

CONTENTS

1. THE MEXICAN DAIRY INDUSTRY
2. DAIRY BEVERAGES
3. ALTERNATIVE MILKS
4. FORTIFIED DAIRY PRODUCTS
5. CHEESE
6. YOGHURT AND LOCAL DAIRY PRODUCTS
7. ICE CREAM IN MEXICO
8. ICE CREAM CONSUMPTION HABITS IN MEXICO
9. TRENDS AND CHALLENGES IN THE MEXICAN DAIRY INDUSTRY

1. THE MEXICAN DAIRY INDUSTRY

Mexico is the world's largest importer of skimmed or fat-free powdered milk (2016 figures).

The consumption of milk and dairy products in Mexico has comfortable potential for growth, although per capita consumption is below international recommendations, below the global average, and even lower than the average values of developing countries.

In 2017 national milk production is expected to increase by 1.7 per cent, consumption to increase by 2.8 per cent, and imports to rise by 6.8 per cent over the previous year.

Milk production in Mexico has recorded positive figures since 1995, and is characterised by very heterogeneous environmental, socio-economic, technological and farm management conditions.

In 2016 the country produced its historic maximum of 11.6 billion litres of milk; According to figures from the Food and Fisheries Information Service (SIAP), between 2013 and 2016 national milk production grew at an average annual rate of 1.9 per cent, while consumption grew by 3.4 per cent to reach 14.68 billion litres.



This volume includes liquid, evaporated, condensed and powdered milk, this last product converted to its equivalent in liquid milk. Due to Mexico's inability to supply the demand of its domestic market, net imports have grown at an average annual rate of 9.9 per cent during the last five years, reaching 3 billion litres. In 2016, the imported volume was equivalent to 21 per cent of national consumption.



In terms of value, the main products from the dairy industry and its derivatives are: pasteurised and ultra-pasteurised milk, cheese, yoghurt, powdered whole milk and powdered milk for babies.

Powdered milk is the biggest imported dairy product; in 2016, 90 per cent of purchases of this product were made from the United States.

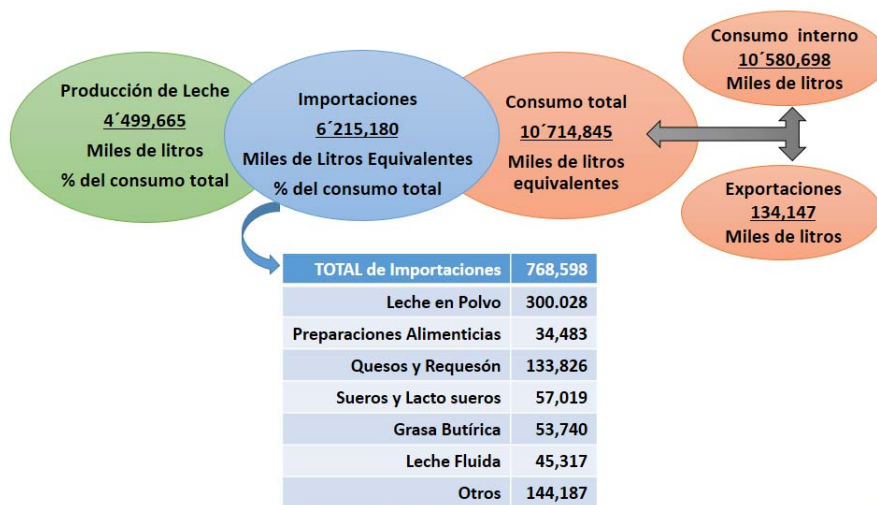
In 2017 national milk production is expected to increase by 1.7 per cent, consumption to increase by 2.8 per cent, and imports to rise by 6.8 per cent compared to the previous year.

Mexicans consume 15 billion litres of dairy products per year, including cheese and yoghurt; national production reaches only 11 billion litres so it is necessary to import 4 billion litres, of which 85 per cent come

from the USA, followed by New Zealand, Uruguay and various European countries, explains the president of the National Dairy Industry Chamber of Commerce (CANILEC), Miguel Ángel García Paredes.

Some 71 per cent of these imports come from countries with which Mexico has signed trade agreements that include dairy products.

Production, imports, exports and consumption in 2016



País	Toneladas	%
Estados Unidos de Norteamérica	562,111	73.13
Nueva Zelanda	81,953	10.66
Holanda	21,843	2.84
Irlanda	14,846	1.93
Uruguay	14,724	1.92
Alemania	13,453	1.75
Malasia	10,975	1.43
Chile	8,894	1.16
Canadá	6,514	0.85
Argentina	5,813	0.76
Francia	3,659	0.48
Dinamarca	3,534	0.46
Australia	2,048	0.27
Resto	18,221	2.36
TOTAL	768,598	100

Source of imports, 2016



Durante el 2016, el 83,79% del total de las importaciones provino de 2 países, Estados Unidos de Norteamérica con el 73.13% y Nueva Zelanda con el 10.66%.

