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managing risk, enabling trade

Trade successfully with Mexico

Ten important principles

10 rules that can help make your sales to Mexican buyers successful

> Oh, Mexico, I never really been but I'd sure like to go
> James Taylor,
> US singer songwriter

There are many good reasons to trade with Mexico, one being its openness to international trade – that's clear from its many free trade agreements and its business friendly government. It may have received some bad press over its level of drug related crime but, when it comes to economic growth, the news is all good.

Even though President Enrique Peña Nieto has only been in office since December 2012, he has already made strides to combat crime, boost the economy and improve the world's perception of Mexico as a thriving market: challenging Brazil to be Latin America's leading light.

Peña Nieto has also promised to address the considerable disparity in personal wealth, but Mexico already has a growing middle class and a burgeoning consumer market: with ready access to consumer credit and an upward trend in employment, household consumption will continue to grow. Add to this the government's investment in improving the country's infrastructure and the picture is one of opportunity for foreign companies hoping to make their mark in Mexico.

1. Take advantage of Mexico's Free Trade Agreements

Mexico is an extremely open economy and, at the time of writing, has free trade agreements (FTAs) with 44 countries. The prime motive may have been to reduce its heavy dependence on trade with the US, but the upshot is that these FTAs allow many types of product from the EU, Norway, Switzerland, Japan, Mexico's Latin American neighbours and many more, to enter the country tariff free.

Taking just the Mexico-European Union FTA as an example, since that agreement's inception EU countries have been able to export to Mexico on many of the same terms that the USA and Canada enjoy under the North American agreement (NAFTA). EU companies now also have access to public tender offers in Mexico and are guaranteed a degree of protection against intellectual property theft.

Another advantage of these many FTAs is that they can give foreign companies indirect access to the USA and Canada. For instance, by setting up a manufacturing or assembly base in Mexico, an EU company can then enjoy the benefits offered by NAFTA.

2. Get good local representation

As with any export market, it's advisable to have a representative 'on the ground' in Mexico, not least to assist you in navigating the peculiarities of the market – and the language. When choosing an agent, first ensure that they already have good business relationships with the kind of customers that you want to reach, are familiar with your type of product or service, and already operate successfully in the parts of this huge country on which you want to focus.

Make sure that your agent is an established company, not just an individual: if it doesn't work out, Mexican employment law can make termination of an agency agreement with an individual a costly exercise. If the agent presses you for an exclusivity deal – something that's quite common in Mexico – make sure that the agent has the resources to fully represent you in the marketplace. It would be wise to place a time scale and measurable targets on any such deal – and make it exclusive only within a specific region of Mexico rather than the whole country.

For some imports to Mexico – medical, pharmaceutical, sanitary, food and supplements, among others – local representation isn't just advisable: it's required by law. Imports in any of those categories must first be registered, through your local representative, with COFEPRIS, the Mexico Federal Commission for Protection against Sanitary Risks.

3. Understand the culture

'Time is money' may be a familiar business dictum in other countries – but not in Mexico. Mexican business people make trusted friendships first and only then do they do business, so be prepared for a lengthy negotiating process.

That said, business meetings tend to be formal and hierarchical: so dress accordingly and ensure that your representatives at a meeting are of the same status in the company as your Mexican hosts. But don't expect your hosts to stick to an agenda. The discussion will begin with small talk – family, the weather, Mexico's natural beauty – until the host feels it's the right time to turn to business matters. And forget any notion that Mexico has an exclusively 'macho' business culture. Nowadays, business women are afforded the same professional courtesies as their male counterparts.

Meetings will normally be conducted in Mexican Spanish, although English is widely spoken. It's advisable to check beforehand and ideally to have a Spanish speaker on your team who will understand the nuances of the language.

4. Don’t miss out on Mexico’s infrastructure opportunities

President Enrique Peña Nieto is due to announce major investment in a wide range of infrastructure projects as part of a six year plan to boost the economy. It is likely to cover energy technology and generation, telecommunications, road, rail, ports and aviation. Combined with the new president’s intention to break the monopolistic hold over sectors such as telecommunications, this offers real opportunities to foreign suppliers and investors.

For instance, the free access to public tender now enjoyed by EU companies, combined with the commitment in the Mexico-EU FTA to cooperation on areas such as energy, transportation and the environment, means that EU companies that want to participate in Mexico’s infrastructure development have a real advantage.

The anticipated extensive improvements in infrastructure will of course also help with the distribution of goods around this vast country.

> “Major investment offers real opportunities to foreign suppliers”

5. Research the market – what are Mexicans buying?

While there is considerable disparity in earnings across Mexico, it cannot be described as a poor country – GDP per capita now exceeds US$ 10,000 - and its middle class has grown rapidly in recent years. As consumer credit becomes more readily available, this trend is set to continue. As a result, products such as household appliances and consumer electronics are in strong demand, as are luxury branded goods, cosmetics and jewellery.

In the business to business context, Mexico has many manufacturing bases and assembly plants (maquiladoras, established under the IMMEX program) in various sectors, providing opportunities for foreign imports of everything from automotive parts to plastics, resins, packaging machinery, security equipment and food processing equipment.

