



# Top 5 Factors to Consider Before Expanding Operations in Mexico

Partner for Success®

# 4 Webinars American Industries® Events



# Mexico's Business Environment

Adán Gómez

Business Development Director American Industries Group®

Partner for Success®

## Challenges of a Global Supply Chain

Lower costs, minimize risk, and increase supply chain resilience. +/- Shifts in policies and regulations have changed how businesses can operate.

- 1. US-China relations
- 2. COVID-19 impacts
- 3. Competition with Chinese companies
- 4. Tariffs / revoke subsidies
- 5. Cost increases
- 6. Labor shortages

- 7. Travel restrictions
- 8. Licenses and approvals
- 9. IPR enforcement
- 10. Data flows / Cybersecurity
- 11. Innovation policies
- 12. Investment restrictions on foreign companies.

Success in today's global manufacturing landscape requires the flexibility to respond & capitalize on, near-term disruptions.

Unpredictable is not cost-effective. Companies are looking for business continuity and long-term-solutions!



## Mexico's Economy



15<sup>th</sup>
Largest
Economy

**GDP** 

+ 1.19 T USD 17% of GDP is in the Mfg. Industry



10th Exporter Country

**EXPORTS** 

+ \$490 M USD 2% of total world exports.

90% Exports are in the Mfg. Industry



9th Largest Recipient

**FDI** 

+29 B USD (2020)

+12 B USD (1S 2021)



## What Mexico Offers to Investors

#### 1. Ideal Location for Businesses

- Logistics and transportation efficiency
- Supply chain optimization
- 2. Access to Markets and Regional Integration
  - Improved trade relationships with less restrictions
- 3. A Robust Base of Manufacturing Industries
  - Mexico exports hi-value added products
- 4. Availability of Skilled and Affordable Labor
  - Experience in a wide variety of industries
- 5. Tax Benefits to Manufacturers
  - USMCA/ CPTPP (IMMEX | IVA | IEPS).



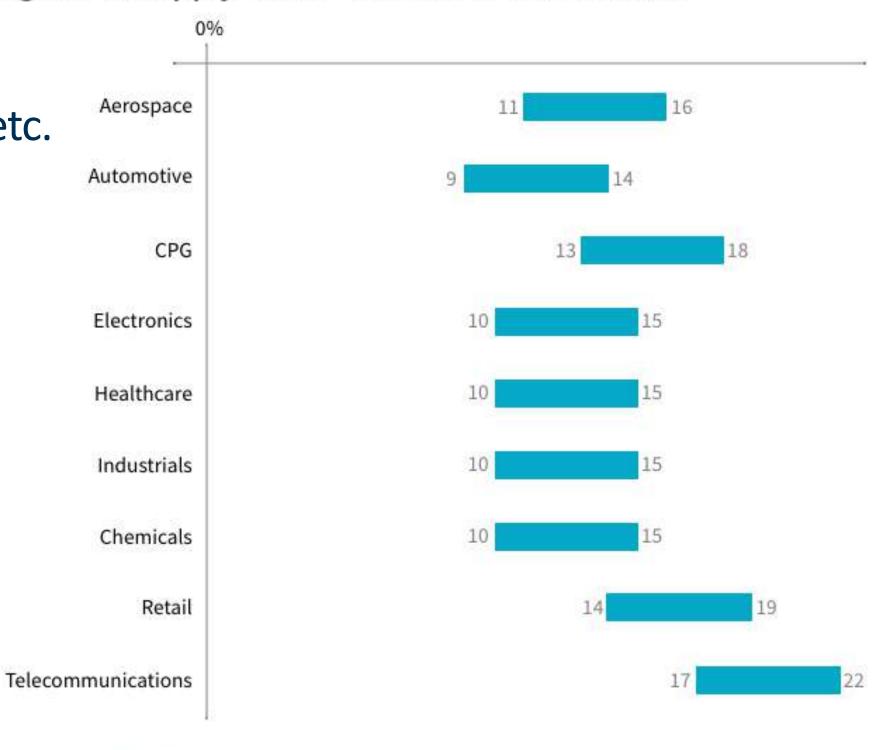
## Efficient Logistics & Transportation

- Lower transportation costs
- Location: as close to your market as possible
- Time: Travel times, same day delivery, eliminate container ships
- Operate within the same time zone: training, quality control checks, etc.
- Increase border-crossing efficiency

Supply-Chain costs range from 10 to 20 percent of revenues



Figure 1. Supply chain\* cost as % of revenues



Source: APQC 2017

\*Supply chain activities includes all planning and operating activities required to fulfil demand for products and services



## Supply Chain Optimization



## Levers for rapid EBITDA

-80%

-75%

**Shipping time** 

**Transportation cost** 

Comparison between Mexico and China

"Levers 1-4 to optimize supply-chain efficiency"

LEVER			Typical Project Impact
	Demand forecasting	MAPE improvement	20 - 80%
7000	Joint value creation	Sales growth	4 - 21%
	Production planning	OEE increase	5 - 18%
**	Sales and operations planning	OTIF improvement	7 - 30%
	Inventory management		6 - 14%
	Warehouse operations \	Savings	9 - 15%
	Transportation		5 - 10%
484	Network footprint		15 - 25%

"Levers 5-8 drive to savings. Lower the supply chain costs and the need for working capital



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## Improved Trade Relationships

Mexico surpassed China and Canada as the United States' largest trading partner for the value of goods.

