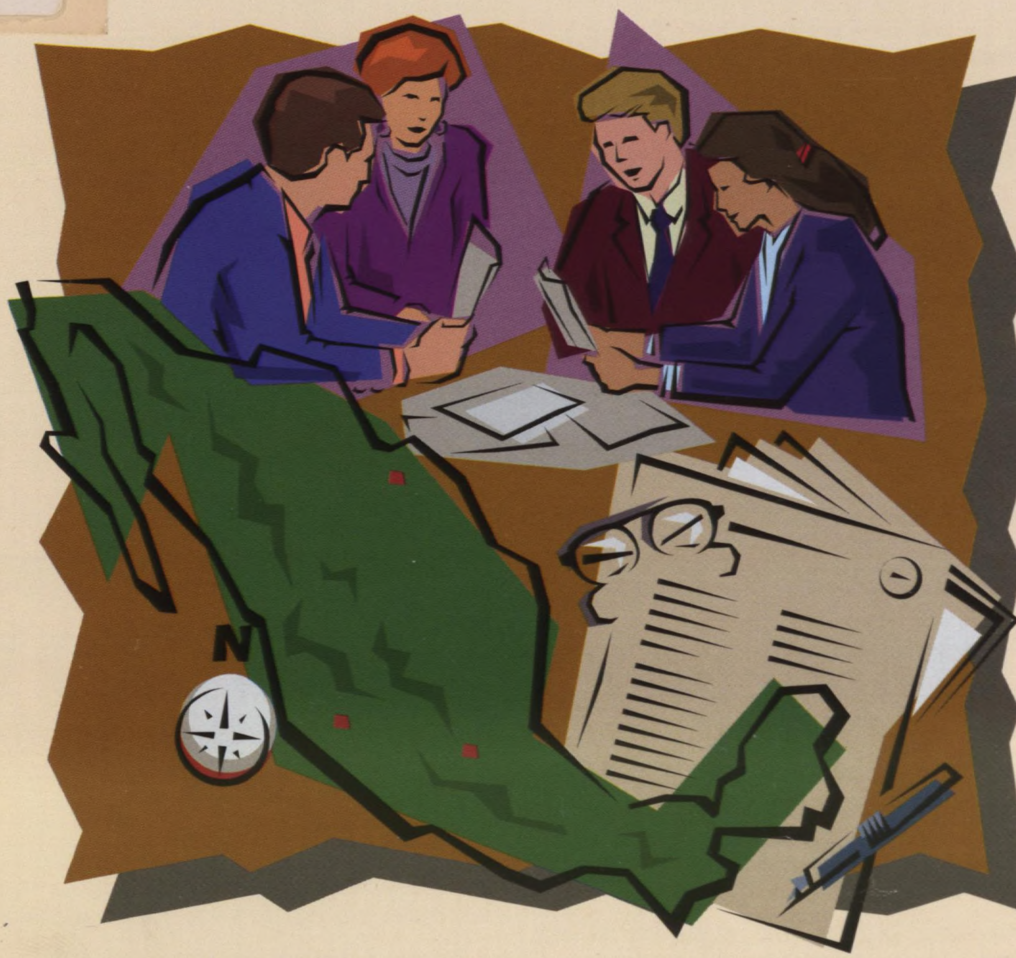
Canada



HOW TO PARTNER IN MEXICO

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
Latin America & Caribbean Branch

BAKER & McKENZIE

BUSINESS GUIDE - MEXICO

Business Guide – Mexico

How To Partner in Mexico was developed jointly by the Department of Foreign Affairs and International Trade (DFAIT) and Prospectus Inc. It was researched and compiled using several previous publications released by Prospectus Inc.. This market profile was made possible through the support of the Toronto office of Baker & McKenzie.

This market profile is designed to provide an overview of the range of approaches for partnering in Mexico. Although efforts have been made to avoid errors and inaccuracies in this document, it is not intended to be used as the only source of market information on this sector. We encourage the reader to use this publication as one of several resources for commercial dealings with Mexico.

Any errors, omissions or opinions found in this market profile should not be attributed to the Government of Canada nor to Baker & McKenzie. Neither the authors, the publishers nor the collaborating organizations will assume any responsibility for commercial loss due to business decisions made based on the information contained in this book.

Catalogue No. E73-9/54-1995E
ISBN 0-662-23822-2

Published by Prospectus Inc.

Printed in Canada.

Disponible en français.

BUSINESS GUIDE:

HOW TO PARTNER IN MEXICO

Export MEXICO

From Baker & McKenzie, Barristers & Solicitors

With more than fifty offices in 27 countries, Baker & McKenzie is the largest law firm in the world. In Mexico, the firm has had a very significant presence since 1961. In Mexico City, the firm operates locally under the name *Bufete Sepulveda* and in all other locations in Mexico the firm is known as Baker & McKenzie. The firm currently has offices in the cities of Juárez, Mexico City, Monterrey, and Tijuana, with expansion plans to the other growing industrial regions in Mexico. A substantial percentage of all foreign companies establishing operations in the *maquiladora* regions have retained the services of Baker & McKenzie to assist them in all aspects of their endeavours in this regard.

The lawyers of the firm combine expertise in Mexican law with an understanding of the business environment and governmental process in Mexico. The firm enjoys an excellent reputation in business and government circles as one of the leading Mexican firms dealing with international and domestic business transactions. The lawyers from the four Mexican offices regularly meet with their Canadian counterparts to discuss coordination of business activities in the North American context and to encourage trade and investment activities between Canada and Mexico. Partners of the Mexican offices serve on a number of domestic and international bodies as representatives of both national business organizations and the Mexican government. Partners of the Mexican offices regularly advise the Mexican government on international business matters including the recent NAFTA negotiations.

The Toronto office, in existence since 1962, is an integral part of the North American practice of the firm which includes nine offices in the United States and four in Mexico.

The areas of firm's expertise in Canada and Mexico include:

- Administrative Law
- Banking and Finance
- Corporate and Commercial
- Customs
- Environmental Law
- Foreign Investment and *Maquiladora* Law
- Health Law
- Immigration
- Intellectual Property
- International Trade
- Labour and Employment Law
- Real Estate, Tax and Transportation
- Tax Law

The Baker & McKenzie offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand business activities in Mexico. Whether a company's objective is to raise capital, establish a joint venture or strategic alliance, or begin exporting to the Mexican market, Baker & McKenzie offers a coordinated approach to ably facilitate entry to the Mexican market.

