CHEMONICS INTERNATIONAL INC.

THE RISE OF SUPERMARKETS IN MEXICO

LAC BUREAU POVERTY REDUCTION
A Task Order Under the RAISE IQC

Contract No. PCE-I-00-99-00003-00, Task Order 06

Submitted to:
USAID/Washington

Submitted by:
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March 30, 2004

SECTION 1

A. Introduction

The objective of this work is to report on implications of food industry transformation—in particular retail transformation in Mexico—for rural development programs and strategy. The work and the report focus on the rise of supermarkets for several reasons:

- To a large extent, retail change is the "tail that wags the dog" of the rest of the agri-food system upstream from retail. This includes setting the terms and conditions for urban/dynamic market access by processors and primary producers.
- A relatively large amount has been written about the processing and export industries in Mexico, but very little on supermarkets.
- Supermarkets now sell $12 billion of food a year, 50 percent more food than Mexico exports, and thus are a crucial internal market issue. Yet the debate has focused mainly on the effects of trade policies on Mexican farmers. If one accounts for the fact that most exports are by large farmers, supermarkets probably are three to five times more important at present to small/medium producers in Mexico than trade.

That does not negate the fact that there are often changes in the food-processing sector (such as the rapid transformation of the milk and chicken industries in Mexico, driven by liberalization of processing FDI, economies of scale, and technological change) that parallel retail transformation to a certain extent, but a strong case can be made for their mutual influence, even their symbiosis. That is touched on below.

This activity report is based on interviews of key informants from supermarkets, wholesalers, producers, government, and academics, as well as a review of the scant literature available on supermarkets and their rural development effects in Mexico carried out in March 2004. The findings are thus in the nature of tentative, working hypotheses.

Although the report touches briefly on a variety of products, it focuses on fresh fruits and vegetables (FFV). FFV are a key focus of agricultural diversification strategies of government and donors that aim to alleviate poverty and raise incomes of small and medium producers for two reasons. First, FFV tend to have fewer economies of scale than basic grains, so are an income-increasing option for small/medium producers. Second, the main dynamic market in the country—one that can raise rural producers from poverty—is the urban market, where demand growth for FFV is strongest and where supermarkets are beginning their reign.

B. Trends in Retail Transformation in Mexico

The traditional retail sector in Mexico consists of "mom and pop" stores, street markets (tianguis), and central markets. Supermarkets emerged in the 1960s—at first in the capital and then the provincial large cities, growing very slowly until the mid-1990s. They were mainly of domestic capital (Comercial Mexican; Aurrera, which Wal-Mart later bought; Soriana; and others). They were all focused on tiny niche markets (upper- and upper-middle-income segments in large cities) and very regionally centered (DF area, the north, etc.). At most, the supermarket sector had 5 percent of food retail sales nationally by 1994.

FDI liberalization measures, part of NAFTA in 1994, induced first a trickle then a tidal wave of FDI in retail, probably a nearly unforeseen consequence of the liberalization. Several French firms entered (Carrefour, Auchan), as well as several U.S. firms (HEB, a regional chain from Texas, and Wal-Mart). A decade later, Wal-Mart controls about 50 percent of the supermarket sector. (The term “supermarket sector” is used for simplicity here to mean all modern retail, which, in terms of sales, is overwhelmingly composed of large-format stores such as supermarkets, hypermarkets/superstores, discount stores, and club stores. Convenience-type stores make up a smaller portion of sales, although they are numerous units.)

By 2003 the supermarket sector accounted for roughly nearly 30 percent of food retail, and probably 40 percent to 45 percent of all retail, including nonfood. ANTAD (supermarket association) chains have about 12 percent of all food retail, Wal-Mart another 12 percent to13 percent; independent supermarkets have an estimated 5 percent among them nationwide. These are all rough figures due to poor statistics, but the general idea is that about a third of food retail is in the hands of supermarkets, up from nearly nothing a decade ago. This is a fast transformation, but not nearly as fast or as far as in Brazil (from about 30 percent in 1990 to 75 percent today) or Argentina (17 percent in 1985, approximately 60 percent today). However, the pace is similar to that in Guatemala (about 15 percent in 1995, about 35 percent today).

