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Foreign Market Assessment

Hello Fresh *Entering* Mexico

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EXECUTIVE SUMMARY

Overview

HelloFresh is looking to expand their presence into new countries and markets. As the largest meal kit company in the world, they are looking to broaden their market share and capture new consumers. From just 2019 to 2020, HelloFresh has grown 116.6% in terms of global net revenue. HelloFresh has the ability and the experience to translate this success elsewhere. With their mission statement of "changing the way people eat forever," this company has the goal to shift the consumption habits and behaviors of markets all over the world. They want to open the eyes of people to new ways to prepare and share meals with each other, and this will ultimately only happen if they continue to expand into markets with unmet demand for meal kit services.

Proposition

This report will serve as a foreign market assessment for HelloFresh in terms of entering a new country for their company and their product. Specifically, the country being assessed to enter into is Mexico. HelloFresh has yet to tap into any of the Latin or South American countries, so Mexico will be illustrated in this report as the best country in this region to first move into. The first section of this report, entitled "Company," will detail the background about HelloFresh that is integral to understand when making a decision about where they would best flourish. The beginning of the company, their mission and values, as well as their operations will be detailed. The second section, entitled "Environment," gives a deeper dive into Mexico, and why this country specifically would be the best fit for HelloFresh to target next. It specifies the political and legal risks, the demand for HelloFresh's offerings, the primary and secondary competition, the resources and infrastructure available, and the labor. This section also touches on the strategic

importance of entering Mexico, and why having a presence in this country can improve HelloFresh's competitiveness and worldwide effectiveness.

Recommendations

The third and final section of this report, entitled "Recommendations," specifies why HelloFresh should enter Mexico and how they should go about entering this country. Specifically, a wholly owned subsidiary entry strategy was chosen for HelloFresh to utilize due to the foreign market assessment done on the company and the country. The wholly owned subsidiary will be located in Mexico City and establish vertical integration. This entry strategy is proven to acknowledge all of the key considerations for success, and how HelloFresh will overcome the liability of being foreign.

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COMPANY

Background

HelloFresh first began in Berlin, Germany as a meal kit service. They were founded by three people who actually hand-packed and delivered their first ten orders to the customers. HelloFresh was also one of the first companies to enter into this meal-kit industry, and they have continued to grow since the day they started. Since 2012, they have expanded into over ten countries. Recently this year of 2021, HelloFresh opened shipment locations to Australia and Italy. These expansions have made them the most popular meal kit in the world. The founders saw a need for a new meal company that could take away the grocery shopping hassle but still provide wholesome and homemade meals. Spending countless time on planning, sourcing, and delivery, HelloFresh has capitalized on this consumer need around the globe. Over 600 million meals were delivered in 2020 to 6.94 million active customers seen in 2021, resulting in a net revenue of 4.2 billion dollars.

Mission

HelloFresh's mission is simply to "change the way people eat forever" ("About Us: HelloFresh," 2021). They are able to achieve this through four core values. The first is budget, meaning that they help consumers to save their money with every meal kit purchased. The second is freshness, meaning that they provide access to only high-quality foods. The third is taste, meaning that everyone is able to enjoy a tasty and personalized menu and diet. The fourth is sustainability, meaning that there is less food waste with the delivery of every box. Over 50% of their 15,000 employees stated that they were motivated by their company's mission, vision, and values.

Operations

There are just three simple steps when it comes to ordering from HelloFresh. First, pick a plan that is able to match one's lifestyle, no matter if it is one person or four. Second, get the delivery right on one's doorstep. This delivery includes the ingredient, recipes, and nutritional information. Third, start cooking and eating right away. A HelloFresh meal is averaged to be about \$7.50 per person for a 4-person plan and \$9.00 for a 2-person plan. With distribution facilities all over the world, HelloFresh is able to sustain these operations. There are 50 locations across the 10 countries they have entered, allowing supply chains to be shortened.