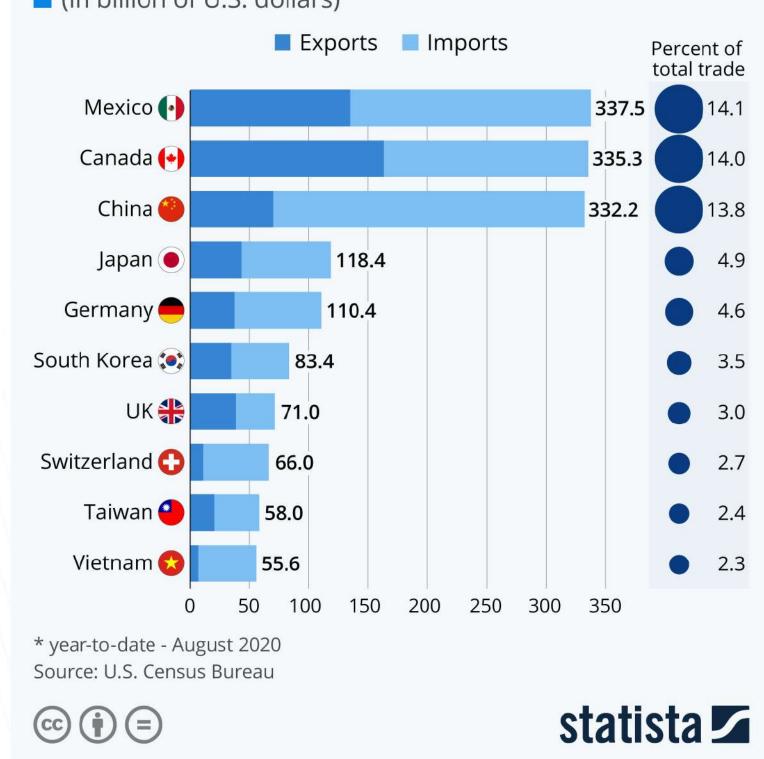
#### 14 FTA's + 50 Countries + 60% World's GDP

**USMCA:** Success Story of tarif-free trade across North America.

**CPTPP:** Gives manufacturers and suppliers in Mexico tariff-free access to 11 countries throughout the Asia-Pacific.

## America's Most Important Trading Partners

Top U.S. trading partners for goods only (in billion of U.S. dollars) \*

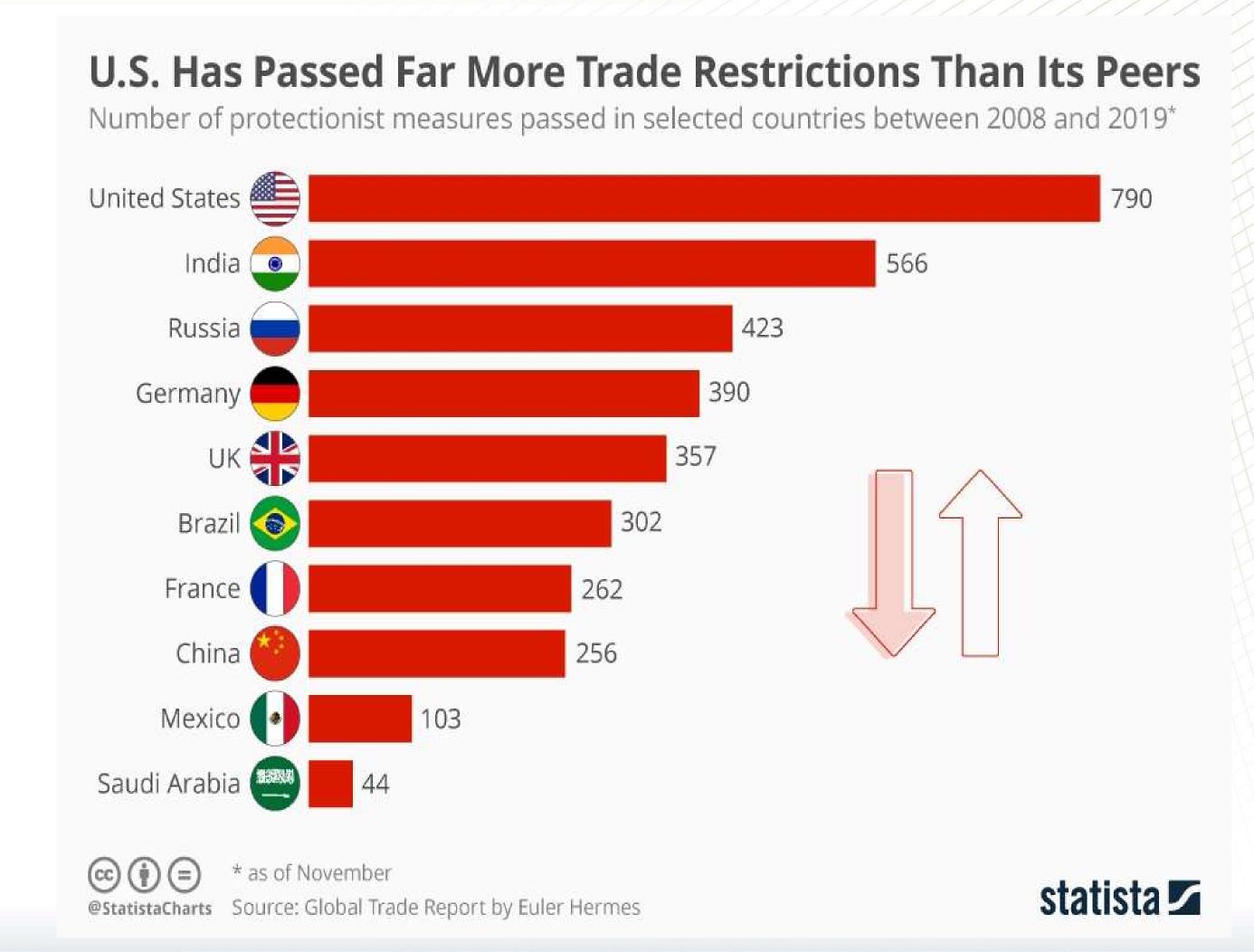




## Trade Restrictions



- +1 M Border-crossings per day
- +1 M U.S. citizens living in Mexico
- **18,000** Companies with U.S. Investments operating in Mexico
- +70% U.S. share of all FDI investment to Mexico
- +45% of the raw materials used in Mexican manufacturing facilities are sourced from the U.S.





