

## MEXICAN SUBSIDIARY CONNORS BROS. LTD.

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The company's principal distributor is a major force in the Mexican retail food industry, with 16 warehouses and the financial strength to carry the product. It has a staff of 580 sales people and 200 promoters. This is an issue for companies selling into the Mexican retail food market because competition for shelf space is much more intense than in Canada. As well, the US commissions on distribution are higher than in Canada and the US to cover the higher levels of personnel required to ensure that products are both placed and treated properly in the store.

Rubén Acevedo, administrative manager of *Brunswick de México*, says that market objectives must determine the type of presence to establish in Mexico, regardless of the type of management style the company would prefer to follow for other reasons. In *Brunswick's* case, he says, the intention to take on the national market was the determining factor. "If you plan to sell heavily, establish your own offices; if not, try another alternative."

He also noted that physical distribution is the most pressing problem, and that promotional efforts on behalf of exporters should be directed at the distributors and retailers rather than with the end consumer. "Quality and flexible pricing sell themselves," he said, "but regional presences are important if all the large retail/supermarket chains are to be stocked."

Mr. Taddeo adds that Connors Bros. does not perceive itself to be simply an exporter into the Mexican market. They see themselves as a locally-engaged Mexican company that imports some product and also ships Mexican product to other parts of the world. But he suggests that this approach may differ from market to market. This is because Connors Bros. is deeply involved in the market and understands its intricacies. This fact, rather than simply sending product to a market and letting others handle it, has been central to the company's success.

Since the need to provide service is usually part of the motivation for this approach, Mexican subsidiaries usually include technical personnel as well as sales staff. Warehousing operations can also be maintained, simplifying the logistics of importing and distributing. More specialized products may be shipped directly from Canada to the customer, under the coordination of the Mexican office.

A Mexican office has the advantage of providing a visible local presence, demonstrating a long-term commitment to the market. It allows for better customer service, especially for high-technology products. It makes it more feasible to set up showrooms and demonstration equipment. It can also facilitate communications, since Mexican agents are not always skilled in using the latest technology.

The disadvantage of setting up a Mexican subsidiary is high fixed costs. This method is appropriate mainly for products with a substantial expected sales volume. Many companies test the market using distributors or agents before they make this commitment.

Establishing a sales office in Mexico does not necessarily involve direct sales to end users. Some companies handle their own importing through a local office and then sell through distributors or wholesalers. Others use an agent to handle imports and use their local office just to provide service. These methods allow the Mexican office to focus on needs that may not be adequately handled by Mexican associates or partners, while still taking advantage of their other abilities.

Setting up a Mexican subsidiary is fairly straightforward, although the labour regulations in Mexico can be complex. Mexican law makes it difficult to terminate employees, and they are entitled to mandatory profit sharing. In addition, Canadians who work for a business with a permanent establishment in Mexico will be taxed in Mexico. Moreover, Canadians are protected from double taxation under a tax treaty between Canada and Mexico. These issues are discussed in detail in the publication *Key Legal Aspects of Doing Business in Mexico*, which is part of the Department of Foreign Affairs and International Trade (DFAIT) *Export i Mexico* series and available through the InfoCentre.