

By Umair Abdul

Most Canadians know Mexico for the country's popular vacation hotspots, whether it's the beautiful sun-kissed beaches of Cancun, the sprawling golf courses in Los Cabos, or the bustling nightlife in Mexico City.

According to Statistics Canada, Canadian tourists made approximately 842,000 overnight visits to Mexico in 2006, up six per cent from 2005. Despite the recent barrage of bad press, Mexico managed to surpass the United Kingdom as the most visited country by Canadians, second only to the U.S.

Unfortunately, the country's flourishing service sector often overshadows Mexico's formidable manufacturing industry. Moreover, despite the growing popularity of low-cost manufacturing sites in countries like China, very few business operators have familiarized themselves with Mexico's competitive advantages.

"Some companies do not understand what incentives are available in Mexico, or know about its infrastructure, labour skills, or legal aspects of doing business there," noted Foreign Affairs and International Trade Canada spokesperson Anne-Marie Parent.

More recently, the rising Canadian dollar and increased global competition are giving business owners in the plastics sector new cause to pack their bags and head for the proverbial hills. And although the Asian contingent is arguably still the strongest hub of outsourcing activity, some small- and mid-sized Canadian companies are rediscovering Mexico.

LOCATION, LOCATION, LOCATION

Generally speaking, Mexico is often lumped in with other low-cost manufacturing destinations. Manufacturers can expect to pay a wage of approximately US\$2.50 an hour for unskilled work, although wages can vary in different regions and cities. When compared to some Asian countries, where business operators pay less than US\$1 an hour in wages, Mexico represents smaller cost savings.

Additionally, in many of Mexico's industrial centres, leasing costs and utility bills are on par with Canadian operational costs. Thus, once the extraneous costs are built into the equation, Mexico's labour advantage is ideal for mainly companies that heavily depend on floor workers.

"You have value added when it come to injection molding assembly, insert-type molding, decorating and riveting," explained consultant Doreen Michelini, founder and president of China Mexico Solutions LLC.

On the other hand, for companies that don't require a large employee base, Mexico represents more of a strategic advantage. Mexico's northern states are the largest manufacturing centres, allowing foreign manufacturers to be close to the U.S. market. The U.S. is still the largest trading partner for Canadian plastic products, and Export Development Canada's most recent forecast estimated that the U.S. constitutes 90 per cent of Canada's export market for rubber and plastics.

The EDC also expects shipments of plastic and rubber products to East Asia, Europe and Latin America to increase by approximately five to seven per cent over the next two years.

Mexico is often touted for its free trade agreements around the world, and the country can act as a gateway for Canadian manufacturers. In addition to NAFTA, the country has free trade agreements with countries and political bodies such as Costa Rica, Bolivia, Chile, Israel, Japan and the European Union.

Additionally, Mexico can help bring suppliers close to their original equipment manufacturers (OEMs). Michel Villeneuve, EDC's chief representative in Mexico City, notes that an increasing number of OEMs in various sectors are looking to create supply chains within close proximity of their own production.

"I think where Mexico is really gaining ground is in the industries where you see integrated trade," said Villeneuve. "They are looking for the chain suppliers to be close to them because they are operating on the just-in-time schedule."

As a result, suppliers who work with the automotive and aerospace industry could stand to gain from operations in Mexico. A recent report by Price Waterhouse Coopers noted that Mexico will rank fifth in automotive production by 2011.

Mexico's Ministry of Economy has also managed to attract Bombardier, and the Canadian aerospace company has invested in an industrial park near Mexico City in order to attract suppliers.

"[OEMs] see a big need for quality injection molders in Mexico," said Villeneuve. "The appliance, automotive and aerospace companies need second- and third-level companies that do metal stamping and injection molding, and there are still not a lot of suppliers of components in Mexico."

GIMME SHELTER

For most small- and mid-sized companies, global outsourcing is easier said than done. Even though the opportunities that exist in Mexico could significantly boost profits, independent facilities require a significant investment of capital, a foolproof business plan, and a stable corporate infrastructure.

Shelter programs in Mexico allow manufacturers to address these needs and take a more calculated risk. In addition to providing a leased facility for their clients, shelter programs provide fee-based services in areas such as human resources, payroll, export/import logistics, and environmental and legal compliance.

