out by individual exporters specifically for the products concerned, possibly in co-operation with local specialists. The book "Doing Business in Mexico" mentioned above will help exporters cope with this task.

2 Market Size

Mexico has the world's eleventh largest population with roughly 100 mn inhabitants. The population is relatively young: More than one third of all Mexicans are less than 14 years old, nearly two thirds are younger than 30 years, and only 5% of the population are older than 65 years (see Table 1).

* Thomas A. Zimmermann: Doing Business in Mexico; Chur/Zurich: Rüegger, 2002; ISBN 3-7253-0725-3; CHF 45.00/EUR 30.00.

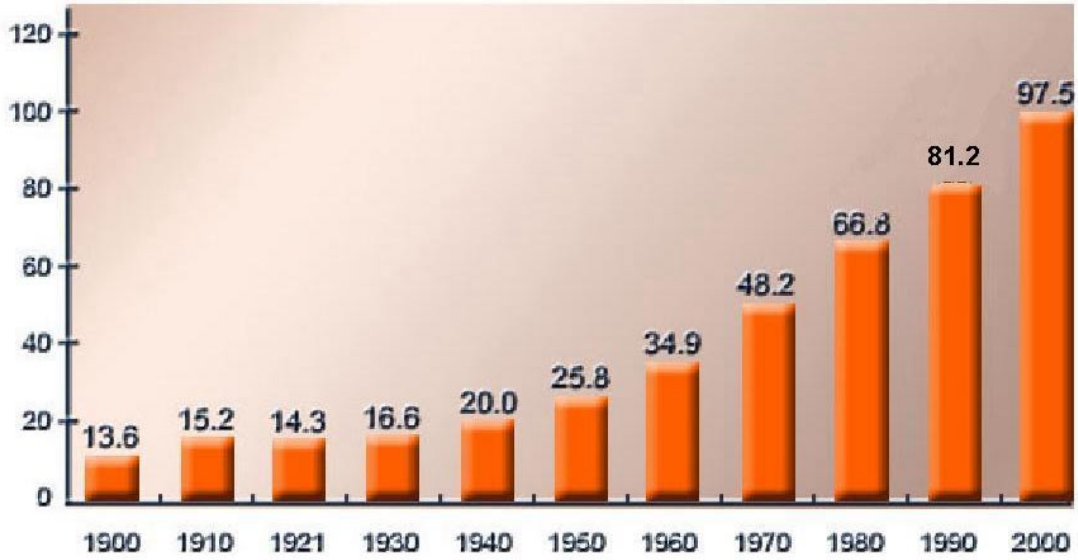
Table 1: Age Structure of the Mexican Population



Source: INEGI, XII Censo General de Población y Vivienda, 2000.

While population growth has been strong in the past, it has recently slowed down. The annual growth rate of the Mexican population is currently approximately 1.6% p.a., and total population is expected to reach 105.4 millions in 2005 (see Table 2 for details).

Table 2: Mexican Population Growth (million residents)



Source: INEGI, XII Censo General de Población y Vivienda, 2000.

The Mexican economy is listed by the World Bank today in the upper range of middle-income economies. At purchasing power parities (PPP), Gross National Income (GNP) per capita was 8'790 USD in 2000 (see Table 3).

Table 3: Size of the Economy: Mexico, Switzerland, and the U.S.

	Population in 2000 (millions)	Gross National Income in 2000 (billions USD)	Gross National Income per capita in 2000 (USD)	Gross National Income (PPP) per capita in 2000 (USD)
Mexico	98	497.0	5'070	8'790
Switzerland	7	273'8	38'140	30'450
USA	282	9'601.5	34'100	34'100

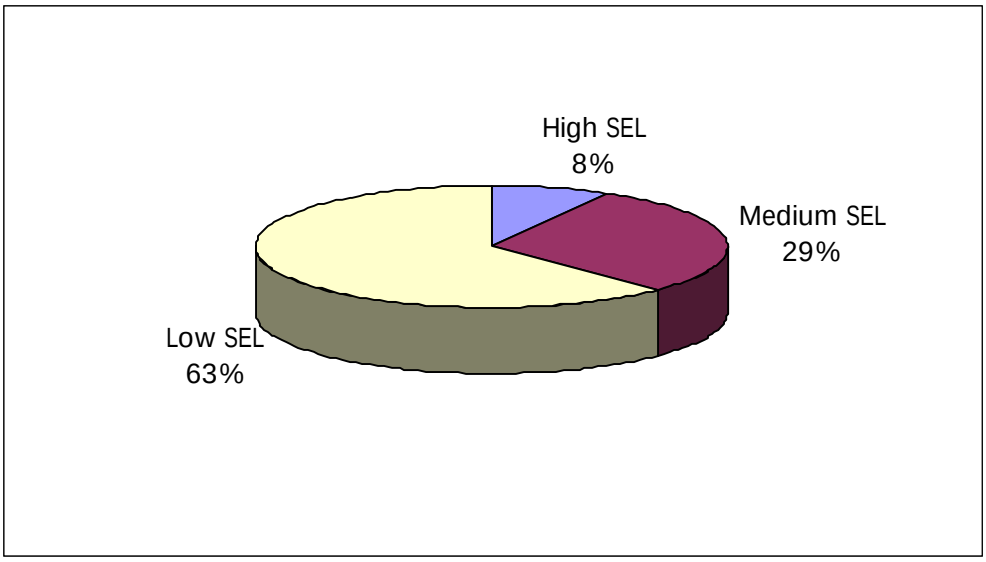
Source: World Bank (2002): World Development Indicators, pp. 18-20. Data used for international comparisons may be calculated according to different methods than (national) data used in the book "Doing Business in Mexico".
Note: PPP = Purchasing Power Parities.