Interviewees tended to emphasize that supermarket sector rivalry strongly increased in 2001 when Wal-Mart gained 100 percent control of Aurerra (moving from its joint venture, which started in the late 1990s). Starting then and continuing today is a fierce price war between the main ANTAD chains and Wal-Mart. Along with engaging in price wars, companies are undertaking competitive investments that will greatly accelerate the supermarkets’ takeover of the Mexican retail sector. It would not be surprising—or outside international experience—if supermarkets had more than 50 percent of the urban market within a mere five years.

There are other signs that the period of intensive competition, which usually implies rapid spread of supermarkets across the country and into poorer neighborhoods, is in its early stages but increasing. First, several chains that were mainly regional are expanding into full national coverage. Soriana now operates almost nationwide, HEB is expanding from its northern stronghold into the Mexico City area, and so on. Second, while the main chains already are present in the main and secondary cities, they are pushing into small cities and towns, which means that the big chains will compete with the independent supermarkets in those towns. This phenomenon has been observed this in Chile and Argentina; in those countries, this process caused the smaller regional chains to push into even smaller towns, and competitive investments pushed supermarkets into the fabric of the rural towns and less-developed regions at a rapid pace. This can be expected to occur in Mexico, and there is evidence it has already begun. As it occurs, there will be the usual format diversification (such as Soriana’s establishment of a smaller format supermarket last year), to serve the various income segments, urban density rates, etc.

What are the drivers of the rapid spread of supermarkets in Mexico? There are a set of drivers internationally that one can call “socioeconomic” that are also present in Mexico: rapid urbanization, entry of women into the labor force outside the home and thus pressure to reduce time shopping and cooking, and rapidly increasing incomes over the past several decades.

However, these socioeconomic factors were present when supermarket diffusion in Mexico was moving slowly, before the mid-1990s. And while incomes rose quickly in the 1990s, the major factor in the exponential increase in supermarkets from the mid- to late 1990s was enormous FDI from the foreign chains noted above. This induced domestic chains to engage in competitive investment by domestic chains. It also provoked changes in the procurement system that drove down costs and allowed more effective spread outside of the minor niches domestic supermarkets occupied before the mid-1990s.

The spread of supermarkets in Mexico created a huge “supermarket-market” for food products. Supermarket food sales in Mexico are very roughly estimated to total $12 billion per year. The average share of FFV in food sales in a Mexican supermarket is 10 percent; therefore, there is a $1.2 billion produce market in supermarkets alone in Mexico. (Retail respondents noted that about 20 percent of their FFV are imports, mainly from the United States and Chile, with some from South Africa and Argentina.) Typically (internationally), about 60 percent of supermarket food sales are processed foods, and 40 percent are fresh foods. This would imply another $2 billion is the supermarket market for meats, seafood, and fresh dairy.

As one would expect, the product diversity of the supermarket market in processed categories is large compared to traditional stores. That provides an opportunity for food firms to expand their product lines and their market. However, the degree to which this appears to benefit large versus smaller companies differs substantially by product category. This is most obvious in dry processed foods like snacks and processed fruits, vegetables, and meats.

For example, one observes strikingly large and diverse dairy product sections in Mexican supermarkets (a large quantity and variety of fresh milk, packaged milk, yogurts, cheeses, ice creams, butter, and creams.) Consumers told me that the variety in the dairy section had increased greatly during the last five years, with a diversification of flavored milks, yogurts, and types of fresh milk. The greatest presence of smaller local companies was in butter, creams, and some cheeses, but most of the packaged milk products (yogurt, fresh and packaged fluid milk), which by far offered the most variety, were made by just a few large companies, such as Lala and Nestle. This appears to be a case of the common and internationally observed “symbiosis” of large dairy product companies and supermarket chains. This “symbiosis” occurs because the companies need the chains to expand and diversify their markets, and the chains need companies large enough to permit one-stop shopping for a variety of products. The supermarket chains also count on the companies for product diversification, such as creating a line of flavored milks for children or a line of diet drinks for adults.

