Mexico Benefits From Reshoring Trend

June 24, 2016 Leave a comment By Barbara Jorgensen

Depending on how one defines "reshoring," manufacturing activity is increasing in the Americas. Specifically, electronics businesses and researchers say, Mexico is the biggest beneficiary of North American manufacturing companies re-thinking their global footprint.

An executive of a U.S.-based electronics manufacturing services (EMS) company at a recent ECIA gathering said that bad experiences in China have had many OEMs reconsidering their offshoring strategy. Many underestimated the logistics costs of manufacturing in China, including extended lead times, transit costs and the

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travel required to manage operations overseas. Quality has been a problem because of a high turnover in the labor market. It's not that manufacturers aren't training staff—they are—but many workers simply move on to new employment.

The legal framework in China is an also a problem, the executive said. There is really no legal protection for foreign manufactures in China, particularly regarding IP theft.

Mexico has many of the attributes manufacturing companies are looking for. There's already a manufacturing infrastructure, a trained workforce, low labor costs relative to the U.S., and ease of trade across borders. According to research by Deloitte, 66 percent of manufacturers surveyed have offshored in the past 20 years. Of those, a third are now considering bringing operations back to North America. These moves focus on primary production and assembly operations currently located in China, India, and/or Brazil. Mexico is the first choice destination to re-shore operations, followed by the U.S.

A lot of optimism has emerged surrounding the U.S. manufacturing renaissance, fueled by the concept of reshoring, Deloitte added. While reshoring is a real phenomenon; a common misconception is it represents a return of previously offshored operations to U.S. soil. In practicality, reshoring may include returning operations to Mexico. This offers greater access to the U.S. market, but allows companies to maintain advantageous operating cost structures, the researcher said.

Another challenge faced by overseas manufacturers is a supply chain that's been complicated by geographic and trade boundaries. Mexico has an established supply chain structure, particularly in electronics distribution. Many distributors on the southern border of the U.S. already have operations that support Mexico. TTI Inc. has been serving the market since 1999 and has learned some valuable lessons along the way. For example, centralized warehousing doesn't work as well in Mexico as it does in the

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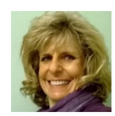
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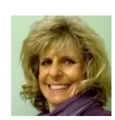
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U.S. In the U.S., TTI distributes via centrally located warehouses in Fort Worth, Texas. However, said Rick Harvey, operations director for TTI ILS in Mexico, the infrastructure issues in Mexico don't support a centralized distribution model.

In "Reshoring is the New Offshoring – But it's Not Just a U.S. Trend," Harvey said when new customer opportunities presented themselves in Reynosa, Juarez, Hermosillo, Chihuahua and Acuna, TTI opened warehouses to serve each location. A Tijuana location is in progress. These "Mexico Proximity Warehouses" allow TTI to distribute IP&E components to customers in these specific geographic areas with significant efficiency and cost savings for customers.

The local warehouse strategy requires the distributor to be integrated into the OEM's supply chain strategy, according to Harvey. In order to have so many different locations in-country, distributors must carefully stock the inventory that allows them to deliver the right parts at the right time. TTI supports customers operating in Mexico by integrating TTI's Advanced Inventory Management (AIM) platform. TTI works closely with buyers and their production forecasts to ensure lines never go down due to an unavailable component.

Avnet is also experiencing a boom in Mexico, where the Phoenix-based distributor has a logistics, materials management and warehouse facility in Guadalajara. "We have the benefit in the Americas of having a low-cost area to be able to handle our logistics and more administrative type functions and we are continuing to bolster our personnel there that support all of the Americas from a center of excellence standpoint," said Alex Iuorio, senior vice president of supplier business development at Avnet's Electronics Marketing Americas unit, in "Mexico Leads Latin American Electronics Production." "We are also continuing to invest, again consistent with our supply chain and design chain methodologies, because there is an indigenous electronic customer base that's building in Mexico."

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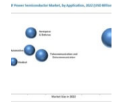

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Cross-border trade with Mexico is considerably less onerous than with overseas companies. Mexico provides an incentive program, called IMMEX, for companies that want to export goods. According to TTI's Harvey, the IMMEX program allows manufacturers to "virtually import" goods that will be manufactured, transformed or repaired and then "virtually export" the items without payment of taxes and compensatory quotas. This program can be leveraged to make manufacturing in Mexico especially lucrative. However, manufacturers are held to relatively tight turn times with regard to component parts. In most cases, they must turn the product within six months. TTI is able to maintain inventory for up to 18 months and then deliver the goods to the customer when they are ready to receive them, allowing the customer much greater flexibility in their production schedule.

As companies reassess their global manufacturing strategies, two complementary trends are emerging, according to Deloitte. Companies that still want to penetrate foreign markets are evaluating offshore facilities. These new locations are emerging as targets for investment, while manufacturers continue to invest in countries with existing operations. Ninety-eight percent of companies surveyed by Deloitte plan to either expand existing sites, or open new facilities, in countries with existing operations. This trend is true for virtually all types of facilities, from production to assembly to R&D. China and the U.S. are anticipated to receive the highest number of existing country expansions.

But the footprint that worked for a manufacturer in the past may not be what carries it into the future, Deloitte warns. In recent decades, many manufacturers expanded rapidly and deployed geographic assets in pursuit of singular objectives – to either increase revenues, or reduce costs, mitigate risk, gain access to talent. This linear deployment, combined with rapidly changing economic conditions, can put many manufacturers at risk of having a misaligned footprint – a situation that exacerbates the challenges posed by the dynamic global climate.

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