BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile
The population of Mexico is relatively young even though it is ageing. The median age is 28.6 years, whereas it was 22.7 in 2010. The population is growing at a rate of 1.09% while 44% of the population is under 24 years old and 15% is over 55 years old. On average there are 3.7 people per household with 10% of households living alone, 52% are couples with or without children, and 25% are stepfamilies. There is a slight decrease in the size of the household over time. The male / female ratio is about 97 men for every 100 women with 80% of the population living in urban areas. The majority of Mexicans live in the middle of the country between the states of Jalisco and Veracruz. About a quarter of the population lives around and in Mexico City. The main cities are Mexico City, Guadalajara, Monterrey, Puebla, Toluca de Lerge and Tijuana. The level of education in Mexico is much lower than the average for OECD countries. Only 37% of adults aged 25 to 64 have a high school education and 16% have gone to university. Some 47% of the active population are employees, 41.8% are self-employed, 6.7% are unpaid workers and 5.04% are employers.

Purchasing Power
The GDP per capita PPP is 170,756 Mexican pesos. The median salary is about 115,248 pesos a year, while the average salary of a full-time employee is 162,154 pesos. The purchasing power of Mexicans has been decreasing for about thirty years. The loss of purchasing power is estimated at 80% between 1987 and 2017. Only the purchasing power of the middle class has improved. Adjusted disposable income per person is approximately 267,986 pesos. Consumption has increased significantly in 2018, with a growth rate of between 1 and 2.4% per quarter. Income inequality is high, and the Gini index is 43.4 but is has been decreasing in recent years. The share of women in the labour force is among the lowest in OECD countries. The wage gap between the two sexes is 16.7%.

Consumer Behaviour
Purchasing criteria are usually product quality, practicality (time saving) and price. Customer service is increasingly important. There are many retail outlets in Mexico (kiosks, outdoor markets and covered, places with shops, shopping centres and supermarkets.) Depending on the geographical area, some types of trade will be more present than others. Consumer confidence surpassed the estimates by economists in December 2018 thanks to the inauguration of the new president committed to accelerating growth. Mexico is a Latin American country with the most e-commerce with 85% of people buying at least one product or service on the internet in the previous year. Amazon is the biggest online retailer, ahead of Mercado Libre and Wal-Mart of Mexico. Mexican consumers, especially in the
capital are more open to international companies. Mexican consumers are amongst the most brand loyal in the world. Many seek to establish a relationship with the brand or company. Also, Mexicans are ultra-connected to social networks. They are the 4th (after the Philippines, Brazil and Argentina) biggest users in terms of time spent on networks. The penetration rate is very high, reaching 98% for Facebook in 2018. More than half of the people who provided personal data on a social or professional network are worried about possible misuse.

Among consumer trends in Mexico, time-saving products and services are important. For example, prepared meals are in vogue, as 63% of Mexicans feel they do not have enough time to make authentic dishes themselves. The demand for organic products is developing with a desire for a healthier diet. As a reminder, Mexico is considered the second most obese country in the world. Organic products continue to be expensive but the market is growing by 10% a year. The consumption of more natural and artisanal products is increasing. The second-hand market is largely developed in the car, fashion and furniture sectors, whether online or in-store. The collaborative economy is just beginning to grow. Alternative transport companies (Ecobici, Smartbike, Mibici etc.) are being created as in the housing and carpooling sector.

**Consumer Recourse to Credit**
The most common payment method in Mexico is cash. However, credit and debit card usage is growing in large hotels, restaurants and shops. Household debt is relatively low in Mexico (16.12%) but rising. The Mexican population remains poorly informed about financial and banking products and this is a first obstacle to the development of consumer credit. In 2018, the total of household debt was 900 billion pesos and consumer loans increased by 1.3% between 2017 and 2018 thanks to better knowledge of banking products. However, as Banxico has raised its key rates, the trend in consumer credit could slow down or decline.

**Growing Sectors**
Tobacco, beverages (alcoholic and non-alcoholic), food, housing maintenance and repair, holidays, accommodation services, transport services, medicines, dishes and household utensils, household appliances, leisure and garden equipment, cleaning services education, recreation and cultural services.

