



## EXECUTIVE INSIGHTS

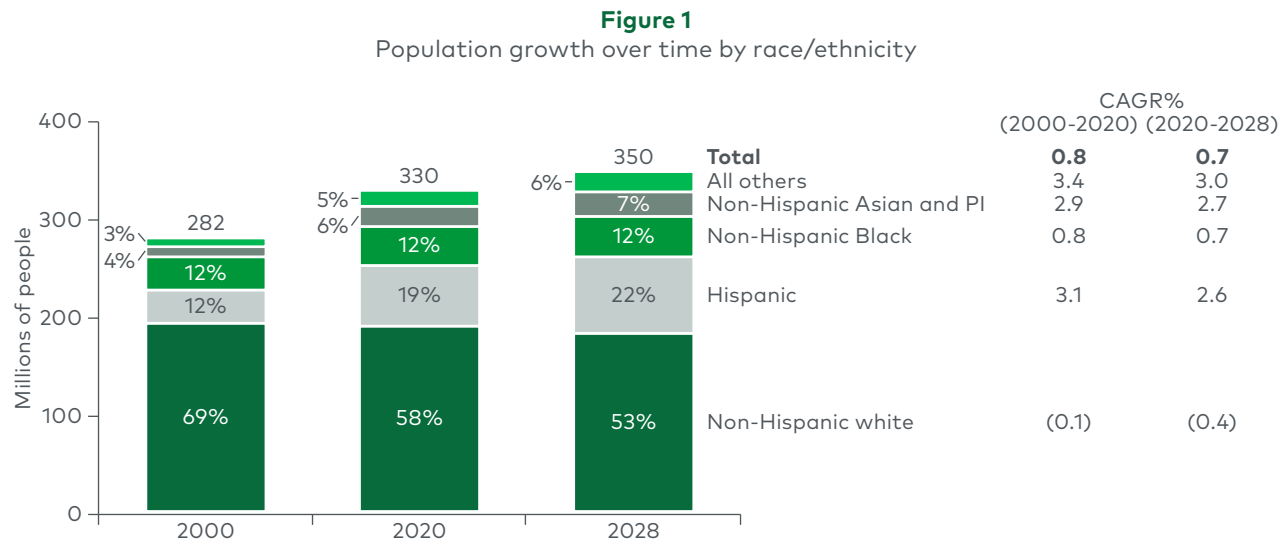
# America's Changing Palate: The Rise of Hispanic Grocery

As the number of Hispanics in the U.S. continues to grow — by 2028, they are expected to account for 22% of the U.S. population, according to the data-based marketing firm Claritas — so does the opportunity for grocery retailers and food and beverage brands and manufacturers, as well as their respective investors.

But while certain core characteristics can be applied to Hispanic food and the shopping preferences of the Hispanic population, they are a notably heterogeneous ethnic group, with preferences that vary depending on their families' countries of origin and level of acculturation and where in the U.S. they live. There is also a notable amount of expansion, consolidation and investment taking place in the Hispanic-specific grocery space — all against a backdrop of Hispanic food's rising popularity among non-Hispanic American consumers. In this L.E.K. Consulting *Executive Insights*, we take a look at how, taken together, these factors present a unique opportunity for grocery retailers, food and beverage brands/manufacturers, and investors to tap into a new customer base while expanding their existing ones.