By contrast, the fresh food categories did not appear to be more diversified than tianguis market FFV sections. The exceptions were that the supermarkets appeared to have more imported produce, fresh cuts of vegetables, and packaged salads. California companies such as Bolthouse, Tanimura, and Antle, as well as large Mexican companies such as Mr. Lucky, dominated the packaged salads selection.

The supermarkets observed sold a portion of their red meat and poultry in bulk, without packaging in the case of chicken or with generic packaging in the case of meat that indicated only the price, weight, and cut—sometimes with a “TIF” sticker on it, signifying that it comes from a slaughterhouse that meets government hygiene standards. However, most of the packaged chicken had producer labels on it. Regardless of the supermarket chain, their suppliers tended to be the few firms in the consolidated poultry industry, namely Bachoco, Pilgrim's Pride, etc. Where meat brands appeared, they were similarly few.

It is important to note that the supermarket penetration of food retail differs by category. In general in Mexico (and internationally), the share is higher for processed foods than fresh foods and higher for meat and milk than for FFV. Very roughly, 15 percent to 20 percent of FFV retail goes through supermarkets, versus 30 percent of all food retail. As in other countries, supermarkets find it easiest to dominate the market for processed foods quickly, as they can procure in large volumes at low cost and store easily, and consumers can buy weekly or monthly. Domination of the fresh meat and fish markets is easily done but takes longer, and a takeover of the FFV market is slower still. That is because consumers in Mexico—as in most countries before the advanced stage of supermarket penetration, including the United States and France—are accustomed to buying FFV daily from tradition outlets near their homes, seeking freshness, convenience, and a variety of prices and grades per item.

Competing with local markets and street fairs is thus difficult for supermarkets. The informal, traditional retailer does not pay taxes, is conveniently located, and therefore costs less for consumers. Supermarkets are starting to address this challenge in Mexico through procurement system change—an important fact that agricultural diversification programs for small- and medium-size Mexican farmers must face, as discussed further below.

Finally, a very important characteristic of the supermarket sector in Mexico, as elsewhere in Latin America and other regions, is that the supermarket sector is quickly consolidating and multi-nationalizing. Large chains are quickly acquiring small chains or the latter are going out of business. In addition, the share of foreign supermarket chains in total supermarket sector sales has increased dramatically (from nearly nothing in 1995 to about 50 percent today, as the sector grew from a tiny niche to a third of food retailing). The implications of this are enormous for rural development programs that aim to increase market access for small and medium farmers.

C. The Evolution of Supermarket Procurement Systems in Mexico: Changing the Wholesale Sector that the Farmer Faces

This section begins with a description of the traditional procurement systems of supermarkets common among the main chains through the mid-1990s and then describes the dramatic changes that recently started.

C1. Traditional Procurement Systems of Supermarkets in Mexico

The traditional means of supermarkets' procurement of fresh foods is from wholesale markets (centrales de abasto, or CA). The main wholesale markets are in Mexico City, Guadalajara, and Monterrey, with smaller ones in other cities. Supermarkets traditionally have sent trucks to the CA or had wholesalers in the CA deliver produce to their stores. Supermarkets bought some imported fruit in the CAs but also have had relationships with large fruit importers (mainly of Chilean and U.S. stone fruit, apples, and grapes).

For processed foods, it has been common for several decades for supermarkets to have direct procurement relationships with major producers such as Bimbo for packaged bakery products. The food manufacturers have established large distribution centers (DCs) in various parts of Mexico and traditionally have delivered directly to stores. There are also several major wholesale distributors, such as Casa Sahuayo, who have large DCs. For at least a decade, these distributors have supplied supermarkets as well as small shops.

C2. Recent changes in Procurement Systems of Supermarkets in Mexico

Since the mid-1990s, the changes in procurement systems have built into a slow crescendo that is accelerating at present. Frontrunner chains competing to cut costs have led the way. The following are the primary changes, all of which are important to development program formulation.

