



**MEXICO STRATEGIC  
SOURCING ALLIANCE**

# **Mexican Manufacturing in the Era of Global Supply Chain Crisis and Political Risk**



# Global Supply Chain Mess: Where are we Today?

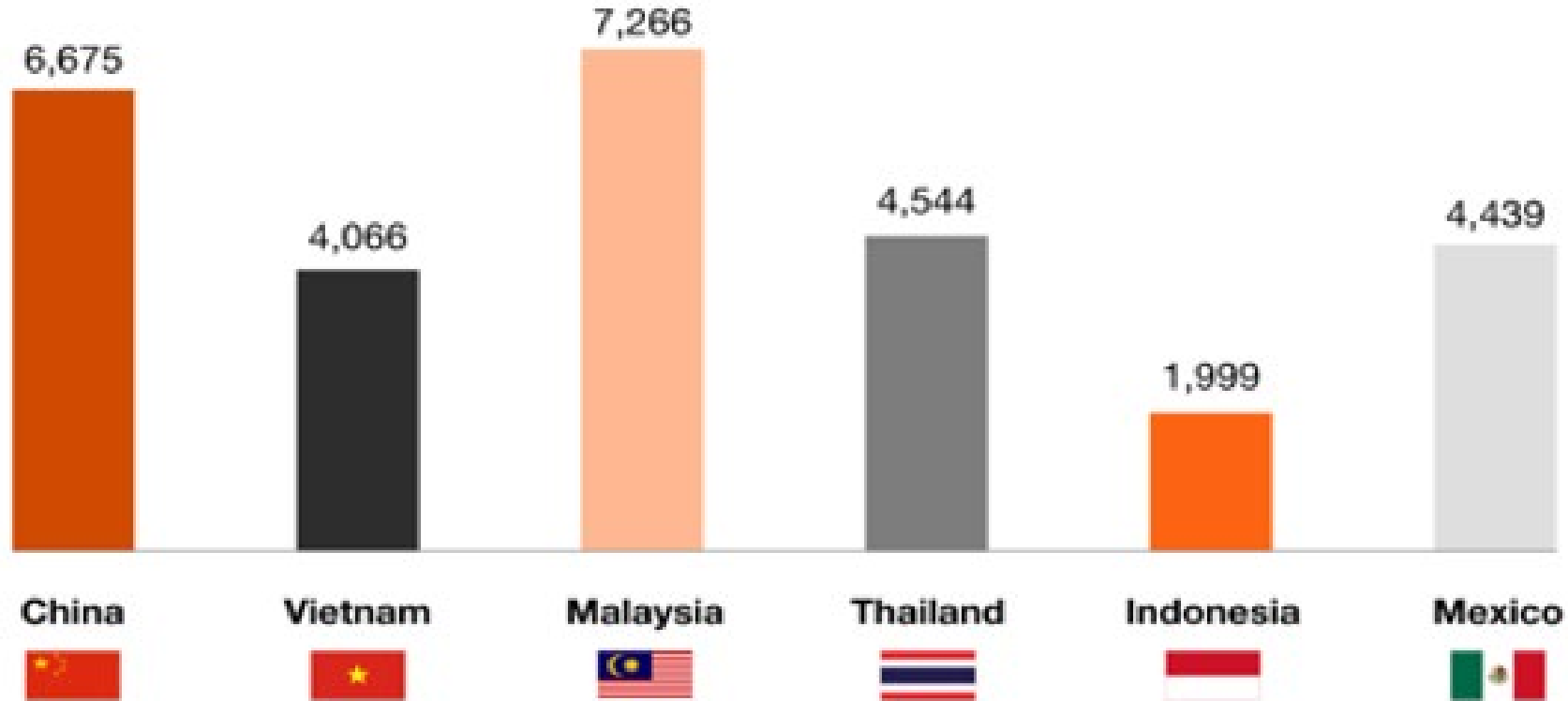
- 301 Tariffs US-China Trade War
- Worsening relations between China and the West
- Overdemand for consumer goods in the US (bottlenecks as US ports on West Coast)
- Chinese COVID lockdowns
- War in Ukraine – Increased Energy Prices, European supply Chain diversity
- Global container costs were up 4x from 2020 (California, Charleston, above cost of goods)
- Firms globally are re-considering their supply chain (**get me out of China/closer to home**)



# How does Mexico/LATAM, fit into the equation for firms' supply chain diversity strategies?

- USMCA Proximity, Time Zone (US & Canada)
- **Cheaper labor than China\*\*\***
- Highly skilled engineers (more graduates per capita than USA).
- Little to no IP theft risks
- Possible Reduced Warehousing/Inventory
- Reduced canceled orders/backorder

# Wage Rates in Low-Cost Manufacturing



Source: World Bank, Government statistics, Trading Economics, PwC analysis

# Outsourcing in Mexico/LATAM

## - Total Delivered Costs

- Develop Understanding of costs of goods sold by material, components, labor, and variable overhead
  - Existing production capacity in both locations
  - Sourcing of raw materials
  - Historical pricing relative to US
- Impact on warehousing and distribution costs
- Development of costs of importation including ocean freight, quality assurance, duties and port to warehouse transportation
- Evaluate trends in factory labor costs, ocean freight and exchange rates

