6. Market Entry Strategies

Canadian companies that wish to enter Mexico's growing auto parts market have a number of hurdles to overcome. The most obvious are the differences in language, culture and ways of doing business but, equally important, are the adaptation of the product to the Mexican market and its presentation in a way that appeals to Mexican consumers. All this must be accomplished without the benefit of some of the modern communications methods that are taken for granted in Canada and the U.S.

The first step is to choose from several possible market entry strategies. The simplest approach is to sell either directly from Canada to Mexican purchasers, or indirectly through Canadian distributors. However, most successful Canadian companies have found they need a permanent presence in Mexico in order to present their product by the best possible means.

Agents and Distributors

The most common method of moving into Mexican markets is for the Canadian company to enter into an agreement with an agent or a distributor. The difference between an agent and a distributor is the level of responsibility involved. An agent acts on behalf of the Canadian company and has the power to make binding agreements. This carries with it a responsibility to always act in the interests of the company. It is essential, therefore, to find an agent who has no conflicts of interest, and to spell out in the agency contract the precise limits of the agent's powers and responsibilities. Some Canadian companies hire Mexican employees to function as agents.

A distributor, on the other hand, acts on its own account. A distributor cannot bind the Canadian supplier, and exercises a great deal of discretion over how the goods will be re-sold. Typically, the distributor takes title to the goods, but they may also be handled on consignment. Distribution contracts may set specific limits on prices, geographic areas covered and competing products. Contracts may also include provision for customer support and warranties, but unlike the agency contract, there is no general obligation on the distributor's part to act in the best interests of the Canadian supplier.

Co-Manufacturing

Some Canadian companies enter the Mexican market through co-manufacturing arrangements with local producers. The product is manufactured in Mexico using some combination of design, technology, materials or components supplied by the Canadian partner. Terms of the agreement can range from simple toll manufacturing, whereby the Mexican partner does the work for a fee, to joint ventures where both partners share the risks.