Baker & McKenzie

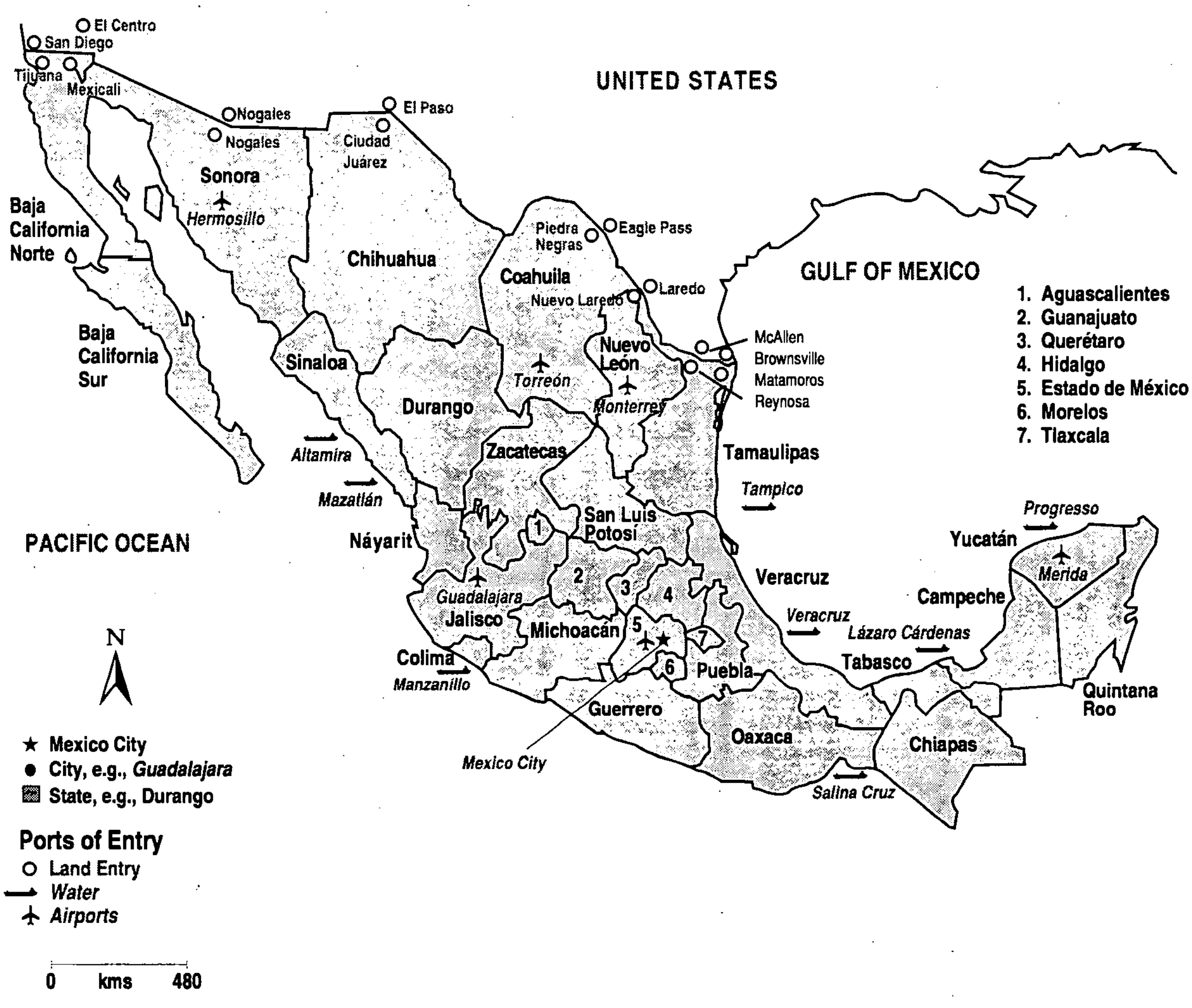
Bill Watson
(416) 865-6910

Allan Turnbull
(416) 865-6923

Roy Kusano
(416) 865-6903

Paul Burns
(416) 865-6912

Mexico


El Centro
San Diego
Tijuana
Mexicali
UNITED STATES
Nogales
Nogales
El Paso
Ciudad Juárez
Sonora
Hermosillo
Baja California Norte
Chihuahua
Piedra Negras
Eagle Pass
Coahuila
Nuevo Laredo
Laredo
GULF OF MEXICO
1. Aguascalientes
2. Guanajuato
3. Querétaro
4. Hidalgo
5. Estado de México
6. Morelos
7. Tlaxcala
Baja California Sur
Sinaloa
Nuevo León
McAllen
Brownsville
Matamoros
Reynosa
Torreón
Monterrey
Durango
Altamira
Zacatecas
Tamaulipas
Mazatlán
Tampico
San Luis Potosí
Progresso
PACIFIC OCEAN
Náyarit
Yucatán
Veracruz
Mérida
Guadalajara
Campeche
Jalisco
Michoacán
Veracruz
Lázaro Cárdenas
N
Colima
Manzanillo
Puebla
Tabasco
Guerrero
Quintana Roo
Oaxaca
Chiapas
★ Mexico City
● City, e.g., Guadalajara
State, e.g., Durango
Mexico City
Salina Cruz
Ports of Entry
Land Entry
Water
Airports
0 kms 480

The North American Free Trade Agreement (NAFTA)

The NAFTA expands Canada's free-trade area of 270 million people into a market of 360 million — a market larger than the population of the 15 countries of the European Union and one with a total North American output of $7 trillion.

Mexico is Canada's most important trading partner in Latin America. Two-way merchandise trade with Mexico exceeded $5.5 billion in 1994 and is expected to exceed $7 billion by the end of the decade.

Canadian direct investment in Mexico is growing rapidly, increasing from $452 million in 1992 to over $1.2 billion in 1994.

This guide has been prepared with the problems inherent to the new exporter in mind. However, it is not exhaustive. The differing circumstances, interests and needs of individual companies will influence their strategies for the Mexican market.

Further assistance can be obtained by addressing requests to the International Trade Centres (see Where To Get Help) or contact the InfoCentre at:

Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board (IBB):
1-800-628-1581 or (613) 944-1581

Table of Contents

The Role of Partnering in International Trade

Why Partner?

Partnering internationally enables the firm to:

- ✔ leverage its unique strengths into new markets and diversified business activities;
- ✔ access new technologies and expertise;
- ✔ access larger capital resources;
- ✔ access new markets without creating complex structures that can be hard to manage;
- ✔ respond more effectively to change; and
- ✔ share the high costs and risks of business.

Strategic Alliances Enhance Competitiveness When:

- ✔ the strategic objectives of the alliance are clear;
- ✔ the partners are committed to the objectives and focus on cooperation;
- ✔ the alliance is efficiently organized and managed;
- ✔ the capabilities of the partners complement each other; and
- ✔ the partners are well-informed and have reasonable expectations.

Alliances are a big part of the game [of global competition] ... They are critical to winning on a global basis. ... The least attractive way to try to win on a global basis is to think you can take on the world all by yourself.

Jack Welch, CEO, General Electric.[1]

Mexico is Canada's most important trading partner in Latin America and its thirteenth largest trading partner. Two-way trade with Mexico is growing at a rapid rate and is expected to exceed $5 billion by 1996.

Mexico is now considered a low-risk business environment offering a number of comparative advantages. Chief among them are a large and growing domestic market; a young, abundant and cost-competitive labour supply; and proximity to the American market to which Mexico will have free access once the North American Free Trade Agreement (NAFTA) is fully implemented. For the careful and determined business person, Mexico offers many attractive opportunities.

The list of companies involved in Mexico includes many that are household names. Increasingly, however, it also involves small- and medium-sized businesses that are not yet well-known but may become so in the future. Canadian companies that have been active in Mexico include *Moore de México*,. (Moore Business Forms), Custom Trim, Northern Telecom, Noranda Mines, Mitel, Dare Foods Ltd., Cansec Systems Ltd., Rebound Rig International Ltd., Recovery Technologies, Champion Road Machinery Inc., Domtar Inc., Optical Data Systems, Canam Manac Ltd., Connors Brothers Ltd., Bovar-Western Research, Ault Foods, Martin's Foundry and Ironworks, Trench Electric, Pro-Eco, Champion Road Machinery, IPSCO, Stelco, Dofasco, Algoma Steel, Smoky River Coal, Bell Canada Enterprises, and many more.