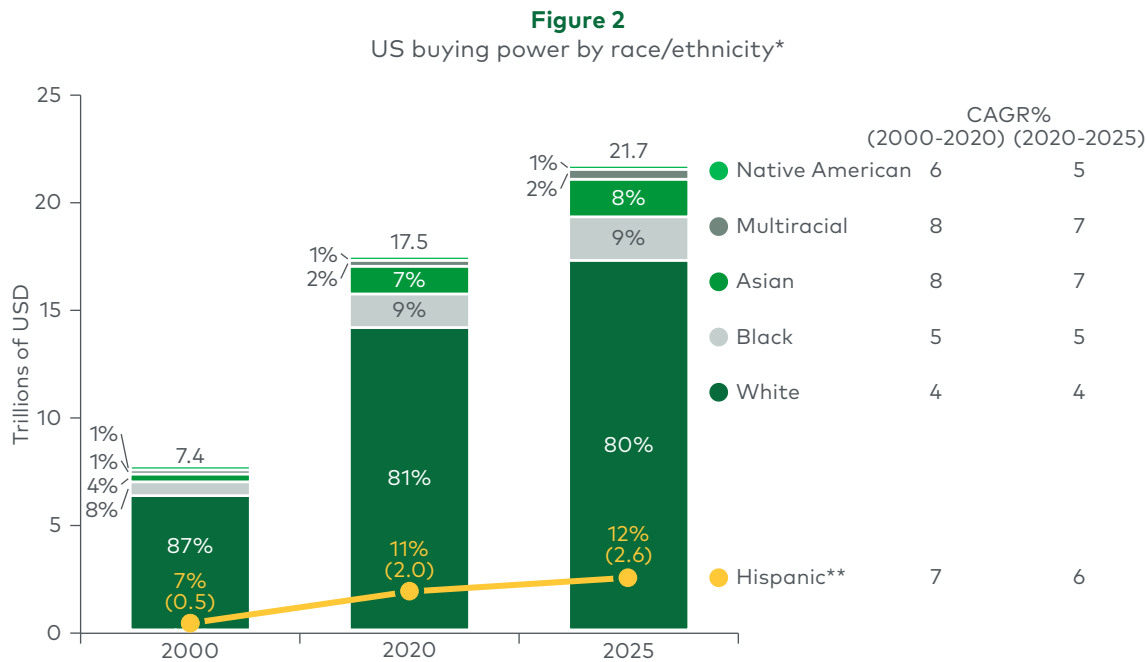
## The changing face of the US population

The face of the U.S. is changing — and changing quickly. Hispanics, who comprised 19% of the population during the 2020 census, up from 12% in 2000, are expected to account for 22% of the population by 2028,<sup>1</sup> an annual growth rate of approximately 3%. Meanwhile, the number of non-Hispanic white Americans, who have historically comprised the majority of the U.S. population, is forecast to be flat or to decline by as much as 1% (see Figure 1).



Note: Groups marked as non-Hispanic exclude Hispanic-identifying people, while the Hispanic demographic group can be inclusive of all groups  
PI= Pacific Islander; CAGR=compound annual growth rate  
Source: Claritas; U.S. Census Bureau; Statista

And as the Hispanic population in the U.S. grows, so does its buying power.<sup>2</sup> From 2010 to 2020, Hispanics' real consumption — the amount spent by this demographic after accounting for price inflation — grew more than three times faster than that of non-Hispanic consumers (see Figure 2).



\*Buying power defined as disposable personal income, meaning the share of total personal income available for personal consumption, personal interest, payments and savings  
\*\*"Hispanic" is an ethnicity rather than a race, and a Hispanic person can be of any race  
Note: Bars may not total 100 due to rounding; CAGR=compound annual growth rate  
Source: Insider Intelligence; L.E.K. research and analysis

## Differences in Hispanic food shopping preferences

The strong growth in Hispanics' buying power in the U.S. has implications for grocery retail and food and beverage manufacturers alike and, by extension, U.S. consumer behavior overall. It will increasingly impact how and where consumers shop, who influences their purchasing decisions and what, ultimately, they will buy.

**Where Hispanic consumers shop:** Hispanics shop at more grocery stores versus other ethnicities; in 2018, they shopped at an average of 3.8 stores versus 3.3 for non-Hispanic white shoppers.<sup>3</sup> Moreover, they prefer to shop for more traditional Hispanic items and authentic Hispanic brands at Hispanic grocery stores rather than at conventional stores.

**How Hispanic consumers shop:** Purchasing behavior among the Hispanic population revolves around multigenerational family dynamics, and often favors options that are authentic to their native culture. Given that 26% of Hispanics live in multigenerational households<sup>4</sup> (versus 13% of non-Hispanic whites), younger generations are more familiar with the brands their parents and grandparents use to cook. They also typically go grocery shopping together as a family, as it is seen as a special group activity.

