

Navigating the Nearshoring Journey: A Roadmap to Success in Mexico

AUTHORS

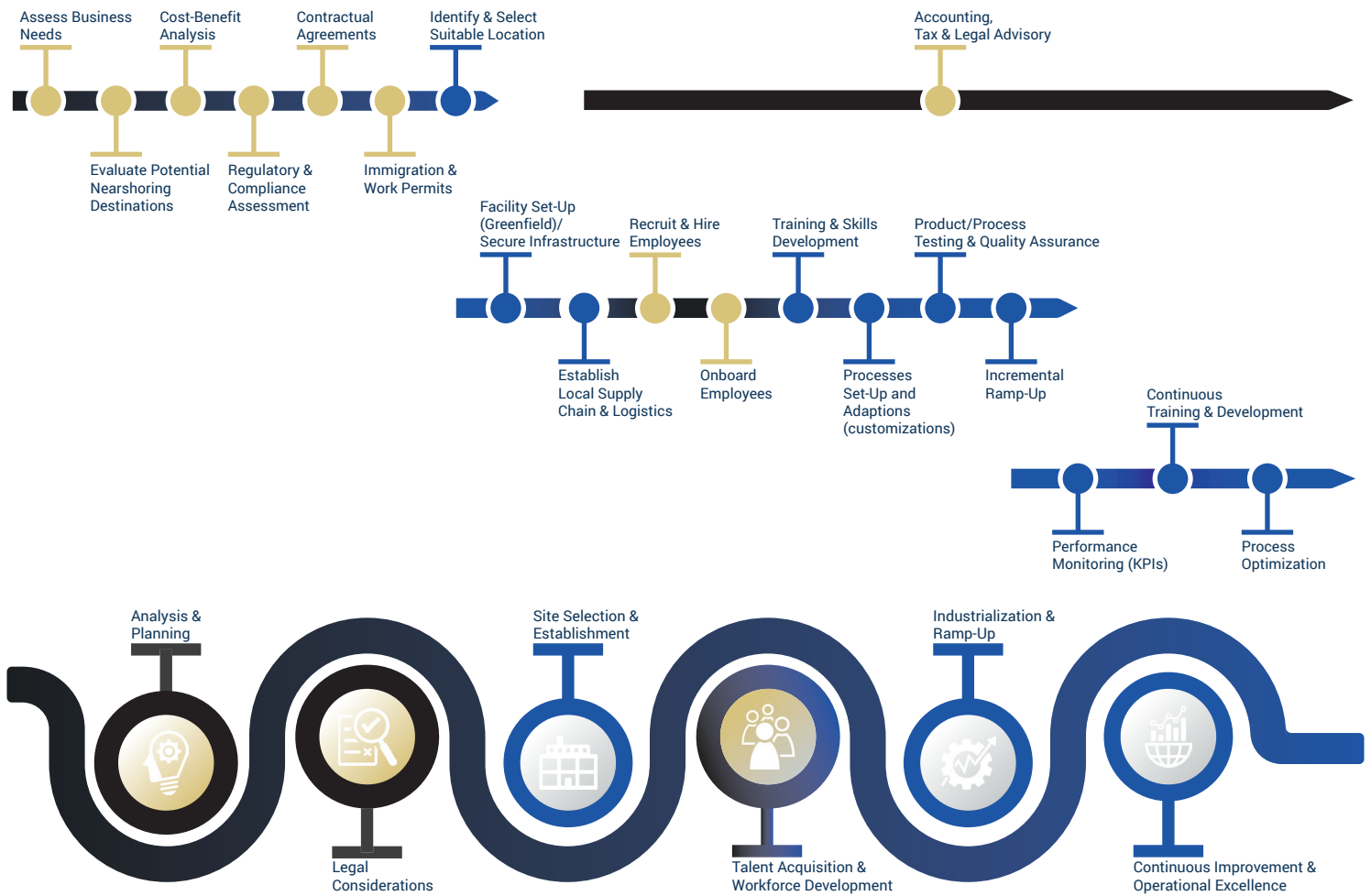
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Table of Content

