



GUIDE TO MANUFACTURING IN MEXICO

How It Works & What to Expect





Several global industries, including automotive, aerospace, medical device manufacturing, and electronics, have been successfully operating manufacturing sites in Mexico as part of their cost-effective manufacturing strategy for several decades.

Mexico is the top trading partner of the United States and has been since 2019.

Global powerhouse brands, such as Ford Motor Co., Toyota, and Samsung, to name a few, stay competitive by taking advantage of Mexico's IMMEX/maquiladora manufacturing model and the benefits it has over manufacturing in China. These include, but aren't limited to, a closer proximity to the U.S., availability of a technically-skilled workforce, and cost savings on operations and shipping.



their operations south of the border. The best way to get a new facility up and running smoothly and efficiently is with the help of a shelter services provider.

Partnering with an experienced shelter provider means manufacturers receive all of the advantages with none of the hassle. But how exactly does the process work and what should be expected?

This guide will take you through the main questions manufacturers have when deciding whether to expand a portion of manufacturing to Mexico. It'll cover:

- » How the Shelter Model Works
- » Understanding the Flow of Goods Between the U.S. and Mexico
- » What's Involved in a Duty Impact Analysis
- » Site Selection and Rent Prices
- » Availability of Skilled Workers, Fully Burdened Salaries, and HR Resources

A shelter services provider saves manufacturers time, money, and headache so they can continue their day-to-day operations without disruption.

HOW THE SHELTER MODEL WORKS



As part of the IVEMSA shelter model, a manufacturing company operates under IVEMSA's existing IMMEX program, which is the fastest, safest way to start operations. Although all manufacturers work under the umbrella of IVEMSA's established entity for legal purposes, each has its own maquiladora with individual facility agreements, labor contracts, and operational guidelines.

After signing the shelter agreement with the selected shelter partner, the first thing to do is sign the lease agreement for the maquiladora. The physical address is key to gathering all of the necessary permits and documents required as part of the compliance process. Some permits are already in place under the shelter, which helps to expedite setup.



In addition to maintaining human resources, handling all administrative departments, and ensuring full compliance with Mexico's regulations. Some of the key initial startup tasks IVEMSA assists with are:

- » Meeting with and selecting U.S. and Mexican customs brokers
- » Producing documentation of raw materials, machinery, and equipment
- » Starting accounting and HR protocols
- » Project management coordination
- » Identifying local suppliers
- » Coordinating the purchase of local supplies
- » Establishing payroll procedures
- » Employee recruiting and hiring
- » Setting up import and export logistics
- » Creating Mexico's accounting files and procedures
- » Connect all utilities
- » Assist with building improvements
- » Secure all permits needed to start operation

Aligning with a shelter services operator is the favored route for the majority of companies because it minimizes risk and reduces costs. Another alternative is setting up a standalone entity, either with the assistance of IVEMSA or independently.

It's important to note that creating a standalone doesn't come with the same legal and trade protection as working with a shelter does. It also takes longer to establish and is more expensive to get up and running. However, manufacturers can still receive the same scope of services (with an extended timeline) by working with a shelter company to help guide and customize a standalone entity plan.



When looking at a side-by-side comparison, it's clear why shelter services are a popular way to go:

- ✓ A shelter company already has an established business license under Mexico's IMMEX program, which allows exemption from VAT (value added tax) payments on temporary imports such as raw materials and machinery. As a standalone without shelter services, a company is responsible for setting up their own entity and is responsible for these taxes. Plus, the application to obtain a business license could take months to get approved.
- ✓ A shelter company secures all required permits, certifications, and all paperwork required by the Mexican authorities; a standalone working independently of a shelter company is responsible for contacting and communicating with each government office to ensure the proper permits and documentation are submitted, processed, and approved.
- ✓ A shelter company has the experience and expertise of working with Mexican customs and understands the intricate nature of importing and exporting goods without delay. A standalone entity is at greater risk for trade compliance, which often accrues hefty fines and project delays.

These are a few of the many ways working with a shelter services partner, either under IVEMSA's business license or as a standalone, can help manufacturers set up operations more swiftly and secure a better peace of mind.