**What Hispanic consumers buy:** The grocery baskets of Hispanic consumers look different from those of other consumers. For example, Hispanic consumers over-index in products such as fresh meat, rice and beans. They also prefer to purchase meat from *carnicerías* (meat counters/butcher shops) as opposed to buying it prepackaged. Hispanic consumers also gravitate toward brands that highlight unique customs and heritages and that use colloquial language. Indeed, Hispanic shoppers are twice as likely as other demographics to buy grocery brands that are ethnically "authentic"<sup>5</sup> (and almost half say their mom is a source of cooking inspiration<sup>6</sup>). Finally, because Hispanic shoppers like to feel connected to the brands they purchase from, they are often a loyal customer base.

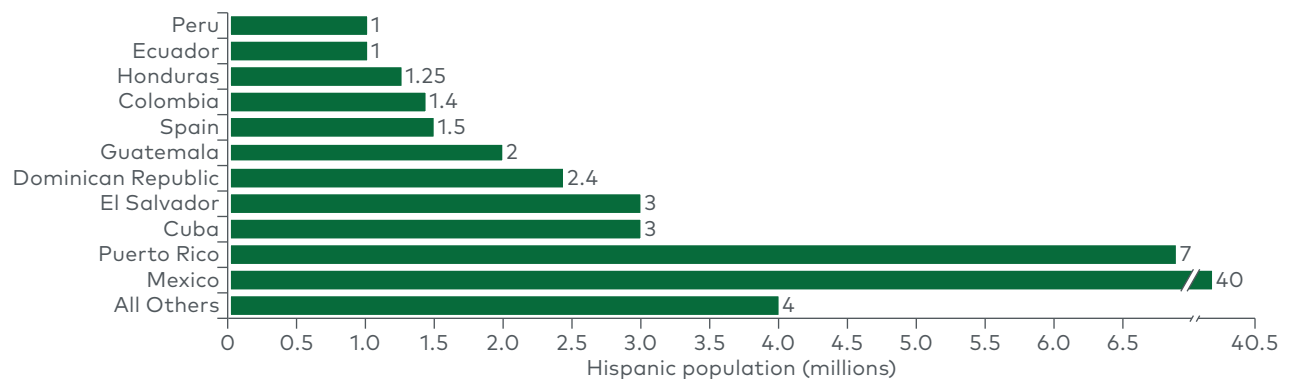
## Targeting considerations

For grocery retailers, food and beverage brands, and their investors, not going beyond the top-line Hispanic population figures can be misleading. To truly serve this demographic, they need to delve deeper.

Country of origin matters. The term "Hispanic" refers to Spanish-speaking people who have descended from a Spanish-speaking population but live in the U.S. — yet they are not a homogenous group, and instead have a diverse range of backgrounds and cultural norms. The Hispanic population in the Southwest consists mostly of Mexicans, whereas in the Southeast

it's comprised mostly of people from Cuba or the Caribbean (see Figure 3). Food preferences, meanwhile, vary depending on country of origin. Mexican cuisine focuses more on spices, for example, while Cuban cuisine focuses more on fruits, root vegetables and citrus marinades.

