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CONSUMER PACKAGED GOODS PRACTICE

# Understanding Mexico's evolving consumers

**Their behavior since the downturn contrasts sharply with that of their US neighbors. As the country's economy rebounds, many of these differences will probably persist.**

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**Mexican consumers** have been hit harder than their US counterparts by the downturn since 2008, but they are more optimistic about their country's prospects than their neighbors to the north are. Far fewer Mexican consumers than US ones have traded down to less expensive products: instead, they have remained loyal to their brands but cut back on spending. Those who have traded down are much happier with less expensive brands than their northern neighbors are. These key insights from a new McKinsey survey<sup>1</sup> of Mexican consumers have important implications for consumer-packaged-goods (CPG) and retailing companies that compete in Mexico, a market vying with China as the number-two US trade partner. As the country's economy continues to recover, CPG companies have an opportunity to design strategies that fit well with the Mexican consumer's brand loyalty preferences, while retailers could tap into the potential for growth in private-label sales.

Our survey shows that consumers in Mexico have responded more actively to the downturn than their US counterparts have: over 70 percent of Mexicans said they have cut spending, compared with 45 percent of Americans. Mexican consumers reported that they had changed their purchasing habits and, in particular, had significantly reduced their outlays in the leisure and travel categories. When it comes to eating habits, 66 percent of Mexican consumers said they were eating out less, 63 percent ordering in less, and 60 percent picking up prepared food less. For US consumers, the corresponding changes were 47 percent, 43 percent, and 34 percent. Education is one important exception in Mexico: over two-thirds of the country's consumers have increased their spending on school supplies, and significant minorities are spending more on extracurricular activities (45 percent) and remedial classes (39 percent).

The food category exemplifies how Mexican consumers have, overall, remained loyal to their brands. About 25 percent of the respondents said they would buy less food rather than trade down to save money and buy what they saw as inferior products. Just 4 percent of these respondents reported switching to less expensive brands during the previous 12 months. And the way Mexicans trade down contrasts sharply with the approach of their US counterparts: only 2 percent of Mexican consumers did so in food-related categories, compared with 11 percent of US ones (exhibit).

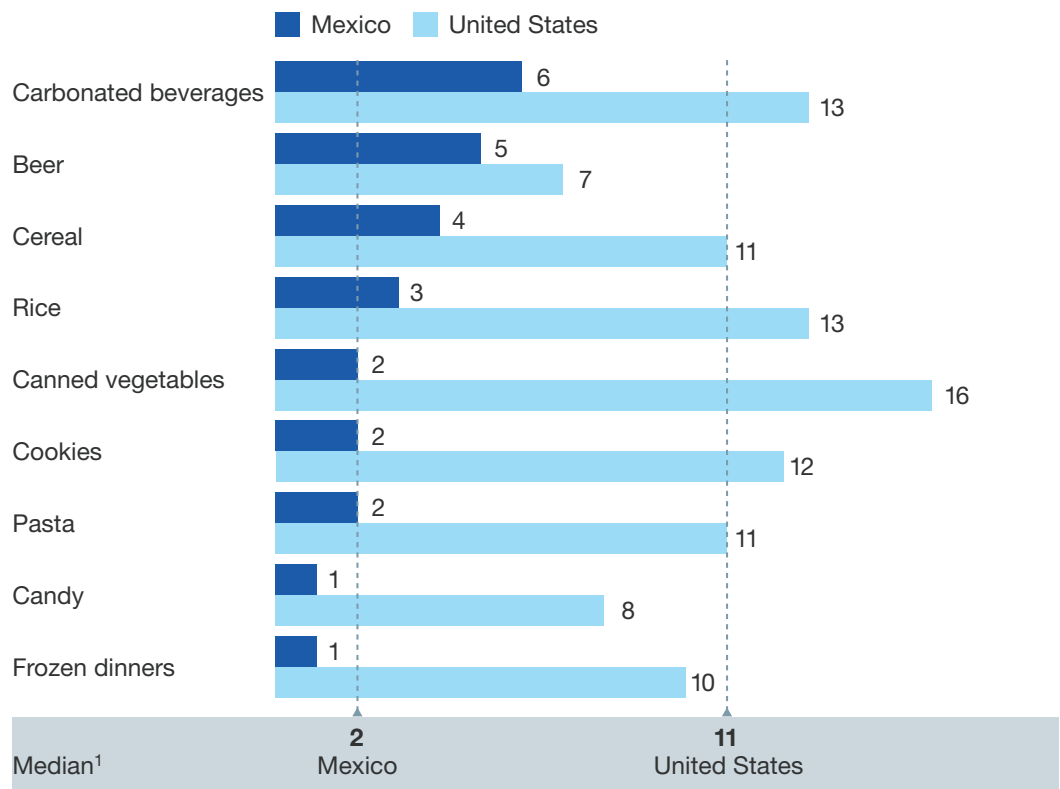
Mexican consumers who do trade down, however, may very well never go back to their original brands. They almost always report that the new one is better than expected and that they are quite satisfied with it: their expectations are exceeded in 90 to 100 percent of trade-downs, in contrast to 54 percent of those US consumers report. Not surprisingly, almost half (46 percent) of Mexican respondents say they have no intention of trading back up when their economic situation improves; a similar percentage say they no longer prefer