While the average purchasing power of Mexicans remains far below Swiss (or other developed country) standards, income disparities are very high. Given the size of the country, even an upper/upper-middle class which is small in relative terms constitutes an sizeable target market in absolute terms.

Mexican market researchers have defined three "Socio-Economic Levels" (SEL; niveles socioeconómicos) of Mexico's urban population which is of particular interest to marketers.[1] The high Socio-Economic Level (SEL) makes up around 8% of the urban population of Mexico (see Table 4). This is beyond any doubt the most interesting customer segment for Swiss exporters of high quality consumer products. Parts of the Medium SEL (which totals 29% of the urban population) might also be in a position to afford Swiss products. According to other classifications, around 22% of the population belong to the middle and upper classes. These are characterised by graduate or postgraduate education, house and car ownership, as well as occasional or frequent international travel. From these classifications, it may therefore be estimated that between 8 and 22 million Mexican consumers are potential buyers of high-value Swiss consumer products. Most of these consumers are located in the larger agglomerations – particularly, though not exclusively, in Mexico City, Guadalajara and Monterrey.

[1] A.C. Nielsen: Información Demográfica Urbana de los Hogares en México 2000-2001.

Table 4: Socio-Economic Levels (SEL)



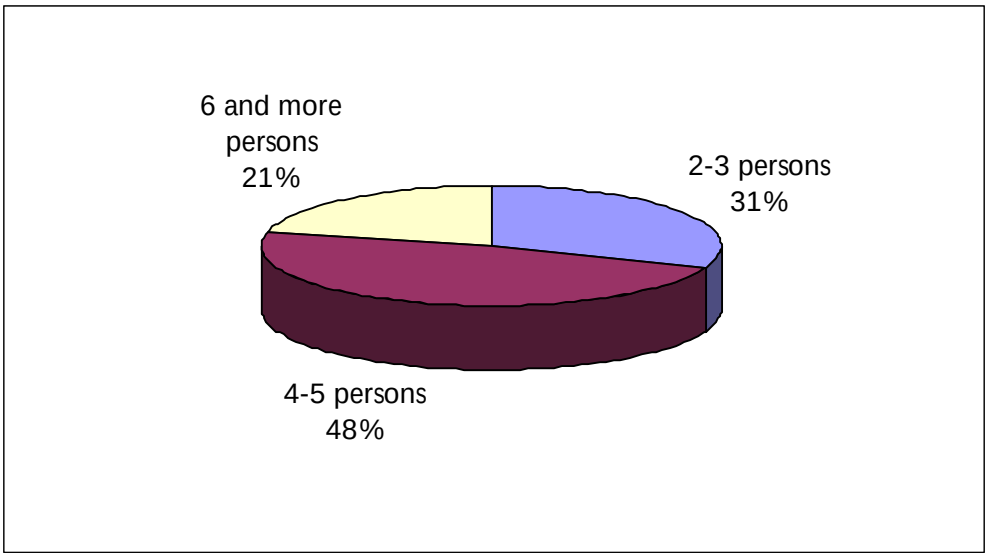
Source: AC Nielsen, FactBook 2001 – Tendenicas del Mercado Mexicano

When evaluating the pruchase power of the population, additional variables than average income should be considered. In the case of Mexico, for instance, the purchasing power of many younger Mexicans is higher than income statistics might suggest at first sight: Unlike their Central European or North American counterparts, it is not uncommon for young Mexicans to stay in their parents' home up to (or even beyond) the time when they get married. They thus save considerable amounts of money on rent which then is often spent on consumer goods.