Centralization of Procurement: Shift from use of the centrales de abasto (CA) to use of distribution centers (DCs)
Studies in southern China, Brazil, and Costa Rica have shown that shifting from store to store delivery and use of wholesale markets (such as the CAs in Mexico) cut procurement costs 30 percent to 40 percent. Usually (i.e., not necessarily only in Mexico), the incentive for the shift from use of traditional wholesalers/wholesale markets to use of DCs occurs at a certain stage in a chain's growth when the major investment cost of a DC is outweighed by the benefits of reduced coordination costs. Larger volumes can be handled in a centralized fashion, and thus the company gains greater bargaining power with suppliers. DCs also allow supermarket chains to cut brokerage costs because they can avoid paying the margin to traditional wholesalers and giver them greater ability to monitor quality and reduce shrinkage.

However, it should be noted that the CA system in Mexico is well-entrenched in the horticulture market structure of Mexico, and CAs are trying to modernize in order to meet the new challenge and be more competitive. Moreover, as the investment in a DC is very costly, the capacity to make the investment will be a function of the chain's size and profitability, as well as its access to finance. Multinational firms and large Mexican firms with access to international credit markets have lower costs of credit than domestic companies with access only to Mexican bank credit.

There is evidence that the incentives and capacity to build DCs have come together for the top four chains in Mexico and that they are moving away from use of the traditional CA system. Interviewees informed me that Wal-Mart has several large DCs and is in constructing a very large fresh foods DC in 2004. It has reduced—but not eliminated—its sourcing from the CAs. Soriana interviewees informed me that they have four DCs. The chain built its first DC in Monterrey in 1980; others were built in Chihuahua in 1994, in Mexico City in 1999, and in Guadalajara in 2000. A fifth Soriana DC will be constructed in Villa Hermosa this year. This trend shows both acceleration over time and a spread across the nation. They also noted that Soriana has shifted from full reliance on the CAs to only 20 percent reliance at present (mainly for small items). The greatest DC capacity tends to be in nonfood and processed products, for which throughput is much greater than fresh foods in the early stages and which represent a smaller challenge in the setup of the DC, in part because major cold chain investments do not have to be made for processed products. But it is telling that in the newer DCs, fresh food storage capacity has been expanded greatly. Chains also have simply built large fresh food facilities. For example, Gigante, which has several DCs, built a fresh products DC in Guadalajara.

Another significant development is a 2003 initiative in which the second-, third-, and fourth-largest chains—Soriana, Comercial Mexicana, and Gigante—proposed a procurement consortium to buy certain items in greater volume together in order to get lower prices and compete with the largest chain, Wal-Mart. The Mexican chain buying consortium is still under discussion and dispute with the Competition Commission.

The general tendency toward the large chains' nationwide expansion and reduced dependence on the regional CAs means that producers in a given region increasingly will face national procurement systems managed directly by the chains, which will seek to buy in larger volumes from fewer producers per unit sold and from specialized or dedicated wholesalers. A farmer in Oaxaca will have to compete in a more integrated national market, knit together by procurement systems of major chains.

Regionalization (Cross-Border) of Procurement

Several of the foreign chains (Wal-Mart, Carrefour, and HEB) have regional (inter-country) procurement systems. Carrefour, for example, has a large DC in Laredo and procures from the United States from that DC. HEB has suppliers in Mexico and the United States and has a common procurement system for Texas and northern Mexico. Wal-Mart has a regional procurement system. Gigante has 50 stores in the United States, but the extent of their shared procurement systems is unknown.

To these explicit cross-border procurement strategies can be added two other de-facto cross-border procurement integration factors. First, a number of large suppliers of Wal-Mart, Gigante, and HEB (Tyson, Bimbo, and so on) operate both in Mexico and the United States and supply to supermarkets in each country. Second, all of the chains in Mexico already import substantially from the United States.