# Labor Cost in the 3 Regions

## Northwest

Cities: Juarez,  
Chihuahua

Unskilled \$2.7 usd/hr  
SemiSkilled \$3.3  
usd/hr



## Northeast

Cities: Monterrey,  
Saltillo, Reynosa

Unskilled \$2.55 usd/hr  
Semiskilled \$3.20  
usd/hr

## Central Mexico

Cities: Queretaro, San  
Luis Potosi

Unskilled \$2.30 usd/hr  
Semiskilled \$3.09  
usd/hr

# Regional Cultural Differences in Mexico and LATAM

- *“People Should need a passport to come down here”*  
- *Melanie Carmichael*
- Things move faster and are more Westernized in Northern Mexico. Jalisco and Southern Mexico are more traditional. The Bajío region of Mexico is also more Westernized.
- Equally, in Perú the culture is more “Westernized” in Lima as opposed to smaller cities and towns.
- Colombia: Bogota, Medellín





# 3 Tiers of Mexican Manufacturing for foreign firms

- **Contract Manufacturing: Tier 1**
- **Shelter: Tier 2**
- **Foreign Owned and Operated Factory in Mexico: Tier 3**



# China to Port of Los Angeles



## Trade Volume

For the past 23 years, the Port of Los Angeles has been the busiest container port in the Western Hemisphere. With record volumes for containerized trade, economic activity generated by the Port—including its connection to 1 in 9 jobs in Southern California and nearly 3 million jobs nationwide—is a bellwether for the health of the overall U.S. economy.

	CY 2022	CY 2021	CY 2020
Automobiles (Units)	112,044	102,767	103,453
Cargo Tonnage	219 MMRT (FY 2021/22)	222 MMRT (FY 2020/21)	183 MMRT (FY 2019/20)
Container Volume	9.9 million TEUs	10.7 million TEUs	9.2 million TEUs
Cruise Ship Calls (Total Passengers)	229 (995,819)	61 (151,971)	34 (173,947)
Vessel Arrivals (All Types)	1,819	1,863	1,654
Top Five Containerized Imports (TEUs)	furniture (683,789) auto parts (359,795) apparel (269,190) plastics (267,711) footwear (262,910)	furniture (766,066) auto parts (318,825) apparel (306,093) plastics (281,252) footwear (231,176)	furniture (644,136) auto parts (291,316) apparel (282,180) electronics (226,631) plastics (210,751)
Top Five Containerized Exports (TEUs)	pet/animal feed (181,073) paper/wastepaper (146,613) soybeans (104,057) fabrics/raw cotton (83,076) recycled metal (62,157)	pet/animal feed (211,353) paper/wastepaper (135,402) soybeans (86,007) fabrics/raw cotton (57,675) recycled metal (52,674)	pet/animal feed (193,986) paper/wastepaper (175,553) soybeans (123,691) recycled metal (94,542) fabrics/raw cotton (90,878)
Top Five Trading Partners (cargo value)	China/Hong Kong (\$134 billion) Japan (\$38 billion) Vietnam (\$33 billion) Taiwan (\$20 billion) South Korea (\$16 billion)	China/Hong Kong (\$132 billion) Japan (\$37 billion) Vietnam (\$28 billion) Taiwan (\$18 billion) South Korea (\$16 billion)	China/Hong Kong (\$115 billion) Japan (\$35 billion) Vietnam (\$23 billion) Taiwan (\$17 billion) South Korea (\$14 billion)
Top Five Foreign Trade Routes (percentage of cargo handled)	Northeast Asia (71%) Southeast Asia (24%)	Northeast Asia (73%) Southeast Asia (21%)	Northeast Asia (72%) Southeast Asia (21%)

# Mexico Furniture Industry Strengths and Weaknesses

- \$11.1 Bn 2021 US Exports
- Wood (Mexico - Import and Domestic, Colombia, Brazil - Domestic)
- Injection Molding
- Steel Tubing
- Upholstery
- Foams
- Kitchens Baths (Colombia and Mexico)
- RTA
- Automated-Low Quality (Mexico-China-Italy Comparison)
- Aluminum Extrusion

# Furniture Manufacturing Strategies for Mexico/LATAM





# Furniture Manufacturing Strategies for Mexico/LATAM

- Be as flexible as possible (material and processes)
- Patience (culture, liquidity, and bureaucracy)
- **IMMEX Certification**
- Negotiation Process – Often long and requires in-person meetings
- Smaller-scale producers – Do not expect the volume or efficiency of the Chinese
- The supply chain will likely have to be integrated – no one-stop shop.

# “The Relationship” and Negotiations

- Initial bids from Mexico generally come back abnormally high (partly culture)
- Reluctancy from many suppliers
- Multiple bidding rounds against multiple suppliers generally required
- Negotiations are always more drawn out.
- If you look desperate pricing will always be higher.
- It will likely take businesspeople more time to make decisions in comparison to Westerners.





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**THANK YOU**

**QUESTIONS**



**john.hyatt@mexicobusinessassociates.com**



**<https://www.linkedin.com/in/johnthyatt/>**