Is Mexico an option for moving your US operations?

Tuesday, November 12, 2024

11:00 AM EST

east west associates®

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

Webinar Agenda

Part 1: **Brief Introduction of East West Associates**

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Why are manufacturers relocating out of China? What are some critical considerations?

Part 5: East West Associates Case Studies

Part 6: Q&A Discussion

Part 7: Follow up

Introduction to East West Associates (**EWA**)

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.

China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- GLOBAL MANUFACTURING & SUPPLY CHAIN FOOTPRINT
  - Global Manufacturing & Supply Chain Footprint
  - Global Manufacturing & Supply Chain Footprint Implementation
  - Global Site Selection
  - Identification & Qualification of Contract Manufacturing
  - Plant Rationalization / Consolidation / Relocation
  - Plant Closure Planning
  - Negotiation of Foreign Governmental Incentives
  - Project Management of Plant Construction & Relocation

Introduction to East West Associates (**EWA**)

East West Associates advises manufacturing companies on establishing and improving international manufacturing operations and global supply chains.
China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- OPERATIONAL & COMMERCIAL PERFORMANCE
  - Operational Diagnostics and Functional Reviews
  - Growth Potential and Development
  - M&A Due Diligence
  - Corporate Turnarounds & Restructurings

Introduction to East West Associates (**EWA**)

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China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- SUPPLY CHAIN
  - Global Supply Chain Assessment
  - Make VS. Buy Strategy
  - Set Up & Operate Sourcing Office
  - Supplier Identification & Qualification
  - Covert & Overt Supplier Investigations
  - Supplier Performance Improvement
  - Supplier Transition
  - Global Relocation Of Supply Chain

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China, Southeast Asia, Mexico & Poland/Central Eastern Europe

- HUMAN RESOURCES & RISK MANAGEMENT
  - Integrity Awareness Training
  - Interim General Management
  - Executive Search
  - Background Checks
  - Organizational Assessment & Implementation
  - Compensation & Benefits

EWA Executive-level Advisors in 5 Global Regions

Central Eastern Europe

United States

China

Mexico

South East Asia

East West Associates Representative Clients

FEDERAL SIGNAL

Fortune Brands
A home and security company

HILITE INTERNATIONAL

Plasticolors

H.J.BAKER

americhem
PERFORMANCE | SOLUTIONS | TRUST

ChemCo Systems

GREENHECK
Building Value in Air.

RUDOLF GROUP
BETTER CHEMISTRY

GORE
Creative Technologies Worldwide

Accuride

CURTISS-WRIGHT

ICEE

NANOtex

ENERGY TRANSFER

TITEFLEX AEROSPACE

micromeritics

SWECO

JR AUTOMATION

oerlikon

AccessData

The Tile Shop

Silfex

CORNING

MTD
For A Growing World.

safety-kleen

weber

Alliance Laundry Systems

JBT

CLIMATEMASTER
Geothermal Heating & Cooling Systems

MERICHEM

ADLER PELZER GROUP

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Part 2: **Webinar Series** planning.

1. *November 12, 11am - 12pm webinar:*
   Is Mexico an option for moving your US Operations?

2. *November 14, 11am - 12pm webinar:*
   Setting up your Factory in Mexico: Operating Structures.

3. *November 20, 11am - 12pm webinar:*
   Revealing Country Feasibility Studies,

4. *December 3, 11am - 12pm webinar:*
   Commercial & Operational Diagnosis of China Operations.

5. *December 5, 11am - 12pm webinar:*
   Metal-industry Sourcing & Supply Chain in Mexico

6. *December 11, 11am - 12pm webinar:*
   Global Manufacturing & Supply Chain Footprint Analysis & Implementation.