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## Robust Manufacturing Industries

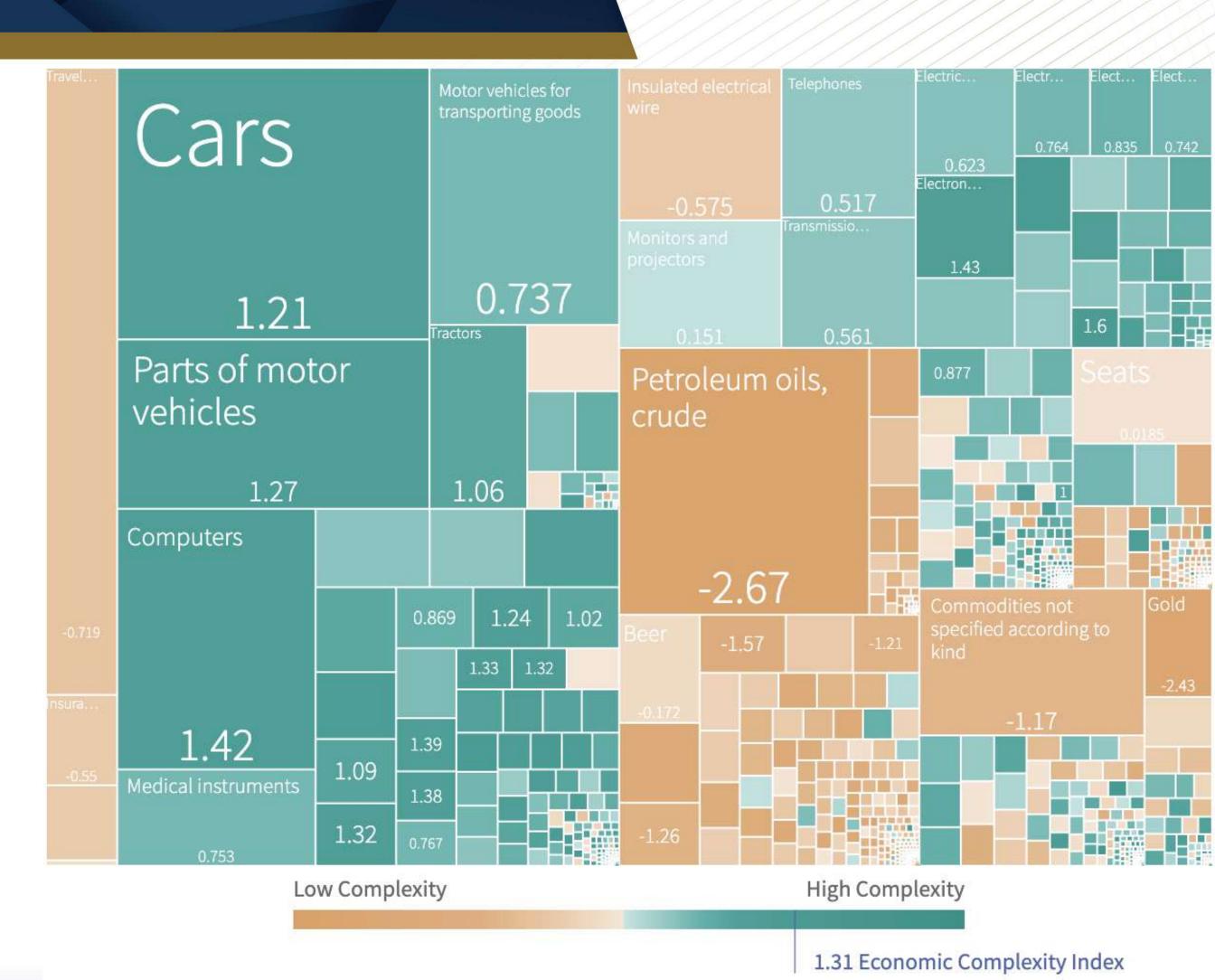
**Export Complexity Index 2019** 

Mexico exports Hi-value added products

+50 years history supporting global manufacturing powerhouses.

- OEM's
- Suppliers
- Facilities
- Infrastructure
- Utilities
- Import-export efficiency





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## 11th Most populated Country in the world.

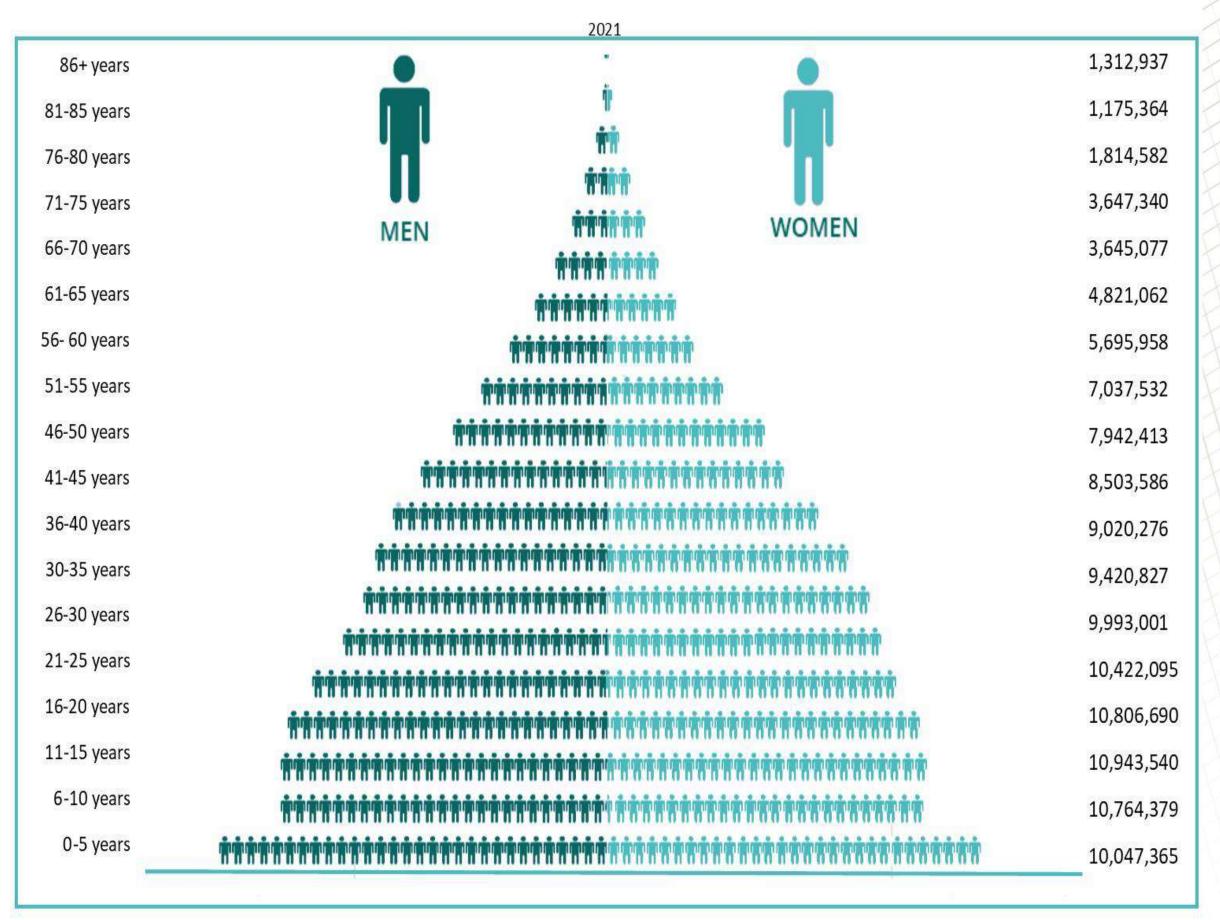
+126M Inhabitants

Average Age: 29 years old

EAP: +75M (+60%)