Many Canadian firms looking to do business in Mexico will follow the route of direct exporting. They generally recognize that exporting usually benefits from the services of a local agent or distributor who knows their products and the Mexican market for those products. However, a growing number of internationally active companies have gone beyond agency agreements and use various other forms of partnering, sometimes called strategic alliances, to complement and enhance their export efforts.

In their increasing use of partnerships, Canadian companies are part of a growing trend. 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. Such companies are penetrating foreign markets by using joint ventures, consortial arrangements, co-production or co-marketing agreements, mergers, acquisitions, and franchises.

1 Speech at Harvard Business School, October 28, 1987. Quoted in Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995.

Dare Foods

Dare is a private company, founded in 1892 in the town of Berlin (Kitchener) by the grandfather of the current owner. Many of the candies, crackers and cookies that it makes go back to the very origins of the company. Dare remained a regional bakery until the 1950s when it began expanding across Canada. A decade later it was a national company that was also selling in the United States. The firm's success is based on forward thinking. It was first to use the now popular stand-up bag for packaging cookies. At the same time, the fact that the cookies were not visible through the bag prompted the use of professional photography to enhance the appearance of the product and emphasize its improved quality.

To enter the snack cracker market, Dare developed Breton and Cabaret, unique items that have propelled it into international markets. Dare saw some opportunities in the Mexican market but was initially dissuaded by the country's restrictions on imports. When the border opened up after Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, the opportunities looked more promising.

Initial discussions with a possible partner lasted six months and involved faxes, letters and telephone conversations. Dare eventually provided the contact with product samples which were well-received and resulted in a first shipment in March 1990. The Mexican distributor placed the product with *Gigantes* supermarkets (160 stores) for a promotional sale. Five weeks later, Michael Thompson, Vice-President for International Markets, went to Mexico prepared to do business in the North American way with meetings, promotional events and pricing discussions. To his surprise, he discovered that his distributor was much more interested in establishing a closer personal relationship. He introduced Thompson to his family and associates through breakfast and lunch meetings. In the end, however, these lunch meetings were of critical importance to the business because they provided new contacts and enhanced the distributor's image. Trust was established and both sides in the partnership have benefitted.

continued on page 9

The Value of Partnering

Small- and medium-sized firms entering highly competitive international markets run the risk of being out-classed because they do not have the internal resources of their larger rivals. Partnering gives such firms access to additional resources. It can provide a firm with the technology, capital or market access it needs but which it might not be able to achieve on its own. It also means that even small firms can compete successfully in several different markets by linking with partners. The number of these linkages is restricted only by the company's ability to manage the relationship, rather than by its capital resources.

Business people are learning that they cannot do everything well: the most competitive corporations stick to what they do best. At the same time, as technology evolves, the boundaries separating different industrial and scientific fields tend to blur. Many of today's projects require the coordination of expertise from fields that once had little in common. Partnering offers a way of accessing and sharing different types of expertise without having to master them all.

Companies can find it difficult to enter new markets because of cultural differences, the entrenched position of local competitors, unfamiliarity with local market conditions, or government regulations. A well-conceived alliance can overcome many of these barriers. It can even give a company a head start that will discourage other competitors from entering the market. Local partners can provide established marketing and distribution systems, as well as knowledge of the markets they serve. They can ensure products get to market more quickly and more effectively. They can also give advice on how to modify a product to meet local regulations and market preferences. And they can help with issues like document translation and packaging requirements.

Partnering can be used to defend against disruptive competition. One of the benefits of cross-distribution agreements, for instance, is that both partners avoid competing with each other in specific markets.

Sharing research and development (R&D) costs and facilities can speed up the process of developing new products and services. This can mean big savings, and a big reduction in the risks associated with performing R&D.

A local partner can complement a company's capabilities by contributing the expertise, insights and contacts that spell the difference between success and failure. In this way, partnering improves the Canadian firm's responsiveness and flexibility, as well as enhancing its chances for success in the Mexican marketplace.

Dare Foods

continued from page 8

Dare offers the Mexican distributor a quality product, experience in international marketing, training for sales staff and strategic advice when asked. The distributor has a knowledge of Mexican consumers, market dynamics and business practices. For example, it is common business practice to present an invoice in person and to appear again in person to receive payment. An invoice sent by mail will probably be ignored.

Dare sees Mexico not only as a market in itself, but as a stepping stone to Central and South America. Dare is willing to grow slowly and solidly, choosing its partners with care. New opportunities to market its products are continuing to appear and are bringing new challenges to both Dare and its Mexican partner.

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 a window from which to follow market trends and satisfy emerging demands. It may also be more cost-effective to export some Canadian inputs and components for final processing and assembly in Mexico. In this way, partnering offers the possibility of using a position in Mexico as a source of international competitive advantage.

Most small- and medium-sized Canadian companies have entered the Mexican market only recently. Since 1989, Canadian companies have grown more skilled at the formation of partnerships with domestic firms or wholly owned subsidiaries. They are just beginning to operate as full participants in the new Mexican business environment.

For their part, Mexican 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.

Types of Partnership

Partnering can take many forms. Agreements between firms may call for the transfer of technology, cooperation on research or product development, or the exchange of marketing rights. Companies can contribute equity to form a new, free-standing joint venture. Firms can license a technology or franchise a business process. And sometimes, companies enter into formal or informal understandings that simply call for them to share information or cooperate on carrying out contracts. All of these are forms of partnering.

Agents and Distributors

Agency and distribution agreements are the most common method of moving into the Mexican market.

Agents act on behalf of companies. Because an agent in Mexico has the power to enter into agreements that bind the parent Canadian firm, it is important to find an agent that understands the business, the company and its products. Moreover the agent must be committed to the firm and act in its interest. Especially important is that the agent not represent any competing firm at the same time. Agency agreements work best when the agent's powers and responsibilities are spelled out precisely and where they are complemented by effective and ongoing communication.

Why Canadians Form Partnerships in Mexico

Reducing risk or sharing financial burdens are seldom sufficient reasons for entering 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 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 U.S. Department of Commerce has defined the following as "emerging industries" in Mexico, which are ripe for business: information technology; electronic components; environmental technology and test equipment; computer equipment and software; telecommunications equipment and services; healthcare technology; pharmaceuticals; motor vehicles; automotive parts; aerospace; energy; chemicals and petrochemicals; financial services; banking; securities markets; and insurance. In addition, the Canadian government has especially noted the export potential for Canadian companies in transportation equipment and infrastructure; telecommunications systems; oil and gas technology; mining; industrial machinery; tourism development; and agri-food expertise and systems.
- ☐ Mexico is seen as a launching pad from which to penetrate emerging markets throughout Latin America, a market of more than 450 million.
- ☐ Mexico complements Canada's economy in many ways. Mexican partners enhance the comparative advantage already enjoyed by Canadian companies in the Mexican market.

Distributors, on the other hand, act on their own account. They cannot bind the Canadian supplier, but they have a decisive say over how the goods will be resold. They may take title to the goods, or handle them on consignment. Distribution agreements may set out limits on prices, geographic areas covered and how competing products are to be handled. Agreements may also cover customer support and warranties.

