

8 Easy Steps to Opening a Manufacturing Facility in Mexico

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Large US companies for years have taken advantage of manufacturing in Mexico. A strong financial backing and large staff has made this a relatively painless proposition for most of these companies. With the promise of everything Mexico has to offer, it was only natural for the small to medium size companies to follow suit. An abundance of low cost labor, technically trained managers, the Free Trade Agreement, a transportation system in place to quickly move material and Mexico's close proximity to the US has enticed these smaller companies to locate south of the border. Thanks to Shelter Companies who operate throughout Mexico, it is now advantageous for companies to start producing with relatively low start-up costs in shorter amounts of time. This not only allows these companies to reap the benefits of low cost labor, but puts many of them closer to their customers, the larger US companies, who in most cases are being pressured by the Mexican Government to use local manufacturers for their components.

Shelter Companies, which have been operating in Mexico since the late 1970's, provides specific services to clients for a negotiated fee. These services include the following:

LEGAL PRESENCE – All companies operating in Mexico are required to have Mexican legal representation. Shelters have attorneys on staff not only to advise their clients, but also to lobby in their behalf for more favorable laws and tax structures that benefit their US clients.

HUMAN RESOURCES – It is the responsibility of the Shelter's Human Resource Manager to assess your needs and develop a plan to recruit and train your work force. Although these workers report directly and take direction from your management team, they are employees of and are paid by the Shelter Company. The Shelter is also responsible for the record keeping and reporting of employee benefits and taxes to the Mexican Government.

CUSTOMS/LOGISTICS – The Shelter provides a logistics expert who is experienced and knowledgeable in deciding the most efficient and cost effective ways to move materials both in and out of Mexico. Those companies operating under a Shelter are covered by the NAFTA agreement allowing all

qualified materials, moving back and forth between the borders, zero duty. According to law, any product made in Mexico by a Shelter to be sold within Mexico must first be shown exported back to the US before it can be shipped. To avoid the added cost of physically shipping product back and forth across the border, the Shelter's participate in a virtual export procedure that moves the paperwork rather than the actual material. This procedure allows the US Company to re-coup any duty or taxes levied due to non-NAFTA materials consumed within the product. The Shelter is responsible for providing your company with an expert in the field who can help your company make the best decision when shipping your product.

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PURCHASING – All non-production material requirements (MRO) are procured through the Shelter's Purchasing Department. It is their responsibility to select the best-qualified supplier based on the criteria provided by your specifications. In most cases you will have three quotes to review before you make the final buy decision.

FACILITY – In most cases the Shelter can accommodate any floor space needs. There are several arrangements and programs in place to provide for even the smallest amount of square footage needed to start your operations. It is advisable to develop a minimum of a 2-year plan and anticipate any expansions that may occur before deciding on the floor space required. Advise the Shelter up front what your current needs are as well as you future plans. This will help them provide the best arrangements and facility to meet your needs that can include areas that can be expanded down the road as your operation grows.

ENVIRONMENTAL CONTROL – It is the responsibility of the Shelter to assess your manufacturing processes and to establish the internal requirements in accordance to Mexican law. This service includes acquiring the mandatory permits and licenses required to operate in Mexico, acting as the client representation during government audits and staying up-to-date with any new regulations affecting the facility.

EXECUTIVE CUSTOMER SERVICE ACTIVITIES – A Shelter staff member is assigned to you to assist and support your transition to Mexico. Services include finding appropriate housing or hotel accommodations, work permits

and custom documentation, purchase of vehicles and insurance and transportation to and from the airport to your facility. In other words, this staff member is your right hand when you are visiting your facility.

So, now that we know what a Shelter Company is, how do we go about moving operations to Mexico using this concept? Below are proven steps to follow once the decision has been made to open an operation in Mexico:

1. Determine what is driving your decision to operate in Mexico – Low cost labor, close proximity to your customers, potential new customers, etc. If you want to be closer to your customers, does this area have the talent and expertise needed to manufacture your product? If lower labor is your objective, does your operation contain enough human labor to give you the cost reductions you are seeking? In other words, review and analyze your specific goals to assure the move will meet your end objectives.