Each region is predominant in certain industries so, while Mexico City is the financial and distribution centre, Guadalajara is Mexico’s ‘Silicon Valley’, Monterey the centre for, among other things, household appliances, electronics, and biotechnology, and Tijuana for medical products, electronics and automotive. These lists are by no means exhaustive, so engaging in focused market research can identify where the demand lies for specific foreign products and services.

6. Choose the right payment terms

Even once you've identified and credit checked your potential B2B customers, you'll need to balance the security inherent in your payment terms with the need to be competitive. 'Cash in advance' is the most secure form of payment and is often used in a first transaction, but if a competitor is prepared to offer open account terms, or if your Mexican customer doesn't have the working capital to pay on those terms, you may not win the contract.

At the other end of the spectrum is 'Unsecured open account': the most attractive term for the customer, effectively giving interest free credit for a stipulated period, but with the risk that the customer won't pay when the due date arrives.

Between these two extremes are a number of options including Letters of Credit (LC) in their various forms. But they come with a cost for both the seller and the buyer, are subject to the risk of non-payment unless the sales documentation tallies exactly with the detail of the LC, and still leave the seller at a disadvantage if a competitor is willing to offer open account terms. Guarantee trusts, pledges and bonds can also provide a level of security, but may prove a deterrent when a supplier is vying with tough competition for business.

There are however options that may allow the seller to be competitive but with a degree of security: notably credit insurance. A reputable credit insurer will assess your potential customer's creditworthiness and approve a realistic level of credit to offer: one that doesn't put the seller at avoidable risk or overstretch the customer's available resources. Atradius can generally provide cover on open account terms, sometimes with the simple requirement of a promissory note or pagaré: a device often employed in Mexico as an effective and cost free form of security, providing prima facie evidence of a debt that will be recognised in any legal process.

> Balance security with the need to be competitive

7. Get the paperwork right

Getting your products through Mexican customs quickly and efficiently can be a challenge, and so you need to have a thorough knowledge of Mexican customs clearance procedures – or, rather, engage someone who does: i.e. a Mexican customs broker (MCB). The MCB will prepare the customs entry form – the 'Pedimento de Importation': which the Mexican Customs Office requires to clear the import of goods. As a general rule, this must be accompanied by a commercial invoice containing the place and date of issue, certificate of origin, the name and address of the importer, a detailed description of the goods, and full cost; certain specified products require additional documents. The product description must be in Spanish, English or French – or otherwise accompanied by a Spanish translation.

IMPORTADO

8. Make an impression

Advertising will make your target audience aware of your products and services – but beware: in Mexico, advertising is governed by many laws and regulations. One of the most important is the Federal Law for the Protection of Consumers (FLPC). Among other things the FLPC states that an advertisement must be truthful and verifiable and must not contain anything that would mislead or confuse consumers. Comparing your products and services to those of a competitor is allowed, provided that such comparison isn't deceptive or abusive in the way it is presented.

One reason that Mexican advertising law is quite complex is that it is linked closely to the laws on trademarks, copyright and intellectual property. While a trademark registry can be annulled in Mexico if it isn't used for a period of three consecutive years, advertising can form proof of trademark use. Because of the many legal requirements involved in advertising in Mexico, a foreign supplier should consider seeking legal advice from the outset.

Internet advertising in particular is growing in popularity in Mexico, as it is in many other countries. Mexico currently has over 45 million internet users, and a recent survey led by IAB México showed that 77% of those internet users look at online advertising while 41% click on advertising banners. As ownership of smartphones and tablet computers has mushroomed in recent years, the potential for effective online advertising is growing exponentially.

"Internet advertising is growing in popularity"

9. Don't lose a good customer over a single disputed payment

In Atradius's own experience as a global credit manager, it is not uncommon for debts to be disputed in Mexico. But rather than going straight to court – a move that may permanently mar an otherwise good trading relationship – it is far better to seek an amicable settlement, through either arbitration or mediation.

In mediation, an unbiased third party negotiates with each party to the dispute, to discuss settlement opportunities and facilitate an agreeable solution. In arbitration, disputes are also brought before a neutral third party who, after carefully reviewing all of the relevant information, issues a final decision in favour of one of the parties.

Mediation is generally seen as non-binding whereas an independent arbitrator's decision is binding. Both processes can be conducted in a significantly shorter time and at less cost than court litigation.

Arbitration in Mexico is based on mercantile law. Mediation is conducted by professional organisations such as the Mexico City National Chamber of Commerce (CANACO).

10. Know who you're selling to

When dealing with a new customer, especially in a distant export market, you'll need to be sure that they are who they say they are and have the resources to pay for the goods and services you'll be providing. As a leading credit manager, Atradius provides an underwriting service to its insured clients based on its comprehensive intelligence and constantly updated information on companies across the globe. With a dedicated underwriting operation in Mexico, Atradius can give you valuable insights into a prospective customer's financial strength and stability.

> Be sure they have the resources to pay

A country eager to expand its international trade

"In Mexico, the lack of availability of bank finance to most companies, especially small and medium sized operations, can prove a stumbling block to mutually beneficial trade", explains Atradius country manager in Mexico, Karel Van Laack. "This simply highlights the real importance of supplier credit in a country that is eager to expand its international trade."

"Atradius has a vital role to play in oiling the wheels of trade with Mexico by giving peace of mind to its credit insured clients that in turn allows them to provide much needed supplier credit."

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