It is probable that the explicit strategy of cross-border procurement accelerates and magnifies cross-border trade in ways that the older system of chains relying on wholesalers specialized in imports did not. This is only speculation, but several key informants noted that cross-border product movement within a given chain's procurement system is more efficient than traditional trade mechanisms. In fact, chains set up such regional procurement systems in part to capture such efficiency gains.

For Mexican producers, this trend means that they can enter regional procurement systems as a preferred supplier (see below) and take advantage of a large chain's helping hand to export rather than use traditional export wholesalers. There is evidence that this is attractive to producers. Interviewees indicated that in Mexico, Wal-Mart is using export facilitation as an incentive for high-quality producers to join its preferred supplier ranks. This strong strategy enables chains to solve local supply bottlenecks, create alternatives to local traditional wholesale market (and thus cut intermediaries' margins by shortening the supply chain), and generate incentives and capacity for their suppliers to upgrade.

Shift from Traditional Brokers to Specialized/Dedicated Wholesalers
As noted above, for decades there have been specialized wholesalers in dry goods, such as Casa Sahuayo, that attend to supermarket procurement needs.

However, the rise of specialized/dedicated wholesalers in FFV for supermarkets has been a much more recent phenomenon. The Soriana interviewee informed me that in the early 1990s they were buying from CAs and formed relationships with a number of wholesalers. Soriana informed the wholesalers that they wanted to have more "special" relationships in which the wholesalers would organize supply from the field. This would ensure Soriana more consistent and higher-quality supply, reduce the uncertainties of the CA supply, and cut some intermediary steps. It also would organize farmers' supply and production calendars more effectively. A number of wholesalers took the steps to become specialized/dedicated wholesalers cum producers. In this role, they produce some of FFV they supply, contract small/medium farmers, and make up gaps in product and periods by buying from producers and CAs in other regions. Most of these wholesalers, therefore, maintained a presence in the CAs for supplemental sourcing.

Examples of the latter include Distribuidores de Fruta del Pacifico in Monterrey; Productos Selectos Lozano in Monterrey, which supplies fresh hot peppers; and Modefrut SA in Monterrey, which supplies melons and watermelons and operates part of the year as a wholesaler and the rest as a grower/packer and outgrower scheme manager. Another example is Aceves, a packer for outgrowers and wholesaler of papaya, pineapple, and pears from Chiapas region for Gigante, Soriana, and perhaps others. Judging from the box labels in other chains' stories, it appears that similar relationships occur between other wholesalers and chains.

The upshot for producers is that rather than dealing on "anonymous" spot markets, increasingly they will either be in an outgrower relationship with a "representative" of the chain or have to forge relationships with these wholesalers.

Shift to Preferred Supplier Systems away from spot market
For several decades, supermarket chains in Mexico have had preferred supplier lists for nonfood and processed food suppliers. It is probable that this practice has extended to more products and intensified with the entry of Wal-Mart, which tends to have a strict system of preferred suppliers.

The use of preferred supplier lists is far more recent in FFV in Mexico—as it is in other developing regions where it is starting and for the same reasons: because there are severe supply chain constraints to supermarkets, including consistency, quality, and volume, and supermarkets are working fast to remedy them. Direct-supply relationships are the alternative to the use of the CAs and cut intermediation costs as well. There are several types of direct supplies to supermarket chains:

- The specialized/dedicated wholesalers mentioned above. Through specialized/dedicated wholesalers, supermarkets "outsource" the management of preferred supplier systems, which are in fact the outgrower programs of these wholesalers.
- Large suppliers that handle one-stop shopping from given regions for given product lines. Examples are Aceves, which supplies tropical products from southern Mexico to Gigante and Soriana, and Mr. Lucky, a giant grower/packer of lettuce that exports and has the lettuce account of a number of supermarket chains, such as Gigante and Soriana;

- Small/medium suppliers organized as associations and usually focused on a single crop. For example, Fruticulturas de Calvillo, S.A., in Aguascalientes, which supplies guayaba; an association of small cactus-fruit ("tuna") growers in Zacatecas; and associations of medium-sized apple producers in Chihuahua all supply directly to Soriana..