To date, most of the activity of Canadian companies in Mexico has been confined to agencies, distributorships or the establishment of local sales offices, often operating from the United States. But this is beginning to change. Alternative forms of partnering are now being used as Canadian companies become more familiar with doing business in Mexico.

Joint Ventures

A joint venture is an independent business formed out of cooperation by two or more parent firms. Its basic characteristic is that the parent firms contribute equity and resources to the creation of a distinct corporate entity, separate from its parents. As such, a joint venture involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes of the partners, or their relative contributions. If ownership is split 50-50, it is usually because the partners are about the same size, or because each wants a significant voice in how the new company is to operate. A different equity split usually reflects unequal resource commitments.

Joint ventures have traditionally been used as a way of avoiding restrictions on foreign ownership when entering a foreign market. In the case of Mexico, this is now less of a consideration given the opening up of its economy and the relaxation of ownership restrictions governing foreign direct investment.

There are, however, other uses for joint ventures. Forming a joint venture with another firm makes sense if the project requires commitments from the partners that are far more complex and comprehensive than anything that can be spelled out in a simple contract. This is especially true of a longer-term arrangement that requires joint product development as well as ongoing manufacturing and marketing. Mutual trust, and the knowledge of how business is done in Mexico, are essential elements in such arrangements

Since a joint venture involves added complications; forming one with another firm only makes sense if the nature of the project requires ongoing commitments from the partners that go beyond the legal forms of a contractual agreement.

Collaboration on Research and Development

Joint research and development (R&D) can reduce financial risk and increase access to expertise. Collaborative R&D may allow firms to invest in a number of parallel development projects. This avoids having to stake their efforts on the success of only one venture. Especially common nowadays are research consortia that combine the resources of private firms, governments and universities. And it should be remembered that a joint R&D effort with a Mexican company may provide resources from the Mexican government that would otherwise not be available to Canadian firms.

Licensing

Licensing may not be thought of as a form of partnership. But many licensing agreements, especially those involving technologies or processes, can involve forms of training and after-sales support that are, in effect, partnering arrangements. In a licensing agreement, a firm sells the rights to use its products or services. Since licensing transfers usage rights but not property rights, the licenser still retains some control over the product. Issues that are subject to negotiation include royalties, patents, sub-licensing possibilities, rights to sell and manufacture, duration of the arrangement, geographical limitations of the licence, exclusivity, and issues related to the updating of technology. This type of arrangement is often highly beneficial for third-country marketing. In the case of Mexico, for example, licensing could be used to allow the Mexican partner to manufacture under licence for export to lucrative markets in other Latin American countries, an advantage which will become more important in coming years.

Cross-licensing is a strategic alliance between two firms in which each licenses products or services to the other. Today, many companies are exchanging the rights to use their products or services. Such arrangements are especially effective when companies operate in different markets. Both licensing and cross-licensing are relatively straightforward ways for companies to share products or expertise without the complications of closer collaboration. However, because they involve minimal cooperation, cross-licensing is less likely to achieve that state of synergy in which cooperation creates a whole greater than the sum of its parts.

Co-manufacturing

Cross- or co-manufacturing agreements are a form of cross-licensing in which companies agree to manufacture each other's products. These agreements enable firms to optimize the use of their own resources, to share complementary resources and to take advantage of economies of scale. Companies may cooperate to make components or even entire products. Many foreign engineering firms have entered joint-production agreements with domestic firms that have manufacturing expertise. In the auto and telecommunications industries, competing firms often form an alliance to make components that are then used by all the members of the industry.

A typical co-manufacturing arrangement might allow a Canadian product to be manufactured in Mexico using designs, technology, materials or components supplied by the parent company. Such partnerships might be formed to avoid the complexities of shipping finished products from Canada to Mexico, or to take advantages of more favourable cost structures at the Mexican end. They can involve simple toll manufacturing, where the Mexican partner does the work for a fee, or more elaborate manufacturing joint ventures where risk is shared.

Co-Marketing

Co-manufacturing may be combined with co-marketing or co-promotion agreements through which companies also cooperate to advertise and sell each other's products. Alternatively, it allows firms with complementary products to fill out a product line while avoiding expensive and time-consuming development. Co-marketing is usually done on the basis of a fee or percentage of sales. For firms wanting to enter new markets, a co-marketing agreement is an effective way to take advantage of existing distribution networks and an ally's knowledge of local markets.

A comprehensive cooperative agreement could involve cross-licensing, a shared promotion campaign, or even the formation of a joint venture to market each other's products. Most do not involve licences or royalties, but some rights to the product may be worked into the agreement.

Franchising

The franchise is a more comprehensive form of licensing. The franchisee is given the right to use an entire manufacturing process or service delivery process, along with business systems or trademarks, and the franchiser controls their use by contractual agreement. The franchiser is remunerated through an initial franchise agreement fee, from royalties on sales and, in some cases, through control of supplies to the franchisee.

Franchising is one of the fastest growing industries in Mexico. Within 18 months of Mexico's deregulation of franchising in 1990, the number of franchises operating in the country grew from less than a dozen to more than 80. To date, most franchises in Mexico have been American, entering Mexico via joint venture and master-franchise sales. Many of these franchises are in the hotel and fast-food industries. The protection offered by the recently improved Mexican law on intellectual property is expected to encourage significant growth in the service and product franchise areas.

Virtual Corporations

Virtual corporations and relationship enterprises are the newest and most distinct forms of collaboration.

The virtual corporation might be thought of as a partnership among companies that cooperate on a temporary or as-needed basis. Networks of companies operating at arm's length from each other have become increasingly common in business. Recently, the ability to create and maintain such networks has been enhanced by the advent of advanced information tools such as the Internet. Whatever the means, firms are brought together by a specific market opportunity. Each member contributes its core competencies to the research and development (R&D), manufacturing, marketing and servicing of the product or service. Once the task is complete, the partners are free to move on to other projects.

Relationship enterprises are much like their cousins, the virtual corporations, with each partner doing what they do best in the production process. The difference is that a relationship enterprise may contain numerous companies that are involved with each other over a longer term and able to tackle larger and more complex assignments. Such partnerships may be especially effective internationally because they allow partners from different countries to operate on a home-country basis in each other's markets. In this sense, a relationship enterprise may enjoy a competitive advantage over a multinational corporation in that it has (and will be perceived as having) many home markets, rather than only one.

These new collaborative forms differ from traditional joint ventures in several respects:

- the existing individual production facilities of the collaborators are electronically connected and integrated, but they are not created anew;
- the companies contribute their core competencies to the undertaking but do not transfer them; and
- new forms of collaboration can be formed on the basis of comparatively loose ties by virtue of a highly flexible network infrastructure, rather than on the basis of extensive legal arrangements and financial investments.

Corporate Vehicles

Regardless of the type of partnership arrangement involved, foreign involvement in Mexico usually occurs through a *Sociedad Anónima de Capital Variable (S.A. de C.V.)*, Mexican corporation with variable capital. Another possibility that is used occasionally is a *Sociedad de Responsabilidad Limitada (S. de R.L.)*, limited liability company. A third option is a *Sociedad en Nombre Colectivo (S. en N.C)*, general partnership with unlimited liability.

Zenon Environmental Inc.

