

Three Ways to Manufacture in Mexico

By Jeff Spira

Entrepreneurs and managers of manufacturing companies are facing ever increasing labor and insurance costs, increasing government regulations, and increasing energy prices, moving at least some of the labor offshore is looking better and better. While there are other low-cost options, Mexico should be first in the short list of possible places to move business activities to reduce costs while maintaining control of the operation for a number of important reasons. First, by moving to Mexico you immediately cut your labor costs in half. While you may be able to cut it even more by moving elsewhere, like China, carefully consider the disadvantages of moving it to places where their control is so severely curbed.

First, Mexico is close to the US offering substantial shipping and travel, and even time zone advantages. In today's business environment, the necessity to be increasingly agile is of paramount importance. Your product spending weeks or more tied up in a container, at sea, can introduce problems that having it spending a few days in a truck does not. What happens when your customer discovers a defect and you're responsible for sorting or making new certified material? It's expensive if you have to fly certified material in from China or sort or reject an entire container-load of material. From Mexico, it's really no different than if you have a remote manufacturing location in the US.

One of the biggest miscalculations that Western business people make when dealing with Asian cultures is the huge culture gap. In China, when an agreement is struck, that's when the negotiations begin, not end. Business practices in Asia are completely foreign to most Westerners, and a source for considerable frustration. In China half-completed factories and unfinished business deals are scattered like confetti at a New York ticker tape parade. Conversely, in Mexico, when you strike a deal, you can rest assured the deal is made. Laws and business practices, while slightly different than the US and European counterparts, are far more alike than they differ.

Another major advantage of dealing with Mexico over Asia is that when raw materials, machinery or component parts are shipped to Mexico, legal ownership of the materials does not change hands to the Mexican company. The materials are imported temporarily, not permanently, and severe duty and tax liability face the Mexican company if they do not re-export the equipment or materials. This ensures the security of the materials and equipment.

The businessperson considering going to Mexico has three options to consider. Each represent different levels of commitment, and it is easy to begin with the least committed then progress through the others as their experience and comfort level increase. The first option is to utilize a Mexican contract manufacturer. A Mexican contract manufacturer is the same as a contract manufacturer in the US, a Mexican operation who does contract manufacturing. Just about any types of operations you find in the US, you'll also find in Mexico. Machine shops, plastic injection molding, casting, metal finishing, painting, electronic or mechanical assembly, etc. can all be done in Mexico for less than in the US. For the manufacturer wanting to have a captive manufacturer in Mexico without the hassles of owning their own Mexican corporation, a shelter manufacturer may be the best bet. A shelter is a company set up by a Mexican shelter owner who sets up a complete factory and personnel to service one foreign customer only. For the US or European manufacturer, this means it's the manufacturer's facility, personnel, equipment, procedures, management methods and everything else, but operated by a Mexican corporation – meaning no import/export hassles, no union or political complications, no management, infrastructure, or human resources problems, only production to your standards, at a cost of about half of what it would be in the US or Europe.

Finally, once a manufacturer is comfortable with dealing with Mexico, once they see how much can be saved, and how efficient such an operation can be, the ultimate step is to organize a wholly owned Mexican manufacturing corporation. There are professionals in Mexico able to assist you with the legalities, permitting, organization, and even perform a complete turnkey facility setup, fully staffed and ready to produce. This method will result in the lowest overall costs, but require the highest initial investment.

Having three ways to go with a facility in Mexico means the manufacturer is able to gradually test the waters and increase both his investment and commitment to a Mexican manufacturing operation, with substantially lower risk. Before taking the plunge in a Chinese or other offshore operation, it would be wise to at least check out how to minimize the risks by considering Mexico.

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