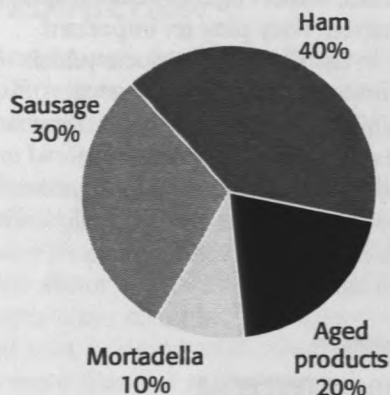


Market for Processed Pork



Source: Interviews.

The industry is consolidating itself. Important vertical and horizontal linkages are being forged at every level of the industry:

- hog producers are either being absorbed by processors or coming together into alliances;
- processors are expanding vertically. Some are acquiring breeding facilities, others are developing or buying into their distribution network;
- some processors are creating horizontal links with American producers and processors, for example, the alliance between *Sigma Alimentos* and John Morell; and
- independent distributors are forming alliances in order to cut costs, limit risks and improve service.

This restructuring trend is already evident in many parts of the industry. It is expected that the North American Free Trade Agreement (NAFTA) and recent agrarian reforms will accelerate this trend.

Foreign Competitors

The United States dominates the market for imported pork. Some importers deal exclusively in American products, often in association with firms in the United

States. Other important sources of imported pork are Spain and Denmark.

Canadian pork enjoys a very good reputation in Mexico. In comparison to American pork, Canadian products are perceived as having better texture, containing less salt and being less greasy. The genetic stock of Canadian pork is considered superior to American pork. High-quality Mexican pork is considered superior to both American and Canadian products.

PRODUCT TRENDS AND OPPORTUNITIES

Consumer demand is driven mainly by population growth, seasonal trends and a growing trust in the quality of pork meat. Consumption of meat of all kinds is directly related to purchasing power, although pork is a lower-cost substitute for beef.

Mexican buyers of pork products seek to fill their lines with all the possible types of cuts. This is due to the broad tastes of Mexican consumers who demand almost any part of the animal in one form or another. The difference between buyers is mainly the quality and price range of products they carry. Some key demands are readily identifiable:

- carcasses for the in-store butcheries of the large retail stores and certain restaurants and hotels;
- high-end deli-products such as smoked meat and cold-cuts for retail stores carrying a line of prestigious goods;
- internal organs for large and small retailers located in the lower-class or semi-rural areas; and
- non-sliced or packaged cold-cuts particularly for the "mom and pop" stores.

Food service buyers frequently structure their buying lists according to the events they are holding, pre-tailored specifications, and the quality and taste preferences of the chefs. Quality tends to lead over price considerations.

OPPORTUNITIES FOR CANADIAN SUPPLIERS

Industry experts in Mexico believe that, assuming Canadian pork products continue to be price competitive relative to American products, Canada could eventually achieve a 50 percent share of the import market. They add that this would require a much larger allocation of resources for promotion. In particular, there is a need for better consumer understanding that Canadian pork is very high quality.

Mexican producers have difficulty producing high-quality, luxury deli-products as well as bacon. Mexican consumers have come to prefer American style bacon such as "Bacon-Maker". This is an exception to the general finding that consumers find American pork to be excessively greasy and salty compared with both high-quality Mexican and Canadian pork.

Mexican pork processors are interested in creating alliances with foreign producers as a means of improving their cost competitiveness and quality standards. They have a positive perception of the Canadian industry. In particular, they regard the Canadian genetic stock as superior.

DISTRIBUTION CHANNELS

The distribution system for domestic pork is complex and costly. It has been estimated that the cost of retail pork is increased 7.5 times over the producer's price for the live animal. There can be as many as five levels, or intermediaries, between the producer and the consumer.