

Daron Gifford:

Hello, I'm Daron Gifford, Leader of Plante Moran's Automotive Strategy Consulting Team. For today's podcast we're discussing Mexico. Specifically the top considerations for automotive suppliers as they evaluate, launch and sustain operations south of the US border. Joining me today is my colleague, Alejandro Rodriguez, our firm's International Business Consultant and our Country Manager based in Monterrey.

As we all know, Mexico is hot now not only because it's summer time but because the economic and industrial climate. Major auto makers from around the world have established or expanded their operations in Mexico, which means great new challenges and new opportunities for automotive suppliers.

Just over the past few months, Ford and Toyota have announced significant new investments in Mexico. Chrysler has been expanding its production operations there and BMW and Kia are building new plants there as well. And Volkswagen is also doubling the size of its facility in Mexico. Everybody in the auto industry it seems is coming to Mexico.

And what's attracting them is low cost labor, which offers the possibility of some real cost savings at a time when every automotive company big or small is under pressure to improve the bottom line. Not only low cost labor, but the Mexican Labor Force once seen as substandard now offers the kind of quality employee that's really causing a seismic shift in how and where major automakers are planning to do their business in the future.

As a gear up for these operations in Mexico, manufacturers, suppliers, are re-evaluating what they want to do with their supply chains and rethinking about their supply base. And, which suppliers they want to utilize. Many suppliers smaller and mid-sized suppliers as well, really need to look and decide if they have the capability, financial and operational to follow their key customers into Mexico. Cause that move would require some significant investment decisions around capital for construction but also equipment, tooling, labor, even the use of their own people out of the home base.

When it comes to setting up shop in a country like Mexico, many suppliers don't have a good grasp of how to go do that or how much it will cost, or what to go do. With that for setting up shop I asked my colleague Alejandro Rodriguez to explain a little more about what's the best way to go about it.

Alejandro Rodriguez:

Thank you very much Daron. Thank you very much. Yeah it is very important that you go to Mexico with a partner that understands Mexico and its dynamics. Things important to consider when thinking about Mexico are things such as real estate. Where should you locate? What type of requirements would a facility or land would be needed in Mexico?

Incentives, current incentive environment in Mexico is very different from what it was five, ten years ago. There are no longer any more cash crops provided to

companies coming to Mexico but it is very important that you create a company market for your investments between the different states in Mexico.

Most of the time investments in Mexico are based on three main components: jobs, the amount of money being invested, and also the uniqueness of the type of process or manufacturing plant that's going to be established in Mexico. Some of the most common incentives that we're seeing right now are training grants and payroll tax exemptions being provided by state governments.

Another important fact is the supply chain so it is important to understand where do you need to be based on the location of your customers or suppliers. Do you need to be very close to them? How close is too close? And it is also important that you consider if you really want to compete for labor with your customers or if you want them to be knocking off your door almost every day.

The logistics aspect of it is also very important. Do you need to be close to the ports? Do you need access to rail? Is most of your freight going to go via truck? Those are also very important questions you need to ask yourself. And one of the most important factors, which Daron already touched on is the labor.

Mexico has always been known to have a very competitive labor cost but now we're seeing a lot of availability of unskilled labor and technical labor. It is very important for you to really understand what type of labor you're going to be requiring in order to decide where you need to set up in Mexico.

One of the most important challenges that we're seeing right now in Mexico is the identification and also the retention of talent. Because of the large investments coming into Mexico, companies are having a much harder time identifying the talent and once identified, retaining that talent for longer terms.

Daron Gifford: Alejandro, what do you see as the value of utilizing a business partner in entering Mexico?

Alejandro Rodriguez: I believe one of the most important factors of utilizing a knowledgeable partner is the fact that they have a proven methodology of going into Mexico and setting up a new facility or operation in Mexico. They have relationships, they have the knowledge, the connections with government officials and they most importantly have done that many times in the past before.

Daron Gifford: Alejandro, once a supplier has decided to enter Mexico and they start setting up operations, what are the types of things that they really should emphasize in being able to sustain and grow their business there?

Alejandro Rodriguez: Daron that's a very good question. Normally we have our clients come to Mexico for maybe one or two key relationships that have decided to ask them to come to Mexico. It is going to be important that once the commitment and the decision is made to go to Mexico and make that investment, there's long-

term commitments from those key suppliers on a long relationships for what's going to be produced in Mexico. And also to start and to understand what other opportunities there might be available for Mexico aside from those initial suppliers that had been requesting you to be in Mexico. That's also very, very important.

Daron Gifford:

No, that sounds important and Mexico is such a dynamic environment right now, not only today but many years down the road it looks like Mexico is a growth destination for the future. With that it's time to conclude our podcast, please contact us to learn more about how Plante Moran can assist you with your Mexico strategies. Thank you for joining us.