Zenon is a 16-year-old company that went public in 1992. The company has been growing rapidly and has expanded into international markets with operations in Europe and the United States. Zenon believes that Mexico is a major potential market for its advanced municipal and industrial water purification and wastewater recycling technology. The Mexicans have a "national will to get on with things" that is creating a demand for environmental products and services.

Assistance from the Department of Foreign Affairs and International Trade (DFAIT) and Department of Industry (DI) have been instrumental in the efforts of Zenon Environmental Inc. of Burlington, Ontario to enter the Mexican market. Zenon has used the services of DFAIT and DI to help conduct its research into the Mexican market and to develop an understanding of the country's culture and ways of doing business. They have received assistance in networking and meeting contacts in Mexico through trade missions.

The company initially entered the Mexican market by selling their products and services to General Motors and Chrysler, American companies with operations in Mexico. These automotive companies already knew what Zenon had to offer and could readily integrate the offerings into existing operations.

Zenon's objective is to form corporate relationships with Mexican partners interested in pursuing municipal water and sewage projects. They are now looking at partnerships that may involve any or all of pure product representation, joint ventures, original equipment manufacturers (OEM) relationships and/or licensing agreements. They feel that they bring leading-edge technology, experience, and knowledge to a partnership, and are looking to their partner to provide an understanding of the culture, the way to do business, the markets for their products and customer-oriented service.

The minimum share capital for an *S.A. de C.V.* is $25 pesos, equivalent to approximately US $4.00. The corporation must have at least five shareholders. Once all the necessary authorizations have been secured, the by-laws must be formalized in a public deed and executed before a public notary. Prior authorization from the *Secretaría de Relaciones Exteriores (SRE)*, Secretariat of Foreign Affairs, is required to form a corporation or business entity. Authorization from the same source is also required to amend the by-laws of a business.

Help is Available

Whichever of these avenues is chosen, extensive help is available for companies wishing to do business in Mexico. The Department of Foreign Affairs and International Trade (DFAIT) has published a comprehensive set of guides and handbooks on doing business in Mexico. Much of the material is available online or by fax, as well as in printed form.

Steps in Establishing a Partnership in Mexico

Before pursuing a partnership in Mexico, ensure you have both the means and the commitment required to pursue such an arrangement. If you are ready for partnering, contact the nearest Canada Business Service Centre, the Department of Foreign Affairs and International Trade (DFAIT), and the Trade Division of the Canadian Embassy in Mexico City and of the Canadian consulates in Monterrey and Guadalajara. With their help, you can take the following steps.

- Conduct a thorough analysis of the market for your product in Mexico, including the positioning necessary for your firm to gain a foothold in it. Carry out a preliminary study, either on your own or through market specialists. The nearest International Trade Centre and DFAIT can provide you with important and current market intelligence. The objectives of the preliminary study are to identify your firm's niche and its potential clients or potential partners.
- Visit Mexico. Meet with officials at the Canadian Embassy Mexico City and at the consulates in Monterrey and Guadalajara. This will help you to draw up a short-list of potential Mexican partners.
- Approach the two or three best potential partners and interview them in open discussions about the potential for the trade, co-manufacturing, licensing or joint-venture activity you have in mind. A plant visit or office tour is essential. First impressions are likely to be unreliable, as are written descriptions. Always verify by personal inspection.
- Armed with the insights gained from the previous steps, reflect on your best approach. Then return to negotiate the terms of a partnership agreement best suited to your needs. At this point, you may need assistance from professionals with a good knowledge of the market.
- Draft the terms of the agreement with the assistance of a Mexican lawyer and a Mexican tax accountant.
- Secure necessary project funding and guarantees.
- Open a Mexican bank account and deposit initial capitalization.
- Submit a registration form or an application for approval, if required, to the National Registry of Foreign Investment at the *Comisión Nacional para Inversión Extranjera (CNIE)*.
- Notarize the company's charter, if necessary.
- Begin operations.

Is Partnering Right For You?

Partnerships Present Challenges as well as Opportunities

Firms deciding to enter partnerships should be aware that these arrangements can lead to certain problems.

- ☐ The firm may become overly dependent on an outside firm for certain functions. Some of its expertise may end up being transferred to a competitor or it may lose valued employees to a partner's firm. Conversely, a venture may end up inheriting problem employees of which a partner wants to rid itself.
- ☐ An excessive amount of time may have to be spent managing the relationship, much as in a rocky marriage. The firm may have to deal with situations in which it has less than complete control in decision-making, needing to consult and arrive at consensus in certain instances.
- ☐ There may also be an imbalance of influence if a small firm is partnered with a larger company. The small firm may find itself overwhelmed with "help" sent in by the larger partner. Or, the needs of the larger partner may turn out to be inconsistent with the strategic goals of the smaller firm. Large firms may have problems coordinating daily operational activities with small firms that are more entrepreneurially focussed.

The Core Characteristics of a Strategic Alliance

By definition, a strategic alliance is a relationship between firms in which they cooperate to produce more value (or produce the same value at a lower cost) than is possible in a market transaction. To create that value, they must agree on what it is, need each other to achieve it, and share the benefits. Without a shared objective, meaningful cooperation is not feasible. Without mutual need, the firms may have the same objective, but each can reach it alone. If they do not share the benefits, they cannot expect the commitment required for cooperation.

Jordan Lewis[2]

There are many good reasons for partnering, but this does not mean that partnering is always right for your company. Before investing time and money in finding a partner or negotiating an agreement, make sure that partnering makes sense given the specifics of your own particular corporate strategy. It may also be wise to gain greater experience in the market before making a definitive decision.

In itself, an alliance cannot give your company a strategic direction. The decision to engage in a partnership, however, is a strategic move and should be part of a well-thought-out corporate strategy.

A careful and detailed examination of reasons for entering an alliance makes good business sense. Rushing into an alliance in the hope that a synergistic plan will somehow evolve is not. Too many firms underestimate the amount of work that is involved in establishing a successful alliance.

The first step is to determine precisely what you need to defend or enhance your competitive position: in other words, define what you need, rather than what you want. Start by articulating your company's goals.

- Where is your company headed?
- What are its competitive advantages?
- What is missing?
- What role can the Mexican market play in achieving your goals?

The answers to these questions should be embodied in a clearly stated business plan based on careful market research. Without such research, your company cannot develop a realistic assessment of how Mexican opportunities can contribute to your company's future.

[2] Jordan Lewis. *The Connected Corporation. How Leading Companies Win Through Customer-Supplier Alliances.* New York: The Free Press, 1995, p. 5.

NORTH-MAN ENGINEERING INC.

Effective partnering has been key to the success of North-Man Engineering Inc., of Winnipeg, Manitoba. The company has focussed its environmental expertise on the engineering, water and wastewater treatment sectors in Mexico. In 1991, North-Man concluded a deal with Mexican partners to establish a Mexican subsidiary. The joint venture, *North-Man Zaltech*, consumed the partners' combined resources for some 18 months before it landed a first contract. By the end of 1992, Mexican sales accounted for 15 percent of the Canadian company's revenues. The implementation of the North American Free Trade Agreement (NAFTA), and the so-called environmental "side agreement", elevated environmental enforcement to a new level in Mexico, and is expected to boost sales substantially. Also, the Mexican government's emphasis in infrastructure expansion, including new potable water and wastewater treatment facilities, will also contribute to long-term success.