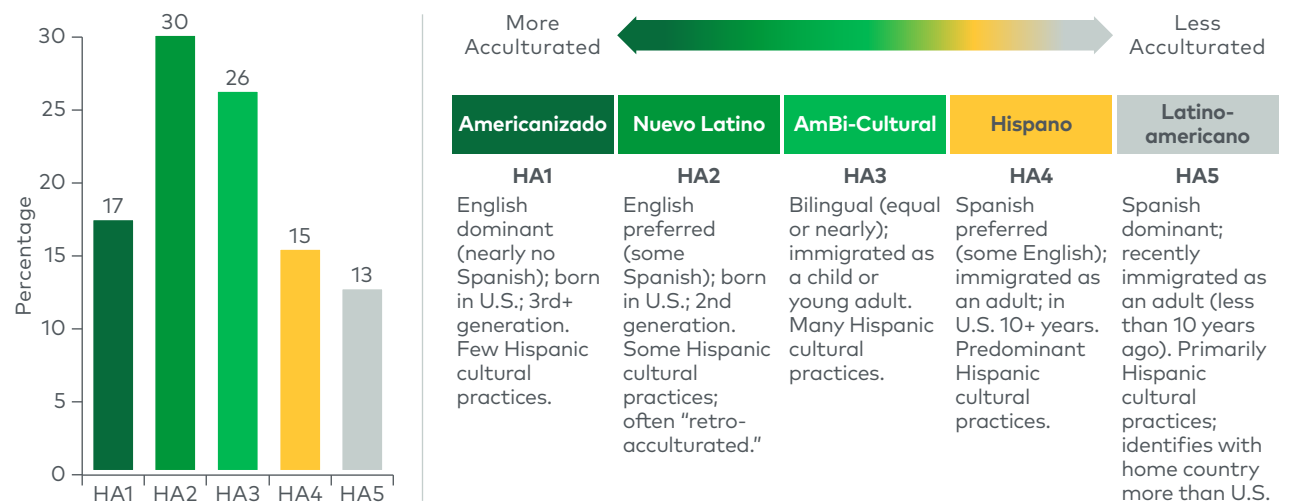
**Figure 3**  
Hispanic population by country of origin



Source: Claritas Pop-Facts 2023; L.E.K. research and analysis

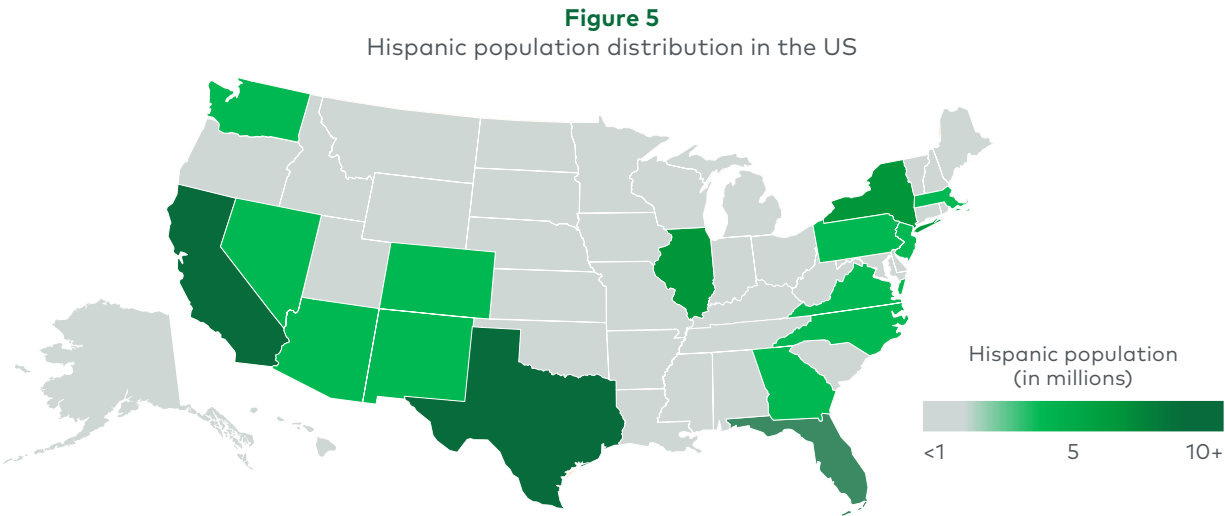
The level of acculturation also matters. Recent first-generation immigrants have different grocery needs and wants than, say, third-generation, American-born Hispanics. That said, much of the cultural preferences and shopping behaviors remain sticky across acculturated Hispanic consumers due to their tendency to live in multigenerational households and shop as a family (see Figure 4).