**Consumers Associations**
PROFECO, Procurator General for Consumer Protection
Alconsumidor, Association of Civil Assistance for Consumers

**IMPORTING & DISTRIBUTING**

**Import Procedures**
Importing agents are in charge of handling all administrative formalities and requesting the necessary authorisations for customs clearance. As a result, it is advised to work with experienced importing agents.

In order to apply the correct taxes/duties, the importing agent must present an import declaration (issued by the Secretariat of the Economy), a commercial invoice, a bill of lading, a proof of exemption, and a certificate establishing the
origin of the goods.

General import taxes depend on the tariff bracket in which the imported goods are classified in conformity with the Tariff of the General Import and Export Taxes Law or the Mexican Tax Allowance Scheme set forth in free trade treaties. For tax purposes, all Mexican importers must apply to be listed on the 'Padrón de Importadores' (Importer Registry), which is maintained by the Secretariat of Finance and Public Credit.

Mexico has developed 'Sectoral Promotion Programmes' (PROSEC) that seek to reduce or eliminate tariffs on several sectors.

In addition to complying with all applicable standards, foreign manufactured medical devices and healthcare products must have a legally appointed representative or distributor in Mexico that is registered with the Secretariat of Health.

**Specific Import Procedures**

Companies that import goods that appear on the Annex 10 of the Foreign Trade General Rules (FTGR) have to be registered in the Mexican Register of Importers in Specific Sectors. A special tax on production and services (IEPS) is assessed to the importation of alcoholic beverages, cigarettes and cigars, among others (from 25 to 160% depending on the product).

**Distribution channels**

According to *Euromonitor*, the packaged food market in Mexico reached US$47.6 billion in 2016, which is 11th largest market in the world - 2nd in Latin America after Brazil, with a value growth of 5.5% compared to 2015. By the year 2021, retail sales in the packaged food market in Mexico are expected to reach US$52.4 billion, a value growth of 10%. The retail sector recorded current value growth of 5% in 2015 and major multinationals and local companies continue to expand throughout Mexico in the different segments, signalling that opportunities will continue. The retail environment in Mexico is increasingly competitive due to fierce competition, fast expansion plans, challenges such as multichannel strategies and consumers being more demanding regarding their needs, as well as new value added services offering an interactive and unique shopping experience.

Despite the constant exchange rate fluctuations of the US dollar versus the Mexican peso, and an increase in consumer prices (2.82% in 2016 vs 2.71% in 2015) affecting the Mexican economy, the internal macroeconomic environment remained steady, keeping the consumption levels constant, reflecting positive performance across the retail industry. Grocery sales in Mexico represented more than two-thirds of the overall retail sales in 2016. Grocery retailers and non-grocery retailers are expected to grow.

Lead retailers such as El Puerto de Liverpool SAC de CV, Copper SA de CV and Walmart de Mexico SAB de CV, among others, are expected to continue their growth and success, pushing the retail industry to grow via new outlets and e-commerce around the country. Internet retailing was the most dynamic retail channel in Mexico during 2016, with a 25% growth rate, that should continue over the period 2017-2021 (according to the National Institute of Statistics of Mexico). New players entered the e-commerce competitive landscape, including City Market and Chedraui as well as some newly apps like "Corner Shop", to mention a few.

Leading retailers will need to improve their customer service in order to maintain their competitive edge. A black hole in the Mexican economy is the informal sector and this also includes the retail market. The Mexican National Employers' Confederation reported that in the fourth quarter of 2016, 55% of the country's
workforce was in the informal sector, a decrease of 3% compared to 2015.

