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STRATEGIC INSIGHT | SOURCING

Offshoring to Mexico? Look before you leap

When they think about relocating offshore operations to Mexico, most companies focus on the supply chain benefits. What they should be looking at are the challenges.

 By **James A. Cooke**
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Not so long ago, Asia was the clear destination of choice for companies looking to set up offshore manufacturing operations. Now that's starting to change. In recent months, a number of U.S.-based companies in the consumer electronics, telecommunications, and pharmaceutical industries have quietly closed up shop overseas and relocated their operations to a country much closer to home: Mexico.

"In the past year to 18 months—partly as a result of the economic crisis—we have seen more companies making the decision to outsource their logistics or manufacturing operations to Mexico," says Larry Malanga, president of the third-party logistics service provider Mexflex Logistics, S.A. de C.V.

Although wages and currency fluctuations play a role, it's clear that the desire to cut freight costs and transit times weighs heavily in these decisions. "From the cost of fuel and resources, you minimize a great deal with being in Mexico," says Larry Monaghan, who's the department head for logistics at LG Electronics, which makes products like cell phones and plasma TVs in Mexico for U.S. consumption.

Mexico may have the edge over Asia when it comes to freight costs and delivery times, but it's not without its logistics challenges. Take infrastructure, for example. "Public roads with a few exceptions are in bad shape," says Rolando García, who works on the strategic planning team for contact center management company Teleperformance in Monterrey, Mexico. Bad roads cause wear and tear on trucks, García says, so anyone planning to operate trucks in Mexico should be prepared to make frequent equipment repairs.

And that's just one example. Companies can expect to encounter a number of other obstacles as they start laying the groundwork for operations in Mexico. That's why Monaghan and the other experts interviewed for this article urge businesses to familiarize themselves with the potential troublespots and think about how they're going to address them beforehand.

Overcoming hurdles

One of the biggest considerations for companies looking to manufacture in Mexico is how they'll transport the Mexico-made goods to U.S. markets. To someone unfamiliar with doing business in Mexico, that might sound like a straightforward decision—either hire a Mexican trucker to deliver the goods in the United States or send a U.S. carrier into Mexico to pick them up. But it's not that simple.

To begin with, using a Mexican trucker to make deliveries in the United States would be illegal. Although it agreed to give Mexican truckers full and free access to U.S. highways as part of the North American Free Trade Agreement (which took effect in 1994), the United States has yet to deliver on that promise. At this writing, Mexican truckers are banned from U.S. highways beyond a 50-mile border zone. That means that once a Mexican trucker hauls a cargo trailer to the border, he has to hand it off to a U.S. carrier.

The second option—hiring a U.S. carrier to pick up goods in Mexico—is perfectly legal, but few companies actually go this route. For one thing, it's difficult to find a trucker that's willing to do so—U.S. carriers have been hesitant to go into Mexico, partly out of safety concerns. García reports that for the past two years, Mexico has been experiencing an unprecedented crime wave. Rather than send trucks into the country, most U.S. carriers choose to interchange cargo at the border with a Mexican counterpart.

That means that along with hiring a U.S. carrier, a company has to find a trustworthy Mexican trucking partner—a process that's complicated by a lack of big-name truckers in that country. Although U.S. carriers have begun buying ownership stakes in some Mexican transport providers, most Mexican truckers are still "mom and pop" operations, Monaghan says. He adds that shippers can learn a lot about the rigor of a potential partner's security practices by asking detailed questions about the trucker's hiring procedures. Quality carriers collect a lot of personal information on drivers and their background, including pictures of the driver and the driver's family, he says.

To further safeguard their shipments, Monaghan advises shippers to put reinforced locks on their trailers. He also suggests monitoring the carrier's travel time to the border. "If it takes too long to reach the destination, you have to wonder if anything was compromised," he says. It's critical for companies to keep tabs on carriers because the importer who's listed as the shipper of record bears the responsibility for any breach.

Where available, trains offer a somewhat safer alternative to trucks, even though the transit times are longer, according to Monaghan. "There are [fewer] security issues with rail because the train is always moving," he explains.

Border lines

Another factor to take into account when planning a move to Mexico is the potential for delays at the border. Due to U.S. concerns over smuggling and illegal immigration, customs clearance can be time-consuming. David Morgan, chief executive officer of D.W. Morgan Co. Inc., reports that it has taken some of its customers 16 to 20 hours to clear customs. "The main bottleneck for Mexico-U.S. shipping is the border," he says.


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To speed up the customs clearance process, Monaghan urges companies manufacturing in Mexico to join the Customs-Trade Partnership Against Terrorism (C-TPAT), a voluntary supply chain security program run by U.S. Customs and Border Protection (CBP). (Essentially, C-TPAT members agree to police their own supply chains in exchange for expedited clearance.) That applies to their transportation partners as well. "Make sure to use carriers that are C-TPAT certified as they can get across the border faster," Monaghan says. He also encourages companies to make use of C-TPAT experts who can put together programs to ensure compliance.

Another way to ease border crossing headaches is to use a qualified freight forwarder, customs broker, or third-party logistics service provider. "There are several cross-border agents that are good at handling the required documentation and customs issues to facilitate the crossing process," says Malanga. He recommends choosing agents that have existing alliances with transportation providers.

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The challenges associated with logistics operations in Mexico aren't limited to the mechanics of moving freight. Another issue is staffing. Many companies have run into difficulty recruiting and hiring qualified people to work in operations south of the border. Although businesses can usually find what they're looking for in major cities like Mexico City, Guadalajara, and Monterrey, that's not the case in smaller cities, García says.

Companies unable to find local expertise may be able to "import" talent. In certain cases, Mexico does allow businesses to bring in foreign workers, Monaghan says. Otherwise, their best bet is to train and develop local talent, he says. Monaghan notes that online training can be a good way to bring supply chain personnel up to speed quickly.

A head start

Given the potential difficulties, the experts interviewed for this article urge companies planning a move to Mexico to begin working out the details well in advance. García of Teleperformance recommends the team approach—establishing a core project team that includes both company executives and local experts to oversee the transition. "In my personal experience, the best practice is to hire the local key players months ahead of the go-live and send them to the home country for training," he says.

Whether a company chooses to form a team or not, the important thing is to set up its own "infrastructure" of transportation and logistics partners as well as qualified local personnel. "It's not like you can find a factory in Mexico and start shipping," says Monaghan. "You need to do your homework. It's not a decision to be made without understanding all that's involved."

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