**Figure 4**  
Hispanic population by acculturation level



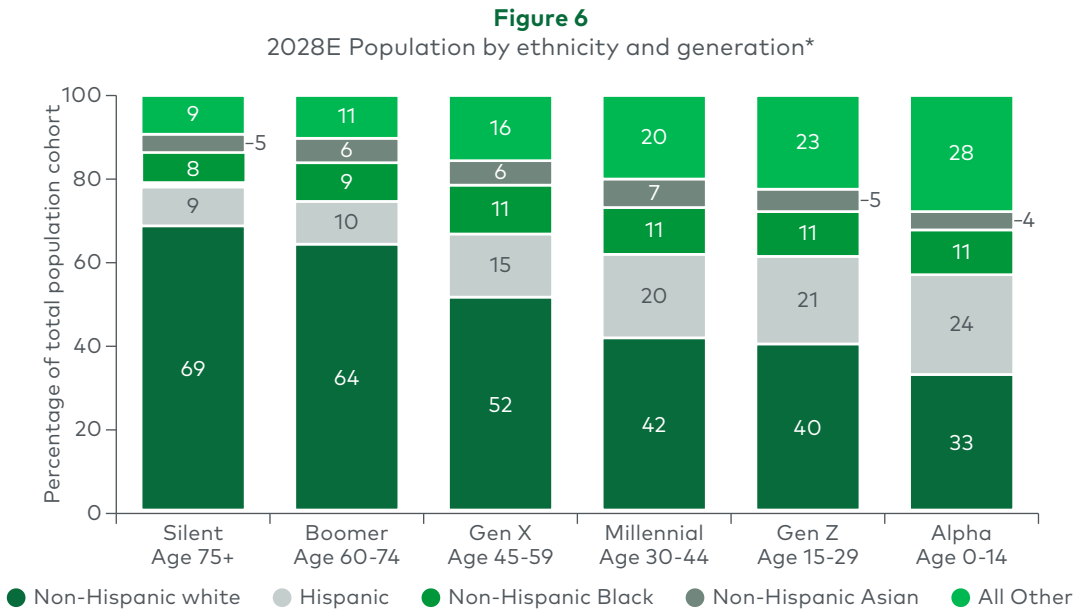
Source: Claritas Pop-Facts 2022; L.E.K. research and analysis

Finally, Hispanic populations are more highly concentrated in certain areas of the U.S., which makes brand targeting and distribution more of a focused exercise (see Figure 5). For retailers, identifying the characteristics necessary for a successful store location, as well as the assortment they choose to stock across their portfolio, can involve relying heavily on the supporting population mix.



Source: U.S. Census Bureau; L.E.K. research and analysis

Additionally, there is a large ethnic shift underway from a generational perspective. Most notably, by 2028, 21% of the U.S. Gen Z population will be Hispanic (see Figure 6), which has implications for the marketing approaches taken by consumer goods companies across the board.



\*In this figure, 15-year age groups are used to approximate the generations shown  
Source: Claritas Pop-Facts 2023; L.E.K. research and analysis

## Hispanic influence on the wider US palate

The growing Hispanic population is impacting the palates of the broader U.S. population. Google searches for “Mexican food” increased 27% per year from 2014 to 2019 and 18% from 2019 to 2021 (see Figure 7). And 45% of Gen Z consumers would choose Mexican if they could eat only one cuisine for the rest of their lives, according to a Datassential survey, followed by Asian (29%) and Italian (26%).<sup>7</sup>

**Figure 7**  
Google Trends searches for 'Mexican food'



Note: CAGR=compound annual growth rate  
Source: Google Trends; L.E.K. interviews, research and analysis

Mainstream food brands in the U.S. are looking to capitalize on this trend. In 2020, Cholula Hot Sauce was sold to McCormick for 25x EBITDA due to the growth in demand. Traditional brands have also launched products that draw on Hispanic flavors such as chile lime, habaero and fruity chamoy.

