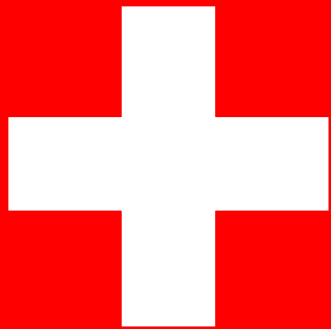


Doing Business in Mexico

Ten Success Factors on the Mexican Market

Presentation held for Swiss SMEs participating in the Economic Mission of Swiss Secretary of State for Economic Affairs David Syz to Mexico.
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Ten Success Factors on the Mexican Market

0. General Remarks
1. A Trustworthy Local Partner
2. Expert Advice on Tax and Legal Issues
3. Role of Networks
4. Qualified Local Workforce
5. Financial Autarky and Ability to Give Credit
6. Patience and Long-Term Commitment
7. Well-Negotiated and Well-Written Contracts
8. Good Preparation
9. Recognition and Acceptance of Cultural Differences
10. Learn to Speak Spanish

0. General Remarks

Objective: Identify Mexico-Specific Success Factors

- Some success factors are universal (such as competitive price-quality ratios, service etc.) while others are of specific importance on certain country markets. The latter are the focus of this presentation
- Presentation is the result of a study of relevant literature and a survey which was carried out among members of the Swiss-Mexican Business Association in late 2001.
- More information and references are included in Chapter 9 of „Doing Business in Mexico“ .

1. A Trustworthy Local Partner

SMEs will regularly enter the market with the help of a trustworthy, well-established local partner.

- Market entrance with a partner may help in reducing the investment in terms of human and financial resources
 - Market entrance with a well-established Mexican partner helps to access existing distribution channels
 - An experienced and trustworthy partner has the knowledge of Mexico's market, culture and legal system and may therefore be your most valuable resource in Mexico
- ➔ Separate Presentation on „Successful Partnering in Mexico“

2. Expert Advice on Tax and Legal Issues

Importers/Exporters and Investors are subject to a multitude of regulations in Mexico. Dealing with them correctly is important for business success.

- At the start of business operations, carefully comply with administrative procedures.
 - Labour laws are perceived as onerous and must be taken into account when entering the market
 - Tax regime to be taken into account
- ➔ Get first information in our guide „Doing Business in Mexico“ (Chapters 6, 7, 8) **and seek in any event** the assistance of Mexican law and tax specialists (see Section 11.11 DBIM on Law Firms in Mexico)

3. The Role of Networks

Networks play a higher role for business success in Mexico than in many other countries.

- The Mexican Business style is highly interpersonal
 - Certain market institutions (such as credit rating facilities) are inadequate or unavailable which makes networking an important substitute.
- ➔ Become a member of the „business community“ :
- Seek membership in industry and business associations and/or chambers and attend their social events.
 - Visit industry-specific trade fairs and exhibitions.
 - Maintain good personal relations with your market environment.

4. Qualified Local Workforce (I)

Problem: Mexico is a country in transition from a developing to an industrialised economy with particular labour market characteristics.

- Abundance of less qualified workforce but scarcity of qualified work force
 - High wage disparities between unskilled and skilled workers
 - Generally high employee turnover
- ➔ Since success of a business venture depends heavily on a firm's personnel, you should attach great importance to your human resources management

4. Qualified Local Workforce (II)

Solution: Elements of a Successful HR Management

- Recruit diligently; don't rely solely on information provided by the candidate but check references.
- Constantly invest into the qualification of your workforce
- In Mexico, leadership = follow up
- Avoid unnecessary employee turnover:
 - offer decent working conditions and salaries
 - treat staff of all hierarchies respectfully and politely
- Train you employees accordingly if you expect them to work independently and in teams.

5. Financial Autarky and Ability to Give Credit

Main problem: Credit is still hardly available to corporate borrowers, as a late repercussion of the 1994/95 financial crisis. Supplier credit is one of the most important sources of finance in Mexico.

- Satisfy all your capital and financial needs through your headquarters and/or the Swiss banking system.
- Do not expect to rely on the Mexican financial system
- Be prepared to sustain up to three meager years.
- Be prepared to (pre-)finance your customer's purchase after a thorough check of his creditworthiness: The ability to give credit is a major factor of competitiveness for suppliers in Mexico.

6. Patience and Long-Term Commitment

Economic Cycles are pronounced, time has a different meaning, and doing business with Mexicans requires mutual trust and confidence.

- Initial difficulties are part of the investment into a new market. Do not abandon easily.
- Before you decide to enter on the Mexican market, secure the unequivocal commitment of your headquarters for the Mexican venture.
- Carefully choose the time of market entry and prepare yourself well through thorough market research.
- Do not neglect building personal relationships.

7. Well-Negotiated and Well-Written Contracts

Mexicans are brilliant negotiators. Fixing important parts of a deal is highly recommendable.

- Observe basic rules of negotiation:
 - long lasting face-to-face negotiations that meander to personal topics are common in Mexico
 - avoid reaching the bottom-line too quickly and reserve some concessions for the final round of negotiations
 - In Mexico, the boss is still the boss: The involvement of top management on the Mexican side sends strong signals about the importance of a business relationship.
- Fix everything important in written agreements that are proof-read by local lawyers

8. Good Preparation

Many market entrants overestimate the market potential and/or underestimate the competition. Conduct thorough market research prior to market entry.

- Evaluate the market potential by analysing relevant data on trade, output, business structures, distribution etc.
 - Investigate the price / quality / service level in Mexico.
 - Visit trade fairs in order to get into contact with local market actors such as suppliers, competitors, customers.
 - Check the background of prospective partners thoroughly
- ➔ See Chapter 4 DBIM for further details.

9. Recognise and Accept Cultural Differences

The understanding and acceptance of cultural differences is an important factor for success:

- Punctuality and the meaning of time („ mañana...“)
- Different work times
- Interpersonal business style
- Importance of social events such as business lunches
- Role of contracts and flexibility
- Role of hierarchies
- Emotional rather than rational business style...
- Consider adaptation of product / services / marketing etc.

HOWEVER, DO NOT THINK IN STEREOTYPES!!

10. Learn to Speak Spanish...



... because it makes things easier.

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