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Introduction of Speakers

Dan McLeod, Director, East West Associates

Jacob Miller, East West Associates

Moderator: Alex Bryant, President of East West Associates

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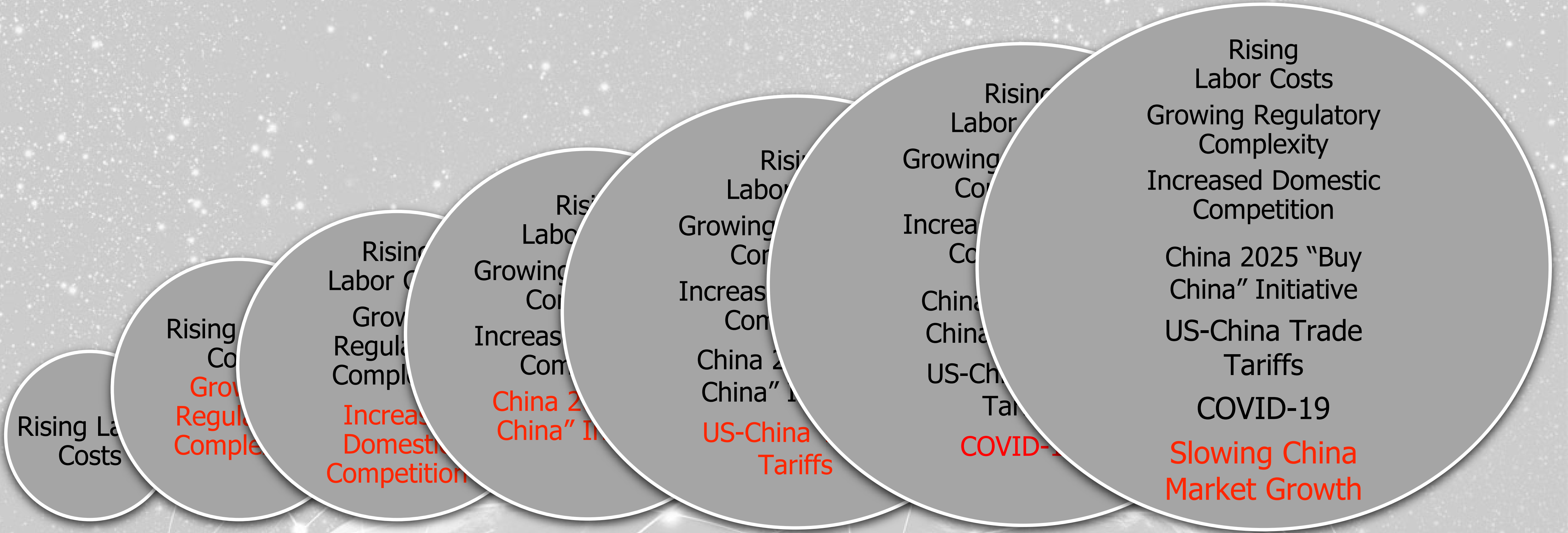
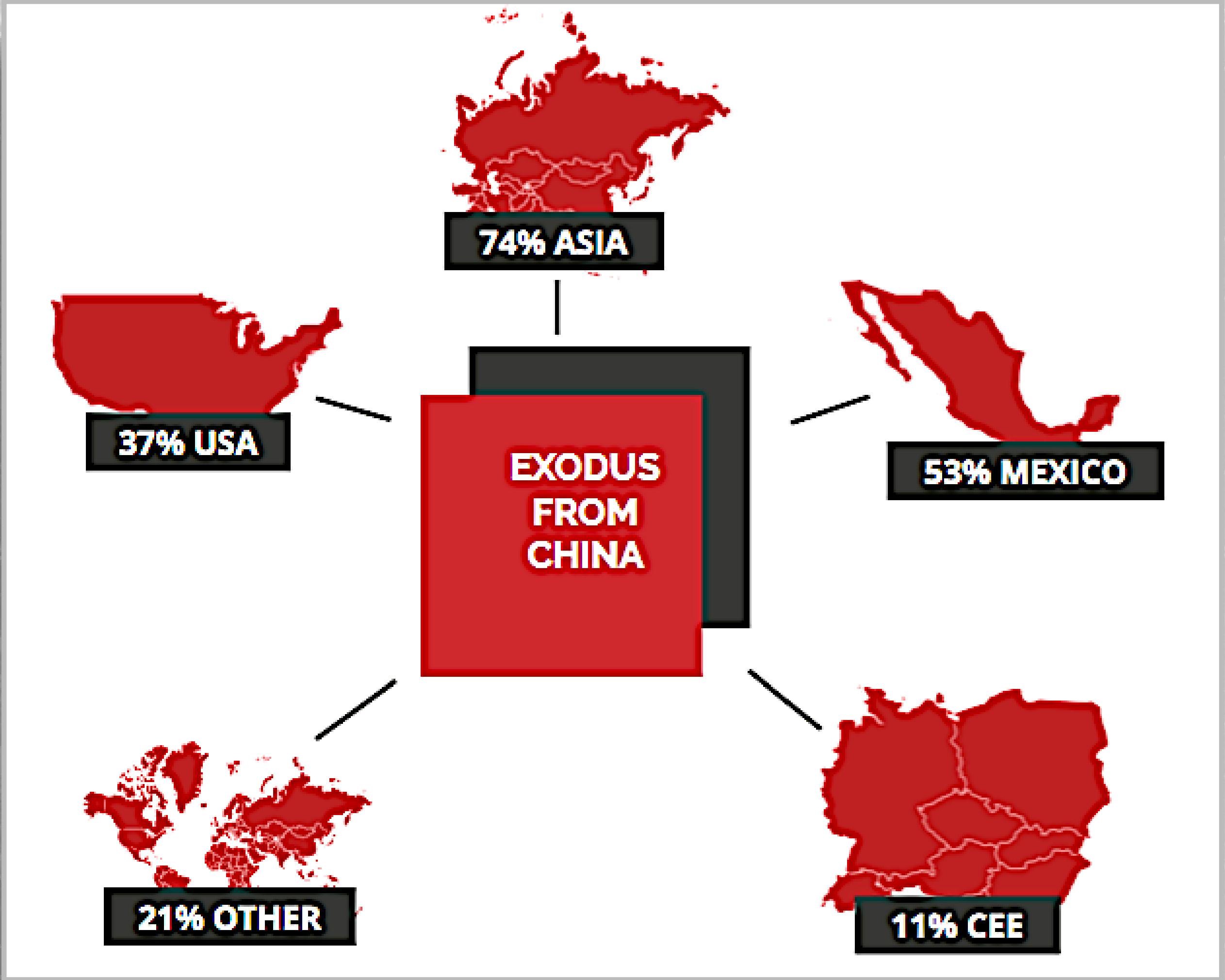
Why are manufacturers relocating out of China? What are some critical considerations?