ENVIRONMENT

Political and Legal Risks

Mexico is a country in which violent crime runs rampant. The crime rates have escalated as of recent due to infrastructural demise as a result of COVID-19 economic hardships. This has translated into a level 3 United States travel advisory to Mexico. Additionally, the United States does not possess the ability to significantly impact Mexican decision-making, so the country is unable to assist in Mexico's restructuring efforts. According to the OECD, Mexico currently operates at a risk rating of three which is low to moderate. There are no immediate concerns that would prevent a firm from entering the country's market or concerns that Mexico will be unable to finance potential debts. Mexico's economy relies heavily on foreign direct investment and outsourcing, specifically from the United States. In relation to the pandemic, it is likely that Mexico will need business from the United States to compensate for lost revenues and labor shortages now more than ever.

According to the World Bank's analysis of the ease of doing business in Mexico and Latin American countries, Mexico ranks higher than Latin America in every category but getting electricity. Overall, Mexico ranks 60th in the ease of doing business worldwide. While it is encouraging that Mexico maintains a strong position in aspects like resolving insolvency, enforcing contracts, trading across borders, protecting minority investors, getting credit,, and dealing with construction permits, it presents a risk to United States companies who rely on technological advancements and innovations in order to operate. The country also struggles in terms of paying taxes and starting businesses, but they are demonstrating notable improvements in these categories. Mexico may be potentially unable to keep up with American organizational architecture.

As 80% of Mexico's exports go to the United States, the symbiotic relationship remains evident. The countries share a 2,000 mile border and have 55 ports of entry. In 2018, the United States and Mexico produced a combined revenue of \$678 billion. In addition to a strong economic and trade relationship, Mexico remains a top destination for American travelers, contributing significantly to the Mexican tourism industry. The countries have also implemented student exchange programs to enhance education between the two cultures. There are hundreds of legal border crossings from Mexico to the US each day and 1.5 million American citizens residing in the Central American country as well.

According to the World Bank's governance indicators, Mexico has a strong presence of violence, political instability, and a high regulatory quality. The country has low control of corruption and ranks mediocrely in government effectiveness. As a whole, Mexico has identified the need for systemic restructuring to compensate for high rates of crime, but they lack the tools and control to efficiently execute an infrastructural improvement strategy. Furthermore, Mexico

poses a high risk of social uprisings and movements for topics such as sustainability and labor rights.

The Merida Initiative has furthered the success of the Mexican-American relationship by providing a space for American influence to assist in human rights and legal concerns. This foundation has allowed for greater cooperation between the countries, expanding Mexico's resources and allowing United States law enforcement collaboration. However, the country's criminal justice system is inconsistent and oftentimes unjust. Specifically, investigations fall short and leave victims in limbo. This has translated to a reliance on military power to fight both drug-related and violent crime. As of 2018, Mexico has delegated many police intelligence responsibilities to the National Guard as preventative measures. Additionally, torture is a widely practiced method of information extraction, leading to distrust in the legal process. Mexico also has a history of human rights violations and sexism. Women often fall victim to domestic abuse and sexual violence as the country's laws fail to protect them. Furthermore, disabled citizens are fighting for a standing in the workplace, but still facing obstacles and a lack of access to legal resources and justice. On the contrary, many of Mexico's states have legally recognized gender and sexual orientation for LGBTQ+ individuals.

Introducing HelloFresh to a country of different cultures and beliefs presents the potential of ethical dilemmas. Mexico has less enforcement of human rights regulations and business regulations in general. While this could objectively lower costs and benefit company operations, the firm may be unable to adapt to Mexico's lacking legal system and fall victim to petty crimes, such as customer package thievery. The United States is also much more advanced in the realm of women's rights and protection, leading to more androgynous gender roles and advertisements catering to the idea of both men and women participating in HelloFresh preparation. Mexican

culture is more likely to accept traditional marketing approaches of the woman preparing meals. Additionally, the country has a more structured dining schedule with three larger meals a day while Americans tend to indulge in smaller meals throughout the day, potentially leading to demands for larger serving sizes and an alternative cuisine selection.