The differences in family structures are also confirmed by household statistics. Whereas single households have by now become the most frequent household size in some European agglomerations, they continue to be the exception in Mexico: Single households make up only 1.5% of all households in the 2000 population census (compared to 1.0% in 1990). While two thirds of all households consist of couples with or without children (or one parent with children), roughly one third of households include more persons (e.g. grandparents, other relatives etc; see Table 5). In four fifths of all households, the head of household is male.

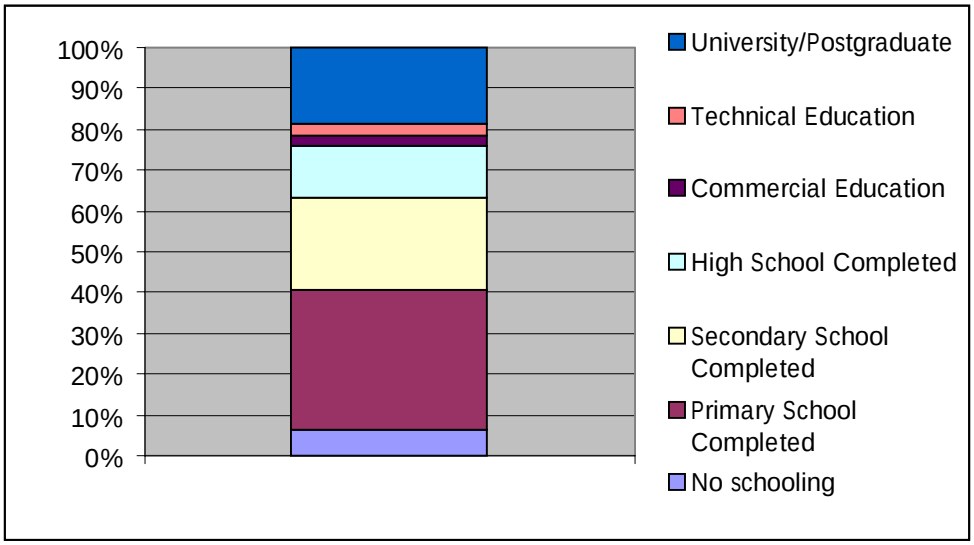
Education levels also play a role in consumer behaviour. In Mexico, the general level of education has risen in recent years: Currently, nearly one fifth of all heads of households in urban areas have a college/university degree. These usually hold professional positions in the public or private sector with an income well above the national average (see Table 6). As consumers, they highly value quality.

