What Partnering Can Achieve

Why Canadians Form Partnerships in Mexico

Reducing risk or sharing financial burdens are seldom sufficient reasons to enter into the complexities of a partnership. There are several other good reasons for the intensification of partnering activity in Mexico by Canadian small- and medium-sized enterprises (SMEs).

- Canada has only a few large firms in each sector. In some industries, such as mining or telecommunications, there are only one or two firms which can afford a prolonged investment in the market.
- In many industries, smaller Canadian firms are customized producers of small batches; they usually work in close cooperation with clients located in Mexico. These companies cooperate effectively on technical projects and are better able to formalize agreements with suppliers, clients and competitors.
- Partnering is essential for SMEs in markets characterized by rapid technological change, the overnight entry of new competitors and rapid product obsolescence.
- Mexico is an emerging market in need of almost everything. The current economic downturn in Canada and the U.S. and the opening up of the Mexican market have attracted Canadian firms.
- Mexico is seen as a launching pad from which to penetrate emerging markets throughout Latin America.
- Mexico complements Canada's economy in many ways. Mexican partners enhance the comparative advantage already enjoyed by Canadian companies in the Mexican market.

Most Canadian firms seeking to take advantage of the opportunities emerging in Mexico, especially under NAFTA, will follow the route of direct exporting. As noted in the two previous chapters, exporting usually benefits from the services of a local agent or distributor who is familiar both with your product and with the Mexican market for that product. It should be noted, however, that some internationally active companies go beyond agency agreements and use various other forms of partnering, sometimes called strategic alliances, to complement and enhance their export efforts.

Partnerships can help to overcome the many challenges of doing business abroad. Barriers impeding entry into foreign markets may include cultural factors, corporate concentration, unfamiliarity with consumer tastes, or government regulation of foreign ownership. A local partner can complement a company's capabilities, providing the expertise, insights and contacts that can spell out the difference between success and failure.

For their part, domestic companies welcome the interest of foreign partners. Such arrangements allow them to extend their horizons, learn international business techniques and gain access to other markets. A well-structured partnership offers concrete benefits to both sides, often translating the synergy gained into a competitive advantage that will help them survive in today's global marketplace.

- Each company focuses on what it does and knows best.
- The partners share the risk and therefore minimize the consequences of failure.
- Partnering extends each side's capabilities into new areas.
- Ideas and resources can be pooled to help both sides keep pace with change.
- Even small firms can use partnering to take advantage of economies of scale and achieve the critical mass needed for success.
- Through partners, a company can approach several markets simultaneously.
- Partnering can provide a firm with technology, capital or market access that it might not be able to afford or achieve on its own.

Partnering abroad can be used to support an export-based business strategy by offering a variety of ways in which the Canadian firm can penetrate the Mexican market. In the United States, for example, more than half of the fastest-growing manufacturing companies use various forms of partnering to enter foreign markets. In the service industry, this figure is close to 100 percent. In addition to exporting, companies are penetrating foreign markets through joint ventures, consortial arrangements, co-production or co-marketing agreements, mergers, acquisitions, and even greenfield investment.

In an economy that is changing as quickly as Mexico's, a successful export drive will not in itself assure the Canadian firm of a long-term position. For the firm that thinks beyond the immediate sale, an ongoing relationship with a Mexican partner and a local presence can provide the Canadian firm with a window from which to follow market trends and satisfy emerging demands. It