Demand for Offerings

The demand for HelloFresh's offerings in the target country of Mexico is constantly growing. The meal kit market registered a "positive compound annual growth rate of 6.70% from 2015 to 2020" ("Meal Kits Market," 2020). It also just recently achieved its strong performance in 2020, as it grew by "8.86% over its previous year" ("Meal Kits Market," 2020). When looking at projected growth into the future for this market, it is expected to grow annually by 4.82%. The average volume per person in the meal kit industry is expected to be 18.8kg in 2021, and the overall volume is expected to be 2,393kg by 2026. The changes in revenue are depicted in a chart in the Appendix (Figure 3), demonstrating the growth that is supposed to be seen up until 2026. Ultimately, these projections show the projected potential that the meal kit market in Mexico can have, and HelloFresh can tap into this growing sector.

In terms of demographics in Mexico, users of meal kit services categorized by age are most popular in the 25-34 range, making up 39.2%. The second most popular users are aged 18-24, making up 26.5% percent in total. When it comes to users by income, the highest sector is high income, which makes up 44.7%. This amounts to almost half of the meal kit users. When it comes to users by gender, 55.7% of males use meal kits and 44.3% of females use meal kits. HelloFresh needs to take into account these three demographics and target their respective top users since they use meal kits the most out of the entire Mexican population.

In terms of consumer purchasing power, consumer spending in Mexico increased by 300,000 million pesos from just the first to second quarter of 2021. This huge increase in spending helps show how Mexican consumers would have the money and ability to purchase things like HelloFresh. Purchasing power parity increased from 6.3 to 9.5 in 2020, growing 2.18% at an average annual rate.

In terms of behaviors, Mexico was ranked second to last out of all countries in the world regarding time devoted to free and leisure time. Only 12.74 hours per day, including sleeping, are spent in free time. This lack of time the population is shown to have creates a need for a meal kit service like HelloFresh. Since the Mexican people already have such little free time to themselves, HelloFresh would help to increase this by taking time away they would have to spend on buying groceries, planning meals, and portioning ingredients. Similarly to Europe and the US, the Mexican population usually eats three basic meals a day. HelloFresh provides three basic meals each day in each of their boxes, matching this eating pattern exactly. In Mexico, the main meal of the day is dinner, or *comida* in Spanish. Therefore, this meal needs to be focused on much more than the others.

In terms of consumer tastes and preferences, HelloFresh offers a wide range of meal kits to purchase. Whatever taste of food they are looking for, HelloFresh is sure to have it available. Specifically geared towards Mexico, there is a whole section on HelloFresh's website devoted solely towards Mexican Recipes. This will be sure to hit the traditional taste preferences of Mexican consumers if they are on the fence about trying something new. Cultural values are also very important to understand. Eating with your family and preparing home cooked meals is a large part of the culture in Mexico. The average Mexican household size was reported to be 3.6 people in 2020. HelloFresh offers meal plans for up to 4 people, which would encapsulate an

average family size in Mexico and allow them to all eat together. Their meal kits also allow the families to prepare them homemade and by hand, sharing this cultural value.

Competition

Meal kit services, like HelloFresh, are extremely popular not only in the US, but also around the world. A study published by Statista illustrated just how big this worldwide market was. They found that the "revenue of the meal kit service market (fresh and packaged foods) is forecasted to grow to around 24.14 billion US dollars by 2027" ("Size of the Fresh," 2021). This increase that they are predicting will be more than double the value that the year 2020 saw. The chart (Figure 4) listed in the Appendix depicts this market increase. With this worldwide demand, one would think that these services would be offered on every continent and in plenty of countries. However, this is not the case. The two largest meal kit companies in the world, HelloFresh and Blue Apron, sell in less than fifteen countries combined. Blue Apron is only sold, delivered, and shipped within the US. HelloFresh is only delivered to the US as well as Australia, Canada, and a few countries in Western Europe. Mexico, let alone Latin or South America in their entirety, have not been touched by these two dominating meal kit services, making it an excellent choice to try and enter into as a first-mover with a global brand name. This shows the lack of competition from big-name brands, and how much unmet demand is in the Mexican marketplace. Consumers might not even realize they have a need for this kind of service because they have never heard, seen, or used it before. Ultimately, meal kit services are an overlooked market in Mexico specifically.

