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Prepared By: Luis Chavez and Xochitl Gomez

Approved By: Daniel Archibald

Report Highlights:

The following is the first in a series of reports prepared by the Agricultural Trade Office in Monterrey, Mexico, to provide background on local and regional markets of interest for current and prospective exporters of U.S. food and beverage products. This specific report highlights an intriguing niche market on the Baja peninsula of Northern Mexico: Los Cabos. The information contained in this report is intended to identify market opportunities for U.S. food and agricultural products, primarily in the region's bustling hospitality and food service sector.

INTRODUCTION

Los Cabos (Spanish for “The Capes”) is the generic name given to this secluded, high-end, luxury tourist destination in Mexico. Located on the west side of the Baja Peninsula’s southern tip, it initially comprised the towns of San Jose del Cabo (the municipal seat) and Cabo San Lucas, plus the 20-mile corridor between them (red circle on Map 1). More recently, as tourism to the region has grown and diversified in the region, the concept of Los Cabos has come to encompass other nearby locations like Todos Santos and Cabo Pulmo (green circle on Map 1), and arguably extends as far afield as the state capital of La Paz.



Originally populated by local semi-nomadic tribes, Hernan Cortes himself landed on the Baja peninsula in 1535, but because of its remoteness and difficulty to procure resources, it took over 150 years for Jesuit missionaries to begin colonizing the region. Some of those settlements still exist, but until approximately 1974, the area consisted mostly of small fishing communities. In the 1970s, the Mexican government began to develop the area’s tourism infrastructure more actively. In 2021, Mexico placed second, only behind France, in the U.N. World Tourism Organization’s ranking of countries with most visitors, with a 31 percent growth from 2020. Within Mexico, Los Cabos is shortening the gap with Cancun as the main beach destination in terms of volume of visitors, and has developed into arguably the premier tourist location in Mexico. In addition to Los Cabos’ status as a leading tourist destination in Mexico, it is also increasingly a popular site for expatriates (primarily from the United States) who have either relocated permanently or live in the area for extended periods throughout the year.

The isolation of the region has caused a sense of exclusivity to those visiting this area. It is a popular destination for Hollywood stars, world-class golfers and other sports superstars, socialites, and international celebrities. Sportfishing in the region is extremely popular and a major draw, with the world-famous Bisbee's Black & Blue fishing contest attracting participants seeking significant cash payouts for catching fine exemplars of tuna, dorado, marlin and other species.

By land, it is only accessible using Mexican Federal Highway #1, which runs more than 1,000 miles from Tijuana, at the U.S.-Mexico border. The most common route to Los Cabos is by air. Both the San Jose International airport (for commercial airlines) and the San Lucas airport (for private flights) accommodate for more than 550 weekly flights from Mexico, Canada, and the United States. The region is also a major destination for multiple international cruise lines.

The seclusion and geography that makes Los Cabos an attractive destination is, unfortunately, also an obstacle for goods and services to be offered in the area. Most of the food and beverages offered in Los Cabos must be transported by truck from Tijuana or ferried to the Pichilingue port outside of La Paz, and then driven 140 miles to destinations in the central Los Cabos area. Given the high volume of flights, some companies have considered air freight as an option, particularly for high-end, gourmet products with a short shelf-life or that are offered as "fresh" in select businesses.

While average Mexican households have struggled in recent years with inflation and high food prices, Los Cabos can be considered an area where tourist and expatriate tastes and budgets create an altogether different market where high-end products in particular will find robust demand. Tourist sectors around the world were ground to a halt in 2020 due to COVID-19. Some have faced uncertain paths back to full activity, but in the case of Mexico (and Los Cabos) visitors have surged. In 2022 the number of foreign visitors to Mexico grew 21 percent versus 2021. What's more, spending of said foreign visitors, grew at more than double that rate (+49 percent), totaling over US \$22 billion.

In 2022, Los Cabos in particular has experienced what many foodservice, retail, and hospitality professionals describe as an astonishing return and surpassing of pre-pandemic levels of tourism; by some accounts nearly wiping away the region's traditional "low-season" of reduced tourist arrivals. This manifestation of pent-up demand for travel experiences is a trend that industry professionals are accommodating and planning for in the region, which translates to sustained elevation of demand for food and beverage products.

