

food processors are now restructuring in an effort to respond to this rapidly growing market.

The larger, better capitalized companies have been able to expand their markets and rationalize production through acquisitions. Some companies are building greenfield plants, often using technology from American or European partners.

Mexico's trade-oriented economy and changing demographics will have a dramatic impact on food processing in coming years. Under the North American Free Trade Agreement (NAFTA), prices for freezers and microwave ovens are expected to fall. There is a trend towards more modern forms of merchandizing, including supermarkets and discount stores. These factors are expected to increase demand for processed convenience foods. This will create opportunities for suppliers of all types of food processing equipment. The potential is particularly good for high-technology equipment not yet available from Mexican suppliers. The sharp devaluation of the peso that occurred in December 1994 will not diminish the need to modernize, but it will limit financing. Canadian joint venture partners who can bring their own capital will find many potential partners.

THE MEXICAN FOOD PROCESSING INDUSTRY

A handful of corporate giants dominate an industry that continues to include more than 40,000 micro-enterprises selling small volumes in their own neighborhoods.

About 8,000 food processing companies are registered with the *Cámara Nacional de la Industria de Transformación (CANACINTRA)*, Mexican Association of Manufacturers. According to association officials, there are more than 40,000 additional unregistered companies in the industry. These are

mostly small family-owned firms which market their products within a few blocks or a few kilometers of their facilities.

The industry is dominated by a few major players. Mexican family firms that have become industry leaders share shelf-space with a large number of American and European multinational brands. The multinationals typically work with a Mexican partner, or license their brands to Mexican firms.

INDUSTRY GROWTH

The Mexican food processing industry has grown steadily, even in the face of fluctuating economic conditions. The industry maintained growth throughout the so-called "lost decade" resulting from the 1982 debt crisis, and has adapted to periodic devaluations of the peso. The main forces driving demand for processed food are a rising total population and a growing middle class. Since 1988 the industry has also enjoyed an influx of foreign investment.

According to statistics from the *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics, the real GDP of the food industry, including beverages, rose by an average 2.7 percent annually in the five years which ended in 1991.

PRODUCT TRENDS

The leading Mexican food processors have adapted rapidly to the liberalized trade environment and emerging consumer demands. The better-capitalized companies have invested in new machinery and equipment. They automated their facilities, improved production efficiency, and increased the shelf-life of their products. New products, such as yoghurt drinks and cold cuts required advanced packaging and better distribution networks.

Smaller companies have generally been less successful. Many have been purchased by larger firms jostling for

market dominance. Others have had to close their doors. The *Cámara Nacional de la Industria de Transformación (CANACINTRA)*, Mexican Association of Manufacturers, estimates that it lost 20 percent of its food industry members in 1993 as a result of stronger competition and cheaper imports.

Processed Food Subsectors

- baked goods
- beverages
- canned goods
- confectionery and candy
- dairy products
- edible oils
- processed meats
- salty foods

FOOD PROCESSING AND PACKAGING EQUIPMENT

Mexico meets its own needs for basic equipment, but advanced technology is almost entirely imported.

Foreign firms tend to supply the more sophisticated technology needs of the major food processors. Micro-enterprises depend mainly on low-technology equipment from domestic producers, but some shop around for reconditioned machinery from the United States.

In 1993, the Mexican market for food processing equipment amounted to US \$730 million. Import penetration has risen slowly but steadily over the past several years, from 83 percent in 1991, to 86 percent in 1993. Imports are forecast to exceed 87 percent of the market by 1997.

Domestic production of food processing equipment has been limited mainly to small-scale equipment based on simple technology. Mexican-made machinery is usually designed to handle only one step of a food-processing chain. It is common