With that, there are two primary competitors that HelloFresh should consider. Both of these primary competitors only serve local cities solely in Mexico. The first primary competitor

is Todos Comemos. They are a "marketplace where [one] can buy pre-made meal ingredients that transform the way [one] cooks" ("About Todos Comemos," 2020). Founded in just 2020, Todos Comemos has a team size of only 14 people and serves just 1,500 households in Mexico City. Their way their meal kit process works is through three steps. First, select a plan on their website, stating preferences and custom tastes. Second, Todos Comemos will either approve the plan or suggest changes to be made. Third, receive the order on the day agreed upon and get ready to start cooking. The second primary competitor is Salexacta, a food kit service that includes "step-by-step recipes and fresh ingredients in exact portions" ("About Salexacta," 2020). Similarly to Todos Comemos, they were founded recently in 2020 as well. Their three step process involves choosing food menus, then unpacking Salexacta meal boxes, and finally cooking with their menus. With only 1,344 followers on social media though, their brand awareness and presence is lacking. Since the Mexican meal kit market has so much untapped potential, both Todos Comemos and Salexacta market themselves as the first meal kit service in Mexico. Ultimately, HelloFresh can take over this Mexican market by storm since these two companies are the main primary competitors they would be up against. There is so much unmet demand to achieve with consumers that has just never been tapped into yet.

Secondary competitors are immensely prevalent and important in Mexico. These include UberEATS, Rappi, Cornershop, and SinDelantal. UberEATS, an online ordering and delivery system, is growing by the day in Mexico after just recently being launched in this country. UberEATS delivers to 24 regions nearby Mexico, as many of these regions are considered Mexican states. Within the Mexican country, this delivery service has 146 restaurants that consumers can choose to order from. Similar to UberEATS, Rappi is a delivery service for an extremely wide range of products. Consumers can get groceries, restaurant meals, bank

statements, medicine, and so on through this service. It is considered to be one of the fastest growing companies in the Latin American region, gaining traction in nine countries now including Mexico. Cornershop provides a similar service, in which consumers can order groceries from the supermarket right to their doorstep. There are five cities in Mexico in which Cornershop operates. SinDelantal, a restaurant delivery app, is actually ending their operations within this year in Mexico. Their reasoning behind this closure is due to the prevalence of rivals crowding the market. UberEATS and Rappi are just too strong to compete with, and the rest of the industry is too saturated. Overall, the food delivery industry has intense competition in Mexico, since the country is the second-largest economy in Latin America. Ultimately, HelloFresh needs to be aware of these restaurant delivery services with huge market shares in Mexico as they look to enter. Being able to differentiate and position themselves as a new type of offering as compared to companies like UberEATS and Rappi is crucial to success.

Since there are only smaller, local primary competitors in the meal kit service industry, with Todos Comemos and Salexacta leading the way, HelloFresh will most likely overwhelm these local companies with their global presence. With a worldwide brand name that comes along with HelloFresh, these competitors will not take well to the possible new entrance and feel threatened. However, these two companies have many advantages over a foreign firm like HelloFresh who would be new to the market. Todos Comemos and Salexacta have garnered the appreciation of locals. These people living in Mexico City might be more responsive to local companies rather than global ones just trying to enter a new market. Getting this local responsiveness could prove to be a challenge for HelloFresh and an advantage of these companies already competing in the target market. Another advantage of Todos Comemos and Salexacta is the supplier and distribution relationships they have already cultivated. Suppliers

and distributors could already be pulled away and devoted to working with these local companies already in control. These two firms also may have created high switching costs for their companies, making it challenging for HelloFresh to get new customers in the target market that are not already loyal to the locals.

