



Turning to Mexico for Manufacturing?

www.JLContractManufacturingMexico.com

Javier Zarazúa Ruiz Javier@JLASociados.com.mx +52-1-867-727-2813

Eduardo Espinoza Espinoza.Lalo@Hotmail.com +52-1-844-228-2585

Hector Alexander Hector@JLASociados.com.mx +52-1-844-274-9849

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Why Mexico?

- **Manufacturing growth.** Mexico's manufacturing industry brought in an increase of up to \$60 billion annually from 2014 to 2018. offshoregroup.com.
- **Reduced costs.** The immediate advantage of [manufacturing in Mexico](http://businessinmexico.org) is reduced costs. Labor costs are dramatically cheaper than they are north of the border. Even for industries that rely heavily on Mexican migrant labor, it is usually cheaper to hire labor in Mexico itself. businessinmexico.org.
- **Skilled workforce.** Much of the immigrant Mexican labor force in the United States is unskilled. This hides a fact that many businesses have taken advantage of. Inside Mexico, there are large numbers of highly skilled workers, especially in the STEM fields. Moreover, within Mexico, the uncertain legal status of workers is not an issue. businessinmexico.org.
- **Potential savings.** There are also considerable potential savings in other inputs. Mexico is a more business-friendly environment in terms of environmental and safety regulations. Permitting requirements are much cheaper. businessinmexico.org
- **Labor productivity.** Labor productivity remains high in Mexico and Mexico's manufacturing wages are roughly 30 percent lower than they are in China for 2015. napsintl.com.
- **Free trade agreements.** Mexico has free-trade agreements covering 44 countries, the highest number worldwide. US (20), China (18). napsintl.com.
- **Industries with strong presence.** Automotive, Appliances, Aerospace, Medical, Solar, Electronics,, Remanufacturing, Heavy Machinery. napsintl.com.

Tariff's war – Facts and US actions so far

Country	Imports	Exports	Total Trade	Deficit	% deficit vs total trade	% deficit vs total US deficit
World	\$2,342,922	\$1,546,739	\$3,889,661	(\$796,183)	-20%	100%
China	\$505,597	\$130,370	\$635,967	(\$375,228)	-59%	47%
Mexico	\$314,045	\$242,989	\$557,034	(\$71,057)	-13%	9%
Japan	\$136,544	\$67,696	\$204,239	(\$68,848)	-34%	9%
Germany	\$117,745	\$53,493	\$171,238	(\$64,252)	-38%	8%
Vietnam	\$46,483	\$8,164	\$54,647	(\$38,320)	-70%	5%
Ireland	\$48,844	\$10,737	\$59,580	(\$38,107)	-64%	5%
Italy	\$49,963	\$18,323	\$68,286	(\$31,640)	-46%	4%
Malaysia	\$37,409	\$12,826	\$50,235	(\$24,583)	-49%	3%
India	\$48,631	\$25,700	\$74,332	(\$22,931)	-31%	3%
Korea, South	\$71,164	\$48,277	\$119,441	(\$22,887)	-19%	3%
Canada	\$299,975	\$282,392	\$582,367	(\$17,583)	-3%	2%

US President wants to address increasing trade deficit!

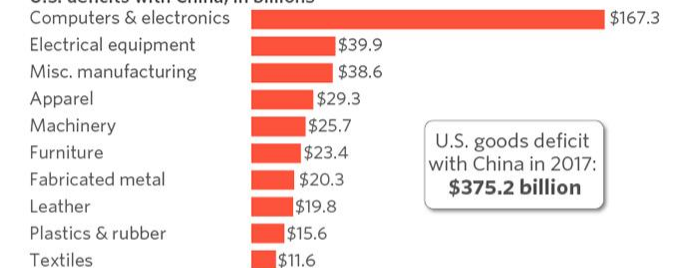
- ❑ Tariffs of 25% on steel and 10% on aluminum to China
- ❑ Up to \$60B in tariffs on imports from China
- ❑ Restrictions on Chinese investments
- ❑ Announced litigation against China at the WTO
- ❑ Tariffs of 25% on steel and 10% on aluminum to Mexico, Canada and EU
- Automotive tariffs next? More tariffs on China?