By year 2040: +80M @ working age

#### MEXICO'S POPULATION BY AGE AND GENER



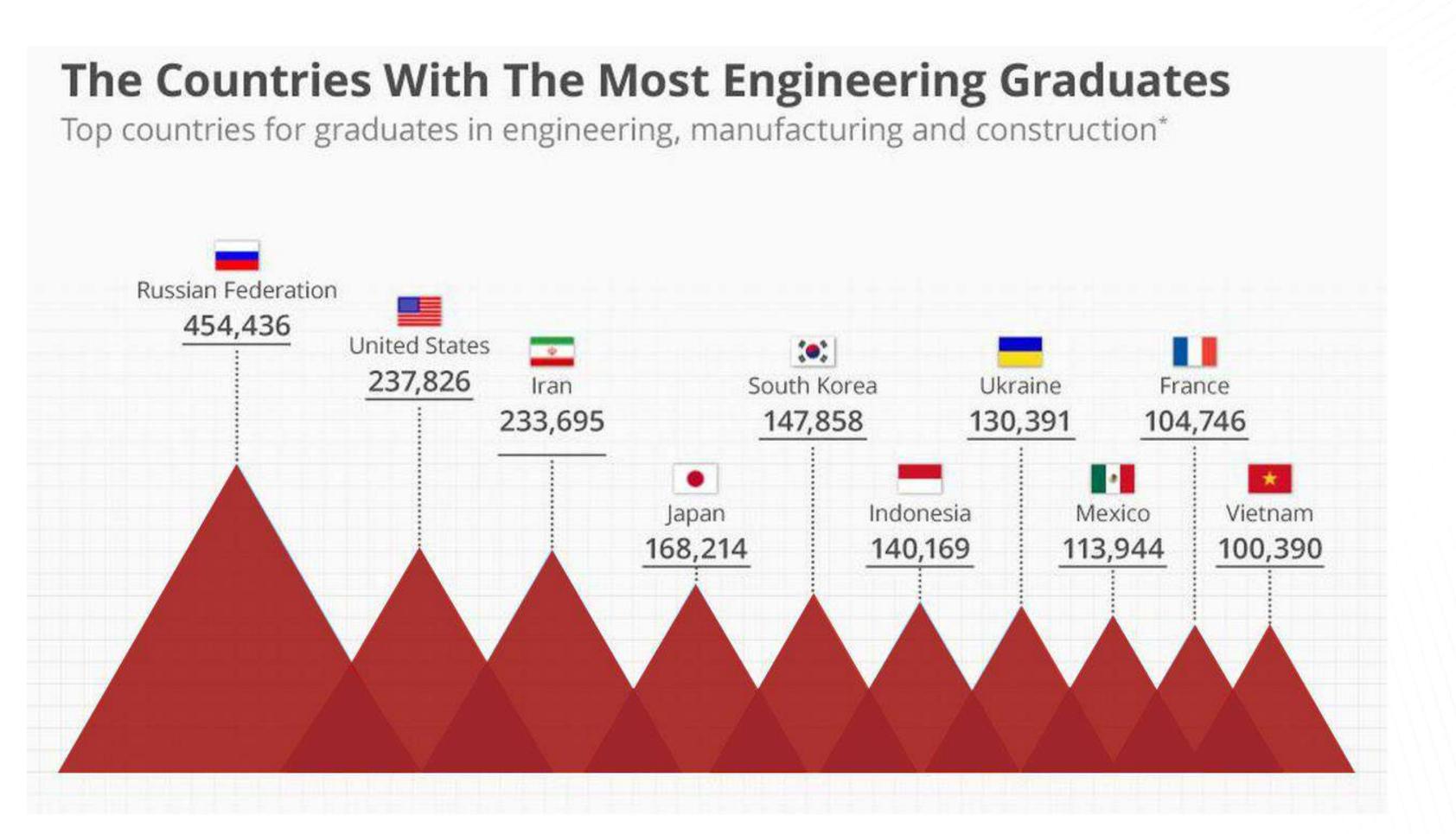
Source: Instituto Nacional de Estadística y Geografía (INEGI), 2021



- Cultural Affinity and Language.
   English Speaking managers and employees
- Enrollment:

   70M Studying (elementary to high-school)
   5M in higher education
   1.5M in Engineering & Technology related careers
- Worker Productivity is Great!
   More than 5 decades working in the maquiladora industry
- Stable Labor Environment
   Unions with a more business-minded approach and plants that listen to their employees' needs.





8<sup>th</sup> Talent Availability

+114,000 Engineering Graduates per year



#### Aerospace

..has access to a potential high-tech export market, as a member of the Wassenaar Agreement.

#### Automotive

..is the 6<sup>th</sup> largest vehicle producer worldwide and 4<sup>th</sup> largest exporter globally, behind Germany, Japan and the United States.

#### Medical Devices

..is the main exporter of devices that use alpha, beta or gamma radiation in Latin America.

#### **Pharmaceutical**

..is the 2<sup>nd</sup> largest pharmaceutical market in LatinAmerica and the 12<sup>th</sup> in the world.

#### Renewable Energy

**Bectronic** 

...is the 8<sup>th</sup> largest producer

of electronics in the world.

..has more than 226 power plants for the generation of electric power through renewable sources.

# Mexico is leader in key sectors

#### Construction

..is one of the largest cement producer in Latin America.

#### **Bectricity**

..is the 2<sup>nd</sup> producer of the electricity sector in Latin America.

#### **Furniture**

..is the 2<sup>nd</sup> largest furniture supplier of the United States.

#### Processed Food

..is home to 9 of the 10 food industry global companies with the highest revenue.

#### Telecommunication

..is the 2<sup>nd</sup> country in Latin America with the fastest internet speed.

#### Metal Mechanic

..is among the 10 main exporters of machinery, appliances and mechanical devices.