On the other hand, there are downsides that Todos Comemos and Salexacta possess, which HelloFresh needs to capitalize on to differentiate themselves and stand out to consumers. Being a global brand, HelloFresh has plenty of advantages and experience they can tap into, such as in fields like marketing, operations, human resources, production, and supply chain. Since these local companies just started their businesses last year in 2020, they don't have these same capabilities on a large scale. Specifically, Todos Comemos has just 14 people on their team as compared to the 15,000 that HelloFresh has. Furthermore, Todos Comemos and Salexacta are both solely offered in Mexico City (CDMX and the Metropolitan Area). There are numerous other cities in Mexico with booming populations, economies, and unmet demand that HelloFresh has the opportunity to gain first through their dominating capabilities that can reach outside of just Mexico City. Salexacta also only offers delivery on certain days of the week: Monday, Thursday, and Saturday; whereas HelloFresh delivers every day of the week. Salexacta also serves meal kits for only two people (two serving sizes). HelloFresh offers meal plans for up to four people, which could be an advantage for family households in Mexico to market towards. Finally in terms of costs, a two-person meal plan from Todos Comemos starts at \$11.50 per plate, from Salexacta starts at \$12 per plate, and from HelloFresh starts at \$8.99 per plate. HelloFresh has a cost advantage by being able to move down the experience curve overtime that these local firms just don't have yet.

Resources and Infrastructure

Mexico has a solid transportation infrastructure with highways, roads, ports, trucking, etc. With one of the most extensive highways in Latin America, Mexico is prepared to handle large-scale transportation. The country has committed to 68 infrastructure projects alone in the past two years, 50% of which will be financed from the private sector. These projects are largely concentrated in the southern region of Mexico where transportation and trade are more abundant. While existing highways, roads, ports, etc. are adequate, Mexico lacks the same efficiency in aspects like air travel. Mexico City's airport, for example, does not have the capacity to feed the aviation demand that is only increasing with Mexico's economic growth. The country has committed to beginning and financing projects to mitigate this issue, but as stated previously, Mexico lacks the tools to see projects through. Many infrastructural efforts are strongly advocated for and commenced, but go unfinished due to a lack of financing and/or labor supply.

Mexico has a competitive cost advantage in the production of virtually every raw material necessary for industrial production. There is an expanding market for middle class consumers with a global increase in meal kit delivery demand as well. This is a result of economic promise, solid trade relationships, and an education system that advocates for both Spanish and English comprehension skills. Mexico's low labor costs, which are comparable to those in Asian countries, allow for the evident demand increase of low-cost, high-quality raw materials production to be supplied effectively, allowing raw materials production to be a main factor in Mexican revenue.

Specifically in regards to food production, crops and agriculture are a main contributor to Mexican exports, allowing materials to be locally sourced and potentially produced by

HelloFresh partnered producers in the host country. Mexico is a leading meat producer, specifically beef in addition to the growth of corn, sugarcane, sorghum, wheat, bananas, chili peppers, oranges, limes, and mangoes among others. These crops are all commonly found in Mexican dishes, making recipe development to be placed more efficiently in the host country as well. 34% of Mexico's land is abundant in natural resources and designated for agricultural production.

Labor

Mexican labor laws differ from the United States in several ways. While they are significantly less costly, they require more contractual regulations. The Mexican Federal Labor Law requires work contracts to state the following: the places where the employee will work, the time and place where the salary will be received, description of employee training, salary and benefits, extremely detailed job descriptions, detailed work schedule, nationality, civil status, tax ID number, employee residency status, and more. Host country expertise may be required to adapt and comply with these regulations efficiently. Additionally, Mexico has limits on the amount of time an employee can work unlike the United States. Employees may work one of three shifts throughout the work day in a typical six day work week. The day shift is any 8 hour period between the hours of 6:00am and 8:00pm. The night shift is any 7 hour period between the hours of 8:00pm and 6:00am. Lastly, the mixed shift is any 7.5 hour period between the day or night shift hours in which the night shift does not exceed 3.5 hours. Mexican employees are entitled to paid time off after a year of employment and employers must provide at least one annual bonus. Furthermore, employers must have a valid reason for releasing employees or risk severance compensation, whereas the United States operates on an "at will" labor philosophy.