Source: US Census

One-sided deal? U.S.-China trade in 2017

China runs up huge surpluses in tech, manufacturing

U.S. deficits with China, in billions



U.S. surpluses with China, in billions



U.S. goods deficit with China in 2017: **\$375.2 billion**

Source: U.S. Census

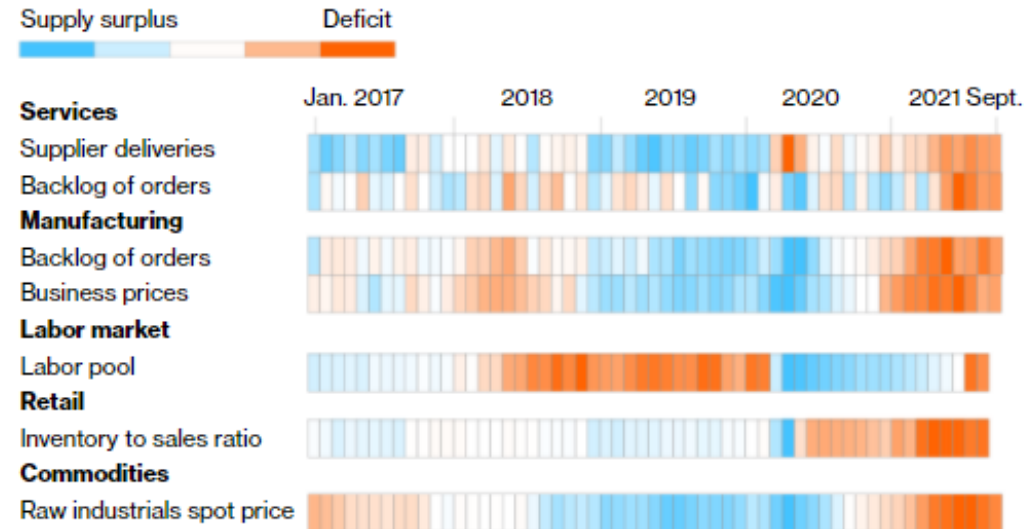
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State of logistics in the world

Flashing Red

Across services and industry, gauges show U.S. supply shortages



Sources: Bloomberg Economics, ISM, BLS, Census Bureau

- ❑ Pandemic in 2020 forced many companies, industries and countries to shutdown
- ❑ Inventories went down
- ❑ Shipping companies cut down in their schedules, giant container ships ended up in the wrong place... empty
- ❑ Consumer went from services (vacations, movies, dinners) to products (game consoles, computers, office furniture)
- ❑ Container cost went from \$2k to \$25k
- ❑ Products are arriving weeks, sometimes months late

What can companies do?

- ☐ Do nothing
- ☐ Increase cost of their products by same % as tariffs increase
- ☐ Lose profits by same % as tariff increase
- ☐ Offset effects of tariffs by offshoring to another country not affected by tariffs
- ✓ See it as an opportunity to lower product and manufacturing costs by nearshoring to Mexico
- ✓ Have products available much faster from Mexico

Nearshoring options in Mexico

Option	Capital	Cost	Time	Required Mexico know- how	Financial Risk
Contracting Manufacturing	<u>*Lowest</u>	<u>Highest</u>	Low	<u>*Lowest</u>	<u>*Lowest</u>
Joint venture	Low	High	Medium	Medium	Medium
Shelter	Medium (machines & inventory)	<u>*** Lowest (up to 4 years)</u>	<u>*Lowest</u>	Low	Low
Shelter	Medium (machines & inventory)	Medium (long term)	<u>*Lowest</u>	Low	Low
Subsidiary	<u>Highest</u>	Medium (Short term)	<u>Highest</u>	<u>Highest</u>	<u>Highest</u>
Subsidiary	<u>Highest</u>	*Lowest (Long term)	<u>Highest</u>	<u>Highest</u>	<u>Highest</u>

*** Enabled by a shelter + local economies of scale.

Nearshoring options explanation

- **Contracting Manufacturing**
 - Also known as supplier development or Contract manufacturing
 - Finding or develop an organization that can manufacture and or sell your products or services in Mexico
 - Implies that the contracting company will sell product or services for a profit
- **Joint venture**
 - Shared ownership, returns, risk and governance
 - Mainly to gain new markets, scale efficiencies, share risk or access skills and capabilities
 - Will require shared know-how for the products and capital
 - Compatibility of organizational culture, purpose, similar goals and objectives can be a challenge
 - Finding a partner with sufficient similarity of process or products can be difficult
- **Shelter * Excellent choice for speed and cost**
 - Shelter service providers typically offer their clients the following areas: human resources, payroll and benefits administration, logistics, import/export operations, accounting, taxation, legal, risk management, plant and park management, procurement, environmental, customs compliance and real estate leasing
 - They are in Mexico as a department or subsidiary of their chosen shelter service provider
 - Allows firms to fully control production and quality of the products
 - Firms benefit from the experience in Mexico of the shelter provider as well as the economies of the scale for the services provided
 - Allows firms to focus on their “core business processes”
 - Initiate operations very quickly (few months) without actually establishing a legal presence in the country.
 - The manufacturer controls those areas that affect profitability and sustained growth
- **Wholly owned subsidiary**
 - Company own employees, capital and resources
 - Requires to develop expertise in Mexico to operate (Legal, fiscal, accounting, customs, logistics, payroll, people, culture, environmental, etc.)
 - Enables the organization to have 100% control over all of its activities and potentially maximize profits
 - Could be the most complex, costly and risky alternative