#### Biotechnology

..is the 2<sup>nd</sup> country in Latin America with the highest number of patent applications.









# Five Business Models to Start Manufacturing Operations in Mexico

Gerardo González

Guanajuato Regional Director American Industries Group®

Partner for Success®

## 1. Joint Venture Partner

A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

#### **Benefits**

- Immediate start up process due to current presence.
- Partner might be already doing import & export transactions.
- Experience and knowledge of local market.

- A dedicated representative from your company might be required in the operation.
- Sharing intellectual property (probable).
- A risk to face liabilities in Mexico in case of any mistakes.
- Entrance cost is low, but income tax and profit sharing obligations
- Not having full control of the JV operation



## 2. Acquire an Existing Operation

A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy.

#### **Benefits**

- Tailored training for existing employees (already familiar with business culture).
- Legal and operational permits might already be compliant.
- Entrance cost low / Business network
- Full control of the operation
- Low risk sharing intellectual property

- VAT + Income tax and profit sharing from the beginning.
- Due diligence and background check of the company, clients, local suppliers, government relations and performance.
- Acquiring firm responsible for all the previous and ongoing legal and operational liabilities.



## 3. Contract Manufacturing

Contract manufacturing is the outsourcing of part of the manufacturing process of a product to a third-party.

#### **Benefits**

- Low entrance cost & easy start up
- No risk of liabilities
- Usually long-term contracts
- CM likely to have own methods of quality
- Take advantage of skills that the CM may posses
- Network of CM with raw material suppliers,
   Government, industrial chambers, etc.

- Very low control of your production
- Risk of Intellectual property loss (consider not to give out your core competencies)
- Low control on deliveries and costs of production.
- Capacity constraints, especially if you don't make up a large portion of the CM's business.
- Loss of flexibility and responsiveness to respond to disruptions in the supply chain or demand fluctuations, risking their customer service levels.



## 4. Wholly-Owned Operation

A company capable of operating independently of any other company (usually under the form of subsidiary)

#### **Benefits**

- Full control
  - Operation
  - Processes
  - Deliveries
  - IT platforms
  - Design
- No risk of sharing intellectual property.
- Usually more suitable for large operations.
- INDEPENDENCE

- Longer learning curve to understand local business culture.
- Income tax, profit sharing and 16% VAT from the beginning.
- Lack of local networking at the beginning (Government, industrial chambers, clusters, industry associations, etc)
- Possible need to hire external advisors
- Complete Due Diligence (Real Estate land ownership, use of land permit, taxes).



## 5. Shelter Operation

A company that provides administrative services (human resources, accounting, customs, tax and others) to the arriving company to start—up and consolidate an operation in Mexico.

#### **Benefits**

- Local networking in place (Associations, clusters, Government, unions, etc.)
- Experts on how to do business in Mexico.
- Start up with or without legal entity in MX.
- Intellectual property is safe at all times.
- Minimize risks and liabilities.
- No VAT effect on your cash flow.

- No Income tax for the first 4 years of operations in Mexico (if NOT incorporated)
- Full control of your operation
- Focus in your core business



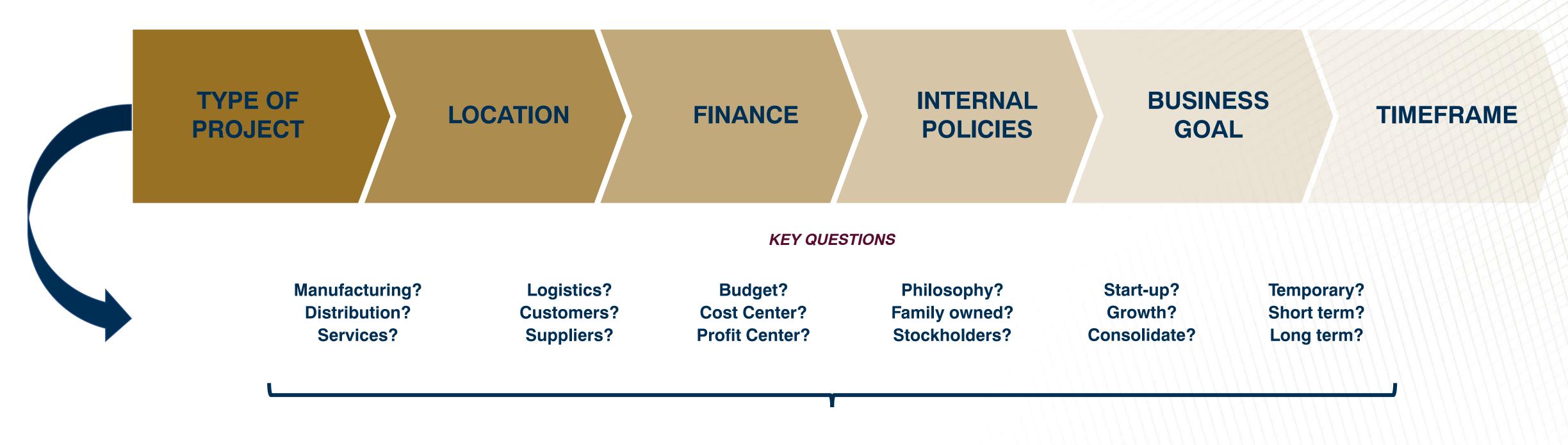
## 5. Shelter Operation

- Research on experience, capabilities of the Shelter Company (avoid surprises!)
- Complete, accurate information (labor, logistics, tax, accounting, etc.)
- Entrance, exit and additional fees