Notwithstanding these long-run growth factors, environmental opportunities were severely curtailed by the devaluation of the peso at the end of 1994. The government was faced with the prospect of severe job losses if plants were closed for environmental infractions. Small- to medium-sized manufacturers are considered most vulnerable, and they have cut environmental expenditures as enforcement efforts have been relaxed. Some environmental projects were stopped midstream because of the increased price of imported inputs. On the other hand, enforcement has continued for multinational corporations.

North-Man has not changed its strategy as a result of these difficulties, and maintains its service-oriented stance. Equipment purchases for current projects were already final before the devaluation. The most important problem was the difficult time experienced by the staff of the company's Mexico City office, who are all Mexicans. The company is optimistic about the future and expects Mexico to contribute a larger share of consolidated profits as it continues to expand.

Once you have a clear sense of what you expect from Mexico, the next step is to assess your own ability to get it. Analyze your company's competitive strengths and weaknesses.

- Do you have the skills and resources to succeed in Mexico given that Mexican tastes, customs, values and ways of doing business are different?
- What elements essential to corporate success in Mexico are missing?
- Which of these skills and resources can your company acquire?
- Which can only be secured through a local partnership?

If your needs can be satisfied in-house within a reasonable timeframe, then a partner is unnecessary. If the problem is financial, you may be better off looking for investors instead of partners. But if, after going through all of these options, there is still something missing, e.g. special expertise, synergy in product development or a local market presence, then partnering should be given a closer look.

This type of analysis will help your firm make a vital choice: whether to go it alone or seek a partnership. Remember that for all its advantages, partnering can be complex, time-consuming, costly and frustrating. You may have to give up some freedom of action. You may have to spend considerable energy just managing the relationship. It may be preferable to avoid partnering altogether if there are any other ways of securing the same benefits. If not, make sure you are clear as to what you are looking for and why.

Deciding whether an alliance will satisfy your strategic objectives demands a thorough analysis of your present situation. An analysis of strengths, weaknesses, opportunities, and threats (SWOT) is commonly used for this type of assessment. With this approach you can:

- identify the factors that have contributed to your past and present success as a business;
- provide an inventory of your company's skills and resources;
- pinpoint the strengths that can be used as the basis for future strategy and to identify weaknesses; and
- identify key areas where you are stronger or weaker than your major rivals.

The strategic audit will help you determine the status of each of these aspects of your business.

You will want to evaluate the competitiveness of each of your products and services in terms of technology, competitor intensity, cost, quality and the ability to develop market niches. As well, you must consider strengths and weaknesses in marketing, new product development and production capabilities.

BERCLAIN AMERICA LATINA

Berclain America Latina is a subsidiary of Quebec-based Berclain Group Inc. The Mexican subsidiary, which now has a partner in Brazil, provides a base for servicing customers throughout Latin America.

Berclain's most important product in Mexico is a manufacturing synchronization software, MOOPI. According to the company, MOOPI schedules interdependent resources: people, tooling, equipment and materials, to ensure production is optimized at all times. Berclain provides a complete solution to manufacturers, including software, implementation, training and support.

According to a Berclain executive, the rapidity of Mexico's industrial restructuring took many companies by surprise. They did not initially realize the importance of automation technology to corporate survival in the new liberalized environment. As he put it, "at first, it was like trying to sell a parachute to somebody falling between the ninety-seventh and forty-fifth floors of a building, who hasn't yet realized that he needs one."

When you have looked at your strengths and weaknesses in the context of your objectives, you will be able to determine what you need to attain those objectives. When you have determined these needs, then you can assess the options for meeting them. Remember that partnering is only one of those options.

The advantage of going through this exercise is that it clarifies what you are looking for in a strategic relationship. It helps you define the resources and the kind of company that will be needed in any alliance, if you decide that an alliance is appropriate. And it will give you a better idea of what your potential partner must have to make the venture successful.

STRATEGIC AUDIT

Market Analysis

1. What is your present market position? Consider product life cycle, market share, price of product, quality, marketing strategy, market research skills, patents, licences, and agreements.
   What are the current industry trends? How does your firm fit in?
2. What are your direct and indirect competitors doing with respect to price, quality and originality?
3. What are your market opportunities?
   What would you like to do?
4. How effective are your dealers or distribution and service networks, and do they need improvement?
5. How flexible is your current corporate structure?
   What changes could be made with respect to production, personnel, training and equipment?
6. What are your promotional and marketing strategies, and how effective have they been?

Innovation

1. What is your assessment of your current research and development (R&D) situation?
   - Any recent successes?
   - Were these commercial successes?
   - What are your in-house R&D capabilities?
   - What are your competitors doing in product research, process research and technology imitation?
2. Is your staff creative, qualified, reliable and productive?
3. What patents do you have and what do they cover?
   - How much do they cost?
   - How dated is the technology?

continued on next page

Steps in Evolving an Alliance-based Strategy[3]

☐ Define the firm's strategy. What is the firm? What does it do?

☐ Articulate the strategic logic of alliances. Why enter into an alliance? What are the benefits? What is the role of alliances for the firm?

☐ Develop a road map for forging alliances. Rethink the business, including how alliances fit into it. Craft an alliance-based strategy. Include what goes into it and how it is negotiated.

☐ Structure an actual alliance.

☐ Manage the alliance: identify challenges and tasks.

☐ Evaluate the alliance and learn from it.

4. What licences has your company bought and how are they used?
   - How much do they cost?
   - How dated is the technology?

5. Could you access outside sources of research or technical human resources? Consider suppliers, customers and contractors.

6. What is the relationship between your R&D activities and your marketing strategy?

Productivity

1. Is your firm benefitting from economies of scale?

2. Are you using appropriate technology?
   - Is it your technology?
   - What are the cost advantages?

3. How flexible or integrated is your production process?
   - At what capacity are you operating?
   - Is there room for expansion?
   - How effective are your quality control processes?

4. Consider issues related to labour force, plant location, transportation costs, and access and cost of raw materials.

5. What are your competitors doing?

Financial Resources

1. Are your present financial resources sufficient to meet your present objectives in terms of research and development (R&D), marketing, sales, promotion and training?.
   Do you have cash flow problems?
   What is your present equity position?

2. What is your borrowing capacity in both the short and the long term?

3. How are your finances being managed?

4. How important are issues like fluctuating exchange rates, transfer pricing, dividends and the repatriation of funds?

5. Are there any changes that you would like to make to your management and financial accounting systems?

continued on next page

[3] Adapted from Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995, p. 43.

Profitability

1. What is your company's five-year trend in profitability?
   - How does this compare to the industry average?
   - How does it compare to your competitors?

2. What are the trends in prices and margins for your product?

Human Resources

1. Rate current management on the following issues:
   - leadership
   - ability to motivate others
   - ability to coordinate departments, divisions or functions
   - flexibility and adaptability

2. What are the leadership and motivational qualities of your chief executive officers (CEOs)?

3. Are there individuals experienced in managing acquisitions, mergers, joint ventures or any form of strategic alliance?

4. Do your managers have international business experience?

5. What kind of attention do you pay to training and development for your staff?

6. What is the level of morale and commitment of the employees to the company? What incentives do they have?

7. How skilled is your workforce?

8. What is the age of the workforce in relation to that of management?

Developing a Partnering Strategy

What Kind of Partner?