Profile – Javier Zarazua

Manufacturing, International

Automotive, Remanufacturing & Heavy Equipment (21 years, 7 in USA)

Leadership

- 17 years as leader.
- 6 Sigma Black Belt
- 5 years studying neuroscience and leadership.
- Certified by **The John Maxwell Team**: Speaker, Coach and y Leadership trainer

Supply Chain

- **17 years of experience**
- Certified CSCP (APICS)
- Expert in turning around manufacturing sites with chronic disruptions

Strategic Projects

- **Complex and Transformational Projects since 2007**
- Foot print Optimization
- Strategic sourcing Projects

Information Systems

- Computer Systems Engineer (Technological Institute of Nuevo Laredo)
- Systems Integration
- **ERP selection, installation and upgrades since 2001**

Profile – Eduardo Espinoza

Commercial

Agriculture, Packaging, Small & medium companies, Industrial automation(17 years, 1.5 en USA)

Sales

- **11 years of experience** leading to Director

Agriculture, packaging, jewelry and automatization lines for automotive

Marketing

- 7 years experience
- **National market and Latin-American (Brazil, Perú y Panamá)**
- **International market United States**

Strategic Planning

- 3 years of experience
- **Focused in Small and Medium companies**
- Packaging, agriculture, bank security (ATM's).

Organizational Development

- **Successful restructuring of four companies.**
- Packaging, agriculture, bank security (ATM's).

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Profile – Hector Alexander

Supply Chain

Automotive , Agriculture & Trucking Industries (19 years)

Production Control

- 14 years of experience as a leader.
- Leading short & long-term production plans to successfully sequencing Just In Time & delivery of FG.
- Customer Service Leader for NA.

Lean Manufacturing

- 10 years experience
- **Material Flow design & Optimization.**
- Warehouse management.
- **Process & cost Improvements.**
- 6 sigma Green Belt.

Purchasing

- 5 years of experience
- Strategic sourcing Projects on MRO.
- Supplier localization.
- **Kan-Ban Process Implementation.**
- Plan for every part implementation.

Logistics

- Logistics optimization on delivery routes.
- **Space (cube) utilization .**
- Packaging design.
- Critical Material Management.

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Contract Manufacturing / sourcing consulting services

- Integrity as a core value
- Extensive network in Mexico and US (3K+ exporting Mexican companies)
- Fully understand customer requirements for the products or services to be sourced in Mexico
- Understanding of Mexico and US cultures
- Represent customer's interest with companies in México
- Be customer's ears, hands and eyes in México
- Manage competitive bids as needed in order to maximize value and minimize cost – Products and Logistics
- Strong negotiating skills
- Help filter out potential bidders and qualify final ones
- Project management
- Third party logistics implementation
- Customs (import/export) advising

Manufacturing startup consulting services

- Help customers significantly reduce cost
 - Labor & overhead (up to 30%)
 - Raw material (up to 40%)
- Integrity as a core value
- Understanding of Mexico and US manufacturing cultures
- Strong negotiating skills
- Project management
- Third party logistics implementation
- Customs (import/export) advising
- Lean manufacturing implementation (5S, flow optimization, waste elimination, basis for innovation)
- End to end inventory optimization, including Point of Use (POU)
- End to end planning optimization, including suppliers, manufacturing and customers

Manufacturing products (In partnering with Spin 4.0)



Wood pet houses



Decorative



Jacket



Safety



Board short



Moms



Pets



Main industries served in a consulting basis

- Wood
 - Hard wood (luxury furniture)
 - Soft wood – Kitchens
 - Particle board, MDF – Kitchens and office furniture
- Fashion
 - Cut & sewing
 - Fabric
 - Leather
 - Vegan leather
- Metal industry
 - Machining – steel and aluminum
 - TIG / MIG welding – steel and aluminum
 - Plastic injection
 - Sheet metal stamping
 - Sheet metal bending

Main customers



insanegiftstore.com



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¡Need help? Contact us! Thanks.

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