Accepted dismissal grounds are a lack of employee integrity in addition to the Article 47's regulations that include dishonesty, violence, immorality, etc.

Strategic Importance

Since the first meal kit launched just 13 years ago, this industry is constantly evolving to changing consumer tastes and preferences. COVID-19 has strongly impacted these tastes. More consumers are staying home, eating in, and cooking in their own kitchens now. The customer base is broadening, with the older populations being more inclined to using these services now. These trends are definitely here to stay and are especially prevalent in the Mexican meal kit market. The meal kit industry boomed in 2020 and is projected to continue to thrive, being accelerated a lot due to the pandemic. Less people want to go to the grocery store and enjoy cheaper and healthier options right in their kitchen.

The strategic importance of Mexico is crucial, both now and in the future. As noted earlier, the two largest meal kit service brands, HelloFresh and Blue Apron, have not touched the Latin or South American countries, let alone Mexico. This country has the second largest economy as well as the second most populous country in Latin America. The size of the Mexican market is 120 million people with 9 million of them located centrally in Mexico City. These points make Mexico an excellent country to first try entering into the Latin American region as there is loads of potential. If HelloFresh wants to continue as the world's most popular meal kit service, then they need to look towards expanding elsewhere. Currently, they are only located in Western European countries, US, and Canada. With their 7 million customers worldwide, they clearly are able to dominate these countries that have already entered into. Yet with more meal kit brands on the rise, they need to expand and push themselves outwards to keep this market

share and success. More competition is on the rise with more companies entering into this industry. Achieving a presence worldwide, like in Latin America and Mexico specifically, is key to effectiveness and competitiveness.

New brands in Mexico, such as Todos Comemos and Salexacta, just began in 2020. This means that they are gaining the target customer base first. If HelloFresh is going to maintain their world dominance, they need to enter this Mexican market and gain these first mover advantages from local companies like these before the competition has time to catch up. First mover advantages can include making a strong impression on consumers, leading to brand loyalty and recognition. As a result, high switching costs can occur. It also means getting to control resources, hiring the best employees, contracting top suppliers, and garnering the most strategic locations. Overall, it creates high barriers for other competition from entering the market. Though some local companies like the ones listed have already begun, they are slow to capture the consumers. HelloFresh, with their global experience, still has the opportunity to gain these advantages and make it challenging for any other competitors to try to enter after them. This in turn shows how crucial it is to enter the Mexican meal kit market to keep HelloFresh's effectiveness as a company and their competitiveness around the world.

Along with the newness of the meal kit industry in Mexico, come trends in the market in terms of size and growth. The sales of these prepared meals are forecasted to trend upwards over the next five years. However, this market is still "lagging behind the overall rate of growth in the country" ("Prepared Meals Remain Hard Sell," 2019). Within this packaged food industry, the strongest category has always been ready meals. This includes any meals that one can buy in a grocery store or supermarket that has already been prepared or cooked and simply needs to be heated up. The second strongest category is usually meal kits. Meal kits, though, are projected to

show the most amount of growth and potentially overtake the ready meals category. Capturing these growth rates and the increases in the size of this market can supremely impact HelloFresh's competitiveness over the world wide spectrum.