Distribution market players

Leading the retailing landscape in Mexico with 12% market share (2016), Walmart has maintained its expansion plans, opening new stores in different formats and betting on its strength as it moves into e-commerce. By 2015, all three business formats of Walmart Mexico had internet retailing. These were: Superama (medium-sized supermarkets), Walmart Supercenters (hypermarkets) and Sam's Club (warehouse clubs). The company held an 18% value share of sales in 2015 and led modern grocery retailers with 32% of total sales across the category. For the future, Walmart plans are to continue expanding throughout the country. In particular, the company will introduce new formats (mainly discounter stores “Bodega Aurrera”) in new locations in order to accommodate the shopping needs of particular consumer groups in small urban areas with fewer than 100,000 residents, thus capturing a market that has remained under the radar of chained grocery retailers in the past.

Organización Soriana, started in 2015, plans to integrate the acquired hypermarkets and discounter formats they bought from Controladora Comercial Mexicana SAB de CV. Soriana manages five store-based retailing formats: Hypermarkets (Hipermercado Soriana), supermarkets (Supermercado Soriana), discounters (Mercado Soriana and Soriana Express), convenience stores (Super City) and warehouse stores (City Club). Following the strategy of offering new products and services to its clients, Soriana started to include health centres at its hypermarkets and supermarkets, providing medical services at very low prices. Soriana has a privileged position in Mexico's retail market with 10.9% in modern grocery retailers (during 2015). Having different formats to meet the demands of different population segments and with the acquisition of the 160 stores from Comercial Mexicana, Soriana expects to show growth in the market, possibly becoming the second largest retail company in Mexico after Walmart.

Retail Sector Organisations

Ministry of the Economy: Ministry of Industry and Commerce
Mexico National Retail Association

OPERATING A BUSINESS

Type of companies

Sociedad de Responsabilidad Limitada: Variable Stock Limited Liability Partnership

Number of partners: Minimum: 2; Maximum: 50
Capital (max/min): Minimum of MXN 3,000. Each partner must bring in at least 50% at the time of its creation.
Shareholders and liability: Liability is limited to the contributed amount.

Sociedad en Nombre
Colectivo: General Partnership
**Number of partners:** Minimum: 2. One of the partners must be designated as manager.
**Capital (max/min):** No minimum capital.
**Shareholders and liability:** Liability is unlimited and responsibility is joint.

Sociedad Anonima de Capital Variable (S.A. de C.V.): Variable Capital Limited Liability Company
**Number of partners:** Minimum: 2, including an administrator.
**Capital (max/min):** No maximum capital.
**Shareholders and liability:** Liability is limited to the contributed amount.

Sociedad Anonima (S.A.): Limited Liability Company or Corporation
**Number of partners:** Minimum: 2, including an administrator.
**Capital (max/min):** No maximum capital.
**Shareholders and liability:** Liability is limited to the contributed amount.

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<thead>
<tr>
<th>Setting Up a Company</th>
<th>Mexico</th>
<th>Latin America &amp; Caribbean</th>
</tr>
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<td>Procedures (number)</td>
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</tr>
<tr>
<td>Time (days)</td>
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*Source: Doing Business.*

**Cost of Labour**

**Minimum Wage**
MXN 1,641 per month (source: ILO, 2013, last available data).
According to the Central Bank of Mexico, the minimum wage is MXN 88.36 per day in 2018.

**Average Wage**

**Social Contributions**
Social Security Contributions Paid By Employers: Employers contribute to the social security system, the housing fund, and the pension fund, for a total of about 25% of wages. However, these contributions are deducted from the salaries of employees.
Social Security Contributions Paid By Employees: Employees contribute up to 5% of their salary for social security and the pension system.
**Intellectual Property**

**National Organisations**
- Mexican Institute of Intellectual Property (in Spanish)
- Secretaria de la Educacion Publica (in Spanish)
- National Institute of Copyright (in Spanish)

**Regional Organisations**
- World Intellectual Property Organisation

**International Membership**
- Member of the WIPO (World Intellectual Property Organization)
- Signatory to the Paris Convention For the Protection of Intellectual Property
- Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

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**TAX RATES**

**Consumption Taxes**

**Nature of the Tax**

VAT, called 'Impuesto al Valor Agregado' or 'IVA'.

**Tax Rate**

16% - Value Added Tax Laws

**Reduced Tax Rate**

The supply of goods and services, as well as the use or enjoyment of goods in locals or establishments located in the cross-border zone are subject to a reduced rate of 8%.