1.	INTRODUCTION	02-03
2.	ANALYSIS & PLANNING	04-05
3.	LEGAL CONSIDERATIONS	06-07
4.	SITE SELECTION & ESTABLISHMENT	08-10
5.	TALENT ACQUISITION & WORKFORCE DEVELOPMENT	10-11
6.	INDUSTRIALIZATION & RAMP-UP	12-13
7.	CONTINUOUS IMPROVEMENT & OPERATIONAL EXCELLENCE	14-16
8.	CONCLUSION	17
9.	CONTACTS	18



1 / Introduction

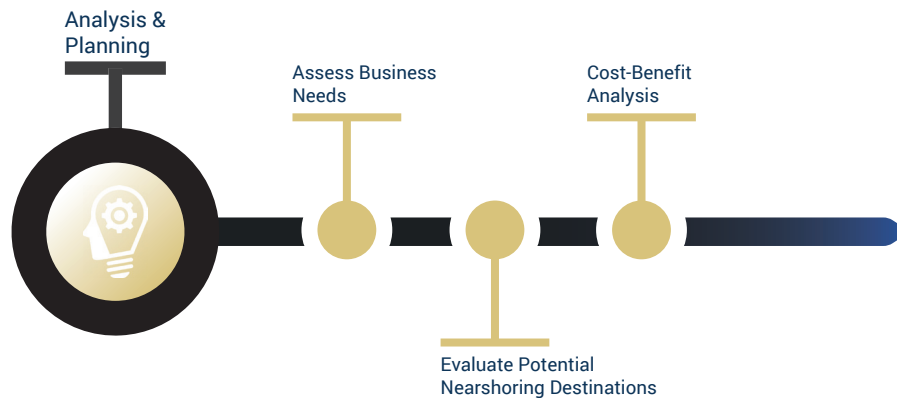
In today's competitive global landscape, nearshoring has emerged as a strategic approach. It refers to the strategic relocation of business activities and production processes to geographical proximity. In particular, Mexico presents an appealing option for Nearshoring, especially for businesses focusing on the markets of the United States and Canada.

Nearshoring offers numerous advantages, such as cost efficiency, geographical proximity, and increased collaboration. However, a successful nearshoring endeavor demands careful analysis, planning, and a clearly defined roadmap.

By conducting meticulous analysis and planning of your requirements, your company will be enabled to set realistic expectations. A pivotal factor in this process is a comprehensive understanding of the legal framework. Understanding the legal framework is crucial to mitigate risks and protect the interests of the company throughout the process.

P3 Mexico & Zeitgeist have summarized the most important challenges and recommendations for market entry in Mexico.

2 / Step 1: Analysis & Planning



Successful industrialization and product ramp-up requires the evaluation of business needs, selecting the right nearshoring destination, and conducting a comprehensive cost-benefit analysis. A strong collaboration between onshore and nearshore teams is essential, along with establishing effective communication channels and promoting knowledge sharing. This synergy guarantees a smooth transition and accelerates the time-to-market.

Challenges:

1. **Complexity of Business Needs:** Understand the technical and organizational aspects of the operations, then identify which segments of the business are suitable for nearshoring. Assess the need for local support departments like Engineering or Purchasing at the chosen nearshore destination.

Recommendations: Assessment of Business Needs

- Ensure offshoring decisions align with company goals, incorporating real data such as local culture, and customize strategic actions accordingly.
- Determine which processes can be outsourced based on the complexity, financial impact, and sensitivity.
- Identify the organization's key process through a value analysis, involving stakeholders like

customers, cross functional departments, suppliers, and government for potential incentives.

2. **Identifying the Optimal Nearshoring Destination:** Selecting an appropriate nearshoring location requires assessing factors like political stability, infrastructure, and workforce availability. In Mexico, these elements vary widely at the state and city levels, with emerging opportunities in addition to well-known industrial areas like Puebla and San Luis Potosi.