2. Create a realistic time line – Time should be allotted for site visits, Shelter Company assessments, area and work force reviews, plant preparation, equipment and material movement and training. Do not be over aggressive in your time allotment. Remember that it is better to be early in your start-up then behind schedule.

3. Site visit and assessment/Shelter Company selection – Allow sufficient time to visit several different areas and Shelter Companies to determine what is the best for your operation. Look for similar or complementary manufacturing companies in the area, potential customers and if needed and support service that may be crucial to your operation such as platers and heat treaters. Ask about the technical expertise of the local work force. Are there colleges and technical schools nearby that have training programs in the areas relevant to your processes? After you have found a location and are confident the resources are in place to support your needs, work with the local Shelter Companies and compare the services provided and the fee's charged to determine which is most in line to meet you goals.

4. Facility upgrades – Chances are that the building or space you lease will not completely fit your needs and changes will need to be made. These changes may include electrical up-grades, additional phone lines, installation of computer lines and addition of electrical and airdrops. Before committing to a facility access your needs, determine what changes are necessary and verify who will be responsible for the renovation costs - you or the Shelter Company.

5. Staffing your operation - Work with the Human Resource Manager of your Shelter Company to determine what staffing is needed to run your facility. Run an ad in the local paper for a Manager (having the ability read, speak and understand English a pre-requisite) and have the Shelter pre-screen candidates based on the criteria you have specified. The Shelter will then set up final interviews to allow you to

make the final hiring decisions. Once you have a Plant Manager in place, include him/her in the process of staffing your work force. Once again, the Shelter will pre-screen these applicants based on talent and skill levels needed. Have your Plant Manager responsible for selecting those workers who will report directly to him. The Shelter will be responsible to provide any required medical exams and perform routine background checks on all new hires. It is also their responsibility to train these new employee's on company policies and procedures as well as safety issues based on information your provide.

6. Moving material and equipment – You will need to work closely with your Shelter's Logistic Department when moving equipment and material to Mexico. Any equipment entering Mexico must be registered per Mexican law. All material and equipment must have Certificate of Origins on file. Advise the Shelter in advance what you are transferring in detail. Some equipment, such as computers and peripherals are not allowed to be imported and must be purchased within Mexico. Please note, this does not include computers that are used in specific test equipment or running of machines, rather PC's and printers needed for office use. The Shelter may also need to apply for permits and licenses based on your equipment or processes to comply with Mexican Environmental laws. You may want to videotape the operations you want to transfer to enable the Shelter's staff to better understand the processes and assess what permits are needed.

7. Production start up – Although you have carefully selected workers to fit your production needs, assume they have no experience and need to be trained to your procedures and work instructions. Allow sufficient training time and perform trial runs before you are committed to shipping to your customers. Due to unpredictable situations, allot more time than is actually needed to assure a smooth transition.

8. Celebration – Once you are set up and running, it is customary in Mexico to have a fiesta or celebration. This can be in the form of an Open House. Invite your customers, local suppliers, other companies in the area, your workers and their families and those in the Shelter Company who were instrumental in your start up as well of those who are in place to support your operation. Management from your US operation should be present to show support for the new facility. Your Shelter Company can arrange for food and beverages, invitations and other necessary arrangements. They will also invite the local newspaper that will take pictures and announce your opening to the business community.

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It is important to remember that once you're set up and operating, the facility will not run itself. Although you have a local manager in place, it will take consistent communications and monitoring to guarantee a successful operation. Routine visits by management are needed to assure your staff and workers that this operation is an important part of your company. Keeping daily contact via emails and phone calls is necessary to reinforce the company's policies and philosophies.

The Shelter Program is an extremely useful tool for companies investigating if Mexico has the talent and resources needed to support their manufacturing processes. It affords a quick start up at relatively low costs, enabling these companies to determine if Mexico can meet their current manufacturing requirements as well as determine the potential of any new customer base. The key to a successful start up is planning and working closely with your Shelter Company. Remember that the Shelter Company has the experience and knowledge to point your company in the right direction. Take the information they provide, make visits to other Shelters in the area and ask many questions to determine if this program can benefit your company.

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