UNDERSTANDING THE FLOW OF GOODS BETWEEN THE U.S. AND MEXICO

Maintaining an efficient flow of goods is one of the biggest disruptors to a manufacturing project. If your company doesn't have experience with Mexican customs, specifically, it can cause a logistical headache when products and shipments are not labeled or scheduled correctly.

Goods are never shipped directly to the maquiladora. There's an initial inspection, where each box/product must be physically counted, properly classified, and match the sheets accurately. This occurs before it ever makes its way to a company's facility in Mexico.

For example, if a customer sends 10 boxes and then adds two more boxes directly to the shipment at the last minute, the paperwork must reflect its contents of the added boxes. If the paperwork only shows 10, is sent through customs, and receives a red light, secondary inspection is required, which may result in a project delay and fines. These fines equal a percentage of commercial value of the products, and the shipment can be held for several days.



When working with IVEMSA, there is a warehouse in the U.S. that typically is own by the selected US Customs broker and here is where an IVEMSA representative will inspect and make sure that all the import documentation is accurate for US and MEX customs clearance. This person(s) creates all paperwork necessary for Mexican customs, organizes what's going to be processed and dropped the next day, and then schedules the pickup.

When dealing with hundreds or thousands of products per day, it can have a negative effect on both production value and actual cost for the manufacturer, if they're not working with a shelter services company. For those that choose to operate as a standalone entity, and since you are operating with a new IMMEX program, initially 80% of your import / export operations will face a "red light" alert indicating secondary inspection, which results in delays.

Due to IVEMSA's strong reputation and reliability when working with customs officials, only 8-10% of trucks is held for secondary inspection at customs, the lowest in the industry.

WHAT'S INVOLVED IN A DUTY IMPACT ANALYSIS

The duty impact analysis is performed by IVEMSA once the manufacturer provides the information needed. This analysis helps to correctly classify for customs purposes all the materials and equipment that will be imported and exported from your operation in Mexico. When this product classification is done, you will know in advance if your materials and finish goods will face any duties or if they will be duty-free. In order to help you with this analysis, we request the following information:

For Finish Goods.

- » Finish Goods Descriptions
- » Finish Goods HTS codes
- » Manufacturing Process Description

This is key to determine if the finished goods that a company wants to build will be paying duties going back to the U.S. or other markets. This can be done on early stages before a company rents a building and decide to come to Mexico but we need to have access to the info needed.

Creating and maintaining an accurate checklist of all products and equipment being imported to Mexico is a lengthy ordeal, which requires time and knowledge of what's needed

and how to achieve it in an efficient and compliant manner.

The checklist includes a HTS tariff classification of the final product. This must identify the official and commercial name of the product, the product's function, how it works, what it does, and how it will be used. A bill of materials with the country of origin of each item is also needed to confirm if your raw materials will face any duties or if they will be duty-free when they are imported to Mexico. To determine this we will need the following information:

- » Raw Material detailed description.
- » Unit of measurement and cost.
- » Country of Origin.
- » HTS tariff classification.
- » Picture of the material.



Additionally, depending on what you are planning to import to Mexico, there are a number of Mexican government agencies that might request additional importation permits and documentation. A partial list of agencies include the following:

- » **The Mexican Tax Administration Service**
(specifically, General Administration of Customs, General Legal Administration, and General Administration of Foreign Trade Audit)
- » **Ministry of National Defense**
Approves permits for imports and exports and inspects goods during the customs compliance process. Their focus is on goods that might affect national security.
- » **Ministry of Finance and Public Credit**
Clears a business importing and exporting goods out of the customs area into the country's Registry of Importers and Exporters
- » **Secretariat of Environment and Natural Resources**
Inspects imports per PROFEPA, the agency in Mexico responsible for environment protection
- » **Economy Secretariat**
Authorizes permits for imports and exports and issues quotas on goods
- » **Secretariat of Energy**
Issues permits required for customs clearance of fuels and radioactive materials
- » **COFEPRIS**
The Mexican equivalent to the FDA in the U.S.

An experienced shelter services provider is already well-versed in the customs compliance process and which organizations are involved. This takes the burden off of the manufacturer from organizing, completing, and ensuring accuracy that everything has been submitted properly and prepped for inspections or audits.