<sup>1</sup>During November 2011, McKinsey conducted an in-person survey on consumer expenses in Mexico, with a focus on fast-moving consumer goods. We interviewed 2,200 respondents in four cities across the country: Mexico City, Monterrey, Puebla, and Queretaro. Since 2008, McKinsey has also tracked US consumers' sentiments and purchasing behavior with twice-yearly surveys. This article references results from a September 2011 survey of more than 1,000 US consumers.

## Exhibit

Mexican consumers are much less likely than US ones to trade down in food-related categories.

% of respondents who switched to less expensive brand in past 12 months, Sept/Nov 2011



<sup>1</sup>Represents median over all food categories surveyed, including some not shown here.  
Source: Sept 2011 McKinsey survey of 1,000 US consumers; Nov 2011 McKinsey survey of ~2,200 respondents in 4 Mexican cities

the previous brand. While this subset of respondents is relatively small, such a high level of consumer satisfaction with lower-cost substitutes could indicate that more expensive brands are vulnerable.

Among consumers who traded down, about 20 percent selected private-label alternatives to their former brands—an intriguing finding since private labels have been slow to catch on in Mexico, where they account for about 5 percent of retail sales, compared with 43 percent in Britain, 31 percent in Spain, and 17 percent in the United States. In Mexico, private labels are relatively strong in some categories, such as frozen foods and pasta, but

quite weak in others, such as milk and biscuits. This suggests that there is considerable potential to build awareness of and recognition for private-label goods.

The relatively low percentage of private-label business highlights two aspects of the Mexican retail landscape. First, consumers typically have relatively few options. Second, housewives generally have limited disposable income and are risk averse when making purchases, since they cannot afford to buy something to replace a product they do not like or that does not do the job. Faced with such choices, consumers tend to stay with what they know—a phenomenon also reflected in the Mexican consumer's preference for staying with trusted brands but reducing the level of purchases.

Yet the choice of places to shop is changing significantly. Fifteen percent of Mexico's consumers, citing the desire for lower prices and greater convenience, say they have changed where they buy groceries. That hurts traditional and informal grocers; think of the corner mom-and-pop shop. But burgeoning modern-trade retailers—supermarkets, hypermarkets, and price clubs—benefit from the change.

While the shift to modern trade has been under way for the past 30 years in Mexico, the recession has accelerated this trend. Between 2009 and 2011, mom-and-pop shops lost 5 percent of their market share, which fell to 32 percent. This rate of decline was more than twice what they had lost in the previous several years: their share fell from nearly half of the market in 2000 to 37 percent in 2009. From 2009 to 2011, however, 825 new discounters and more than 3,000 convenience stores opened for business. The survey clearly reflects these trends—Mexican consumers say they are shopping more in modern retail channels, less in traditional ones. In the United States, by contrast, consumers report shopping less in all brick-and-mortar retail channels except dollar stores.

How should companies serving Mexican consumers respond? First, given the conservative nature of these consumers and their resistance to changing brands, CPG companies could strengthen their complaints departments and offer better product or money-back guarantees to give consumers the confidence to try out new products.

Second, when CPG companies are determining their strategy, they should keep in mind the brand loyalty of Mexican consumers, on the one hand, and signs that they may be satisfied trading down to cheaper brands, on the other. Companies should consider strategies that encompass both premium and cheaper brands.

Third, CPG companies ought to think about how they should respond to the potential for private-label business to grow in Mexico. The fear of many retailers that conservative Mexican shoppers wouldn't want to try new private-label offerings has discouraged companies from even launching them. That, in turn, limits consumers' opportunities

to become familiar with such products, a problem reflected in their small market share in Mexico. Some retailers, however, have succeeded in giving their private-label store brands a reputation for quality and affordability and made inroads in local markets. Since Mexican consumers who trade down tend to be pleased with the experience, other retailers will probably want to explore the private-label opportunity further. CPG companies should know about these emerging trends and adjust their strategies accordingly. [○](#)

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