HelloFresh has headquarters in Germany, but is the largest meal kit provider in the US. Being able to achieve this success in the US demonstrates how HelloFresh can transfer their operations, skills, and supply chain overseas to another country halfway around the world. Since they are the biggest US provider, there are 25 total distribution centers located in the US with two more on the way. This is where the geographical importance of Mexico comes into play. These distribution centers in the US could be used to connect to Mexico at first and ease the supply chain. The US is located right on top of Mexico, making access to customers and the new market 0 miles away. The time zones between the US and Mexico are also similar, making it easier to facilitate work. Managers can also easily visit from the US and ensure that things are going smoothly at all times. NAFTA will allow things to flow more freely when needed as well. Specifically, HelloFresh just opened distribution facilities in Dallas, Texas and Phoenix, Arizona. These two states border Mexico, proving further how important the geographic location of Mexico would be for HelloFresh's effectiveness.

Going right alongside Mexico's geographical importance comes their trade agreements that they have with countries around the world. These will serve as critical factors when entering a new market since HelloFresh's headquarters are in Germany. One of the most well known agreements Mexico is in is NAFTA, the North American Free Trade Agreement. NAFTA was actually renamed to USMCA in 2020, but still has the same base agreements. They are also members of the WTO, the World Trade Organization, and APEC, the Asia-Pacific Economic Cooperation. Furthermore, they have 13 free trade agreements with more than 50 countries, some

of which can include the European Union and Japan. These reductions in trade barriers that Mexico has in place with numerous countries will allow HelloFresh to be effective when moving throughout countries all over the globe.

Despite just their location, Mexico has the potential to become a more innovative country, largely due to their human capital. The system they have for intellectual property rights and clear regulations are critical to fostering an innovative economy. Since intellectual property can be considered the most valuable assets that companies have, the advantages Mexico can provide are important. These benefits can include "detailed protections, effective enforcement, and an environment that inspires investor confidence" ("How Innovative Is Mexico," 2019). Their property rights are much more detailed than the ones in the US, ensuring an optimized climate for innovation. Therefore, HelloFresh can protect their property and technology as they enter the market, allowing them to feel more safe and secure with their competition. Mexico is also reforming their education systems, especially in higher education. This can result in the development of a new population and culture of innovation. The government is also spending more in investments to increase technology. Research and development costs in the past have been less than 1% of GDP spending. This is starting to increase though from the government and will be the innovation gateway for Mexico.

RECOMMENDATIONS

Decision

HelloFresh should enter the market as a wholly owned subsidiary in Mexico City. Mexico City is the most densely populated city in Mexico with a wide range of market segments available to HelloFresh. Building a distribution center in the country's most populous hub will

lower transportation costs and catalyze value creation for the consumer as delivery times will be shortened in addition. In order to be successful, HelloFresh will hire Mexican employees who are familiar with labor laws and regulations, as well as accustomed to business contractual obligations that are foreign to United States operators.

Mexico City was chosen specifically for reasons that will allow HelloFresh to best flourish in the surrounding areas, markets, and regions elsewhere in Mexico. One reason is that the primary competitors are both located in Mexico City. Being close to their competitors will be an advantage because it offers consumers more choices to choose from, which in turn allows HelloFresh to be in the pool of possibilities they are now picking from. Mexico City also has almost nine million people living in it. This makes for a huge market to target. 41.6% of Mexico City residents are aged 25-54, which makes up a large majority of the most popular users of meal kits in Mexico as noted in the *Demand for Offerings* section.

Entry Strategy

HelloFresh will enter Mexico's market in the form of a wholly owned subsidiary located in Mexico City. This will create a single, experimental distribution hub in which meal kits can be sourced, produced, and transported. Mexico's meal kits will provide a short list of American favorites in addition to a deeper selection of Mexican cuisines. With Mexico City being a relatively central location, meal kits will have the ability to be transported more efficiently and more quickly to Mexican consumers. Additionally, the contents will have a higher quality and reduce the risk of food expiration during the transportation process. By improving quality control prior to entering the market, HelloFresh will avoid wasting productivity and mitigate the possibility of delivering defective products.

The meal kit delivery company will engage in a polycentric staffing policy, placing home country employees in corporate headquarters positions in the United States, while Mexican employees provide the expertise necessary to operate a Mexican firm. HelloFresh will vertically integrate as an effect, shortening supply chains and making manufacturing easier to monitor and control. While this strategy may limit experiences for home country employees, the company will ultimately benefit economically from local expertise. This strategy will reduce the risk of cultural myopia and reduce costs for the firm as a result.