Interviews with Soriana and Gigante revealed that they have started direct buying. Soriana began with chiles and melons a few years ago, then added potatoes and tomatoes. The interviewee noted that purchasing mangoes directly reduced his costs relative to buying in CAs and cited this experience as a big reason for the shift to direct suppliers. Soriana now also buys plantains, bananas, and papaya from suppliers who send directly to stores after ripening by specialized wholesalers; other products go directly from the three types of suppliers above to their DCs. Gigante started buying directly from suppliers in 2003, focusing on direct purchase on citrus and other fresh produce.

Shift to more stringent standards of quality and safety
In general, supermarket sector informants tended to underscore that companies' emphasis at present is on quality standards only, and not on safety standards (i.e., residual pesticides) for FFV. Selection is made according to commercial grade. By contrast, all supermarkets observed emphasized the SAGARPA TIF food safety inspection system for meat products and added USDA inspection labels when suppliers had them. However, the supermarket sector in general still applies quality standards such as size or shape of fruit rather than quality certification systems, with some exceptions. However, if experience in other Latin American countries is indicative, food safety standards and labeling will become a more important issue in the future.

Together with the preferred supplier systems, the experience in other Latin American countries indicates that Mexican producers should expect to be asked to meet more stringent quality—and, eventually, safety—standards than are demanded in the informal market. Moreover, growers of organic or ecologically sustainable products should expect similar quality and consistency standards applied to them as to conventional growers.

D. Implications for Producers and GOM and USAID Agricultural and Rural Development Programs

D1. Implications for Producers

As noted above, the rise of supermarkets in Mexico—which increases quality, convenience, and product diversity for shoppers—also provides huge opportunities for producers.

The rise of supermarkets also presents large challenges and basic changes from the traditional market. Chains have gradually moved away from CAs and centralized purchasing in DCs and have created specialized/dedicated wholesalers who apply their standards and operate contract outgrower schemes. They also have shifted toward regional and national procurement systems that expose local growers to competition from elsewhere and in which a producer has to be competitive to stay on the lists. Finally, chains have embraced preferred supplier systems and imposed of quality and incipient safety standards on producers.

There is evidence, as noted above, that small and medium farmers can to sell to supermarkets directly, as well as through CAs. Little is known about the extent of direct sales by small and medium farmers, but some examples show that it is possible the groups are able to meet supermarkets' requirements.

However, there are associations that have tried to sell to supermarkets and failed to meet their requirements; one example is a small group of lime growers (case study in Schwentesius and Gomez, 2002). It will be difficult for small and medium producers to meet the challenges of selling to supermarkets unless there is a conscious and important effort to address the constraints they have to doing so successfully. This is a key agricultural and rural development policy and program challenge for the next decade in Mexico.

Small and medium farmers have an incentive to overcome the challenges of selling to supermarkets because the supermarkets are taking over the most dynamic internal markets. Indeed, nearly by definition, supermarkets take over the most dynamic and profitable markets. In addition, selling to supermarkets appears to be more profitable per unit, and even if it is not, the longer-term contracts and relationships involved mean less risk for farmers relative to the wholesale market. (One sign of the profitability of selling directly to supermarkets is that larger firms and exporters seek business relationships with them.)

The capacity to sell to the supermarkets is another key issue. On the one hand, farmers need human and organizational capital and physical capital—such as greenhouses, irrigation, packing sheds—to produce the quality and volume supermarkets require. On the other hand, farmers also need the capacity that will allow them to handle commercial relationships. Issues such as market information (to know what supermarkets want) and how to deal with shelf fees and 14- to 30-day payment periods (rather than the immediate payment by traditional wholesalers) will require, for example, their own financial assets or access to affordable factoring services, which are currently targeted on exporters. Therefore, addressing these capacity issues is key.

