

A man in an orange safety vest is standing in a factory, looking towards the camera. The background shows industrial equipment and a large green diagonal graphic element.

A BRIEF OVERVIEW

# Manufacturing in Mexico



## Is Manufacturing in Mexico Right for Your Business?

*Considering moving your manufacturing to Mexico? In this brief overview, we examine the major reasons companies open manufacturing facilities in Mexico and how labor rates work in Mexico.*



If you're running manufacturing operations in the United States, you've no doubt heard the potential benefits of offshoring or nearshoring to Mexico, namely the lower labor costs. As of December 2017, the average hourly wage in manufacturing in the US was just over \$21 (source), while in Mexico it was less than \$5. Or maybe you've been offshoring for some time in a country like China, and you've been seeing rising labor costs cut into your profits. In either case, you're wondering if you should move your manufacturing operations to Mexico.

- Does it live up to the hype?
- Are the savings really worth it?
- What about the quality of the finished products?



*Mexican labor laws can be complex – having an experienced HR team is important to ensure compliance.*

## The Truth About Mexican Labor Rates

It's true: companies that move operations from the US to Mexico see the biggest savings in their labor costs. However, there is more to Mexican labor rates than a daily minimum wage of about \$4.70.

### Salary & Benefits

Although as of December 2017, the Mexican labor rate mandated a daily minimum wage of 88.36 pesos, or just over \$4.70 (depending on exchange rates), in the manufacturing sector, workers earn higher wages. The current average daily costs for different types of workers are listed in the table below.

Position	Daily Wage
Basic Operator	\$15-16
Technician	\$42
Engineer	\$100

These numbers include all the mandated benefits Mexican workers receive, which include:

- Vacation time (starting at six days/year)
- Seven paid national holidays (plus Change of Federal Power Day every six years, when a new president is sworn in)
- Christmas bonuses (equivalent to 15 days salary, paid in December every year)

The employer also makes contributions to various government agencies that include the Mexican Social Security Institute (IMSS), the national housing fund (INFONAVIT), the government payroll tax, and others. Just like in the US, Mexican labor laws can be difficult to navigate, which is why it's important to have an experienced HR team, ideally through your shelter provider, to ensure that you stay in compliance.



*Expecting and new mothers enjoy more time off and salary protections than in the U.S.*

## Mexican Shift Work & Overtime

Unlike in the US, Mexican workers must work 48 hours in a week before receiving overtime. Mexican overtime rates are double the usual salary for the first nine additional hours and triple the usual salary after that. Workers in Mexico also receive overtime for working more hours than mandated in their shift. There are three defined work shifts in Mexico:

- The day shift is 8 hours and can be scheduled between 6AM and 8PM
- The night shift is 7 hours and can be scheduled between 8PM and 6AM
- The mixed shift is 7.5 hours and overlaps the day and night shifts (with no more than 3.5 hours between 8PM and 6 AM)

Employers are also required to provide paid meal breaks (30 minutes each shift), so you'll get about 45 effective working hours for every 48 hours paid. It's not uncommon for companies to offer additional break time for workers as well (an extra 10-15 minutes to give people a chance to get some fresh air or eat an extra snack).

## Mexican Labor Laws

Mexican labor law tends to be very protective of the employee. With an experienced HR team, you can be proactive and avoid issues with labor laws, instead of reacting to potential issues as they arise. It's important to have a good understanding of Mexican labor laws before setting up operations and hiring employees so you can plan appropriately.

## Mexican Worker Protections & Allowances

In Mexico, expecting and new mothers are guaranteed more protections than the US. An expecting or new mother can take 84 days off (six weeks prior to delivery and six weeks after delivery) with full salary and benefits covered by IMSS, which means as an employer, you'll need to hire temporary employees to handle the workload of new mothers. New mothers must also be given rest breaks during the nursing period (up to one hour a day for 6 months after delivery). New fathers receive 5 days paid after the birth or adoption of a child.

## Training

According to Article 132 of the Federal Labor Law, employers are required to "provide workers with the training that is necessary to carry out their assigned tasks." Of course, you can reduce training expenses by hiring experienced workers, but providing training increases retention and motivation.



## Severance Packages

Mexico doesn't recognize at-will employment, so anytime you let an employee go, it must be with just cause. The Federal Labor Law has clearly defined what constitutes a "just cause." If you fire an employee for other reasons, that employee can file for reinstatement or compensation, and he or she can be awarded up to 90 days of their salary.

That said, most employers can avoid this payment by having proper documentation when you fire someone. This is again where an experienced HR team that can guide you through the process is indispensable.