Recommendations: Evaluate Potential Nearshoring Destination

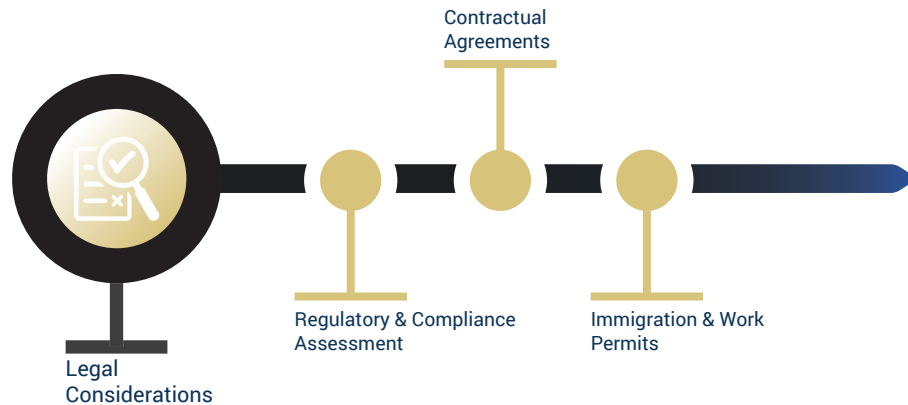
- Involve local experts or consultants well-versed in the Mexican market and legal landscape to provide insights and guidance throughout the assessment. Initiate contact with local government officials to explore potential incentives.
- Determining the areas with the lowest security risk and the distribution of the local population to optimize transportation to the work centers. The assessment should include the availability of Industrial Parks and infrastructure, logistics considerations, as well as the presence of local suppliers and service centers.
- Consider border proximity, time zone alignment, and language proficiency for effective collaboration.

3. **Comprehensive Cost-Benefit Analysis:** Conducting a vital cost-benefit analysis can be complex when lacking crucial details such as energy/water expenses, support service fees, operating license costs, local salaries, and the presence of qualified personnel in the regions.

Recommendations: Cost-Benefit Analysis

- Develop a comprehensive financial model that includes direct costs (labor, infrastructure, logistics, legal compliance) as well as indirect costs and potential benefits (productivity gains, market expansion, customer satisfaction).
- Consider a long-term perspective to evaluate the financial variability and overall impact. Mexico is a fast-growing market; thus, the latest data should be considered as the possibility of sudden alterations in labor regulations should be kept in mind.

3 / Step 2: Legal Considerations



Understanding the legal aspects is essential for a smooth establishment. This includes navigating the regulatory landscape and ensuring compliance with Mexican laws and trade agreements. Such legal insight empowers strategic decision-making and effective risk management for sustainable growth and fosters positive connections with local stakeholders.

Challenges:

1. **Regulatory & Compliance Assessment:** Ensure that you stay updated with the changing labor rules, pay attention to tax regulations, and adjust your policies to fit the needs of the Mexican market. Because the rules can change often, it is important to understand how things are done locally. For instance, the way management laws are interpreted can be different in border areas compared to the central region.

Recommendations:

- Involve legal professionals who are familiar with Mexican laws and regulations to create and oversee a detailed outline of specific regulatory needs and ensure its continuous maintenance. This includes aspects like DOF (Diario Oficial de la Federación), USMCA, and other trade agreements.

2. **Contractual Agreements:** Drafting and negotiating contractual agreements with local partners,

suppliers, or unions in Mexico can pose challenges due to language barriers and variations in legal systems.

Recommendations:

- Seek legal counsel with experience in commercial contracts and familiarity with the current Mexican legal landscape to assist in drafting and negotiating agreements to mitigate potential risks. e.g., the difference between local and federal requirements must be considered.
- Negotiation with unions should be managed with support from a local office experienced in this process. Ensure that agreements accurately reflect the scope, expectations, rights, responsibilities, and dispute resolution mechanisms.
- Ensure that contracts are drafted and certified in both English and Spanish to avoid any misunderstandings.