Table 5: Household Size



Data Source: AC Nielsen, FactBook 2001 – Tendencias del Mercado Mexicano

Table 6: Education Level of Head of Household

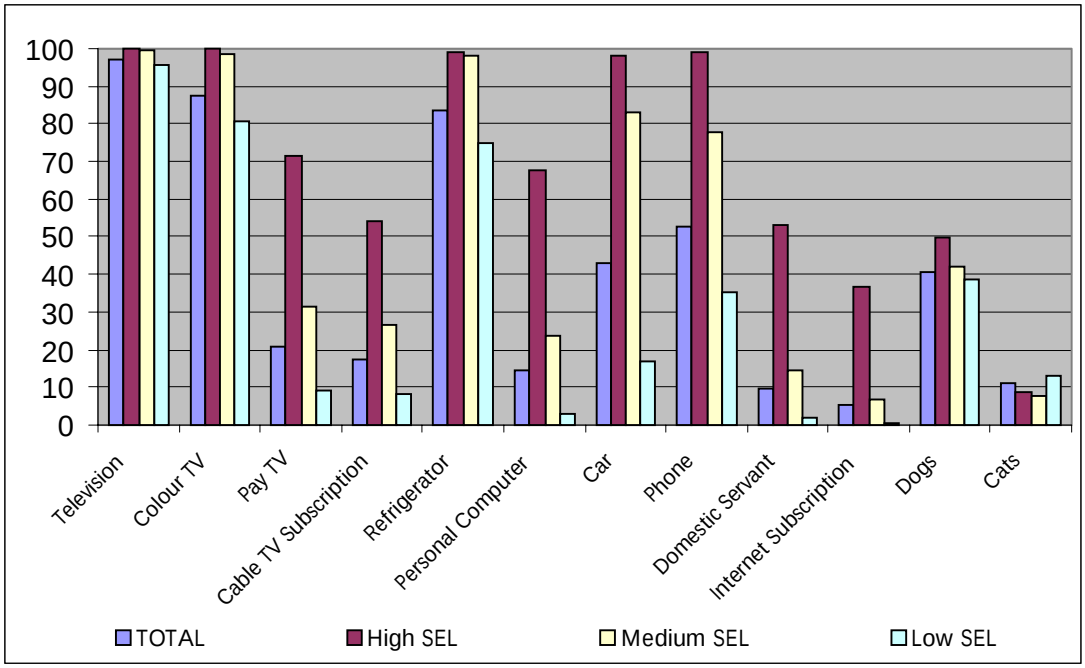


Source: AC Nielsen FactBook 2001 – Tendencias del Mercado Mexicano

3. Penetration of Basic Consumer Goods

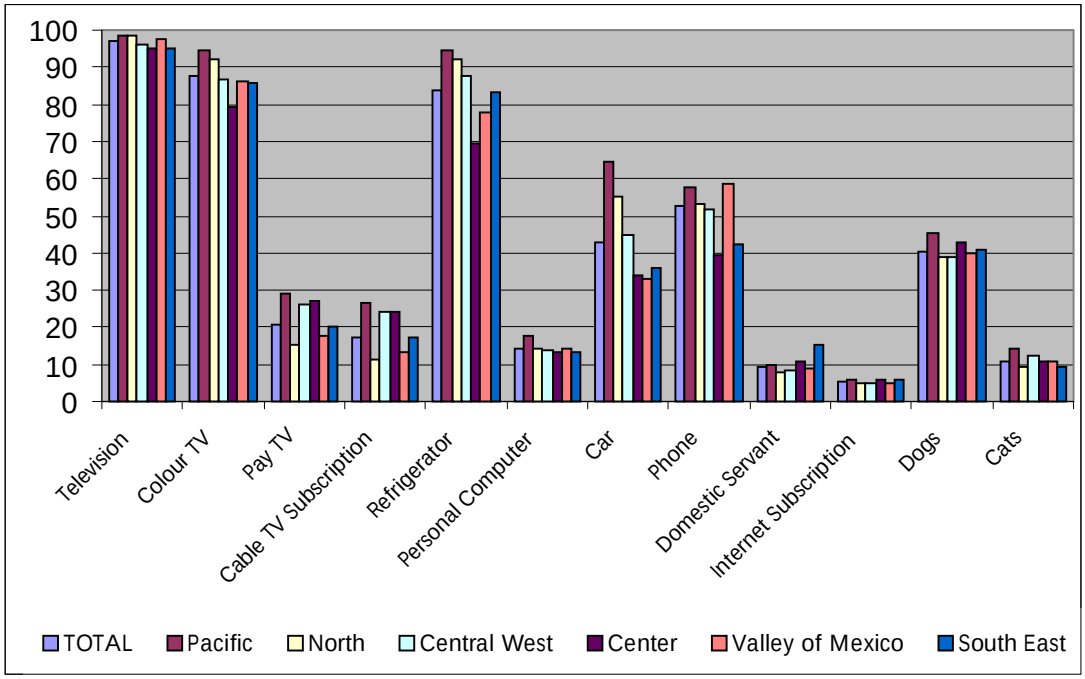
The level of basic services accessible to Mexican households has improved strongly in past decades. According to the 12th population census of 2000, water is available now in 89.7% of all households (up from 79.4% in 1990) and power reaches 95.4% of all households (up from 87.5% in 1990). For exporters of high quality consumer products, the penetration of more sophisticated products and/or services is more relevant: Tables 7 and 8 give an overview of recent data, including further refinements according to the socio-economic level and the region of residence respectively. Again, data is based on AC Nielsen's survey of urban households. The data show marked differences between the various SELs with regard to the penetration of certain households goods or services which are ubiquitous in Europe or North America, such as phone service or a car. These figures underline the considerable gap between the purchasing power of wealthier and less privileged households. With regard to the regional differentiation of consumption habits, the picture shows less marked differences, although the penetration of more sophisticated goods is clearly higher in the Pacific, North and Central West regions of the country than in other areas.

Table 7: Penetration of Selected Goods, Pets, and Domestic Servants by Socio-Economic Levels



Data Source: A.C. Nielsen FactBook – Tendencias del Mercado Mexicano, 2001

Table 8: Penetration of Selected Goods, Pets, and Domestic Servants by Region



Data Source: AC Nielsen: FactBook 2001 – Tendencias del Mercado Mexicano

More detailled data on Mexican consumption habits and purchasing power is available through the following sources: AC NIELSEN (ed.): FactBook 2001 – Tendencias del Mercado Mexicano; INEGI ed. (2001): Encuesta Nacional de Ingresos y Gastos de los Hogares; ENIGH)

4 Consumer Behaviour and the Perception of Swiss Products

As a destination for Swiss exports of high-quality consumer products, Mexico draws its attractiveness from the professional urban classes with a high propensity towards spending. Many of these consumers (and the younger generation in particular) aspire to a lifestyle that is by and large comparable to that of U.S.-Americans. The United States have evolved into a role model through different ways: International travel, relatives living in the U.S., college attendance or the influence of media, to name only a few.