The 0% VAT rate is applicable to a substantial number of transactions, including the sale of books, magazines, and newspapers published by the taxpayer, the exportation of goods and certain services, the sale of certain basic foodstuffs (milk, wheat, meat and corn, etc.), patented medicines, agricultural goods and services, etc.

**Other Consumption Taxes**

Excise duties apply on gasoline (% variable), beer (26.5%), wine (26.5% to 53%), spirits (53%), cigarettes and other tobacco products (160% plus an additional quota), services for raffles and gambling (30%), soft drinks (MXN 1/litre), "junk" food (8%), and telecommunications services (3%).

Excise taxes on soft drinks and tobacco products are updated according to the Mexico inflation rate.

The acquisition of new vehicles is subject to taxation, while the different states
may impose a tax on the ownership of vehicles.

Corporate Taxes

**Company Tax**

30%

**Tax Rate For Foreign Companies**

According to the Mexican Federal Tax Code, companies are considered Mexican residents if their principal centre of administration or the effective place of management is located in Mexico.

For details concerning the tax measures taken in order to address the impact of the COVID-19 crisis, please consult this [link](#).

**Capital Gains Taxation**

Capital gains arising from the sale of fixed assets, shares and real property are considered normal income and are subject to the standard corporate tax rate. Capital gains arising from the sale of shares issued by Mexican companies, securities solely representative of such shares, shares issued by foreign companies listed on Mexican stock exchange or financial derivative instruments in connection with stock market indices or aforementioned shares are subject to an income tax of 10%.

Non-residents that sell shares of a Mexican company are subject to tax at 25% on the gross proceeds or 35% on the net proceeds if the non-resident has a representative in Mexico (provided the non-resident is neither located in a tax haven nor benefits from a preferential tax regime).

**Main Allowable Deductions and Tax Credits**

In general, all federal, state, and local (including municipal tax on real estate) taxes levied on a company (not including those required to be withheld from other parties and CIT) are tax-deductible expenses.

Start-up expenditure incurred prior to the commencement of business may be amortised at the yearly rate of 10%, after applying the adjustment factors. The deduction of charitable contributions is limited to 7% of the taxable income of the previous year.

R&D expenditure (including investment in R&D) gives rise to a 30% tax credit.

In order to be deductible, payments related to technical assistance, the transfer of technology, or royalties must be made directly to companies with the required technical capabilities to provide the corresponding service. Payments to foreign affiliates are deductible if they respect the arm’s-length principle.

Net operating losses can be carried forward up to 10 years, subject to adjustments for inflation. The carryback of losses is not permitted.

Non-deductible items include penalties, unauthorised donations, contingencies, indemnities, goodwill, exempt salaries, etc.
Other Corporate Taxes
After their first year of operations, companies may be subject to employee profit sharing tax (10%), as well as special excise taxes on production and services. The transfer of real estate is subject to a tax at rates ranging from 2% to 5% on the highest of the value of the transaction, fair market value, or registered municipality value (some exceptions apply). Real property taxes are levied by the states at different rates.

Companies engaged in oil exploration and production are subject to a special tax regime as set out in the Hydrocarbons Revenue Law.

Social security contributions are based on the daily salary plus any other compensation paid to the employee, with rates varying according to base salary of their Mexican employees and the type of concepts for which the compensation is given to the employee.

The acquisition of new vehicles is subject to taxation, while the different states may impose a tax on the ownership of vehicles. Mexico does not levy stamp duties.

Other Domestic Resources
Mexican Federal Tax Administration

Doing Business: Mexico, to obtain a summary of taxes and mandatory contributions.

Double Taxation Treaties
Countries With Whom a Double Taxation Treaty Have Been Signed
List of double taxation agreements signed by Mexico

Withholding Taxes
Dividends: 10%; Interest: from 4.9% (paid to foreign banks) to 35% (standard rate) / 40% (if paid to a related party located in a tax haven); Royalties: 25% (standard) / 35% (patents and trademarks) / 40% (if paid to a related party located in a tax haven).