During the last 15 years, the economic challenges facing western companies operating in China have been continuously increasing and evolving:



To where are you considering or planning to relocate your China-based operations, (Multiple Responses Possible)

EWA Survey of 150 Manufacturers Operating in China



Diversification from China

- **Alter the global business landscape**
- **Drive supply chain networks to alternative emerging markets**
- **Accelerated growth of emerging markets**

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East West Associates Case Studies

If you have operations in China, or even in the U.S., you've probably thought about Mexico. Sourcing components or moving your plant there could work out well for you – it does for a lot of mid-size companies. But Mexico is not the best solution for everyone.

What makes Mexico right… or wrong for your company?

We will share 3 Mexico-related case studies in this webinar:

- *Case Study #1* considers 3 scenarios: (1) Build new in the U.S. (2) Contract manufacture in Mexico. (3) Produce in Mexico.
- *Case Study #2* addresses unbolting supply chain from China & relocating to Mexico.
- *Case Study #3* addresses closing the U.S. plant and relocating to Mexico.

Case Study 1: *North America Footprint Analysis* – Background

- Client: the same Illinois-based manufacturer of consumer products that engaged EWA for expansion into Poland
- In Illinois, client's largest operation was faced with:
  - Declining output due to aging assets
  - Increased costs from escalating wage rates
  - Increasing difficulty finding and retaining employees
  - Increased demand, requiring outsourcing of some processes. Limited ability to reduce production in China
- **EWA was engaged to evaluate multiple options for reconfiguring the North America footprint**. These included:
  - Construction of a new factory and distribution center in the Southeast US.
  - Partnering with an established manufacturer in Mexico to produce product and ship to a new distribution center in the US.
  - Establish a factory in Mexico and a distribution center in the US, using components sourced primarily from Mexico and Asia.