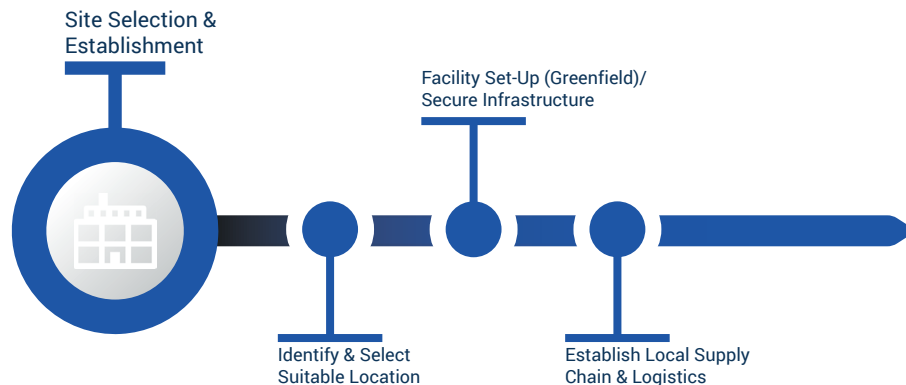
3. Immigration & Work Permits: Navigating the bureaucratic process of obtaining work permits for foreign employees in Mexico is a crucial responsibility overseen by the Mexican Ministry of Foreign Affairs, requiring efficiency and timeliness.

Recommendations:

- Manage with legal advisors specialized in Mexican immigration processes, the work permits for your foreign personnel such as FM3. Ensure that consultants maintain open communication with the authorities.

4 /

Step 3: Site Selection & Establishment



The selection and establishment of a location in Mexico for nearshoring is crucial. It is about finding the right place, setting up facilities, and building a strong local supply chain and logistics. Overcoming these difficulties is essential to achieve a successful outcome in your nearshoring project. .

Challenges:

1. **Identify and Select Suitable Location:** Evaluating factors such as infrastructure, availability of transportation and skilled labor, access to markets, and understanding regional differences impact decision-making. Issues such as economic development and industrial clusters (automotive, aerospace) should be included to identify the most appropriate location and maximize the potential benefits of operating in Mexico.

Recommendations:

- Search for local experts familiar with the Mexican market to obtain a better location study. They can conduct a detailed analysis that considers the specific requirements of your business, including factors such as availability of resources (water, energy), transport links, skilled workforce, safety aspects, and potential for future expansion.

2. **Facility Set-up (Greenfield) / Secure Infrastructure:** Setting up a new facility (Greenfield) and ensuring a secure infrastructure in Mexico involve obtaining permits, coordinating with local

authorities, and complying with regulations to meet operational needs like reliable power supply, IT infrastructure, security systems, and environmentally friendly practices.

Recommendations:

- Collaborate with experienced local partners for regulatory guidance. Assess infrastructure needs like land used permits, feasibility studies, and environmental impact studies. Ensure the layout design that meets the current needs of the company with safety and social requirements including evacuation plan, internal health services required, fire system regulations and transportation docks adapted to industry standards in Mexico.
- Incorporate sustainable practices from the outset, such as energy-efficient systems and waste management, to align with environmental regulations and contribute to corporate social responsibility and understand the benefits available from complying with environmental requirements, e.g., taxes to exempted when complying with emission levels, Clean Industry certificate benefits.

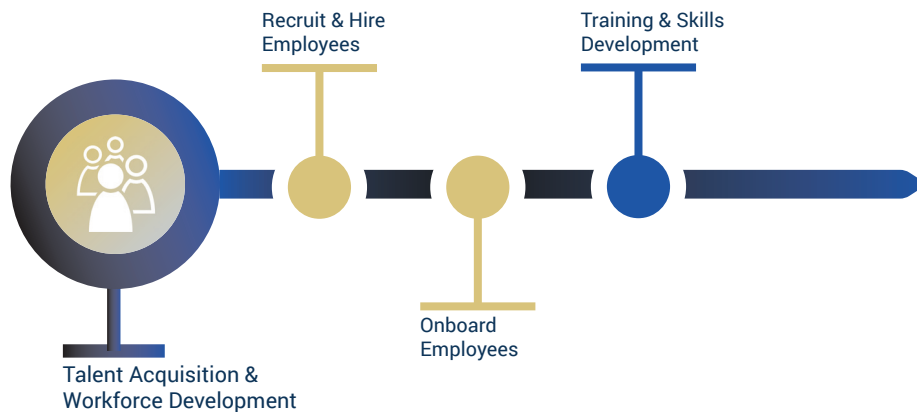
3. **Establish Local Supply Chain & Logistics:** Build a reliable local supply chain and logistics network in Mexico, and partner with logistics providers with a national support network. Implement an effective inventory management system with robust communication channels and continuous real-time supply chain monitoring.

