



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Nearshoring Manufacturing and De-Risking Global Supply Chains

Part 4: Transitioning Manufacturing into Mexico

Transitioning manufacturing and potentially a supporting supply base into Mexico can be a complex process, but it can also be a strategic way to reduce dependency on suppliers in Southeast Asia and mitigate the associated risks. Mexico is a large region offering many strategic options catering to industry, labor and infrastructure needs for a manufacturing operation. It is important to identify, evaluate and assess various regions across Mexico to determine the location that best meets the operating criteria for your business.

Below are some key factors and measures to consider as you evaluate and assess your nearshoring entrance strategy:



Logistics and Infrastructure

Evaluate the logistics costs, availability of established transportation carriers and supporting infrastructure in Mexico. Factors like transportation networks, distance to your target markets, distribution centers as well as import/export procedures and costs all play a role in determining shipping lead times and the optimal strategy.



Manufacturing and Supporting Supply Chain Capability

Reduce your reliance on overseas suppliers by establishing new partnerships with local manufacturers. This may involve visiting potential manufacturers and supporting supplier location(s) to assess their operational capabilities, capacity, engineering/technical strength, quality management system (QMS) and ability to scale with future growth. Successful nearshoring strategy and transition involves selection of the primary manufacturing partner with a built-in supporting supply chain base to provide raw materials and components.



Workforce Availability and Training

Assess the availability and capability of skilled labor in Mexico for your specific production needs. Availability of skilled labor for your specific industry across various regions may present gaps. Evaluating and identifying gaps in the desired labor plan and skill profile is a key step in the planning process. Closer proximity to existing North American operations facilitates the support of training and programs to bridge any skill gaps more easily.



Capacity Availability and Production Asset Base

It is critical to assess potential manufacturing partners' and supporting supply chain's available capacity (labor and machine) and equipment asset base to produce and meet quality standards for the desired product. Developing a detailed product transfer plan is key to identifying potential gaps to support planned volumes, expected production rates and catching capacity for required primary and secondary equipment, including suitability for proprietary tooling/specialized manufacturing processes. Building out a robust product transfer plan is a key enabler for successful nearshoring production.



Quality Control and Product Qualification

Maintaining your quality management systems and manufacturing and control standards are paramount to the successful transition process. A plan for every part and comprehensive inventory of production standards, bill of materials, tooling/fixture drawings, quality control requirements, and packaging specifications are critical elements to satisfy and meet customer requirements for qualifying products at a new manufacturing location. This may involve working closely with Mexican suppliers to ensure they have the required quality management systems and processes to meet your product specifications, qualifications and requirements.



Regulatory Compliance

Ensure that you thoroughly understand and comply with all Mexican regulations related to your industry as well as labor laws and environmental standards. Noncompliance can lead to costly delays and disruptions.¹



Intellectual Property Protection

Understand and comply with Mexican intellectual property (IP) laws to safeguard your designs and technologies.



Political and Economic Stability

Evaluate the political and economic stability of the targeted regions in Mexico to mitigate potential risks associated with safety, social unrest, currency fluctuations or changes in government policies.

The political and economic stability of Mexico's regions vary. Evaluate potential risks in safety, social unrest, currency fluctuations and changes in government policies.



Cost Analysis

Conduct a thorough cost analysis to compare production costs at your previous location and Mexico. Cost comparison should factor in required staffing (hourly and salary), labor cost differentials, productivity impacts, fixed costs, leases, raw materials, components, packaging, transportation, duties and any one-time costs or investment required to onboard or stand up a manufacturing partner.

By carefully considering these factors and measures, you can develop a strategic plan and entrance strategy for transitioning your manufacturing to Mexico. This can help you create a more resilient supply chain and lessen your dependence on further-away locations as a sole source of production.

¹ Emily Benson and Gloria Sicilia, "A Closer Look at De-Risking," Center for Strategic and International Studies, December 20, 2023, <https://www.csis.org/analysis/closer-look-de-risking>.

At Alvarez & Marsal, our professionals have extensive experience in evaluating global supply chains, identifying risks and alternatives, quantifying costs and benefits, and implementing solutions.

Contact us to find out how we can assist you.



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