RETAIL SECTOR

Several supermarket chains are present in the Los Cabos region. Due to the dominance and purchasing power of the area's foodservice sector (local resorts and restaurants buying wholesale), Costco is the area's main retailer. While present throughout Mexico, this U.S.-based wholesaler boasts some of its most impressive numbers in Mexico at its Los Cabos location, in terms of volume of products handled, daily sales, and customer traffic. Currently, Costco serves a wide swath of the foodservice sector in the region, including all hotels and resorts and about 80 percent of restaurants. About 20 percent of the store's SKUs are imported (primarily from the United States). A common theme throughout this report is the significant growth in food and beverage demand in this region, driven by tourism's reemergence. In 2022, retail outlets such as Costco reported a 40 percent increase in sales compared to 2021.

Other retailers like Soriana, Wal-Mart, Comercial Mexicana, Casa Ley, and Chedraui service the local population. Given the affluence of the region and its visitors, there are also numerous stores and markets focusing primarily on gourmet, imported or exclusive food products. There are several local, family-owned stores, Santa Carmela and Cabo Mar for example, which handle a small volume of imported goods and local organic production and seafood. Several specialized wine and meat “boutique” stores also work the region. According to sources in the restaurant sector, they carry a limited catalogue often very similar to that offered in the rest of the country, where price sensitivity is more relevant for purchasing decisions. Like many other regions in Mexico, convenience stores are ubiquitous, with a wider variety of products (more noticeable in the tourist sections) and in some cases, with imported products (snacks, candy, beverages) not available in similar outlets in other Mexican cities. Overall, the retail sector of the Los Cabos area is highly consolidated, and there is a considerable market for imported food products, primarily driven by the tourist influx.

FOODSERVICE SECTOR

About 70 percent of the Los Cabos region’s economy is related, directly or indirectly, to tourism. Los Cabos is home to a vibrant culinary scene, driven primarily by the hotel industry. The Los Cabos Hotel Association, which counts most of the hotels in the region among its membership, reported in 2021 that there were around 85 top-class hotels (with 4-5 additional properties under development), ranging from boutique family-owned hotels in San Jose’s town plaza, to large international-chain resorts with professional golf courses and shared-ownership properties. The association’s membership accounts for an estimated 17,500 rooms in the area. Industry reports estimate that total hotel capacity in the area is around 22,000 rooms. The association reports a projected occupancy for the end of 2022 of between 85 and 90 percent, driven primarily by the Christmas season. The region has the highest hotel rates in Mexico, an average of US \$455 per night, which clearly shows the location’s attractiveness for those seeking a high-end, luxury experience.

Map 2. Distribution of Hotels along the Los Cabos Region



As for the restaurant sector, among the food options provided at lodging facilities, visitors have more than 240 options across a range of gastronomical varieties, from exclusive gourmet steakhouses to local seafood outlets. With this variety, tourists can taste extravagant and innovative recipes from multicultural cuisines, but can also have a traditional, “same-as-home” experience when dining out.

While many of the large hotels work specifically with global procurement systems (like Avendra, Sysco, US Foods, etc.), food and beverage managers and executive chefs in Los Cabos have more autonomy and flexibility to source some food products, particularly high-end, gourmet, and mostly imported goods. Meat, seafood, wine, and spirits are some of the items that can be requested from specialized distributors in the area like Comnor/Sigma, Atlantic Prime/Qualtia, US Foods de Mexico (unrelated to the US Foods mentioned above) and Columbia Export.

VISITOR PROFILE

During the tail end of the pandemic and since, Los Cabos has experienced impressive growth in visitors, thanks to the relaxations of health requirements and travel restrictions. Several industry sources have explained that the tourist sector will not have a seasonal variation in the short term, and they expect Los Cabos to be in “high season” at least for the next two years. In 2021, Los Cabos recovered its pre-pandemic visitor numbers, with 2.8 million tourists. Numbers so far clearly show that 2022 will surpass last year’s number, projecting 3.3 million tourists. The destination now focuses in attracting additional international visitors, particularly from Europe.