These aspirations to an "international" lifestyle also translate into many Mexican consumers' preference for foreign products. Swiss exporters of high quality consumer products that seek to sell their products on the Mexican market should take this "status orientation" of the Mexican customer into consideration.

Status-oriented consumers may prefer to buy a foreign (including Swiss) product despite a higher price. Although the Mexican market is generally regarded as price-sensitive, the fact, that a product may be inaccessible to others, may be one of the major reasons for a Mexican consumer to buy this product.

"The Mexican consumer is status-oriented. He simply loves to show off."

The "image" of Swiss products on the Mexican market is very helpful in this respect: In general, Swiss products enjoy an image of quality, reliability, functionality, cleanliness and precision. By and large, they are considered as "honest deals". They are, however, also associated with high prices and exclusivity. Swiss exporters of high quality consumer products should build on the positive aspects of this image, but should also be aware of the negative connotations. An adequate marketing strategy will have to be defined, with prior market research (for details, see Chapter 4 as well as Subsections 5.3.1 and 5.4.1 of "Doing Business in Mexico").

5 The Mexican Retail Sector

As has been explained in Section 5.3.1 of "Doing Business in Mexico" on the marketing of consumer goods, rather basic distribution systems exist along with modern structures. The crisis of 1994/95 has even reinforced this gap: While many inefficient retailers were driven out of business and the trend to efficient distribution systems with fewer layers of intermediaries was reinforced, many Mexicans who had lost their job tried to make a living in retailing. Table 9 shows the current structure of the "official" Mexican retail sector, not taking into account the many formal or informal markets, or personal vendors. The explanations in this chapter hold mainly for products of daily need such as food products and various non-food items (cosmetics/hygiene, basic household goods etc.).

Table 9: Current structure of the Mexican Retail Sector

Type	Number of Points of Sale	Percent of Points of Sale	Percent of Retail Sales
Self Service (Autoservicio)	2'800	0.5%	44%
Convenience Stores (Tiendas de Conveniencia)	6'200	1.2%	8%
Pharmacies/Shops (Farmacias/Tiendas)	40'000	7.6%	11%
Small Retailers (Pequeño Comercio)	475'000	90.7%	37%

Swiss producers of high-quality consumer products will have to be aware of the risks inherent to selling products through the multiple layers of the traditional retail sector with its small stores and the many wholesalers/distributors between producer and customer: Control over the product is easily lost, and a producer must make sure that the quality (and brand image) of his products are not compromised by inadequate handling, storage, delays in delivery etc.

Swiss exporters should therefore consider to sell their products through the more developed intermediaries on the Mexican market, and to carefully investigate the qualities of prospective partners in the more traditional sectors (see Section 5.2 of "Doing Business in Mexico" on partnering techniques). In general, it is recommendable to have some sort of business presence in the Mexican market in order to retain some control over the marketing of one's products. An excellent, experienced partner or agent may be an alternative.

At the time of writing, many of the larger retailers are re-engineering their business processes, and they also re-consider their organisation. Due to improvements in infrastructure and logistics (e.g. the just in time principle) as well as information technology advances (e.g. through Electronic Data Interchange; EDI), many retailers are currently centralising their sourcing policies. Table 10 shows recent developments in this respect, while table 11 gives an outlook on current trends and the expected evolution.

Table 10: Centralisation and Development of Distribution Systems Recent Evolution