## The evolution of Hispanic grocery

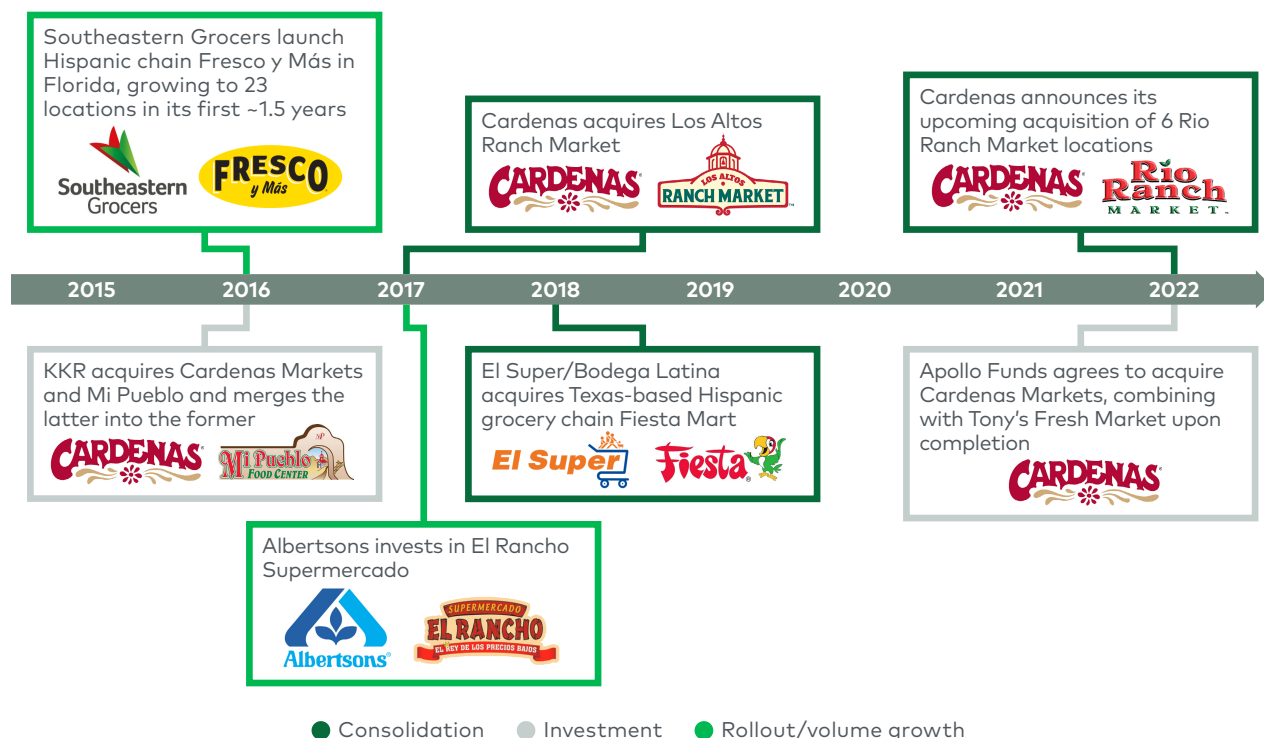
The U.S. grocery landscape is constantly changing. The recently announced Kroger acquisition of Albertsons is just the latest example of traditional grocery retailer consolidation.<sup>8</sup> Yet the market remains both fragmented and regional. Hispanic grocery is even more fragmented, with countless single-unit stores and only a short list of chains. Indeed, the top five Hispanic grocery chains (Bodega Latina, Cardenas, Northgate, Vallarta and Sedano's) are estimated to account for just 20%-25% of total Hispanic grocery sales<sup>9</sup> in the U.S., while the top five traditional grocers (Walmart, Kroger, Costco, Albertsons and Ahold) make up almost 40% of the total U.S. food and grocery market.<sup>10</sup>

Against this backdrop, there is significant activity taking place in the Hispanic grocery space:

- **Chain consolidation:** Hispanic chains are also acquiring or merging with other chains (see Figure 8). El Super/Bodega Latina acquired Texas-based Hispanic grocery chain Fiesta Mart in 2018, for example, and in June 2022 Cardenas said it would buy six Rio Ranch Market locations.

**Figure 8**

Examples of activity in the Hispanic grocery space



Source: L.E.K. research and analysis

- **Chain expansion:** In addition to new sites, Hispanic chains are opening in locations vacated by conventional grocers such as Vons and Ralphs.
- **Chain launches by conventional grocers:** Southeastern Grocers launched Fresco y Más in Florida in 2016 and grew it to 23 locations in the first 18 months of operation. Albertsons, meanwhile, launched the Amigo store brand in 2010 and invested in El Rancho Supermercado in 2017, funding its growth into new markets within Texas.
- **Investment:** In an effort to capitalize on the growth trends, private equity firms are investing in the space. For example, KKR acquired Cardenas Markets and Mi Pueblo in 2016, which it then sold to Apollo in June 2022.