## Employment Contracts

There are a few different kinds of employment contracts you can offer in Mexico. Before you even start hiring, you need to clearly state what type of positions you need: full-time, part-time, seasonal, or temporary, for example. Not having the correct contract is a common mistake employers make.

The contract also serves to protect the employer: especially for technical or engineering positions, the employee may guarantee that he or she has certain skills or abilities for the position.



*To help protect yourself as an employer, it's important to clearly state what type of employment contracts you are hiring for.*





*US companies can save 20-30% on labor costs in Mexico.*

## What Are the Advantages of Manufacturing in Mexico?

In addition to the low cost of labor, there are a number of other benefits to Mexican manufacturing you may not have known about.

### Faster, More Cost-effective Delivery

It is dramatically faster and cheaper to get finished goods to the US from Mexico than pretty much anywhere else. This is especially true for companies that manufacture high mix, low-to-medium volume products, as transporting goods in a standard shipping container from China is costly and can take weeks.

### Significant Cost Savings

US companies can expect to save 20-30% on labor costs. Real estate is also less expensive—we typically find rates for a Class A building in Mexico to be comparable to a Class B or C building in the US.

### Skilled Workforce

Over 110,000 students graduate with engineering degrees from Mexican universities and technical schools each year. As foreign companies demanded more and more top talent, the Mexican government—along with those companies—invested heavily in engineering programs, which are now well-regarded and growing in size. This translates to highly skilled workers who produce high-quality goods.

### Flexibility in Production

Companies that need to ramp up production quickly to meet increased demand, or that produce a high mix of products and need to switch up processes frequently, can do so easily, thanks to Mexico's highly skilled workforce and geographic proximity. Benefiting from 12 multilateral trade agreements with 44 countries, Mexico is one of the world's most open countries for international trade.

### Access to US Market

Automotive companies like Kia, Volkswagen, and Mercedes-Benz have set up plants in Mexico to import their cars to the US. Mexico's maquiladora and shelter programs provide significant tax benefits to these foreign companies. Companies headquartered in the US will see cost savings through those programs as well.



*US companies can operate under a “shelter” to help navigate risk.*

## What Are the Potential Challenges of Manufacturing in Mexico?

Of course, moving operations to another country is a significant undertaking and still poses some challenges and a learning curve. Here are some things to keep in mind as you consider moving your manufacturing to Mexico.

### Local Laws, Regulations, & Legal Risk

Navigating US business laws is challenging—navigating an entirely different set of laws in another country may seem overwhelming. Luckily, in Mexico you can operate under a “shelter,” which means your company won’t have a legal presence in Mexico. Your shelter provider will assume all legal liability and will help you navigate everything from labor laws to obtaining permits to the import/export process. If you do set up your own legal entity in Mexico, make sure you have a full understanding of local regulations, or work with consultants in Mexico that specialize in helping foreign businesses set up operations.

### Cultural Differences

One of the attractions of doing business in Mexico is that its Western culture is relatively similar to the US, but you should still be aware of some key differences. For example, US companies often find there are differences in communication styles. With our clients, we’ve learned it helps if the plant manager is a Mexican national who’s worked for US companies before. He or she will be able to help US employees communicate well with the Mexican workers and vice versa. A good shelter provider can help you navigate these cultural differences.

### Misconceptions of Corruption & Bribery

While some clients express concerns about corruption and bribery, in reality, these are not an issue in the manufacturing sector. The national and local governments in Mexico have been cracking down hard on corruption to change Mexico’s reputation. Companies that work with an IMMEX or maquiladora permit are highly regulated, and these regulations are set up in a way to prevent bribes.



## What Types of Companies Can See the Most Benefit?

Most of the time, you hear about major companies like Ford, Bombardier, Cessna, and Honeywell manufacturing in Mexico. Undoubtedly, the low cost of labor and real estate is one of the primary attractions for these companies.

In addition to taking advantage of the lower costs in Mexico, larger corporations often look to tap into Mexico's growing supply of top engineering talent and shift design or R&D to the country. They can also put themselves in a position to do market research and sales as they move to emerging markets.

However, while it's easy to think setting up manufacturing operations in Mexico is only appropriate or available for large, multinational corporations, that isn't the case.

Smaller companies or start-ups also look for ways to lower costs as they refine their production processes. This is especially appealing if your manufacturing requires technical workers, like welders, machinists, or CNC operators—Mexico's lower wages, compared to the US, means significant cost savings as the company grows and develops. Mexico has industrial facilities for companies and production output of any size.

***Want to know what manufacturing in Mexico would look like for your company? Get in touch with us for a complimentary consultation today.***



*In Mexico, smaller companies or start-ups can save money while refining production processes.*





## Is Mexico Manufacturing Right 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 for your operation, 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 us to schedule a consultation.

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## 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 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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