Whether you want to export directly to Mexico or pursue other types of opportunities there, you will need to work with people on the Mexican side. The following is a checklist of the kinds of partners or associates you may need in Mexico:

- ☐ an agent or representative to sell your product
- ☐ a professional distributor for your product
- ☐ a retailer with outlets for direct sales to end users
- ☐ a marketer and/or advertiser to promote your product
- ☐ a manufacturer, in the case of a joint venture
- ☐ a researcher for product development or modification
- ☐ an investor as a source of funding
- ☐ a franchisee to purchase your franchise
- ☐ a buyer of a licence to use your technology

What Sustains an Alliance?

Alliances are sustained by mutual need, a common objective seen as important enough to dominate any issue, a willingness to share the benefits, and a trusting relationship. To an important extent, alliances are between people. When adjustments must be made, only people who trust and understand each other can make them in a way that maintains commitments. Only people who share a vision and the enthusiasm to make it a reality will invest the efforts needed for an alliance to succeed.

***Jordan Lewis*[4]**

Once you have completed the analysis in the previous section, you should be in a position to define exactly what you want from any prospective partner. You should have a good sense of what skills and resources you want the partner to bring to the table to make the venture a success. You should also be in a position to think about how that contribution should be formulated. There are many different types of partnering arrangements. What are the pros and cons of each? Which one is best suited for your Mexican venture?

Some types of partnerships, such as outright mergers, might affect the Canadian company's core business. If this is a concern, be careful about the form of partnering you pursue and make sure you limit the relationship to non-core areas. Occasionally, partnerships can lead to dependence on another firm. In addition, with some forms of partnering, there is a danger that strategic or proprietary information may be inadvertently shared or leaked outside the partnership.

Entering a partnership without a clear set of objectives may result in the loss of control over its direction. Developing a clear plan before you engage in the process can minimize such dangers and contribute to a positive result. Look at the partnering strategy below to get some ideas about how to handle this.

---

[4] Jordan Lewis. *The Connected Corporation. How Leading Companies Win Through Customer-Supplier Alliances.* New York: The Free Press, 1995, p. 9.

Considerations in Defining a Partnership Strategy

- ☐ What are your strategic objectives? What do you want from this relationship?
- ☐ What are you prepared to offer or put on the table?
- ☐ What are you not prepared to offer or expose to the prospective agent or distributor?
- ☐ What do you want the prospective partner to do? What value does that have to you?
- ☐ What are you prepared to give up?
- ☐ Will the agent present himself or herself as part of your company, i.e. carry the company's card or act as an independent representative?
- ☐ Will the relationship include provisions for exclusivity on one or both sides?
- ☐ What does your prospective partner want to get out of this deal? What are his or her strategic objectives, both stated and unstated?
- ☐ What are your strengths and weaknesses going into this negotiation? What are those of your prospective agent or distributor?
- ☐ What skills and expertise do you need (translation services, legal or tax advice) to get the best deal for your company?
- ☐ What are the possible dangers arising from this negotiation, such as leaks of proprietary information? What can you do to protect yourself against them?

Partnering Strategy

Partnering objectives What do you expect a partnership to provide in the target market?	■ market access ■ familiarity with local conditions, culture and business practices ■ proprietary technology ■ human resources with specialized expertise ■ capital ■ manufacturing facilities ■ distribution channels ■ other
Partner profile In which of these areas does your company have needs or deficiencies?	■ human resources ■ information ■ contacts ■ operations ■ distribution ■ marketing ■ finances ■ market knowledge ■ time
Evaluation criteria for potential partners	■ market knowledge ■ manufacturing capacity ■ technological capability ■ location ■ human resources ■ financial strength
Issues for negotiotion	■ complementarity ■ cooperation ■ organizational compatibility ■ measures to establish confidence ■ approach to customer service ■ financial contributions ■ level of acceptable risk ■ reinvestment criteria ■ deployment of human resources

Making Sure You have the Right People in Place

Once you have articulated your company's goals in Mexico, you must assemble the team that will be charged with implementing your strategy. A vital element in the process will be finding a suitable partner and negotiating an agreement.

Your team should be drawn from a variety of areas and management levels, ensuring that it has a command of all the issues that might affect the partnership, from broad strategic concerns to legal and technical details. The team must then do its homework, familiarizing itself with the company's situation, preparing draft agreements and negotiating positions, and examining prospective candidates. Team members must have the sensitivity and confidence to bridge cultural gaps. In cross-cultural communication, nuances, the misinterpretation of body language and even humour can quickly become major obstacles.

Besides a team, however, your Mexican venture will need a leader. The firm should appoint at least one person with enough clout to make things happen. The leader becomes the key catalyst for and promoter of the partnership within the firm. He or she is the driving force, taking responsibility for the partnership's creation and often serving as the chief negotiator. A world class manager is the best person to head such a team. Ideally, this leader should be flexible, fully cognizant of the firm's position, have a good command of the Spanish language and have experience in the Mexican or other overseas markets.

Many of the same people who were involved in defining the company's partnering strategy, and in negotiating the partnership which emerges from this strategic exercise, will be charged with its implementation. They must have enough power and authority to make things happen, plus possess a thorough understanding of the respective cultures and practices of both partner companies. They should be competent in their normal managerial or technical roles and will need strong interpersonal skills. They must be active listeners, able to sense the unspoken and hidden dynamics of the other side and find reasonable compromises. Entering the Mexican market involves learning a whole new set of skills. The Canadian firm should carefully assess the linguistic skills of its key managers, their familiarity with and receptivity towards other cultures, and their attitudes toward the new business challenge.

Successful management of a partnership goes beyond overcoming organizational challenges. It also involves dealing with the peculiarities of Mexican social and corporate practices. These can pose major stumbling blocks for Canadian firms seeking Mexican alliances. A lot depends on the quality and skills of the people involved, especially the general manager. Finding the right person to manage the relationship, or to look after ongoing contact between the partners, is of vital importance.

Moore Corporation

For Moore Corporation of Toronto, Mexico is nothing new. The company has been doing business there for more than 40 years. Headquartered in the State of Mexico, the company's subsidiary designs and manufactures business forms as well as mass-mailing materials and aids for electronic printers. The company originally entered Mexico because it believed in the country's capabilities and potential for growth. That confidence has been justified and Moore continues to invest there.

Moore operates in Mexico with a minimal management structure because it found that success in a highly competitive market required a flatter organization. Most hiring is done locally and the company gives its Mexican staff considerable leeway to manage local operations. Often the company will bring foreign specialists into Mexico to provide technical assistance. But they make sure to pass on the expertise to the local staff whenever possible. The firm also believes in rotating international staff to give them exposure to a variety of markets. Any Canadians sent to work in Mexico are first taught Spanish and sensitized to local business practices.

Moore's emphasis on local expertise also extends to its marketing efforts. It hires a professional Mexican firm to conduct its market research and integrates their findings in its planning. Moore's sales representatives are also hired locally so that it is easy for them to gain the confidence of the firm's 5,000 to 10,000 clients.

Moore recognizes that it takes longer to finalize deals in Mexico and that Canadian business people must adjust to a different way of doing things. Personal relationships are important. In addition, some Mexicans need to be prodded into paying their debts. Thus, when it is time to get paid, sending an invoice is less effective than making a personal visit.