## Which One is the Best Business Model for My Project?

#### IT IS NOT A "FEELING"... IT'S A PROCESS



VALIDATE CHECK ANALYZE COMPARE

DECIDE







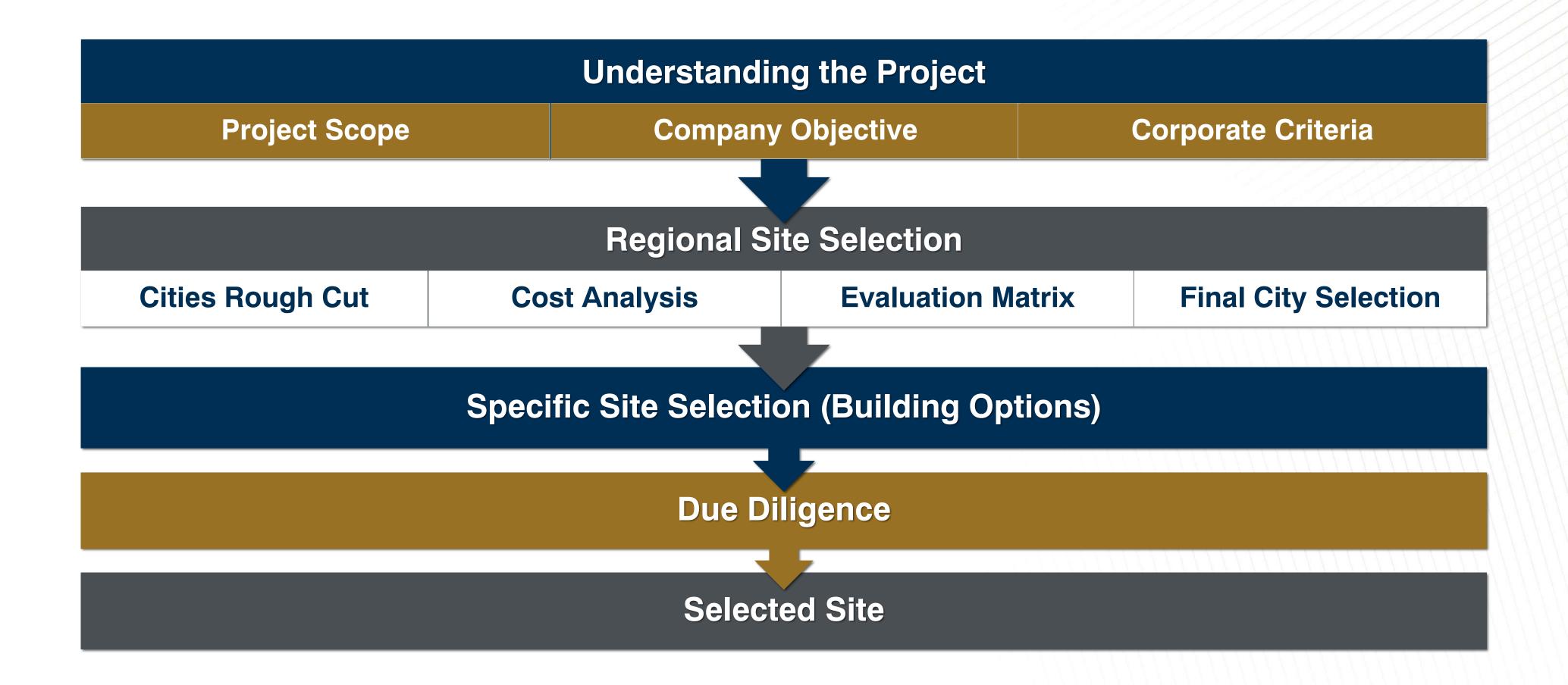
# Site Selection Process

Jorge Baca

Queretaro Regional Director American Industries Group®

Partner for Success®

## Site Selection Process





## Understanding your Project

#### **Company Objective: Why Mexico?**

 Cost reduction, Proximity to Customer(s), Logistics, Suppliers....

#### **Project Scope: What?**

 Product, Facility Size, Volumes, Equipment,
 Headcount & Skills, Utilities & Consumption, Raw Material(s), Supply Base, Customer(s)...

#### **Corporate Criteria**

- Time Frame
- Buy or Lease
- Existing or Build-To-Suit Facility
- Project Confidentiality / Company Exposure
- City Profile
  - Border, interior, big, small.
- Expat Quality of life
- Outside or Inside Industrial Park
- Curb Appeal





# Main Factors to Consider in a Site Selection Analysis

Support to go through the complete site selection framework to help you find the most cost effective location for your operation.

- Business Environment
- Labor
- Demographics
- Academic
   Infrastructure
- Quality of Life

- Political Environment
- Geography & Climate
- Accessibility
- Supply Base
- Infrastructure



# A Merican Industries® Events



## Labor & Costs

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Business Development Director American Industries Group®

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## Business Case Support

Our Cost Model provides a solid estimated monthly operating cost under different scenarios and locations.

#### **Assumptions:**

- 60,000 Sq. Ft.
- Lease Rate \$0.42 USD/SqFt/Month
- 60 employees, 2 Shifts
- Utilities:

Electricity: 50,000 KwH/Month

Natural Gas: 20,000 ft3/Month

Water: 14,530 Gallon/Month

Freight Chihuahua – El Paso

Southbound Shipments: 3/Month

Northbound Shipments: 3/Month

Local Shipments: 0/Month

Virtual Exportations: 0/Month

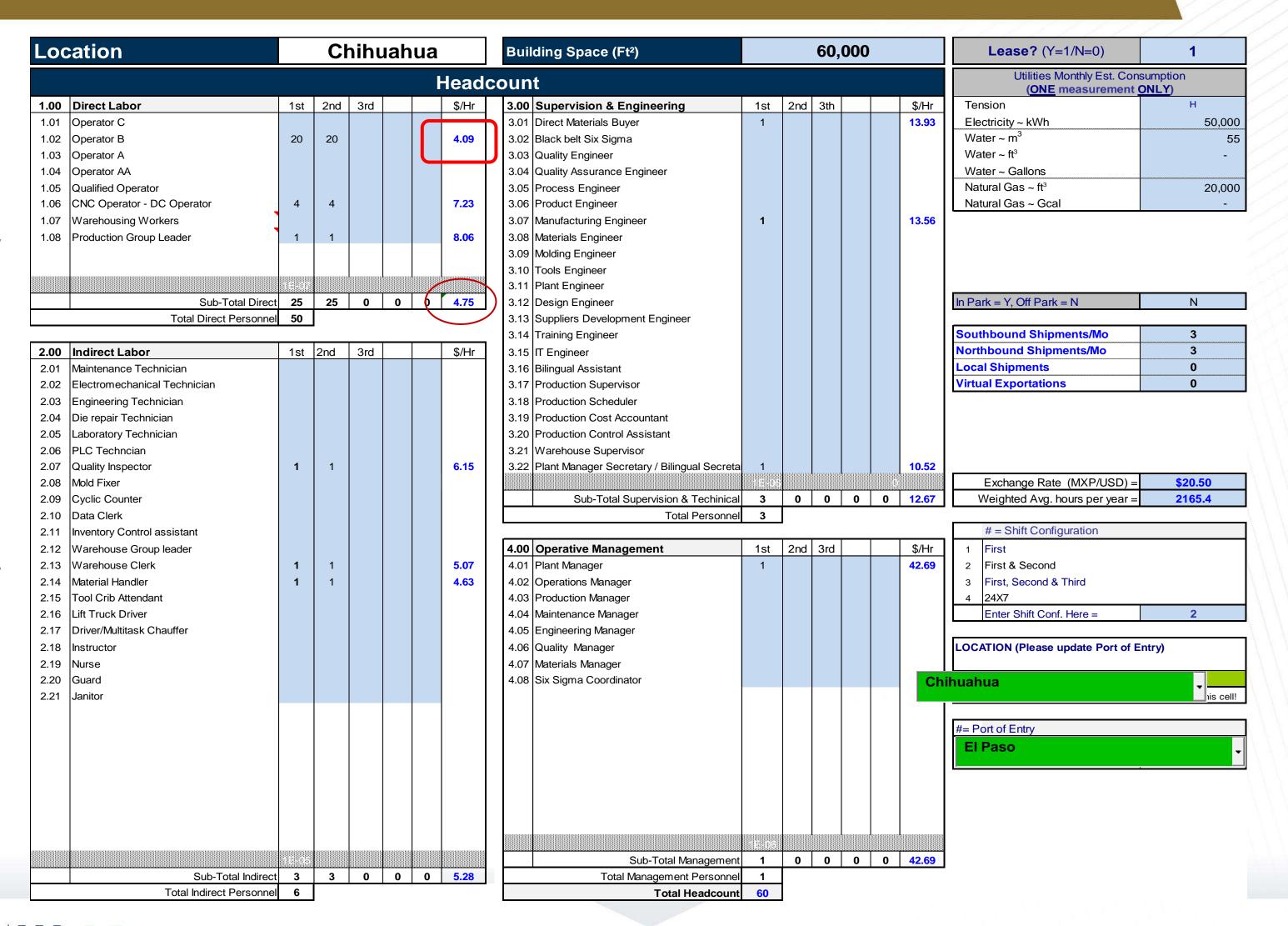
Exchange Rate: \$20 MXN/USD

Cost / Hr

- 1. Labor cost
- 2. Building & Utilities
- 3. Logistics, Freight and Customs
- 4. Administrative Cost
- 5. Other costs related to the operation



## Cost Model – Data Input Sheet



Utilities

Logistics requirements

Port of entry



Avaliable

positions



#### Estimated Monthly Operating Cost Summary (in US Dlls)

Exchange rate:

20.50

4-Feb-21 **Elaborated:** Cost/Clock Hr Project Population = **60** Location: QTY US\$ % **Sub-Total Extended** Total **Direct labor** Chihuahua Building Size Sq.Ft. = **60,000** 4.75 ) \$ Direct Labor 50 \$ 42,782.35 2 Indirect Labor 5.28 5,709.89 Labor \$63,028 \$5.82 \$7.00 45% 3 | Supervision & Engineering 12.67 6,847.60 4 Operative Management 42.69 7,688.22 0.38 5 Building Rent 22,800.00 60,000 0.024 6 Building NNN 60,000 1,440.00 **Building** \$39,526 \$3.65 \$4.39 28% Park Fees 60,000 0.16 60,000 8 Building Utilities 9,430.22 9 Process Utilities 60,000 0.10 5,856.06 429.66 10 Southbound freight 1,288.98 11 Northbound freight 429.66 1,288.98 100.00 12 Local Freights \$ 13 S. bound US/Mex broker fee 93.00 279.00 Logistics \$4,528 \$0.42 \$0.50 3% 14 N. bound US/Mex broker fee 113.00 339.00 15 Virtual northbound (Mex broker fee only) 60.00 16 S. bound Freight forwarding \$ 222.00 666.00 17 N. bound Freight forwarding 222.00 666.00 18 On Site Personnel **Administrative** 19 | Corporate Personnel \$30,940 \$2.86 \$3.44 22% 30,940.00 Cost 20 Shelter Expenses & Profit 21 Telephone & Internet 500.00 22 Office Supplies 300.00 23 Training 350.00 Other \$2,450.00 \$0.23 \$0.27 2% 24 | Security (Exterior Property) 500.00 25 Cleaning Service 550.00 26 Safety 250.00 \*Information valid **Total estimated per Month** \$140,472 Total Hours/Mo. 10,826.8 for 6 months 100% after date of Avg. monthly total work hours: **Estimated Cost/Total Hr.** \$12.97 12.97 180.45 Avg. monthly direct labor hours: Total Direct Labor Hrs./Mo. 9,005.2 180.10 elaboration

**Estimated Cost/D.L. Hr.** 

\$15.60

\$15.60

## Labor / Operation Cost Comparison for an Operation in Mexico









# Programs, Certifications & Taxes

Jorge Baca

Queretaro Regional Director American Industries Group®

Partner for Success®

## Main Incentive Programs

#### **IMMEX**

Allows companies to import on temporary basis.

#### **Temporality:**

Imports: 18 Months

Virtuals (V1): 6 months

#### Note:

With OEA certification, temporality is 36 months.

#### **PROSEC**

#### **Promotion Sectorial Programs:**

Companies can apply to these programs in order to reduce or eliminate import duties.



## Main Incentive Programs



Electric	Electronic	Furniture	Toys & Sports	Footwear	Mining & Metallurgical
Photographic	Agriculturar Equipment	Chemical	Rubber & Plastic	Steel	Drugs & Medicines
Transport	Paper & Cardboard	Wood	Leather	Automotive & Autoparts	Textile
Chocolates & Candys	Coffee	Food	Fertilizers	Aerospace	



## Main Incentive Programs

#### FREE-TRADE AGREEMENTS

Currently Mexico has 12 Free-Trade
Agreements signed with 46 Countries, 32
Promotion and Protection Agreements
with 33 Countries, 9 Agreements within
the Latin American Integration
Association (ALADI) and it's member of
the Trans-Pacific Partnership (TPP).

#### **EIGHT RULE - REGLA OCTAVA**

Complements Prosec if necessary





## Main Certifications



#### **OEA** (Authorized Economic Operator)

It is a program that seeks to strengthen security in the foreign trade supply chain through the implementation of internationally recognized minimum security standards.

OEA Certification offers various benefits in foreign trade, among which are: the extension of the permanence or temporality of the merchandise transferred virtually (From 6 to 36 months); Use of FAST lanes in Customs; pedimento rectifications without authorization & transfers as permanent imports (V5).

