



2016 Top Markets Report **Cold Chain** Country Case Study

Mexico

Mexico’s national economic growth rate and proximity to the United States make it a key market for export growth. Improvement in government regulation and streamlined border and customs programs would accelerate cold chain growth in Mexico.

Overall Rank

13

Upper-Middle
Category
Ranking

3

Mexico has an estimated GDP of \$1.3 trillion. Exports of goods and services from the U.S. amounted to \$270 billion, or 11.6 percent of all U.S. exports. U.S. majority owned foreign affiliate sales in Mexico were \$235 billion, and distribution services accounted for more than \$70 billion in 2013.¹

The population of Mexico is considered upper middle class, with a per capita income of about \$16,640 (PPP) per year. Unemployment has held steady at 4.9 percent, and inflation was 4.7 percent in 2014.²

Mexico has a great capacity for growth in the cold chain industry in the near future. Retailers and franchisors in the food sector are focused on continuing the nearly 7 percent annual growth in food sales that they have experienced for several years.

While market share of modern supermarkets is low at 3.4 percent, Mexico has seen a growth rate of 54 percent from 2008 to 2013 and per-capita sales growth of 4.6 percent.³ Mexican demand for value-added food imports has grown rapidly in recent years, as the introduction of supermarket food distribution systems has become more prominent.⁴

Growth in consumer income will lead to increased demand for food products; franchisors and other food retailers have significant opportunity to utilize a collaborative model when establishing cold chain infrastructure with Mexican farmers.

Figure 1:

Competitiveness Index	Score
Government/Regulatory	3.4
Labor Force	4.0
Infrastructure	4.4
Demand/Business Factors	4.5
Industry Interest	5.0

World Economic Forum and Global Cold Chain Alliance

Economic Statistics	
Population	127 Million
Cold Storage Capacity	5.0 M/m ³
Pharmaceutical Sales	\$11.2 Billion
Food Spending	\$58.5 Billion
Food Spending per Capita	\$460
Agribusiness Market	\$52 Billion
Agriculture Imports	\$4.8 Billion
Agriculture Exports	\$1.4 Billion

BMI and Global Cold Chain Alliance

The franchise sector in Mexico is the fifth largest market in the world and is expanding rapidly, estimated to have grown 11 percent in 2015. U.S. fast food and casual restaurants are common, and the food and beverage segment is estimated to be nearly one-third of the total franchise market.

E-commerce faces numerous challenges in Mexico. The rate of broadband penetration and digital literacy

ranks at the bottom of OECD countries. Over 50 percent of the country’s 51.2 million Internet users are in Mexico City, Guadalajara and Monterrey. There is a cultural distrust of the largely ineffective postal and online payment systems; in fact, only 64 percent of e-

commerce payments are made by credit card. Despite these issues, e-commerce has grown by 42 percent to reach \$9.2 billion in 2013.

Pharmaceutical sales are expected to reach \$14 billion in Mexico by 2020.⁵ Cargo theft is a frequent concern and a huge entry barrier to the Mexican market, especially with high value products like pharmaceuticals. In the United States, pharmaceutical distributors typically operate on low margins, and thus cargo theft may jeopardize the financial health of a distributor and cause distributors to charge higher prices to account for the risk.

Mexico has burdensome customs procedures for express delivery services, and couriers are 100 percent liable for all of the contents of their shipments.

Mexico's \$52 billion agri-business is highly dependent on trade with the United States. Most agricultural products in Mexico travel by truck, and the United States is a large consumer of Mexican produce. There may be significant opportunity to expand cold storage facilities in regions that produce agricultural products exported to the United States.⁶

Mexico is the eighth largest food producer in the world at over \$140 billion and comprises some of the largest international producers. As the Mexican economy continues to develop, demand for food products will continue to increase. Furthermore, given the U.S.-Mexico relationship, demand on the U.S side has a large impact in Mexico. Geographic proximity has made the United States and Mexico strategic partners in the food industry. Mexico is the United States' second largest food supplier, totaling \$17.7 billion in exports in 2013.