Hispanic grocery stores, like all ethnic stores in the U.S., have traditionally featured very different assortment mixes and layouts than those of conventional American grocers; for example, the meat counter (carnicería) is given prominence alongside shelf space for staples such as rice, beans, tortillas, spices, etc. More recently, however, the larger Hispanic grocery chains have been altering their stores' fit-outs and assortments so as to appeal to the non-Hispanic consumers who, due to their interest in ethnic flavors, are increasingly shopping there. Some stores, such as Vallarta, are using conventional interior designs and English signage both in-store and online, and numerous Hispanic grocers are now offering a greater number of classic American stock-keeping units, or SKUs (see Figure 9).

**Figure 9**

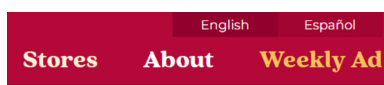
Store experience and product selection in large Hispanic grocery chains

**Store layout and shopping experience**

Recent Vallarta store redevelopments were undertaken by the same commercial interior design firm used by Whole Foods

**Greater prominence of English in-store and online**

Vallarta's new layouts include department signs in Spanish and English, with English often first



Cardenas' new website offers versions in Spanish and English

**Greater number of American items carried**

El Super stocks classic American brands such as Dunkin' and Lunchables

Source: L.E.K. interviews, research and analysis

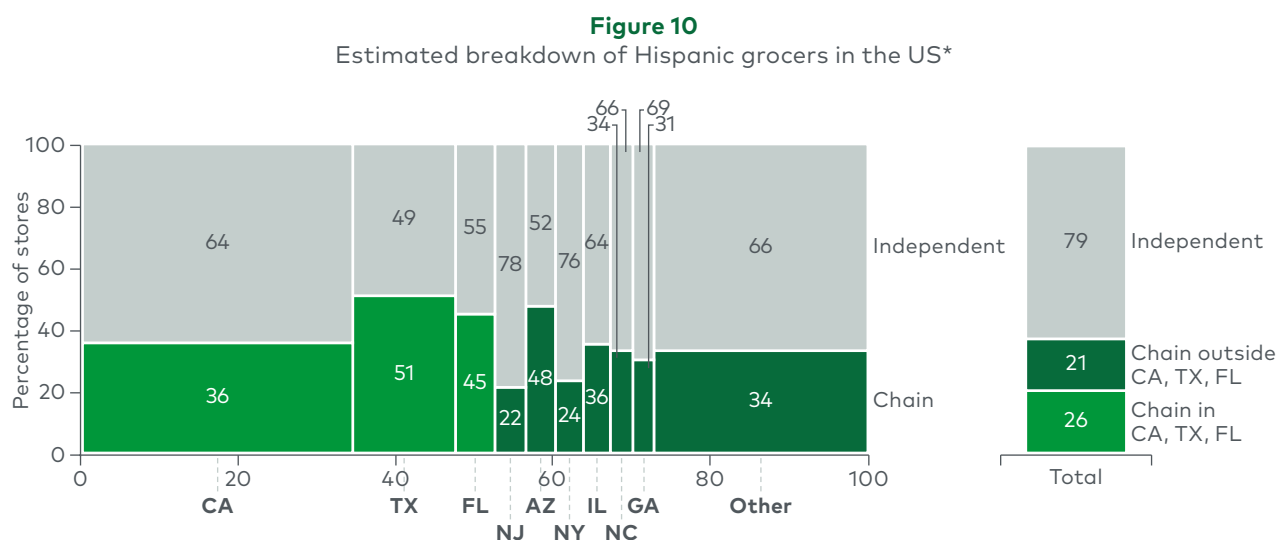
At the same time, conventional grocers are increasingly stocking more Hispanic brands alongside their traditional assortments as they try to widen their appeal and gain new customers. Conversely, some Hispanic brands are moving away from the traditional ethnic food aisle into the more generic aisles — and even at the checkout, where, for example, Cholula sells its 2-ounce bottles at Walmart. That said, different grocers take different approaches to Hispanic brands. Consider the spice aisle. In some grocery stores, Bahia, Goya and regional Hispanic brands such as Chef Merito and La Preferida are stocked alongside traditional spice brands like McCormick; in others, they are placed in separate aisles.