#### **VAT Certification**

Allows companies to credit import VAT.

#### Note:

It is necessary to have an IMMEX Program. VAT= 16%



## Taxes



	Stand Alone	Under AI Shelter	
Value Added Tax (VAT)	16% Reimbursable in 90-120 days after filling	Not applicable (as a Shelter Company, <i>American Industries</i> ® is able to offer this through its VAT certification for import VAT and for all local purchases as a cash flow benefit).	
Income Tax	30% of taxable income	Income tax determine thru Safe Harbor Methodology or APA (Advance Pricing Agreement)	
<b>Profit Sharing</b>	<b>10%</b> of taxable income (after second year)	Not applicable (annual compensation bonus according to local market).	



## 4 Webinars American Industries® Events



# American Industries® Profile

### Gerardo González

Guanajuato Regional Director American Industries Group®

Partner for Success®

## American Industries® Profile

#### About American Industries® Group

- Founded in 1976
- We are Private Mexican company
- We have supported the successful establishment of manufacturing operations for over 200 companies in Mexico through Administrative "Shelter" Services and Industrial Real Estate.

#### **Our Mission**

We contribute to the economic development of Mexico by ensuring the successful establishment and operation of international companies in our country through our administrative and real estate services.



## Our Clients: Aerospace





TEXTRON AVIATION











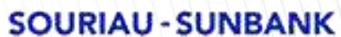






























## Our Clients: Automotive

































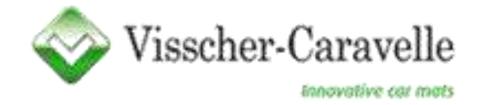


















## Our Clients: Others























































## Our Locations & Score Card

#### **Shelter Administrative Services**

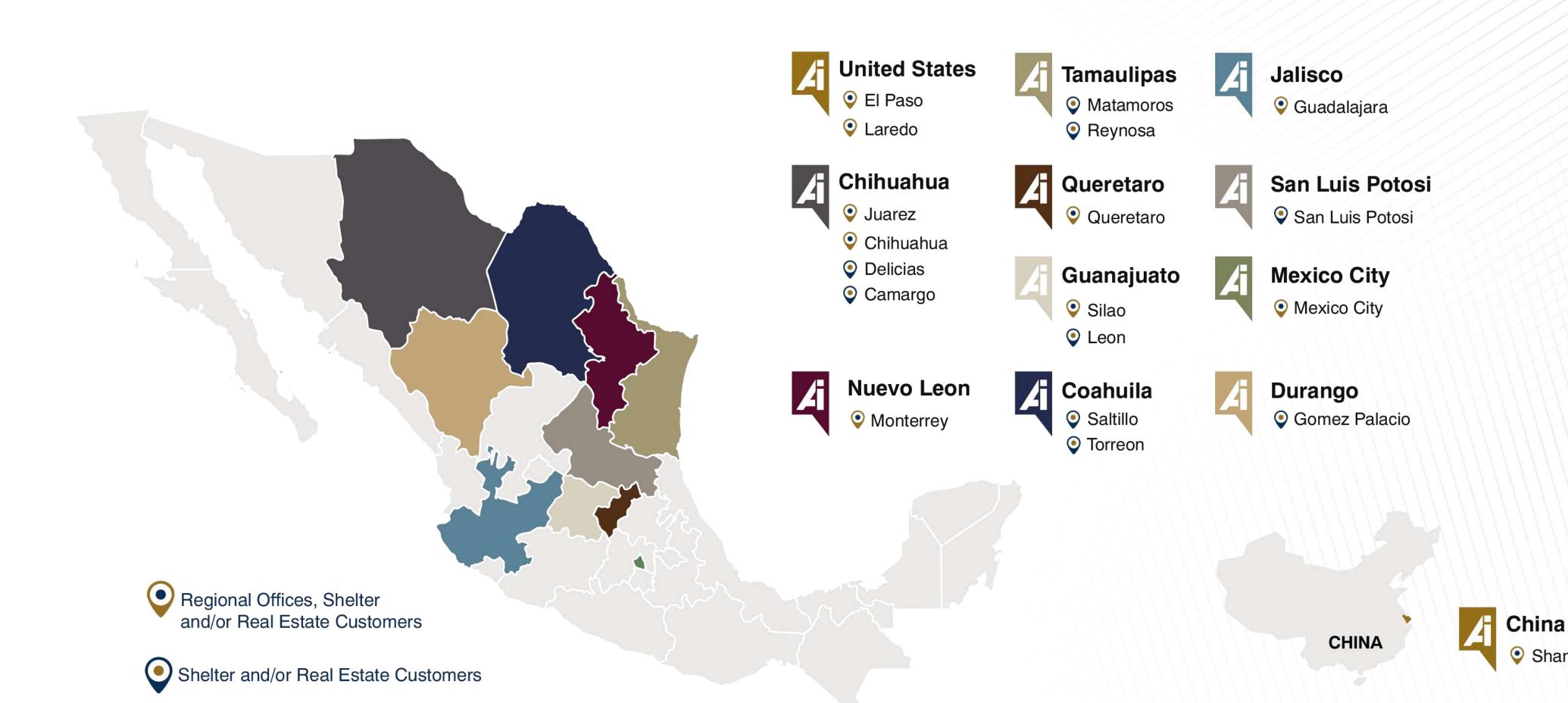
- Over 54 clients from more than 10 countries.
- Over 16,000 employees headcount from our clients.
- Over 30,000 trouble-free import /export transactions per year.

#### **Industrial Real Estate**

- Over 125 buildings built and leased (16 million sq.ft.)
- Class A new buildings
- Presence in more than 15 Industrial Parks
- More than 150 tenants



## Our Locations & Score Card





## Our Role as Facilitator

"To support you with the Information and Guidance required throughout the decision-making process of your Mexico project"

- 1. Site Selection: Find the best location
- 2. Cost Model Analysis: How much it would cost you to operate in Mexico, under different scenarios and locations
- 3. Industrial Real Estate: Find the best space solution
- 4. Start-up and setting-up assistance:

**Shelter Administrative Services** 



## Shelter Process

You can count on American Industries®' expertise to start and maintain a successful operation by avoiding unnecessary problems and costly mistakes, while maximizing savings as much as possible.

Focus on your core business.

We'll take care of everything else.







## THANK YOU.

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