Customer Profile — Cone/CIPSA

Integration and foreign investment

Compañía Industrial de Parras, S.A. (CIPSA), is Mexico's leading denim producer. In 1994, *CIPSA* formed a joint venture with *Parras Cone de México (Cone)*. *CIPSA* considered a variety of potential partners which could provide technology, access to foreign markets and capital. Cone, an American company based in Greensboro, North Carolina, provided the best fit. *CIPSA* contributed an understanding of the Mexican market, established customers and a garment manufacturing capability.

CIPSA will market all of Cone's products in Latin America, exclusively in Mexico; Cone will market *CIPSA's* products world-wide. An important element is the Mexican company's involvement in garment production through *Prendas Parras*. Production will increase when their new plant, *Prendas Textiles*, comes on-stream. It will have washing facilities to handle 18,000 units per day as well as a variety of finishes. Its modern effluent-treatment facilities will make it one of only three Mexican apparel plants with washing operations that can export under the North American Free Trade Agreement (NAFTA) guidelines.

The new factory, *Prendas Textiles* has nine computerized cutting tables (CKA systems) that can handle 64-inch finished fabric widths. In addition, most of the sewing equipment is supplied by Union Special and Juki. The company has introduced modern systems to train workers to use this equipment.

Cone and *CIPSA* are contributing 40 percent of the new capital in equal shares. The remainder was borrowed from international and Mexican institutions.

Mexico's employment laws are partially responsible for this fragmented industry structure. The laws impose onerous burdens on employers when an employee is laid off or terminated. There is a costly severance pay provision, and employees continue to be paid during temporary lay-offs. As a result, many larger firms subcontract work to small, family businesses. These micro-firms will often cut prices rather than suffer cut-backs in employment.

Nonetheless, increased competition is motivating trends both towards vertical integration and foreign ownership. Textile production is much more capital intensive than apparel manufacturing, so textile producers face greater challenges from open competition. They need to modernize and improve product quality, but are hard-pressed to find the capital they need. One solution is to initiate joint ventures with apparel manufacturers. Such integration moves the textile producer closer to the market, and the wider margins enjoyed by clothing products create a source of financing for modernization.

For their part, apparel manufacturers, faced with poor-quality domestic supplies, are increasingly entering into joint ventures with textile firms. Many of the textiles companies that have integrated downstream are those which specialize in cotton knits and which now make T-shirts and underwear. This includes *Avante Textil*, *Omnitex*, *Yasbek*, *Rovitex*, *Textiles Santa Julia*, and Sara Lee. Other notable integrations include:

- *GFT Mexico*, which produces fabrics through *Rivetex*, manufactures men's suits through *Confitalia* and sells through its own *High Life* retail outlets;
- *Parras*, a producer of denim, now manufactures jeans;
- *Romatex*, which makes wovens, produces men's pants; and
- *Celulosa y Derivados* (*CYDSA)*, Mexico's largest acrylic fibre company, now manufactures high-quality acrylic sweaters and blankets.

Apparel Production Areas

Northern Mexico

Most of the factories in northern Mexico are *maquiladora* operations producing for the U.S. market. The largest categories of apparel produced in this region include jeans and intimate apparel. Nuevo León is home to a sizable and diverse Mexican-owned garment industry.