North America Footprint Analysis – The Process

1: Southeast US – Evaluated 10 states to determine the 4 most suitable sites based on client's primary drivers: access to labor pool, logistics connectivity, utility cost and availability

- Interview state, regional, and local economic development entities to evaluate level of interest and capabilities
- Visit sites to confirm data collected and understand available incentives
- Collect site specific information on wages, utilities, property costs to model investment and operating costs

2: Mexico Contract Manufacturing – Identified potential partners through desktop research and existing relationships with established manufacturers

- Met with potential partners to assess interest, capability and fit
- Developed Heads of Terms for the contracting relationship to gain alignment with potential partners
- Audited manufacturing facilities
- Developed project economics and estimated product cost – materials, utilities, labor, overheads, freight and distribution

The Process (con't)

3. Mexico Manufacturing – Evaluated multiple regions within Mexico. Shortlisted 5 cities.

- Identified suitable properties in those cities. Generated budgetary costs for a Build-to-Suit factory that met the client's requirements.
- Modeled operating costs based on local wage rates, utility costs, typical O&M costs
- Investigated the availability and capability of suppliers for critical materials/components
- Developed budgetary cost estimate for dismantling and moving critical equipment from US to Mexico
- Modeled costs to build and operate a Distribution Center in Texas to support the new operation

Case Study 1 - **RESULTS**

Conclusions:

- Advantage of Mexico over US is limited to Labor Savings and Tariff Avoidance
- Advantage of US over Mexico is lower costs for factory construction, utilities, freight
- For this situation – due to high utility consumption and much higher freight costs – there was no significant net cost advantage of Mexico vs. Southeast US.
- Mexico has adequate suppliers of steel, stainless steel, aluminum fabricated parts, & injection-molded plastics (which is key for this client).

Client decided to move ahead with a strategy to develop a supplier base in Mexico over a 1-3 year window to supply their current operation. Once the supply chain was established, they then proceeded to factory relocation.

Case Study 2.
Relocating products & components out of China into Mexico

Client is US-based manufacturer of electronic equipment for industrial markets.

Factories are in US and China. Company began operating in China in 2004.

The components & produced finished goods sourced in China were for export to the US.

Client retained EWA to perform a supplier search and to qualify suppliers in Mexico, driven by:

- US/China tariffs
- logistics challenges: freight costs, transit times, container availability
- geo-political uncertainty
- IP protection & control

Case Study 2 - **RESULTS**

<u>EWA evaluated client's commodities needs</u>: metal stampings, castings, molded & extruded components, electromechanical assembly

- Client required a well-established base of suppliers
- Client's distribution of parts followed the 80/20 rule in most cases

<u>EWA identified & qualified suppliers</u>

- Identified potential manufacturers in Mexico
- Short-listed candidates based on reputation, interviews, site visits
- Developed and issued RFQ to short-listed providers

<u>EWA performed Supplier Selection for client approval</u>

- Performed bid tabulation and evaluation
- Coordinated client visits to top candidate
- Reduced freight costs. Avoided 25% US duties on China imports.

Case Study 3: *Global Manufacturing & Supply Chain Footprint Analysis* – Background

- Client is a North Carolina-based manufacturer of outdoor recreational equipment, with a major factory in North Carolina plus 2 smaller operations in China, 3 in Thailand, & 1 in Vietnam.
- A significant portion of the product line is sourced from 3rd party manufacturers, mostly in China.
- Client's market is almost entirely US. Tariffs had a major impact on landed cost. Inventories greatly increased to compensate for unpredictable transit times during Covid.
- Client had made the decision to reconfigure their manufacturing base by shutting down the two operations in China.
- The North Carolina operation was labor intensive. The operation appeared to be a fit for a lower cost country like Mexico, but the management team had limited experience there.

Global Manufacturing & Supply Chain Footprint Analysis – the engagement

EWA was engaged to…

- ✓ Work with the local manager in China to develop a comprehensive shutdown plan for the client's two sites there.
- ✓ Evaluate products and manufacturing processes in North Carolina to determine which represented a good fit for sourcing from Mexico.
- ✓ Identify Mexico suppliers and collect pricing for key products currently manufactured in the US to support a Make-vs-Buy analysis.
- ✓ Determine costs, timeline for relocating manufacturing from the US to Mexico.
- ✓ Perform on-site analyses of client's factories and key suppliers in Vietnam and Thailand. Evaluate feasibility, cost, and financial returns for consolidation, relocation to North America, or expansion into Southeast Asia.

Global Manufacturing & Supply Chain Footprint Analysis

Case Study 3 – **RESULTS**

- The two China sites were shut down without incident, on schedule & within budget.
- EWA identified multiple potential contractors in Mexico for components. Estimated annual savings of US$3M (15%).
- EWA evaluated multiple options for relocating all or part of US manufacturing to Mexico, identifying savings of up to US$8M annually.