Fuente: Administración General de Aduanas

Cámara Nacional de Industriales de la Leche



Imports, first quarter 2017

* Los productos listados son los más relevantes por volumen, y aunque de Leche evaporada y de la Lactosa Anhydrous no se importó nada durante el primer trimestre, esto no significa que más adelante no se traerá. Observen las importaciones de otros años y verán que si existe volumen de leche evaporada y de lactosa anhydra.

Producto	Toneladas
Leche fresca y crema	8,413
Leche descremada en polvo	75,037
Leche entera en polvo	270
Preparaciones Alimenticias	5,128
Suero dulce en polvo	14,523
Quesos	33,258
Leche Evaporada*	0
Leche Condensada	711
Helados	4,409
Lactose Anhydrous*	0
Caseínas	3,367
Otras Importaciones	72,300
Total	184,191

País	Toneladas	%
Estados Unidos de Norteamérica	139,964	75.99
Nueva Zelanda	20,400	11.08
España	4,474	2.43
Holanda	3,772	2.05
Alemania	3,380	1.84
Chile	2,611	1.42
Malasia	2,593	1.41
Uruguay	2,415	1.31
Irlanda	1,023	0.56
Dinamarca	918	0.50
Francia	508	0.28
Argentina	304	0.16
Noruega	265	0.14
Resto	1,564	0.83
TOTAL	184,191	100



Fuente: Administración General de Aduanas

Cámara Nacional de Industriales de la Leche

◀ ▶ Cámara Nacional de Industriales de la Leche



In 2016, Mexico was the biggest importer of skimmed and non-fat milk in powder form.



2. DAIRY BEVERAGES

TRENDS: In Mexico, there are some brands positioned as milk that are generating controversy because they are not 100 per cent milk, but rather 'combined dairy products', also called dairy formulas. This means that they are made from milk components with the addition of other ingredients such as water and vegetable fats, making them cheaper than milk. In 2015 and 2016, combined milk products performed well due to their affordability. However, this situation has caused unconformity among many milk brand owners who do not have 'combined dairy products' in their portfolios; they claim that even if these combined products state on

their packaging that they are actually combined dairy products, consumers are not truly aware that they are buying a beverage that is not milk and has less than the 30 grams of protein per litre expected for milk. However, other milk producers have seen combined dairy products as an opportunity for growth, a case in point being Grupo Lala SAB, which owns Nutrileche, a combined dairy product brand that is well positioned in Mexico.

COMPETITIVE LANDSCAPE: Mexican companies lead the field in dairy products: top place is held by Grupo Lala SAB de CV with a market share of 37 per cent. The company is constantly developing new products geared towards satisfying the needs of different target groups, from children to women to senior citizens, amongst others. Second place is held by Ganaderos Productores de Leche Pura, better known as Alpura, with a market share of 22 per cent thanks to its solid distribution network and high brand awareness. Liconsa SA de CV ranks third, with a market share of nine per cent. This company is the government body in charge of running the milk social programme.

OUTLOOK: Due to the pressure from milk producers to regulate these combined dairy products, it is likely that in the short term they will be subject to stricter legislation. For example, some of the industry proposals to even further regulate these products include not just stating that they are a combined dairy product but clearly emphasising that they are not milk. Another suggestion is that they not be permitted to use the word 'milk' in the brand name, which they are allowed to do at present. The expected outcome is that consumers will be made aware of the difference between milk and combined dairy products and hence will be able to make a more informed decision when shopping.

3. ALTERNATIVE MILKS

TRENDS: Nestlé México was the most active company in terms of innovation and marketing campaigns. The company focused on developing the coffee whitener category through the marketing support of its core brand Coffee-Mate and by introducing a new brand, Carnation Clavel. Nestlé also supported condensed milk and cream with a lower presence in the mass media than its coffee whiteners, but with several promotional campaigns to attract consumers' attention at the point of purchase.

COMPETITIVE LANDSCAPE: Nestlé México is the leader in other dairy products with a market share of 45 per cent in terms of value in 2016. The company is involved in most of the other dairy categories: cream, coffee whiteners, dairy-based desserts, condensed/evaporated milks, and fresh cheese.

OUTLOOK: During the forecast period it is expected that other dairy producers will continue to innovate to increase their market penetration among new and potential consumers. These innovations will include healthier alternatives, such as low-fat, low-sugar and lactose-free products, as Mexican consumers are becoming much more aware of disease prevention through a healthy diet thanks to government campaigns.