Conventional brands, meanwhile, are also launching innovative new SKUs with ethnic flavors — both Hispanic and a range of other ethnicities — targeting both the ethnic consumer and the nonethnic consumer whose tastes are evolving.



## Implications for food and beverage brands/manufacturers

There is a long runway for growth in Hispanic grocery brands, but unlocking it can be difficult. A more attractive expansion strategy can involve scaling within larger Hispanic grocery chains in regions with high concentrations of Hispanic consumers (see Figure 10). For example, in California and Texas, where more than 40% of all U.S. Hispanic grocery stores are located, this includes signing on with distributors that specialize in grocers serving the Hispanic market, building a sales force that can successfully manage relationships with those grocers and, finally, innovating across categories. Entering conventional grocery stores is a huge undertaking, and a risky one, with limited opportunity for a second chance should things go wrong — excellent fulfillment as well as brand recognition are essential to get high velocities in order to stay on shelf.



\*~5,300 active Hispanic grocery stores identified in the U.S. and used as the breakdown for splits for chain (>5 locations) versus independent and by state

Source: L.E.K. interviews, research and analysis

For non-Hispanic brands, the goal is to tap into the demand for Hispanic flavors in an authentic way. Depending on the brand's heritage and values, that may mean adding those flavors to their portfolio to gain share with their existing customer base instead of risking targeting Hispanics in a manner that feels inauthentic.

Whatever the strategy retailers and brands (and their investors) take, the message is clear. The Hispanic population in the U.S. is growing quickly, and together with an increasingly ethnically diverse population overall — and the changing tastes that come with such diversity — there is an opportunity to unlock an entirely new customer base.

For more information, please contact [strategy@lek.com](mailto:strategy@lek.com).

## Endnotes

<sup>1</sup>Claritas, "The 2022 Hispanic Market Report." <https://www2.claritas.com/2022-Hispanic-Market-Report-Email>

<sup>2</sup>Insider Intelligence/eMarketer, "Hispanic visibility in US media lacking even as group fuels nation's economy." <https://www.insiderintelligence.com/content/hispanic-visibility-us-media-lacking-even-group-powers-nation-s-economy>

<sup>3</sup>Acosta, "The Why? Behind the Buy: The Importance of Multicultural Shoppers," 2019. <https://www.acosta.com/>

<sup>4</sup>Pew Research Center, "The Demographics of Multigenerational Households." <https://www.pewresearch.org/social-trends/2022/03/24/the-demographics-of-multigenerational-households/>

<sup>5</sup>Acosta, "The Why? Behind the Buy: The Importance of Multicultural Shoppers," 2019. <https://www.acosta.com/>

<sup>6</sup>Acosta, "The Why? Behind the Buy: U.S. Hispanic Shopper Study," 2017. <https://www.acosta.com/>

<sup>7</sup>Datassential, "FoodBytes: Future Food." <https://offers.datassential.com/foodbytes-2022-trends>

<sup>8</sup>Foodnavigator-USA, "Kroger to acquire Albertsons for \$24.6bn solidifying its position as #2 grocery retailer with 11.8% market share." <https://www.foodnavigator-usa.com/Article/2022/10/14/kroger-to-acquire-albertsons-for-24.6bn-solidifying-its-position-as-2-grocery-retailer-with-11.8-market-share>

<sup>9</sup>L.E.K. analysis

<sup>10</sup>Foodnavigator-USA, "Kroger to acquire Albertsons for \$24.6bn solidifying its position as #2 grocery retailer with 11.8% market share." <https://www.foodnavigator-usa.com/Article/2022/10/14/kroger-to-acquire-albertsons-for-24.6bn-solidifying-its-position-as-2-grocery-retailer-with-11.8-market-share>

<sup>11</sup>L.E.K. analysis

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