SITE SELECTION AND RENT PRICES

New companies normally have several industrial building options in Mexico. They can lease a building, make a building to suit a lease option, or purchase land and develop their building. This applies for new companies and also for the ones that are expanding. They're categorized as Class A, B, and C.

CLASS A

\$0.68 - \$0.80

USD cents per SQ FT per month

CLASS B

\$0.59 - \$0.67

USD cents per SQ FT per month


CLASS C

\$0.50 - \$0.58

USD cents per SQ FT per month

This is a general overview of space availability and cost. Most buildings are located within gated industrial parks or as secured, standalone buildings. When factoring total estimations during the site selection process, there are other expenses related to the building to consider as well. These include:

- » Maintenance
- » Insurance
- » Property tax
- » Utilities (water service, sanitation, natural gas, electricity)
- » Communications
- » TI or tenant improvements, which are adjustments a company must complete in order to have the infrastructure necessary to run their business



An example of how to estimate the monthly lease rate for a 50,000 sq. ft. "Class A" industrial building in Mexico is:

- » Monthly price per square foot: **\$0.74 USD**
- » Lease rate per year: **\$444,000 USD**
- » Estimated city property tax per year: **\$7,500 USD**
- » Building insurance per year: **\$9,000 USD**
- » Maintenance fee per year: **\$15,000 USD**

\$475,500

Site budgets and considerations should also include building updates and improvements, security measures, and leasing terms.



AVAILABILITY OF SKILLED WORKERS

In the U.S., manufacturers are struggling to find skilled technical workers to fulfill the needs of operating a manufacturing facility.

To meet growing consumer needs and continue expansion, Mexico is becoming an increasingly popular option for manufacturing industries that want to mitigate costs without compromising quality. Nearshoring to Mexico means access to a flourishing trades-experienced workforce at a lower labor rate than the U.S. or China.

Mexico invests in higher education and training in the industrial field. Over 110,000 engineers graduate and enter the workforce every year.

Many vocational schools work with companies and the government to train in engineering and manufacturing roles. The result is a strategic operational solution that allows foreign companies a competitive edge at a more economical rate.

However, with the surge of availability of qualified workers in Mexico comes a rise in competition. In terms of salary, benefits, and promotion timelines, U.S. manufacturers need to be aware of the difference in expectations for its employees in Mexico compared to the U.S.



AND FULLY BURDENED SALARIES

Mandatory benefits in Mexico include:

- » 12 days of vacation increasing 2 days per year of seniority
- » 25% vacation premium
- » 15 days of Christmas bonus
- » I.M.S.S. Service (social security)
- » INFONAVIT (housing credit)
- » Afore (retirement pension)
- » 7 holidays
- » Maternity leave (84 days)
- » Paternity leave (5 days)

On top of these government-mandated law benefits, there are market benefits as well, which often include:

- » Paid days off (separate from vacation days)
- » Minor medical insurance
- » Weekly food coupons
- » Productivity bonus
- » Transportation bonus
- » Cafeteria subsidy

When budgeting for employees, it's crucial that companies don't look at salary alone. Benefits normally make up 40-50% of the total compensation package And include more than just the examples listed above. You also need to add federal and state taxes related to payroll costs.

To attract the best-qualified employees, manufacturers must stay up-to-date with what they offer. IVEMSA can help tailor a compensation plan to be competitive in the industry.



SALARY CHART TOTALS - US DOLLARS

*These salaries apply to a medium to large size operations (150 to 500 employees).