D2. New GOM Agricultural and Rural Development Programs focused on the Supermarket-Market Opportunity and Challenge

It is beyond the scope of this paper to make a general review of government programs to address agricultural and rural development challenges in Mexico. Rather, this report will focus on a recent and promising initiative of the Mexican government to begin to address the specific challenges of helping small and medium farmers sell to supermarkets in Mexico. The program—an accord among SAGARPA, ANTAD (the association of supermarkets), and the Secretariat of Economy—is a cross-section and subset of a general effort called "Circulo Virtuoso de la Competitividad Agropecuaria." This endeavor links various efforts including Promoagro, or Programa de Apoyos para la integración a los Mercados y Fomento a las Exportaciones Agroalimentarias; Directorio de Exportadores Hortofrutícolas Mexicanos; Padrón de Comercializadores; Inspección de Calidad Agroalimentaria; Corporación de solución de controversias (DRC); Subgrupo de trabajo para el fomento a las exportaciones agrarias; México Calidad Suprema; Consejos de Promoción; Desarrollo de Capacidades Humanas en las Cadenas Agroalimentarias y Pesqueras; Promoción de eventos agroalimentarios y pesqueros (Best from the Fresh, MexBest); and Comercio Directo. In turn, the efforts to link and coordinate these programs are related to the actions of the inter-ministerial commission to coordinate the diverse actions of the various programs and secretariats (such as SAGARPA and SE, among others).

The accord ("Convenio de Concertación") among SAGARPA (in particular, FIRCO plus ASERCA), ANTAD, and SE (in particular the Subsecretaria para la Pequeña y Mediana Empresa) was signed on March 7, 2004, at the ANTAD Convention in Guadalajara. It represents an explicit initial recognition by the government of the great importance of the internal market of the dynamic food industry, in particular modern retail. It is the culmination of discussions since 2001 and related conceptually to the National Development Plan of 2001-2006, a major component of which is to make more efficient and competitive the internal market distribution system through alliances between the government and the private sector.

The elements of the accord include these actions by the various parties:

- SAGARPA, via ASERCA, will support collaboration among the parties and will promote training of suppliers; promote adoption quality assurance systems, including certification of suppliers to supermarkets under the label "México Calidad Suprema"; encourage the formation of associations of farmers focused on selling to supermarkets under the program "Comercio Directo" (avoiding middlemen); facilitate the integration of suppliers to supermarkets into the DRC system (Corporation de Solución de Controversias, DRC México, A.C., which has to date been focused mainly on trade); encourage the adoption of NOM; promote the use by ANTAD member chains of SAGARPA's inspection services (Inspección de Calidad Agroalimentaria); encourage suppliers to participate in the Padrón de Comercializadores of SAGARPA; and encourage the Consejos de Productores of specific products, an export-oriented action of SAGARPA, also to supply to supermarkets.
- FIRCO will support investment projects of suppliers.
- The Secretariat of Economy (SE), via the Subsecretariat of Small and Medium Enterprises, will help suppliers become registered, or certified members of the formal-sector; identify constraints; provide training and technical assistance for business plans via workshops and courses for suppliers; and create and strengthen Centers of Entrepreneurial Development, or business incubators.

This program has just begun, but at least in concept it is a very attractive effort. It seeks to coordinate and orient for a specific group of producers (existing or potential suppliers to supermarkets among the small and medium farmers), for a specific market with specific needs and requirements (ANTAD member chains) a set of instruments to support investment, training, and producer organization. In principle, this will allow the program to help small and medium suppliers enter or grow into these supply chains to supermarkets.

In general, it will be to fill the gap of information on the procurement system and supplier responses to supermarkets in order to support new programs. Second, it will also be necessary to focus first on finding ways to orient appropriate government and donor programs to help small and medium producers become competitive in supermarket supply chains. Many instruments now exist, including the newest one that comes in a package to support the new accord. The key is to support this process with funding and information.

D3. Implications for USAID Programs

This section outlines several implications of the rise of supermarkets and changes in procurement systems on existing USAID programs and directions for new action.