4. FORTIFIED DAIRY PRODUCTS

Milk, yoghurt and cheese continue to perform well, adding value with fortified dairy products which are at the forefront of innovation, moving beyond liquid milk, using whey and achieving the ideal texture in cheeses. The effect of high pressure on microbiological quality has allowed new products to be developed that take the maximum advantage of the functional properties of food ingredients such as hydrochlorides and proteins, amongst others.

5. THE CHEESE MARKET IN MEXICO

The cheese market in Mexico is a burgeoning sector with consumption rising every year, due to both the large number of indigenous varieties and the arrival of foreign cheeses on the market.

Cheese consumption is very high in Mexico, driven to a large extent by the large number of native cheeses (around 20 varieties) such as Panela, Añejo, Oaxaca, Cotija, Asadero, Chihuahua, Sierra and Adobera and due to the massive use of cheese in many of the most typical Mexican dishes (quesadillas, soups, tostadas, enchiladas, etc.).

Having said that, most of the cheeses eaten by Mexicans tend to be mild and with a smooth, creamy texture as they are normally melted or used for au gratin dishes.

In 2015, cheese imports reached 502 million dollars and 116 million kilos; these figures represent a slight drop in imports in terms of value compared to the previous year, but a record in terms of volume, showing that the average price of imports fell significantly in 2015, going from 5.22 USD/kg to 4.32 USD/kg.

Imported cheeses are generally sold in specialist stores or the gourmet sections of department stores (such as Liverpool and Palacio de Hierro) and in large supermarket chains, which tend to have a separate area for these products (such as Wal-mart, Soriana and Chedraui, amongst others); and, to a lesser extent, in restaurants and the HoReCa channel.

With regard to barriers to entering the market, exporters first need to obtain a health certificate issued by COPEPRIS and SENASICA, as well as the usual export documents, and must comply with all labelling and packaging regulations. However, the main barrier to entering the market is customs duties.

Nevertheless, the cheese market in Mexico is evidently growing and imported cheeses are highly regarded, so it is well worth foreign producers giving this market some consideration.

Source: ICEX.

6. YOGHURT AND LOCAL DAIRY PRODUCTS

TRENDS: In 2015 and 2016, yoghurt proved to be a dynamic category in terms of innovation. The leading companies showed continuous evolution in their portfolios, getting rid of less profitable items and replacing them with new products that more closely meet consumer preferences. Innovations during the year under study included new flavours, healthier ingredients, new sizes and even new brands.

COMPETITIVE LANDSCAPE: In 2016, Grupo Lala led the yoghurt and sour cream market with a retail market share of 23 per cent. The company not only markets its own Lala brand portfolio, but also, since 2014, has had a license to manufacture and distribute Nestlé's yoghurt brands. The second and third places are held by Yakult SA de CV and Danone de México SA de CV, both with a retail market share of 21 per cent in 2016.

OUTLOOK: Innovation will continue to play a key role in the yoghurt category, with companies investing in research and development to guarantee their differentiation and to attract new consumer groups. Health and wellness versions of yoghurt, as well as those containing super-grains and super-fruits, stevia and other functional ingredients, will continue to attract consumers and win market share.

7. ICE CREAM IN MEXICO

- Ice cream, frozen desserts and ice lollies are bought by seven out of ten households, especially those with children
- The average household buys three litres of ice cream per year
- In spring, ice cream consumption in Mexico rises by 48 per cent

In 2016, 69 per cent of Mexican households bought ice cream, ice lollies or frozen desserts, representing four per cent of the average annual expenditure of Mexican families on consumer goods.

This consumption is equal to **three litres of ice cream/lollies/frozen desserts**, representing expenditure of **\$132**; in other words, the average household made **4.7 purchases of \$28.3 each** on products for consumption at home.

The high season for eating frozen desserts spans **five months**, from April to August (spring – summer), with May being the peak month. The consumption of these products kicks off in spring, rising by **48 per cent compared to the rest of the year**.

Looking at the figures by day of the week, Sunday is the day when most ice cream is bought, but curiously the second most popular day is Thursday.

Of the **55 flavours currently available**, on average Mexicans tend to take home **2.7 flavours a year**; in other words, they stick to their favourites.

The top five flavours bought by Mexican families among ice cream, lollies and frozen desserts are: **Neapolitan, Vanilla, Chocolate, Strawberry and Cookies & Cream**, in that order.

If we look specifically at ice cream and sorbet, **Lemon** displaces Cookies & Cream.

The biggest fans of frozen desserts live in the **North West**; though fewer households buy these products in this region than in the rest of the country (**62 vs 69 per cent**), but **they buy more** over the year, reaching **5.1 litres (2.1 litres more than the average household)** which in terms of value is equivalent to **\$166** per year.

