



FAST FACTS

Mexican Manufacturing Cost Fact Sheet

RUNNING MANUFACTURING OPERATIONS IN MEXICO CAN SAVE YOU MONEY



For over 60 years Mexico has been a manufacturing center for companies from around the world. The reasons for this are wide-ranging and include:

- » Access to an abundant, educated labor pool
- » A strong pro-business environment
- » Strategic placement of manufacturing facilities to better serve customers with direct access to North and South America as well as Pacific Rim countries

In addition to these benefits, one reason stands out in particular: the need to cut costs in an increasingly competitive global economy.

This Mexican Manufacturing Cost Fact Sheet outlines a number of the potential cost savings for manufacturers who are considering setting up and running operations in Mexico

**THERE ARE 83 MILLION
SQUARE FEET OF INDUSTRIAL
FACILITIES IN THE BORDER
CITIES OF MEXICALI AND
TIJUANA ALONE**

LABOR COSTS

Below is a general outline of **average monthly wages** for typical manufacturing personnel. All numbers are in U.S. dollars.

	Basic operator	\$280	Plant manager	\$6,000
	Semi-skilled operator	\$408	QA engineer	\$2,240
	Skilled operator	\$456	Production supervisor	\$1,440
	Group leader	\$560	Production engineer	\$2,240

As well, productivity in Mexico is generally higher with typically a 48 hour work week (before overtime is required) vs the 40 U.S. hours per week. When compared to overall lower operational costs, the labor rate is an even better value. Thanks to the lower cost of living in Mexico, the labor rate is a win-win for all concerned.

INDUSTRIAL SITE LEASING

While "built-to-suit" undeveloped sites are available throughout Mexico, with the country's long established manufacturing tradition, today there are over 83 million square feet of industrial facilities in the border cities of Mexicali and Tijuana alone. The majority of these are Class A facilities located in either gated industrial parks or secured, stand-alone buildings.

Existing industrial sites are available in A, B and C Classes as described according to NAIOP guidelines. Terms are available from 2 to 10 years and leasing rates range from:

Class A: \$0.33 - \$0.40/sq. ft. **Class B:** \$0.28 - \$0.35/sq. ft. **Class C:** \$0.25 - \$0.29/sq. ft.

Dependent upon the class of building, the sites have building systems (mechanical, HVAC, elevator and utility) have capacities that meet both tenant current requirements as well as anticipated future need or can be upgraded to suit. Tenant improvements can be easily met by abundant providers and guidance is available from all brokers.

UTILITY COSTS

Water service, sanitary, sewer, natural gas, electricity and communications are readily available in all developed areas. In March of 2015, Mexico's Federal Electricity Commission chief executive Enrique Ochoa Reza, said that electricity rates for industrial customers, which were on a par with the U.S, have fallen between 18 and 26 percent over March of 2014 and are slated to continue to fall.

Mexico is also poised to continue lowering, already low, natural gas and oil costs. These utilities are dropping in part due to petroleum auctions that are opening up the energy industry, bringing in an estimated \$62.5 billion by 2018 and increasing annual output by 500,000 barrels a day. This will end the monopoly of state-owned Petroleos Mexicanos, or Pemex since 1938.

Communications systems (satellite, data transmission, telephone lines and internet) are provided by the private sector and offer quality and competitive costs for world-wide connectivity.

The water supply is abundant and continuous guaranteed by the Colorado River with 1,850 million m3 per year. In fact, Mexicali is actually the source of water for a number of cities in the state including Tijuana. And industrial water costs are significantly lower than in the U.S.



30%
TRADE INCREASE

AMERICAN TRADE WITH MEXICO HAS GROWN by nearly 30 percent since 2010, to \$507 billion annually, and foreign direct investment in Mexico last year hit a record \$35 billion.



LOWER OVERHEAD WITH LOCALLY OUTSOURCED SERVICES

Many foreign companies with manufacturing facilities in Mexico choose to operate under a shelter system which provides comprehensive administrative support systems. Others may utilize only certain selected services to meet their needs. Either way, even smaller operations receive the benefit of local experts and cost savings created by economies of scale. Services include:

- » Human Resources recruitment, hiring and retention
- » Payroll
- » Tax and fiscal compliance
- » Import/export services including forms, costs and interface with warehousing and brokers
- » Government and legal compliance

Having a local firm handle a company's administrative operations allows them to tap into networks and resources that assure they are getting the best value for their investment, as well as meeting all local, state and federal regulations.



