



SMARTER PERSPECTIVE: OPERATIONAL EFFICIENCY

Market Nuances and Unique Challenges Face Companies That Nearshore in Mexico

By Jan René Aguirre

This is the first in a series of articles addressing the numerous benefits and distinct challenges associated with the nearshoring of business operations within the country of Mexico.

In recent years, more and more companies have been choosing a nearshore option for certain operations, and Mexico has become a premiere location for such efforts.

THE GROWING APPEAL

Several factors are contributing to this increasing trend. Primary among these is Mexico's proximity to the U.S., reducing travel time, associated costs, and making it easier for teams in both countries to collaborate efficiently. Mexico also provides both labor cost and operational expense savings that can provide companies with a distinct advantage over competitors.

The country has dedicated significant resources to develop its skilled workforce over the past decade and has established a growing pool of professionals across numerous industries ranging from IT and manufacturing/ production to customer service. Not surprisingly, this has become increasingly attractive to companies looking for talent with expertise in specific

domains at both lower cost and in close proximity to their U.S. teams and facilities.

Additionally, it is also important to note here that Mexico has a network of trade agreements, including the United States-Mexico-Canada agreement, which are very favorable and supportive of open trade, and reduce numerous barriers for companies operating in the region. Furthermore, the country's investment in developing a modern infrastructure, including technology parks and state-of-the-art business hubs/centers, is proving highly appealing and beneficial to the needs of companies seeking to nearshore. Mexico has a high cultural affinity with the U.S., sharing numerous similarities which tend to lead to better communication and understanding between teams. Shared time zones also facilitate real-time collaboration.

Presently, there are three primary industries that are benefiting most from what Mexico has to offer as a nearshoring location. The first of these is manufacturing. Mexico has become a hub for manufacturing operations, especially in the automotive, aerospace and electronic sectors. The second is the information technology (IT) sector, which is undergoing significant growth

in Mexico, as many companies continue to outsource software development, support, and other IT related functions to the country. And the third is the customer service industry. More and more companies, particularly those in the service industry, are now choosing to nearshore their customer service operations to Mexico based largely on the language skills of workers and the benefits associated with the cultural affinity factors we referenced earlier in this article.

RECOGNIZING AND ADDRESSING THE CHALLENGES

Our team at Hilco Global Mexico works with many U.S. companies that shift some portion of manufacturing or service-oriented operations to Mexico and as a result is very much aware of the types of challenges these companies encounter when doing so.

Right out of the gate, we see many new entrants that lack an understanding of the distinct market dynamics in Mexico that will impact their efforts and ultimate outcomes. While not surprising, this can be highly detrimental. Understanding economic conditions and the regulatory considerations that can work in a



business' favor or to its disadvantage in Mexico is very valuable when it comes to making informed decisions about asset acquisitions and dispositions, among other things.

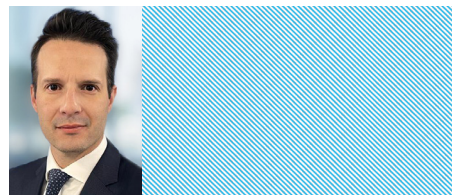
Engaging in proper due diligence before acquiring assets or even establishing operations in Mexico is a nuanced undertaking which, as in other global markets, is essential in assessing the benefits, value condition and potential risks. These helps companies make informed decisions and understand the financial implications of their investments.

We find that businesses need local knowledge, connections and expertise to help ensure a successful trajectory by effectively:

1. Conducting detailed and certified appraisals of various assets such as manufacturing equipment, real estate, inventory or intellectual property
2. Implementing locally appropriate practices for managing that inventory to help optimize stop levels
3. Developing appropriate strategies for supply chain operations that are suitable to the distinct aspects of the Mexico market

Because of the legal and financial nuances associated with real estate and other holdings in Mexico, tapping into this type of local "know who and know how" is highly relevant for

companies acquiring or investing in these assets as part of their nearshoring strategy. In particular, assessing the value of properties while conducting market analysis and executing profound due diligence regarding the state of those properties and their environmental implications is key to a smooth transition into the Mexico market. Similarly, having



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Jan René's dynamic 15+ year trajectory in Investment Banking, Strategic Management, and Entrepreneurship, is marked by significant roles at Citi, VACE Partners, and Hilco Global Mexico. Starting his career at Citi as a Financial Analyst, Jan René played a crucial role

locally-informed financial advisory insights can help companies better understand cost structures, potential areas of savings and market tailored financial strategies.

We often refer to our work in addressing the factors above and others for companies entering the Mexico market as engaging in the "tropicalization" of their business operations as a means of guiding a path toward the most optimal outcome when nearshoring in our country. We'll discuss more aspects of this process across various types of business endeavors, starting first with our thoughts on M&A activity, in a series of upcoming articles. In the meantime, if our Mexico-based team can assist you with any current efforts or help answer any further questions on any of the topics raised in this article, we encourage you to reach out to us today. We are here to help. *Estamos aquí para ayudar.*

in landmark transactions, including the OMA IPO, mastering financial valuation and deal structuring. As Vice President at VACE Partners, he led high-stakes M&A deals, notably the Grupo Financiero Interacciones/Banorte Merger, showcasing his strategic acumen and contributing to the firm's recognition with the 2017 "Global M&A Network Deal of the Year award."

Jan René's entrepreneurial spirit is evidenced by his founding of Aceros Impulso, where he spearheaded sales strategies to achieve impressive growth despite market challenges. He also founded Proambi, a pioneer in e-waste recycling in Mexico, where he showcased his ability to lead, innovate, and expand business horizons. With an MBA from Instituto de Empresa, where he graduated with Honors, and a Bachelor's from Universidad Iberoamericana, Jan René combines strategic vision, financial expertise, and leadership to impact the financial sector and beyond, continually striving for excellence in every endeavor.