Of the different types of frozen desserts, ice cream accounts for the biggest sales, representing **81 per cent in terms of volume**, followed by **ice lollies with 10 per cent, frozen desserts with 5 per cent and ice cream sandwiches with 4 per cent**.

Ice cream is eaten more in households with **medium and high income levels, with children and teenagers, and even in families with adult children**. In the case of **ice lollies, these are more popular among medium-low and low income groups**, while frozen desserts are bought mainly by **low income households, with young housewives and children aged under five**.

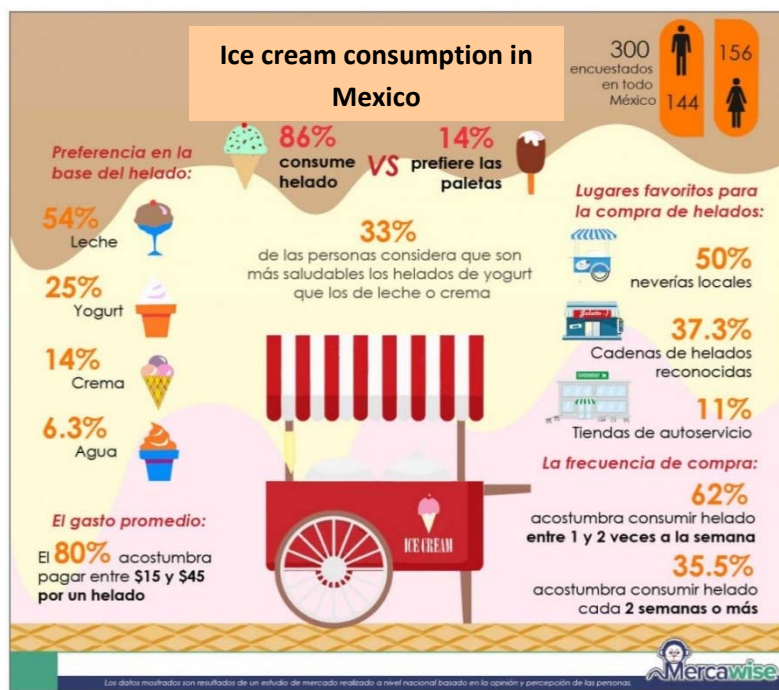
Almost half of these refreshing desserts are bought at the **corner shop**, followed by **self-service stores**.

'Ice cream is eaten all year round in Mexico, but consumption rises by up to 48 per cent in spring compared to the rest of the year. Households with children and teenagers are the ones whose ice cream consumption soars in the hotter months, 75 per cent more than the rest of the year,' says Fabián Ghirardelly, Country Manager at Kantar Worldpanel Mexico.

8. ICE CREAM CONSUMPTION HABITS IN MEXICO

ICE CREAM, SORBET OR ICE LOLLY?

Beyond the difference between whether the base is water or milk, and the multitude of flavours and mixes, it is a fact that **the vast majority of consumers prefer ice cream** (86 per cent) to ice lollies (14 per cent), and within that base, **54 per cent prefer it to be milk-based, 25 per cent prefer yoghurt-based, 14 per cent prefer cream, and just 6.3 per cent prefer water-based ice cream.** This is because one-third of consumers believe that **yoghurt ice cream is healthier** than cream-based ice cream. It is lighter than milk-based ice cream but tastes better and is more consistent than water-based ice cream; however, one-third of consumers believe that at the end of the day **eating any kind of ice cream repeatedly and in large quantities is harmful to health.**



FREQUENCY AND EXPENDITURE ON ICE CREAM CONSUMPTION IN MEXICO

Almost 40 per cent of people **tend to eat ice cream once a week**, followed by those who eat it twice a week and then those who eat it every two weeks or more.

In terms of expenditure, around 80 per cent of people **tend to pay between 15 and 45 pesos per visit per person.**

9. TRENDS AND CHALLENGES IN THE MEXICAN DAIRY INDUSTRY

TRENDS

- Mexico will continue having to import raw materials to supplement those available nationally.
- The integration of companies is going to happen more and more often.
- Integration with the primary and retail sectors will be necessary to improve consumer knowledge and customer service.
- The industry will be supplied by more integrated livestock farmers who have chilling, concentration, standardisation and transport equipment available.



- The industry will continue to grow and it is estimated that by 2025 it will need to be producing 14.2 billion litres per year (+ 1.7 per cent year-on-year) of fresh milk to supply a market of 18.2 billion litres per year (+ 1.4 per cent year-on-year) in a Mexico with 126 million inhabitants.

CHALLENGES

- Comprehensive exploitation of the whey generated by the cheese industry, taking advantage of its nutrients and water and preventing damage to the environment.
- Innovation and creativity in finished products and the use of technology to add value.
- Maintaining and intensifying self-regulation in terms of quality, standardisation and marketing ethics.
- Food safety throughout the chain.