"I work with a lot of small- and mid-sized companies, and I am a big believer in shelter companies," noted Michelini. "A shelter will hold their hand and be their support system, you have less outlay of capital, and you can get started up a lot quicker."

Manufacturers who sign a contract with a shelter company can conduct their operations under the shelter's business presence instead of forming their own incorporated entity, which allows for significant savings on local income taxes and duties.

Shelter programs can also help businesses save on startup and operational costs. In some cases, a shelter facility can be operational within 45 days of signing the contract, and the team of seasoned shelter professionals reduces the likelihood of costly missteps.

MAKING THE MOST OF IT

Richmond Hill, Ont.-based art replica company Brushstrokes Fine Art Inc. was the first Canadian client for American Industries, a real estate and shelter program in Mexico. Brushstrokes president and CEO Mitch Wine was so impressed with the results – the Mexican facility helped the company save 40 to 50 per cent in operational costs – he founded North American Industries (www.naig.ca), a subsidiary that encourages Canadian companies to redirect production to Mexico.

“Don’t take on too much, you’re going into a new environment,” advised Wine. “Let the American Industries people do what you are not familiar with, and when you are ready you can take over that function.”

Although the Canadian subsidiary is relatively new to the scene, American Industries has been working with a roster of international clients for over three decades. The company boasts a portfolio of 6.9 million square feet of industrial real estate in Mexico, with 68 buildings and 60 customers.

Global manufacturing company ITT Corporation’s Marine and Leisure business chose American Industries for three manufacturing facilities in Chihuahua, Mexico. The company’s first facility, which molds and assembles components for ITT’s HydroAir business, produces approximately 20,000 parts a month.

ITT signed its initial contract with American Industries on October 10, 2005. Operations at the HydroAir facility started on November 7 with three machines and three shifts, less than a month after ITT came on board.

“In the deal with American Industries, they do all of our back office and our legal work,” said plant manager Francisco Carreon. “We only have to worry about our main business, which is building products.”

The 62,000 square foot facility currently operates 23 multi-cavity injection mold presses ranging from 110 to 385 tons. The plant employs more than 190 people, and recently hired engineers for proprietary development and production. Unskilled labourers at the facility earn a fully loaded starting wage of US\$3.85 an hour, and the engineers are paid a fully loaded hourly rate of US\$7.

The Chihuahua operations had shipped 1 million units by February 2006, and have collectively produced 10 million pieces to date.

MANAGING RISK

Toronto-based custom manufacturer Plextron Corp. also announced its intention to start production at a 35,000 square foot facility in Saltillo in June 2006. Using shelter services from

New Jersey-based The Offshore Group (www.offshoregroup.com), Plextron expected to employ approximately 50 to 100 labour workers for the project.

According to Plextron's president Dave McQueen, the strong presence of OEMs and the emerging move towards just-in-time production represented a significant opportunity for automotive component suppliers. The relocation would have offered savings of approximately 10 per cent on transportation costs for potential clients.

"The injection molding market is growing rapidly down there, and a lot of independent processors weren't capable of the quality and systems management that suppliers in the automotive industry have to have," said McQueen.

However, before production could commence at the Saltillo facility, the automotive industry experienced a fall in production volumes. Plextron decided to fold the manufacturing facility, and focused its resources on its sister company's separate packaging machinery business in Mexico.

In essence, the shelter program allowed Plextron to react to global flows and industry trends. Although the company had entered a three-year contract with the shelter program, the low-risk investment allowed Plextron greater flexibility and liquidity when it came time to throw in the towel.

"We had some financial liability there, but [the shelter program] did offer us a little more flexibility and a great deal of assistance," explained McQueen.

McQueen said he would still consider manufacturing in Mexico, and he had a positive experience with The Offshore Group. However, he does note that companies should give some serious consideration to their business needs before moving production to Mexico. Even though shelter programs offer value-added services and cost savings, offshore manufacturing operations still require time, patience and meticulous co-ordination.

"You have to be prepared within your own organization, to travel and to be there," said McQueen. "You wouldn't start a plant and not visit it."