

OVERVIEW OF THE MEXICAN DISTRIBUTION SYSTEM

Mexico's distribution system is characterized by a unique mix of traditional and modern methods. Traditional methods include small retailers who go out at dawn to visit *la central de abastos*, central market, and carry their purchases back to the store. They also include complex multi-layered systems of distributors and sub-distributors, based on personal and family contacts. Some intermediaries such as tailors and auto mechanics take their customers to retail stores to pick out materials and parts. In general, these methods seek to minimize inventories and other distribution risks. This contrasts with more modern distribution methods which seek to manage those risks by moving the product smoothly from the factory to the store shelf or end user, arriving "just-in-time."

As Mexico's economy has adjusted to the sweeping economic reforms of the past ten years, there has been increasing demand for integrated national distributors who can deliver those kinds of services. This is especially true for imported goods, which are relatively expensive and must reach a select clientele. Many large US-based retailers and wholesalers have formed joint ventures with Mexican retailers to bring state-of-the-art electronic inventory control systems to Mexico. In addition, the number of layers in the distribution process has begun to fall.

This process was hastened by the sudden devaluation of the peso in December 1994. Within a few weeks, the peso lost half of its value, leaving many distributors and wholesalers of imported goods with dollar payables and peso receivables. Many of them went out of business. For the most part, this amounted to culling weak players who would not have survived trade liberalization. The more sophisticated distributors found ways to survive the crisis. Some of them quickly switched to cheaper domestic products as a means of retaining their customer base until import markets recovered. Some made deals with foreign suppliers to move into other Latin American markets with Mexico as a base. And some received help from foreign suppliers in the form of extended financing, temporarily reduced prices or technical assistance.

For example, one Mexico City lumber importer found itself in dire straits when the construction industry came to a sudden standstill within days of the devaluation. Its solution was to hire an engineer and a pest-control specialist, both from Canada, for two months. These experts inspected previous projects which had used wood from the Mexican importer. Many of the sites required repair or maintenance and the Canadians gave advice about restoration techniques that were not well known in Mexico. They trained Mexican personnel to do the work.