A recent study requested by the Cabo Tourist Promotion Board found that, currently, nearly 62 percent of the region’s tourists come from the United States. This is about 93 percent of the total foreign visitors, with Canada (1.7 percent) in a very far second place. Mexican visitors, which in the past tended to avoid the destination (considered very expensive for domestic standards), represent about 34 percent of the total tourists. Looking at the U.S. state level, California and Texas account for half of the total U.S. visitors, while Mexico City, Baja California and Jalisco account for half of the Mexican visitors.

About 60 percent of all tourists stay at a traditional hotel, 24 percent in other lodging facilities (timeshares, villas, homestays, bungalows, cabins, etc.), and 13 percent in a privately owned residence. The average length of stay is around a week, and the average expenditure per person, on food and beverages (primarily in restaurants) is around \$400 per day. This high average expenditure reflects both the high price environment due to geographic and logistical factors, but also the average Los Cabos visitor’s ability and desire to patronize high-end establishments. Surveys of the types of establishments, cuisines, ingredients, and product origins reveal that certainly many visitors come to experience the gastronomy of Mexico and Los Cabos, but there is also ample space and in fact a great need for imported product, particularly of the higher end variety. Much like in other regions of growing affluence, the culinary scene in many parts of Los Cabos is characterized not just by premium ingredients and products for the sake and status of it, but there is also a growing valuation of other credentials such as sustainability or originality that are a part of the ingredient or product’s backstory.

LOCAL RESIDENT PROFILE

According to the 2020 Census, Los Cabos municipality is home to about 350,000 inhabitants, a little over 10 percent of the yearly itinerant population (tourists/visitors). About 70 percent of the local population are 35 years old or younger, and only 24 percent are originally from the region (versus 58 percent born in other parts of Mexico and 18 percent in another country). As mentioned earlier, tourism is the main sector of the economy, employing 70 percent of the available workforce, with 26 percent specifically in the lodging sector. Only 11 percent of the population earns over \$9,000 per year. For locals, most income is spent on food, transportation, and home utilities.

One common complaint from the local population is that prices in the region have been driven up by the demand by foreign tourists/visitors. Post noticed, however, that both markets are separate and most of the regular supermarkets and other retailers carry the same products and prices than those in the rest of Mexico. If anything, imported goods are the ones that clearly are sold at higher prices than their counterparts in other markets, but very similar to those in Mexico City, Monterrey or Cancun.

RECOMMENDATIONS

The Los Cabos market is currently characterized by a surge in demand for imported products in order to accommodate both the volume of visitors as well as their unique spending profile/behavior relative to other destinations in Mexico. Given this niche market's special conditions, premium and gourmet food products can easily access the market. While the volume might be smaller than other tourist destinations and major urban markets throughout the country, the purchasing power of consumers in this region is noteworthy. Some recommendations for both current and prospective exporters include:

- Exporters already working with international hotel chains also operating in the United States are encouraged to exploit that relationship to seek business opportunities for said chains' hotels located in the Los Cabos region.
- Approaching Costco in Mexico is highly recommended, establishing a communication channel with the Mexican headquarters, but also working directly with the marketing area of the Los Cabos store.
- Most of the specialized Mexican distributors working in the region have staff in or close to the U.S.-Mexico border and other major urban areas of the country. U.S. exporters can capitalize upon this proximity.
- It is highly recommended to collaborate with U.S. marketing organizations or regional trade associations for food and agricultural products to carry out activities and promotions in the region to raise the profile of a given ingredient or product. This would also help exporters establish a useful network of potential customers, see the market's particular conditions and growth potential, and contact potential partners.

FOR MORE INFORMATION

Additional FAS/Mexico information is available at: <https://www.mexico-usda.com.mx> or visit the FAS [Global Agricultural Information Network \(GAIN\)](#) for a complete selection of Mexico-specific and worldwide agricultural reporting.

Attachments:

No Attachments.