Recommendations:

- Perform thorough due diligence with potential local suppliers and logistics service providers. Its reliability, capabilities, and orientation to operational requirements should be considered. Being close to customs, the sea, or a border also brings about favorable outcomes.
- Continuously monitor and optimize inventory management, transportation routes, and warehousing options to enhance efficiency, reduce costs, and meet customer demands. This pertains to supply chain logistics, Import-Export advantages, or company-specific ERP requirements.

5 /

Step 4: Talent Acquisition & Workforce Development



Talent acquisition and maintaining skilled personnel is vital for an effective team. This involves recruiting, onboarding, and ongoing training to enhance skills.

Challenges:

1. **Recruit & Hire Employees:** Mexico provides a wide range of skilled workers, but this distribution varies from region to region due to the focus of the sector. The decision as to whether to locate near centers of expertise or to attract talent for specific fields is a decisive consideration. Attracting top talent in Mexico's competitive job market is a challenge, especially for specialized positions such as welding, soldering, and plastic injection molding. Ensuring compliance with local labor laws is also essential in recruitment practices.

Recommendations:

- Implement a targeted recruitment strategy, leveraging local networks and expertise, promoting cultural inclusivity, and partnering with immigration experts to navigate legal requirements. Organizations must effectively address the complexities of talent acquisition in Mexico and ensure a skilled and compliant workforce.
- Ensure compliance with local labor laws and work closely with immigration experts to navigate visa and work permit requirements.
- Establish partnerships with local recruitment agencies, Universities, or talent acquisition firms to tap into their expertise and networks.

2. **Onboard Employees:** Integrating new employees into the organization's culture and work processes is complex. Especially when foreigners ("EXPATS") join the company there may be cultural barriers that have to be overcome.

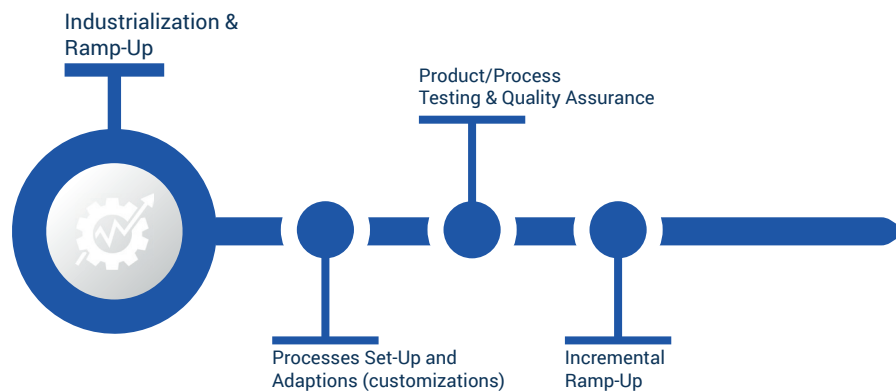
Recommendations:

- Develop a comprehensive onboarding program that includes cultural orientation, company policies, work processes, and role-specific technical training.
 - Define clear roles & responsibilities within the mixed organization (EXPATS vs. locals) and start with ownership for local resources in early stage.
 - Provide mentorship or buddy systems to facilitate integration and support employees during their initial period.
 - Foster an inclusive and collaborative work environment that encourages open communication and cultural Exchange.
3. **Trainings & Skills Development:** Identifying precise skill gaps and training necessities within the workforce demands comprehensive analysis, encompassing considerations such as overseas training, passport, and visa prerequisites.

