

CO-MANUFACTURING

AMPTech

AMPTech is a Canadian company specializing in contract manufacturing of enclosure systems for telecommunication and electronic products. It was established in 1967, and does business throughout the US and Canada as well as Mexico. The company recently merged with an American company, Triquest Precision Plastics, which does similar work in the United States.

AMPTech moved into the Mexican market several years ago with a co-manufacturing operation called Phoenix International in Guadalajara. As a result of the recent merger, Phoenix has been spun off as a separate company affiliated with the Triquest group, but still maintains close relations with AMPTech. The two companies share information, technology and, in some cases, equipment.

Guadalajara is a centre for high technology and electronics manufacturers, some of which had been AMPTech customers in Canada and the United States. Geoff Shorten, vice president of operations at AMPTech, describes Guadalajara as a "hotbed" of potential clients, all looking for reliable suppliers who can guarantee precision plastics products.

Communication between partners in Canada, Mexico and the US is critical to this type of operation. Senior AMPTech and Triquest officials visit Mexico frequently, and Mr. Shorten notes that at any given time there is someone from Canada or the US on rotation through the Mexican operations. Face-to-face relationships are important in the Mexican way of doing business. Communications are done by telephone and fax, but e-mail is rarely used, and Mr. Shorten says that it would be rare to discuss really important issues on the telephone. In these circumstances, it is better to go down for a face-to-face meeting, even if the meeting is very short. This is expected behaviour in the business community in Guadalajara, which is a tightly knit community, where personal relations are important.

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Direct-to-retail sales have diminished as a result of the devaluation. Most of the large supermarkets and department stores are trying to streamline their delivery networks by dealing with fewer suppliers. Another factor is the desire to reduce currency risk, which is inherent in dealing directly with foreign suppliers.

Another characteristic of retail goods is that advertising plays an important role in the market. Except for private brands, retailers generally expect this to be done by the supplier. In many cases, new products are introduced through point-of-sale demonstrations. Promotion and advertising has a high cultural content, and Mexican associates who are familiar with the market are essential.

For these reasons, agents and distributors are the most common method of distributing retail goods. If the product is unique or requires special promotion efforts, an agent is probably more effective than a distributor. An agent can work with more than one distributor to ensure coverage of targeted regions. Multiple distributors may also be needed for products which target both retail and intermediate markets. Alternatively, the Canadian supplier may deal with a distributor, but independently promote the product with retailers. This requires a substantial Mexican presence.

INTERMEDIATE GOODS AND RAW MATERIALS

Mexican manufacturers and processors import large volumes of raw materials, either because domestic equivalents are unavailable in sufficient quantities or because the quality of the domestic product is inadequate. Many of these products are commodities, where quality can be judged by technical specifications and hence, brand preference is not an issue. But predictable delivery is essential since the products are inputs into the customers' production process. Flexible pricing and reliability of supply are, therefore, the key requirements of the distribution system. Some bulk commodities such as newsprint, petroleum products and grain are sold directly to government agencies or large private users. For example, *Productores e Importadores de Papel S.A. (PIPSA)* buys Canadian newsprint, and *Petróleos Mexicanos (Pemex)*, the national oil company, buys Canadian mineral fuels. Otherwise, agents are the most common method because they deal directly with the end user.

Some intermediate products are custom-made for each client, requiring a close technical relationship with the buyer. Others are high-volume, low-value raw materials where shipping costs are a constraining factor. In both cases, some companies have elected to set up manufacturing facilities in Mexico, either on their own or as part of a joint venture. This gives them the advantage of Canadian technology combined with relatively low production and shipping costs, as well as direct access to the customer.