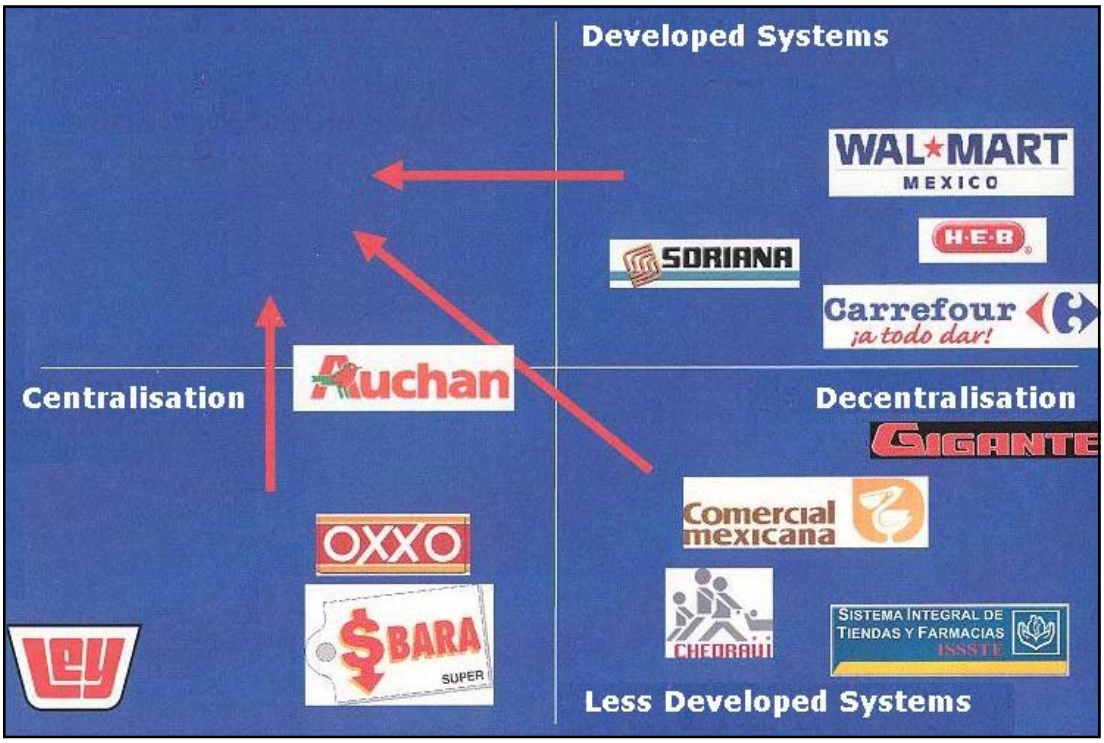
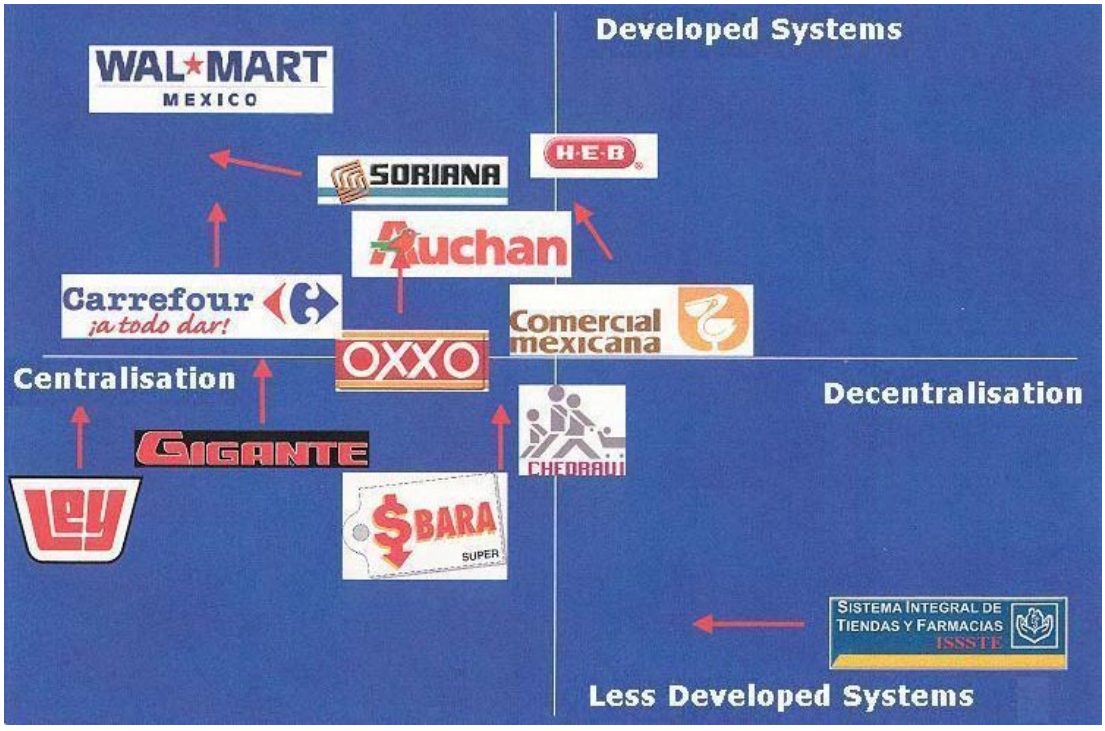
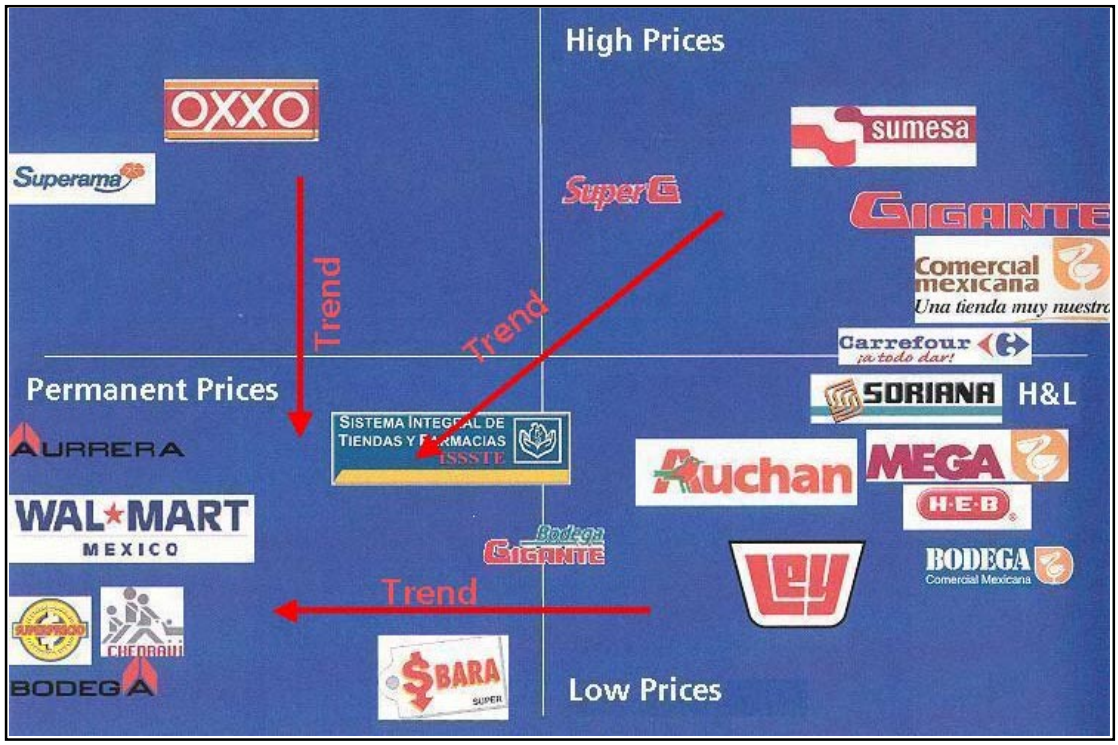