POSITION	TOTAL WEEKLY	TOTAL ANNUALLY	TOTAL MONTHLY	HOURLY RATE
Non-Skilled Operator	302.04	15,706.27	1,308.86	6.29
Semi-Skilled Operator	334.05	17,370.78	1,447.57	6.96
Skilled Operator	394.79	20,529.18	1,710.76	8.22
Forklift Driver	407.10	21,169.42	1,764.12	8.48
Shipping Receiving Clerk	502.47	26,128.19	2,177.35	10.47
Line Leader	463.31	24,092.07	2,007.67	9.65
QA Inspector	360.11	18,725.71	1,560.48	7.50
Maintenance Tech Jr.	466.54	24,260.20	2,021.68	9.72
Maintenance Tech	575.71	29,936.75	2,494.73	11.99
Security Guard	457.09	23,768.54	1,980.71	9.52
Janitor	347.24	18,056.31	1,504.69	7.23
Nurse	661.65	34,405.71	2,867.14	13.78
Doctor	1,469.96	76,437.99	6,369.83	30.62
Receptionist	559.93	29,116.56	2,426.38	11.67
Production Supervisor	1,057.09	54,968.81	4,580.73	22.02
Process Engineer B	1,204.05	62,610.44	5,217.54	25.08
Manufacturing Engineer A	1,661.21	86,382.87	7,198.57	34.61
Quality Engineer	1,470.85	76,484.39	6,373.70	30.64
Quality Supervisor	1,119.81	58,230.11	4,852.51	23.33
Materials Supervisor	1,694.70	88,124.40	7,343.70	35.31
Buyer	1,277.12	66,410.32	5,534.19	26.61
Production Planner	1,439.18	74,837.59	6,236.47	29.98
Production Manager	2,832.48	147,288.89	12,274.07	59.01
Engineering Manager	3,092.23	160,796.02	13,399.67	64.42
Quality Manager	3,059.93	159,116.28	13,259.69	63.75
Materials Manager	2,893.63	150,468.71	12,539.06	60.28
Plant Manager	4,912.45	255,447.43	21,287.29	102.34
27 Employees	\$35,016.73	\$1,820,869.94	\$151,739.16	

*Total Salary Including Benefits: Food Coupons, Vacation, Christmas Bonus, Punctuality Bonus, Attendance Bonus, Saving Fund, Major Medical Insurance, Life Insurance, Transportation Bonus, Cafeteria Subsidy, Profit Sharing Bonus

**Payroll Taxes Included in Calculation: Social Security, Housing Fund, Retirement Fund, Federal Tax, State Tax

HR RESOURCES AND LABOR POLICIES

Another part of strategic planning for operational expansion is investing in human resources. IVEMSA has the experience and expertise to recruit qualified candidates, ensure equitable compensation, comply with local regulations, and provide guidance to help reduce employee turnover.



During the hiring phase, HR services include:

- » Marketing job postings
- » Filing administrative paperwork
- » Conducting background checks
- » Scheduling interviews
- » Direct hiring (when agreed upon)

Once a candidate is hired, a shelter partner also takes on the duties of managing contracts, new hire orientations, generating status reports, and other programs and details that are required as part of onboarding new employees.

A key function is verifying compliance is met and ongoing human resources management is in place. IVEMSA delivers an effective way to maximize time, costs, and resources.



Handling Labor Laws

In addition to recruitment and hiring, manufacturers must be mindful of the differences between Mexican and U.S. labor laws and policies. Failure to comply with local laws and taxes can result in steep, unforeseen costs. Specific compliance penalties may include:

- » Late tax payments
- » Negligence in filing required tax returns
- » Failure to present reports that include payroll data, job information, and employee training to the proper organizations

These shed light on only a few of the problematic scenarios that may arise. The nuances of labor laws and contracts in Mexico is complex, which is why it's beneficial to invest in human resources as part of the initial manufacturing setup.



Maintaining Employee Retention

As part of the human resources umbrella of services, finding a favorable company fit is important when choosing the right candidate, since turnover can be costly and competition is high. When an employee doesn't feel taken care of or is recruited away with a better offer, it could have a detrimental effect on production and employee morale.

Manufacturers must match or exceed the industry standard to avoid the high cost of employee turnover. This may require a change in salary, benefits, or other perks, such as transportation or specialized bonuses that aren't currently offered.



WORKING WITH IVEMSA

When expanding operations to Mexico, there are several moving parts. IVEMSA partners with U.S. and other foreign manufacturers to provide support on all levels, including legal, tax, HR and payroll compliance, recruiting and import / export compliance.

For over 40+ years, we've helped companies navigate the requirements and expectations of what involved to set up and maintain a successful manufacturing presence in Mexico. To learn more about how we can help your company, contact us today to schedule a complimentary consultation.



FOR MORE INFORMATION

Roberto Durazo

VP of Business Development

E-Mail / Correo

robertod@ivemsa.com

Business Development Direct Line

+52 1 (646) 185 1681

MEX

Mexicali Office: +52 (686) 561 67 41

Tijuana Office: +52 (664) 615 7256

USA

1-855-493-1936