

## **Shelter Manufacturing in Mexico**

By Jeff Spira

Because of increasing costs and regulatory burdens imposed by ever intrusive state regulators on small businesses, many business owners are again looking at ways they can reduce costs and lift some of the extra overhead requirements keeping up with ever increasing regulations. Shelter manufacturing in Mexico, the current incarnation of the old maquiladora program, is starting to look better and better.

Shelter manufacturing means working with a Mexican owned company south of the border who performs some of the labor-intensive tasks of manufacturing or service businesses. These can be as diverse as computer data entry or as complex as complete manufacturing processes to turn raw materials into finished goods.

Typically, though the “twin plant” concept is employed where the capital intensive manufacturing operations remain in-place in the US, while the more labor intensive operations are moved to a lower cost facility in Mexico. For example in a film capacitor manufacturing operation based in Southern California, the automated capacitor winding machines and lead attach machines were left kept in their original facility, while the slower, more labor intensive, wrapping, epoxy filling, marking, and testing operations, requiring minimal capital equipment but rather extensive labor was moved to Mexico. This resulted in a reduction of over 50% of the labor content of the finished goods while retaining the same or better quality level.

When equipment, tooling, materials, or work-in-process are shipped to Mexico to a shelter operation, ownership of the goods does not change hands from the American company to the Mexican so concerns about your materials or tools disappearing are unfounded. In order for the Mexican company to import those items permanently, they

would have to pay import duties on them. By Mexican law, those items must be in Mexico only temporarily.

The other main concern many American businessmen have is the difficulties often reputed in crossing goods back and forth across the US/Mexican border. When you deal with a reputable Mexican shelter provider, this is another non-issue. It is the Mexican business' responsibility to provide cross border transportation and paperwork. The US company need only supply accurate bills of lading for all the goods being shipped.

In the above-mentioned capacitor manufacturing operation, the only thing the US manufacturer had to do with the import/export and NAFTA requirements, was to unload the truck when it arrived every Friday, and reload it with the next week's work, along with a list of items being transferred to Mexico.

As for the costs, the Mexican shelter operation picked up all expenses for the pick-up and delivery, import and export fees, and all aspects of the Mexican manufacturing operation and charged the US company a single, per-man-hour fee that was about 2/3rds of the wages alone of the US workers. This doesn't even take into account the benefits, insurance, supervision, utilities, and other overhead expenses it takes to employ a factory worker north of the border. Overall, the job got done for less than half of what it took to do the same job in the US.

Just about any labor-intensive part of modern business is suitable for a shelter operation in Mexico. Of course, manufacturing processes from sophisticated chip-making operations, to assembly operations, to packaging, marking, second operations, and a host of others can all be accomplished in Mexico for about half of what it takes to get those jobs done in the US. Also things, like data entry, sorting and other service related functions not directly associated with manufacturing lend themselves well to being performed in Mexico.

Mexico does not have nearly the labor problems common in the US. The workforce is reliable, trainable, and generally very stable. Since jobs are relatively scarce, they're cherished so conflicts and high turnover, a near cliché in the US low skill level jobs, is far more rare south of the border.

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