Table 11: Centralisation and Development of Distribution Systems Current Trends



There are also marked differences between retailers in terms of their pricing policies. These differences do not only relate to the general price level but also to whether a retailer predominantly pursues permanent pricing policies, or whether high prices alternate with low-price promotions. This latter strategy was an adequate tool in times of relatively high inflation and a subsequent lack of market transparency in order to attract customers. Nowadays, however, as inflation has come down and market transparency has improved, observers expect that there will be a gradual trend towards permanent pricing. With increased price transparency, competition is also likely to increase along with a downward pressure on prices. This general movement towards lower, permanent prices (and the current situation) is depicted in Table 12.

Table 12: Major Mexican Retailers: Current Price Policy and Trends



The National Retailers' Association of Mexico (Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C.; http://www.antad.org.mx; see Section "Contacts and Resources" publishes regularly a detailed directory of Mexican retailers. Major Retailers and the addresses of their Purchase Department are included in Section xx. Their websites often include information on the current number of stores operated in the country.

6 Outlook

The urban zones of Mexico with their middle and upper classes are a potentially interesting target market for Swiss exporters of high quality consumer products. Recently, the following developments have particularly benefitted imports:

- Reduction of trade barriers: The Free Trade Agreement EFTA-Mexico provides for the gradual elimination of tariffs on industrial products of Swiss origin: While most tariffs have already been eliminated upon entry into force on 1 July 2001, remaining tariffs will be removed until 2007.

- The strength of the Mexican Peso (MXP): In recent years, the Mexican Peso has appreciated considerably in real terms against most major currencies. Although the upward trend has been stopped and slightly reversed in the most recent past (i.e. since mid-April 2002), imported products are accessible for more Mexican consumers than a few years ago.

- Increased availability of consumer credits: After the "Tequila crisis" of 1994/95 had severely reduced the availability of capital, the capital market is now recovering. While credit remains relatively difficult to obtain for corporate borrowers, the availability of consumer credit has improved.

7 Contacts and Resources

The following list is a selection of useful addresses for Swiss suppliers in the consumer goods sector. For further references, please check Chapter 11 of the book "Doing Business in Mexico". In particular, market research agencies are listed in Section 11.9, and useful addresses on marketing and advertising are listed in Section 11.10.