First, it is important that competitiveness enhancement programs for small and medium farmers focus not just on the international market, but also on the domestic market. This issue has been underemphasized in local debate. Every year, $12 billion dollars of food is sold by supermarkets in Mexico—50 percent more food than Mexico exports. And most of the exports are by large producers. Yet most rural development policy debate has focused either on traditional markets or on the export market's effect on Mexican farmers. Supermarkets already are far more important—perhaps five times more important—to small/medium farmers in Mexico than trade and thus trade policy.

It is crucial to frame domestic market competitiveness programs in terms of enhancing the capacity of small and medium farmers to compete in the kind of demanding, nationwide, centralized, and regionalized procurement systems of supermarkets described in this report. With supermarkets pouring into towns and regions all around the country, local producers who want to have access to urban markets in order to raise their incomes and have alternatives to limited-growth rural markets will need to fit into supermarket procurement systems and compete with larger farmers around the region and the country.

Second, market access programs for small and medium farmers increasingly will mean "supermarket access programs" for USAID and other donors. This is an effect of the increasing domination of supermarkets in urban areas. Moreover, rather than aiming an amorphous spot market or wholesale market system, the target market increasingly will be a small set of large chains that are growing to dominate the market.

Third, in the short term, there should be an emphasis on building the capacity of small/medium farmers to gain access to the supermarket sector. At the same time, alternative markets should be pursued as options for those without the potential to "make the grade" of supermarket channel transactions.

In a very general sense, all of the current programs of USAID can be seen to be useful in raising this capacity. The challenge will be in the details of adapting the specifics of programs to meet the above recommendations.

Environmental and sustainable product programs will need to take into account both the opportunity in retail chains (such as using agro-ecological niche products to satisfy supermarkets' strong need to diversify products in order to stay competitive). At the same time, these programs must keep in mind the challenges of becoming competitive in the types of procurement systems described above—competitive in volume, costs, quality, and consistency. Failure to take supermarkets' requirements into account has been the downfall of other programs that tried to place organic products from small farmers into supermarkets.

Financial market programs are also crucial for the capacity building of farmers. The current programs can be shaped in such a way as to support the efforts of the government of Mexico to build finance to farmers participating in these channels.

Finally, it will be crucial to build the market information available to farmers about new market systems and derive from that information (requirements and opportunities of the supermarket sector) the technology extension programs at the pre- and post-harvest levels.

List of Interviews and references

Type	**Firm/function**	**Place**
Retailers		
	Gigante, FFV section, Guadalajara, Salvador Buenrostro, Manager of Perishables in Gigante Plaza del Sol	Guadalajara
	Soriana, National, FFV Buyer (Nationally), Sr Velez	
	Store walkthroughs:	
	* Gigante	Guadalajara
	* Wal-mart	D.F.
	* Carrefour	D.F.
	* Superama (now owned by Wal-mart)	D.F.
	* Mega (Comercial Mexicana)	D.F.
	* Gigante	D.F.
	* Central de Abastos	Guadalajara
Specialized Suppliers & Wholesalers		
	Mister Lucky (lettuce and other vegetables supplier to Mexico supermarkets and major exporter to the U.S.)	
	Luis Moreno, Grupo PM	
	Northwest Cherry Commission	U.S.
	Michigan Apple Commission	
NGOs and non-profits and other key informants		
	México Calidad Suprema, S.A. (non-profit certification), Oscar Santamaria, Director	
	Roberta Cook, University of California, Davis (at Agritrade)	
	Antonio Yunez-Naude, Colegio de México	
	Ken Schwedel, Rabobank	
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	Antonio Ruíz, Director, SAGARPA	
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	Gerardo López, Director of ASERCA, SAGARPA	

	Roberto Orozco, Director of FFV Department, SAGARPA	
	José Antonio Mendoza, Director, FIRCO	
	Claudio Fernandez, Director Ejecutivo de Normas, FIRCO	
	Humberto Arronte, Provincial Agronegocios, FIRCO	
	Carlos Zertuche, U.S. Department of Agriculture	U.S.
	Bruce Zanin, U.S. Department of Agriculture	U.S.
	Rosa Rivera, U.S. Department of Agriculture	U.S.