Recommendations:

- Conduct regular skills assessments to identify training needs and provide targeted learning opportunities, e.g., STPS (Secretaría del Trabajo y Previsión Social) training plan.
- Leverage a blended learning approach, incorporating online modules, workshops, and on-the-job training to accommodate language and cultural differences.
- Establish a culture of continuous learning, e.g., cross-training, encouraging employees to take ownership of their professional development, and providing resources for upskilling and career growth.

6 / Step 5: Industrialization & Ramp-up



Process industrialization and product ramp-up are essential stages in the nearshoring journey. This phase involves setting up and adapting processes to the new nearshore location, conducting product and process testing, ensuring quality assurance, and gradually increasing production volumes.

Challenges:

1. **Processes Set-up and Adaptations (Customization):** Adopting processes to the new location and integrating them into the new environment considering the characteristics of the region. Establish effective communication and foster collaboration between migrant and local teams.

Recommendations:

- Leverage the expertise of local staff and involve them in the adaptation and customization process to ensure alignment with local practices.
- Define clear scope and responsibility of the new location to adapt / customize the processes.
- Establishing effective communication channels and leveraging technology can help facilitate a smooth integration of processes in the new location.
- Conduct an analysis of the new location's cultural and business requirements to guide process adaption, considering local traditions (Mexican Independence Day) or religious festivals (Easter week).

2. **Product & Process Testing & Quality Assurance:** Define the product and process test approval plan to ensure compliance with established requirements and quality. To minimize errors in the process, it is essential to implement robust quality assurance procedures.

Recommendations:

- Establish a quality system with control measures, conduct periodic audits (such as LPA and Quality Audits) for compliance, and implement an ongoing plan for audits and inspections to drive continuous process improvement.
- Provide training programs to improve the skills and knowledge of the workforce involved in the production and quality control system.
- Form alliances with local service providers to implement quality systems and a specific training program adapted to the Mexican work culture.

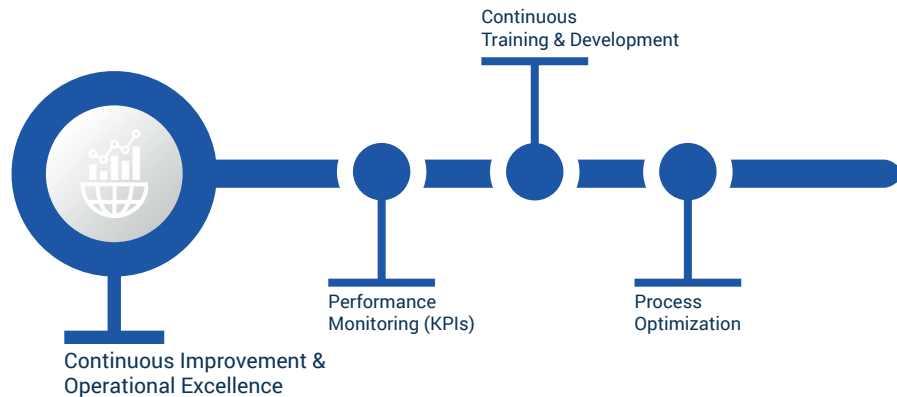
3. **Incremental Ramp-up:** Define the optimal time to increase production volumes while maintaining quality. Balance resource allocation, labor training, and supply chain management with effective planning and execution. “Copy paste” processes from existing facilities will not work properly due to often seen gaps between documentation and actual incl. missing adaption to local work force requirements.

Recommendations:

- Develop a detailed ramp-up plan that considers resource allocation, workforce training, and supply chain management.
- Establish partnerships with local consultant office to support for required capacity peaks during ramp-up for Program Management or Interim Support on logistics, projects, quality, and operations improvements, e.g., Program Management, Value Stream Map, VA/VE, Continuous Improvement and Operations Excellence.
- Regularly monitor production performance, adjusting as needed to maintain quality standards and meet increasing demand. Implement a local customer service.
- Continuously evaluate production processes to identify opportunities for efficiency improvement and cost optimization during the ramp-up phase, e.g., Value Stream Map, VA/VE.

7 /

Step 6: Continuous Improvement & Operational Excellence



Sustained success over time relies on continuous improvement and operational excellence. This can be achieved through continual process enhancement and performance optimization – with focus on local workforce capabilities.