National Retailers Association of Mexico
Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C. (ANTAD)
Horacio No. 1855, Piso. No. 6
Col. Chapultepec Morales
MX-11570 México, D.F.
Phone: ++52-55-55801772
Fax: ++52-55-53952610
E-Mail: antadgral@antad.org.mx
Internet: http://www.antad.org.mx

Walmart (Walmart, Bodega Aurrera, Superama)
Compras
Av. Universidad No. 936-A
MX-03310 México, D.F.
Phone: ++52-55-54200200
Fax: ++52-55-54200209
Internet: http://www.walmartmexico.com.mx

Sam's Club (Grupo Walmart)
Compras
Largo Victoria No. 74
Col. Granada
MX-11520 México, D.F.
Phone: ++52-55-52632000
Internet: http://www.walmartmexico.com.mx

Gigante S.A.
Compras
Av. Ejercito Nacional No. 769-A
Col. Nueva Granada
MX-11520 México, D.F.
Phone: 52-55-52698000 or 52698177 or 52698244
Fax: 52-55-52698381
Internet: http://www.gigante.com.mx

Seven-Eleven S.A.
Compras
Av. Munich No. 195-B
Col. Cuauhtemoc
MX-66450 San Nicolas de los Garza, N.L.
Phone: ++52-81-81580718 or 81580711
Fax: ++52-83-81580703
E-Mail: aavila@7-eleven.com.mx
Internet: http://www.7-eleven.com.mx

Soriana
Compras
Alejandro de Rodas No. 3102-A
Col. Cumbres, Sector No. 8
MX-64610 Monterrey, N.L.
Phone: ++52-81-83299000 or 83299086 or 83299119 or 83299112 or 83299309
Fax: ++52-81-83299180 or 83299341 or 83299123 or 83299211
Internet: http://www.soriana.com.mx

Carrefour S.A.
Compras
Av. Presidente Mazarik No. 219
Col. Chapultepec Morales
MX-11570 México, D.F.
Phone: ++52-55-52832900 or 58992600
Fax: ++52-55-52812961
Internet: http://www.carrefour.com

Casa Ley, S.A. de C.V.
Compras
Carretera Internacional y Calle Deportiva
Km. 1434
Col. Infonavit Humaya
MX-80020 Culiacan, Sinaloa
Phone: ++52-667-791000 or 7591168 or 7591097
Fax: ++52-01-667-7505010

Tiendas Chedraui, S.A. de C.V.
Compras
Av. Javier Rojo Gómez No. 400 Esq. Gavilan
Col. Barrio San Pedro Iztapalapa
MX-09000 México, D.F.
Phone: ++52-55-56248000 or 56248083
Fax. ++52-55-56248034
Internet: http://www.chedraui.com.mx

Comercial Mexicana (Sumesa)
Compras
Av. Adolfo López Mateos No. 201
Col. Santa Cruz Acatlán
MX-53140 Naucalpan, Edo. de México.
Phone: ++52-55-52709000
Internet: http://www.sumesa.com.mx
Internet: http://www.comercialmexicana.com.mx

Costco
Blvd. Magnocentro No. 4
Col. San Fernando la Herradura
MX-52765, Huixquilican, Edo. de México
Phone: ++52-55-52465500 or 52465548
Internet: http://www.costco.com.mx

Cadena Comercial Oxxo
Compras
Edison No. 1235 Norte, entre Av. Colón y Michelena
Col. Talleres
MX-64480 Monterrey, N.L.
Phone: ++52-81-83892121 ext. 3502 or 3901
Fax: ++52-81-83337030
Internet: http://www.oxxo.com.mx

Auchan
Compras
Miguel Angel de Quevedo No. 443
Galeria Commercial Planta Alta Local No. 29
Col. Romero de Terreros
MX-04310, México, D.F.
Phone: ++52-55-54841900 or 54841901
Fax: ++52-55-54841921
Internet: http://www.auchan.com

Palacio de Hierro
Valladolin No. 85
Col. Roma
MX-06700 México D.F.
Phone: ++52-55-52295400
Fax: ++52-55-5142933
Internet: http://www.elpalaciodehierro.com.mx

Sanborns
Galvario No. 106
Col. Tlalpán
MX-14000,México, D.F.
Phone: ++52-55-53259900
Fax: ++52-55-53259940
Internet: http://www.sanborns.com.mx

Liverpool
Mariano Escobedo No. 425
Col. Chapultepec Morales
MX-11570 México, D.F.
Phone: ++52-55-53286500 or 53286400
Internet: http://www.liverpool.com.mx

Farmacias Benavides
Compras
Av. Pino Suarez No. 6012
Col. Ignacio Ramón y Matamoros
MX-64000 Monterrey, N.L.
Phone: ++52-81-81507700 or
Fax: ++52-81-83899974
E-Mail: compras@banavides.com.mx
http://www.benavides.com.mx

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Paseo de la Reforma 215
Col. Lomas de Chapultepec
MX-11000 México, D.F.
Phone: ++52-55-52846600 or 52844551 or 52846621
Fax: ++52-55-52846633

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Col. Centro de Ciudad de Santa Fe.
MX-01210 México, D.F.
Phone: ++52-55-52924343