

# **The demand side of firm growth: Evidence from Mexico**

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We study the demand side of firm-level upgrading: in order for firms to sell higher-priced or more products, they must convince customers of the value of their products. One way to do this is to build reputation over time, but this process may take a long time if consumers have low priors and learning is slow. We study this question in the context of the consumer goods industry in Mexico, where small domestic firms compete with large multinationals who start out with much better reputations. Leveraging scanner data, we show that although consumers of domestic products seem satisfied, they are more reluctant to try new goods introduced by the same domestic firms than new goods introduced by multinationals. Government-mandated labeling appears to increase consumers' willingness to experiment, including with new domestic products.

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