Challenges:

1. **Performance Monitoring (KPIs):** Selecting meaningful KPIs that reflect business objectives and accurately measure performance requires thorough consideration and careful selection of the right metrics. Establishing clear reporting mechanisms, fostering open communication and a culture of ownership are essential, always transparent and available for decision makers in Headquarters or other locations.

Recommendations:

- Define clear and measurable periodic KPIs that align with business objectives and provide insights into performance.
- Leverage technology solutions to easily collect accurate data and analyze it effectively. This allows you to monitor performance and identify areas for improvement. Implementation of Industry 4.0 approaches in early stage will be beneficial in longterm.
- Establish a transparent automated reporting system (not depending on smooth & establis-

hed workforce communication) and regular daily performance reviews with cross-functional teams to promote accountability and drive continuous improvement.

2. **Continuous Training & Development:** Assessments, industry analysis and alignment with business goals are necessary to identify training needs and develop appropriate programs. This aligns with training goals and productivity during implementation. Detailed planning of training minimizes work disruptions and enables smooth transitions. Allocating budget and time for ongoing training and fostering a culture of learning is critical for employee development and complete handover to local organization.

Recommendations:

- Conduct regular skills assessments to identify evolving training needs and prioritize areas for development.
- Implement a blended learning approach that combines traditional and online training methods to provide flexible and continuous learning opportunities. KAIZEN weeks are a success proven training approach on specific operations skills (e.g. SMED, 5S, VSM) with well-balanced ratio of theory, practice and implementation results.
- Allocate dedicated time and resources for training and development initiatives and encourage employees to take ownership of their professional growth.
- Define the standard work for blue collars and white collars.

3. **Process Optimization:** Identifying shortages, inefficiencies, and optimization opportunities in processes requires systematic analysis and continuous assessment. This includes thorough research, data-driven approaches, and feedback from stakeholders. Yet it can be challenging to overcome resistance to change and establish an innovation-oriented mindset throughout the organization. Effective change management, clear communication, and employee involvement at all levels are crucial.

Recommendations:

- Empower employees to actively participate in process optimization efforts by soliciting their input and involving them in decision-making processes including handing over processes to the local technical team – from day 1.
- Implement Lean methodologies, such as value stream mapping and waste reduction strategies, to identify and eliminate bottlenecks and optimize processes.
- Encourage a culture of innovation and continuous improvement throughout the organization by recognizing and rewarding ideas and initiatives.

8 / Conclusion

Embarking on the nearshoring journey is a strategic decision that requires careful planning and execution. By following a well-defined roadmap that includes analysis, planning, legal considerations, optimal site selection, industrialization, and continuous improvement, companies can overcome the mentioned challenges and increase their chances of success. Nearshoring offers companies the opportunity to optimize operating processes, access skilled talent, and expand market reach, contributing to enhanced competitiveness and growth. Mexico's rise as a leading nearshoring destination offers companies the opportunity to benefit from its strategic location, trade partnerships, and the expanding demand of the US market.

To ensure that nearshoring can take place successfully, your company can consult our experts at P3 and ZEITGEIST. Join our regular Seminars and networking events!

P3 Americas as a Successful Nearshoring Model

At P3, we have built strong relationships between teams from USA, Mexico & Colombia over the years, and we have worked hard to optimize our nearshoring-capabilities in recent years. In 2022, P3 AMERICAS was the strongest and fastest-growing P3 subsidiary. As an international consultancy firm with almost three decades of experience and offices in multiple countries across the globe, we are experts in overcoming cultural and communication barriers, with similar business models in place in Europe and Asia.

P3 Americas has recently moved into a new office in Querétaro, to be shared with co-operation partner ZEITGEIST Consulting Group. Zeitgeist offers legal advice, accounting-, and HR services to Mexican and international clients.

Together, P3 Americas and ZEITGEIST can offer end-to-end services and nearshoring solutions based on our core units: Legal advisory, Consulting, Engineering & Digital Solutions.

9 / Contacts

Contact us for additional details, or if you are looking for expertise, or for specific project support.
We are happy to connect!

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