- Expansion in Vietnam could have been an attractive option. Savings would be larger than relocation to Mexico ($13M). However, EWA calculated that these savings would be offset by higher inventories and higher capital cost.
- EWA's review of materials purchased in China determined many can be purchased from manufacturers in Vietnam. EWA recommended that Client expand their existing Vietnam operation and set up a sourcing office there to reduce spend in China.

- In Thailand, EWA determined one of the 3 sites would be shut down, and that the returns for consolidating the remaining 2 sites was unattractive.

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Q&A Discussion

- ✓ What are the realities of sourcing in Mexico? How has the effort to diversify supply chain from China affected Mexican suppliers?
- ✓ How has this affected western companies looking to establish a Mexican supply chain base?
- ✓ What industry sectors does Mexico have substantial suppliers? In what industry does Mexico have less suppliers?
- ✓ What challenges are companies facing identifying & qualifying Mexican suppliers?
- ✓ Mexican duties on Chinese imports – how does this affect US companies?
- ✓ On April 22, 2024, the Mexican Government published a modification to the Tariff of the Law of General Import and Export Taxes.

- The Mexican government has established temporary import tariffs ranging from 5% to 50% for 544 HS codes.
- These codes include items such as steel, aluminum, textiles, apparel, footwear, wood, plastic, and products related to plastics, chemicals, paper and cardboard, ceramics, glass, electrical material, transportation material, musical instruments, and furniture, among others.
- This temporary measure is in force from April 23, 2024, through April 23, 2026. The Decree aims to combat unfair competition from countries with which Mexico doesn't have free trade agreements.
- U.S. exporters are encouraged to carefully examine the list of impacted products and be aware of the opportunity to take advantage of the USMCA special compliance and tariff treatment to see potential exports to Mexico.

Q&A Discussion

✓ What are the realities of sourcing in Mexico? How has the effort to diversify supply chain from China affected Mexican suppliers?

- Significantly affected Mexican suppliers who are being contacted in large numbers by western companies looking to potentially establish a Mexican supply chain base.
- Mexican suppliers are most interested in adding customers with large volumes
- Turning down more low volume, high complexity orders
- Supplier prices have increased as suppliers can demand more for their products

Q&A Discussion

✓ What industry sectors does Mexico have substantial suppliers? In what industry does Mexico have less suppliers?

- Medical devices
- Automotive
- Metal Casting
- Assembly of electronics/electrical equipment

Semiconductors

Process Industries (Steel, Petrochemical, Paper)

Electronic components

Q&A Discussion

✓ <u>What challenges are companies facing identifying & qualifying Mexican suppliers?</u>

- Increased competition
- Less mid-tier suppliers in Mexico vs. China
- Very different dynamic working with Mexican suppliers than Chinese suppliers
  - ➢ Reverse Engineering
  - ➢ Financial Expansion

Q&A Discussion

- ✓ What are the pros & cons of manufacturing in Mexico vs. the U.S.? What's the relative cost advantages of manufacturing in the US vs. Mexico?
- ✓ What mistakes are easy to make when considering Mexico?
- ✓ Under what circumstances might companies be better off staying in Southeast Asia vs. relocating to U.S. or Mexico?
- ✓ What investment incentives does Mexico offer? Are they well-known?
- ✓ Can you share a real-life example of how and why a U.S. client relocated assembly from China to Mexico?

Q&A Discussion

- ✓ What are the pros & cons of manufacturing in Mexico vs. the U.S.? What's the relative cost advantages of manufacturing in the US vs. Mexico?

- Proximity to the US
- Lower labor costs

- High transportation costs from Mexico to the US (compare to SE Asia imports)
- Higher utility costs
- Higher raw material costs
- Higher real estate costs

Q&A Discussion

✓ <u>Under what circumstances might companies be better off staying in Southeast Asia vs. relocating to U.S. or Mexico?</u>

- Proximity to China supply chain base
- Manufacturing cost savings (Incentives, labor costs, etc.)
- Applicable if relatively law freight costs to the US market (electronic components)
- Global customer base in Southeast Asia, China, etc.

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Part 7: **Follow up**

- Participants will receive a webinar survey
- Webinar recording & PowerPoint will be provided in follow up email and available on EWA website (www.eastwestassoc.com)

Contact Us

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