Mexico ranked 38th in the World Bank's 2016 Ease of Doing Business, an improvement of four places since 2015, when the survey was recalculated. Of particular note were low rankings in the categories of Registering Property and Paying Taxes.⁷

Corruption and crime are large concerns for businesses in Mexico. The country has one of the highest homicide rates in the world, and government institutions are extremely inefficient. Mexico is very open to trade and, through the NAFTA agreement, has relatively simple processes for importing and exporting, with low tariff rates on most U.S. products.

Mexico is ranked 58th out of 124 countries in the World Economic Forum's Human Capital index 2015.

Figure 2: World Bank Doing Business Ranking

Country	Ranking (2016)	GDP Per Capita (PPP, 2014)
Mexico	38	\$17,107
Russia	51	\$25,635
China	84	\$13,206
Brazil	116	\$15,838
India	130	\$5,701

The population has a median age of 26 and a labor participation rate of 61.6 percent. More than 8 percent of the population is tertiary educated, and the country is ranked 61st in ease of finding skilled employees.⁸

Infrastructure is one area that has historically limited Mexican cold chain capabilities. While Mexico has a modern highway system that connects main industrial areas, transportation infrastructure beyond major cities is often lacking. Mexico's quality of transport infrastructure is ranked 36th out of 140 countries in the World Economic Forum Global Competitiveness index, with Quality of Railroad Infrastructure the lowest scoring category.⁹

The government is focused on capitalizing on the 44 international trade agreements it has signed by modernizing roads and transportation infrastructure to turn the country into a well-connected, global logistics center. Current projects include modernizing and expanding ports and multimodal corridors. Estimates attribute as much as 15 percent of total product costs to transportation and logistics.

Mexico ranked 50th out of 160 countries in the World Bank's 2014 Logistics Performance Index (LPI). The LPI is an indicator of key dimensions of a country's logistics performance, including Customs, Infrastructure, International Shipments, Competence, Tracking and Tracing, and Timeliness. The country has shown overall improvement trends in every category of the Index since 2007, though the categories of Tracking and Tracing and Timeliness have declined since 2010.¹⁰

Cold chain service providers are investing and growing throughout the country. The cold chain industry will likely continue to see growth of nearly 30 percent as Mexico upgrades its infrastructure. Maintaining a

stable government and electricity supply, as well as improving transportation, will be essential to sustain growth in the industry.

Resources:

U.S. Commercial Service – Mexico
<http://www.export.gov/mexico/index.asp>

Mexican Embassy in the U.S.
<http://www.embassyofmexico.org>

Mexican Office of the President
www.presidencia.gob.mx

Secretariat of Economy (SE)
<http://www.economia.gob.mx>

American Chamber of Commerce in Mexico, A.C.
<http://www.amcham.com.mx>

U.S.-Mexico Chamber of Commerce
<http://usmcoc.org>

Events:

Expo Carga – June 28-30, 2016
<http://www.expo-carga.com>

Industry's Take:

Mexico is experiencing a high growth rate with regard to exports and domestic consumers purchasing ready-to-eat meals from the organized retail sector. There is one major 3PL in Mexico; more and more players, however, are entering the market. It will only be a matter of time before the global players make their move.

Richard Tracy, Global Cold Chain Alliance

¹ Bureau of Economic Analysis; <http://bea.gov/international/factsheet/factsheet.cfm?Area=213>.

² The World Bank; <http://worldbank.org>

³ International Association of Refrigerated Warehouses; "2014 IARW Global Cold Storage Capacity Report"; Salin, Victoria.

⁴ Industry Issue Paper: Refrigerated Food Transport from Canada to Mexico: Cold Chain Challenges. CTRF. 2010

⁵ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁶ Border opens to Mexican trucks. U-T San Diego. January, 2015.

⁷ World Bank 2016; "Doing Business 2016: Measuring Regulatory Quality and Efficiency"; <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

⁸ World Economic Forum 2015; "Human Capital Report 2015"; http://www3.weforum.org/docs/WEF_Human_Capital_Report_2015.pdf.

⁹ World Economic Forum 2015; "Global Competitiveness Report 2015-2016"; http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

¹⁰ World Bank 2014; "Connecting to Compete: Trade Logistics in the Global Economy"; http://lpi.worldbank.org/sites/default/files/LPI_Report_2014.pdf.