HelloFresh will implement a multidomestic international marketing strategy by decentralizing and differentiating products to fit consumer tastes in Mexico. The company should employ a strong sense of local responsiveness and cultural respect in regards to advertising. Multidomestic strategies present the possibility of increased uncertainty and reduce the opportunity for economies of scale, but HelloFresh plans to mitigate this by employing locals in leadership (non-corporate) positions within the wholly-owned subsidiary. This expertise will provide the company with authentic recipes, accurately translated marketing campaigns, and overall increase the necessary local responsiveness required to maintain success. HelloFresh will take advantage of locally produced foods as well as abundant raw materials needed for meal kit production that can be attained at a lower cost. Manufacturing will also take place in Mexico City, allowing for labor and production costs to be reduced as well.

When the company establishes a wholly owned subsidiary in Mexico City, hires local employees utilizing the polycentric staffing policy, and implements a multi-domestic international marketing strategy, HelloFresh will overcome the liability of being foreign and generate success in a new environment.

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APPENDIX

Figure 1

Ease of Doing Business



Figure 2

Governance Indicators

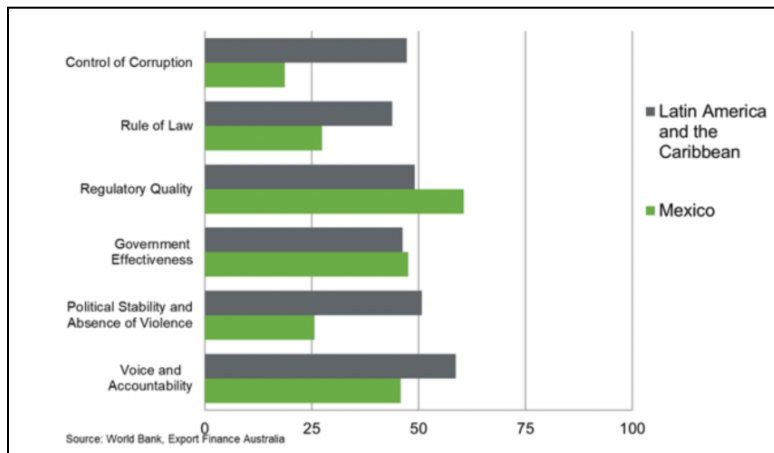


Figure 3

Revenue Change

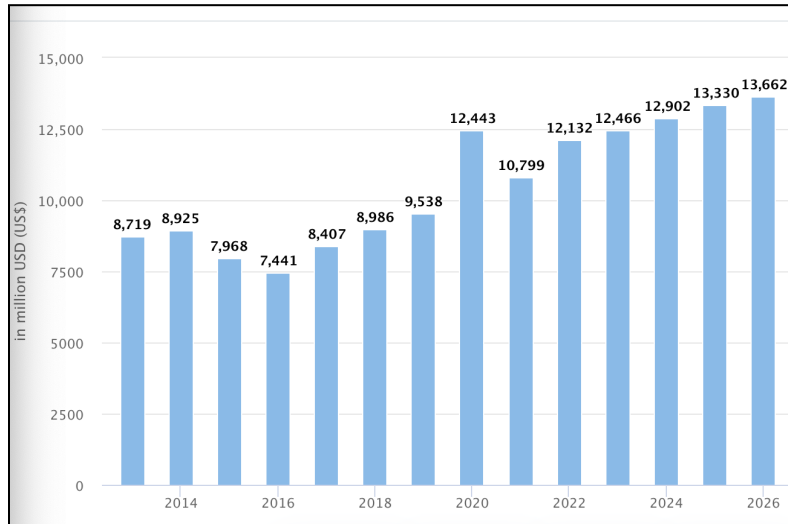


Figure 4

Size of Food Meal Kit Service Market Worldwide