INVESTMENT INCENTIVES

Both states throughout Mexico and the federal government have a variety of economic incentives for companies wishing to establish manufacturing operations in the country. In the northern border state of Baja California, with Tijuana and Mexicali as its key industrial areas, these benefits can include:

- » **20% Water Connection Fee:** applying companies may receive a 20% exemption for connection to the water and sewer system.
- » **Pay Roll Tax Exemption:** this incentive can be granted from a period of 1 to 5 years and will guarantee the exemption of the State's Payroll Tax, which is 1.8% of all employees payroll.
- » **30% Water Discount on Consumption:** this discount is available for companies that use an in-house water treatment plant to recycle and reuse water within the facility.

From the federal government, qualifying requests can receive:

- » **Becate Training Funds:** Companies can receive support for 1 to 2 minimum wages plus \$20.00 MXN for transportation per worker during training for a two-month period. A company may apply more than once depending on the recruitment results.
- » **Innovation and R&D Funds:** companies qualifying for CONACYT (Consejo Nacional de Ciencia y Tecnologia) funds can receive from 22% to 35% of total amount of their investment.

MEXICO VS CHINA MANUFACTURING: THE COST DIFFERENCE

<h1 style="font-size: 2em; margin: 0;">20%</h1> <p style="font-size: 0.8em; margin: 0;">LOWER LABOR</p>	<p>LABOR</p> <p>As of April, 2015, Forbes reported that "Average manufacturing labor costs in Mexico are now almost 20 percent lower than in China."</p>
<h1 style="font-size: 2em; margin: 0;">4%</h1> <p style="font-size: 0.8em; margin: 0;">LOWER ELECTRICITY</p> <h1 style="font-size: 2em; margin: 0;">70%</h1> <p style="font-size: 0.8em; margin: 0;">LOWER GAS</p>	<p>ENERGY</p> <p>According to a Boston Consulting Group report released in late 2014, "Average electricity costs are about 4% lower in Mexico vs. China and the average price of industrial gas is 63% lower." And as the sweeping 2014 Mexican economic reforms continue to take hold, that cost differential is predicted to widen.</p>
<h1 style="font-size: 2em; margin: 0;">70%</h1> <p style="font-size: 0.8em; margin: 0;">LOWER TRANSPORTATION</p>	<p>TRANSPORTATION</p> <p>In 2014 Investing Daily published an article stating, "The cost of shipping a standard container from China to the US East Coast has risen from just under \$3,000 in 2000 to about \$7,000 today. Over the same period, the cost of shipping that same container from Mexico to the US only has risen from about \$2,000 to \$2,800."</p>
<h1 style="font-size: 2em; margin: 0;">66%</h1> <p style="font-size: 0.8em; margin: 0;">LOWER INDUSTRIAL LEASE SPACE</p>	<p>INDUSTRIAL LEASE SPACE</p> <p>China's typical industrial lease rate is more than triple that of Mexico's.</p>

FOR YOU

Is setting up a manufacturing operation in Mexico the right step for your company? Only you can make that decision. But if cutting costs or moving operations from Asia or the U.S. to a more strategic location is a factor in your growth, Mexico is an option that deserves to be considered. For a more detailed analysis of cost savings in your particular situation, or to see for yourself how Mexico can fit into your cost reduction plans, we can help plan a visit tailored to your specific requirements. **Contact Rebecca Amroian – rebecca@ivemsa.com.**

“We realized that with IVEMSA we would be dealing with not only a highly experienced company, but also with a professional and honest group who reflects our own values and emphasis on integrity. Technically speaking Wonderbar doesn’t exist in Mexico – IVEMSA handles it all. They step in, take over and get it done.”

**RICK MARTINDALE,
PRESIDENT OF WUNDERBAR**



ABOUT IVEMSA

IVEMSA is a comprehensive administrative services provider with nearly 35 years of supporting foreign companies manufacturing operations in Mexico. We offer both shelter and stand-alone support services with a dedicated team of 70 professionals in six functional areas. Many of the IVEMSA team members have been with the company for many years, building and mining the resources and network necessary to provide the smoothest manufacturing operations and shipping possible for companies from around the world. And no matter how the company has grown, the core values of honesty, integrity, hard work and customer satisfaction, remain at the heart of everything IVEMSA does.

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