On the other hand, Moore found that some areas of the country are becoming more like the rest of North America in their business practices. Monterrey is a case in point. Overall, the economy is speeding up, except for a sharp correction in 1995 stemming from the December 1994 devaluation of the peso. Albert Taylor, Moore's managing director in Mexico, says, "The Mexicans are set on increasing their buying power and are willing to work hard to do so. There seems to be a real interest in making things work to bring prosperity." As a company, Moore is convinced that Mexico is taking the kind of longer-term view that is needed to bring real and lasting change to the country.

Narrowing the Search for a Partner

A good approach is to profile several different candidates, interview them and select the most suitable. If you are not sure you have the right agent or distributor, look again or review your approach. Do not feel pressured into a decision: it is better to delay or change course than to undertake a serious venture with an inappropriate partner.

Generally you should be looking for someone with complementary capabilities. If your primary concern is to identify an agent or distributor, one way to approach the selection process is to draw up a sheet outlining the characteristics of your company and the desired characteristics of your partner; use the second sheet to focus your activities.

Characteristics of Poor Partnerships[5]

- ☐ Negotiate on the basis of price alone.
- ☐ Do not keep promises.
- ☐ Have a deal mentality — no long-term commitments.
- ☐ Have weak-cross functional teamwork.
- ☐ Take an adversarial approach in relationships.
- ☐ Supplier difficulties can cause problems, not solutions.
- ☐ Use detailed contracts with little room for change.
- ☐ Little interest in supplier benefits.
- ☐ Not open to supplier suggestions.
- ☐ Unwilling to share information.
- ☐ No joint management processes.
- ☐ No active support from top executives.
- ☐ Reputation of frustrating other suppliers.

Comparison Sheet for Selecting an Agent or Distributor

Item	Your Company	Prospective Agent/Distributor
Annual sales		
Number of employees		
Product lines		
Competitive advantages		
Experience in the industry		
Value of existing relationships		
Weaknesses		
Capabilities		
Technical skills and resources		
Financial resources		
Proposed role		

[5] Jordan Lewis. *The Connected Corporation. How Leading Companies Win Through Customer-Supplier Alliances.* New York: The Free Press, 1995, p. 22.

Finding the Right Partner

Important Criteria in Looking for a Partner

✔ Technical complementarity. This is the minimum criterion for selecting a partner.

✔ Ability to cooperate easily and effectively. Otherwise, you are likely to experience substantial coordination and communications costs, as well as a high level of frustration.

✔ Complementarity of organizations. The manager will need to consider questions of relative size, financial capability, organizational structure, management style, operating policies, philosophy, etc. These are factors that can contribute to organizational clashes or culture shock for the businesses involved.

✔ Compatibility of objectives. Are the strategies and objectives of your firms compatible? The greater their divergence, the greater the risk of dissatisfaction and associated problems.

✔ Trust. Since today's partner may be tomorrow's competitor, the manager must consider, above all, the potential partner's commitment and trustworthiness. Exposing your strategy or technology to an unreliable partner could seriously erode your competitive advantage. It is easier to establish trust where there is mutual need and low risk of the partner becoming a competitor.

Canadian companies will find that both large and small Mexican firms are open to partnering. Mexican companies see joint ventures and other forms of partnering as the best way to introduce state-of-the-art technology, research and development (R&D) and managerial know-how. They also look to alliances to give them access to foreign markets. However, the wise foreign investor will learn to distinguish between genuine potential and mere enthusiasm in the many suitors who come forward.

Once you have gone through the exercises in the previous chapter to define the partnering strategy that is likely to work best for you, the search for a suitable partner can begin. It is important to be ready and willing to assume the large commitment involved in finding the right partner, in structuring the deal and in managing the venture. Poor partner selection is one of the main reasons cited by experienced managers for the disappointing performance of unsuccessful partnerships. The process is time consuming and expensive and needs to be approached with considerable patience and realistic expectations.

Too many firms underestimate the amount of work and time involved in establishing a successful partnership. Developing criteria, selecting a partner and negotiating an effective alliance can be an extremely lengthy process. A company that is unwilling to accept these costs should probably consider other international trade options.

The selection process for an international partnership is particularly complex. The right partner is one that complements your capabilities so that the venture has a complete set of the skills and resources required for success. In addition, the partner's organization must be able to work harmoniously, effectively and efficiently with yours.

Screen all prospects carefully, no matter how many are under consideration. After going through this process you may find that none of the prospects is compatible. If so, consider alternatives such as licensing, short-term contracts, mergers, acquisitions or a greenfield investment.

The more you need to interact with your partner, the more important it is to find a partner whose organization complements your own. The extent and nature of your need to interact with your partner will be based on a number of factors, including uncertainty in markets, technology and resource supply, as well as the complexity of the tasks involved. You will need to consider questions of size, organizational structure, management style, operating policies and philosophy. There are numerous examples of organizational clashes or culture shock between businesses which had previously appeared to be compatible. Take the time to find out if you can really work with a potential partner.

Ganong Bros. Limited

Ganong Bros. is a confectionery company headquartered in St. Stephen, New Brunswick with an export and sales office in Toronto. Ganong has been exploring the international marketplace since 1988. It has already been successful in the Pacific Rim, especially Japan, and received the Canadian Export Award in 1991 for its efforts in this area. It has a joint venture with a partner in Thailand and built a factory there to take advantage of that country's proximity to both supplies of raw materials and clients.

Closer to home, the company has developed business in Puerto Rico and Argentina and thus has some experience in Latin America. This inspired Ganong to make an effort to address the Mexican market, especially since political changes and changes to the trading environment have made the country's markets more appealing.

Mexico has a history of chocolate consumption predating the arrival of the Spanish. Their domestic product, however, differs from typical North American chocolate. Even so, increased international travel and exposure to foreign products have led Mexicans to develop a taste for North American chocolate bars and imported boxed chocolates, which are considered prestigious. As a result, Ganong has found a large and growing market for its boxed chocolate.

Because Mexico's population presents an enormous potential market, Ganong is continuing to search for partners that have the necessary facilities, distribution network and thorough knowledge of regional markets throughout the country. Ganong, in turn, will support its products through a jointly managed promotional program incorporating marketing techniques such as couponing and sampling. The company has obtained contacts in Mexico through the Canadian Embassy, Canadian business associations, and the Department of Foreign Affairs and International Trade (DFAIT). It also takes advantage of Canadian government programs such as the Program for Export Market Development (PEMD), official trade missions, and Export Development Corporation (EDC) to support its expansion.

Mr. David Ganong, President of Ganong says that, "exploring the possibilities in a partnership is a slow process. It takes time to develop the personal relationships necessary to succeed. An appreciation of the differences of culture and language is essential since these affect both knowledge of the marketplace and the timing involved in developing the partnership."

Close cooperation will also be required if the two partners are characterized by any striking dissimilarities. For example, if the partners are very different in size, special partnering arrangements may be required to compensate. To avoid being overwhelmed, the smaller partner may prefer to enter into a joint venture that gives it considerable autonomy.

The internal characteristics of an organization, i.e. its operating philosophy, attitudes, practices, and structures, all those things that make it unique, must also be considered and accommodated in any partnering arrangement. Are operations centralized or decentralized? Are organizational structures compatible? Do the partners have a similar attitude to marketing and distribution strategies or customer service? Are they compatible in the all-important area of finance? Do they have similar attitudes to risk, the distribution of dividends, reinvestment, the most appropriate debt/equity ratios and tax policies? Do they have similar employee policies, compensation programs, hiring strategies, and attitudes to labour relations? Research your prospective partner's track record on cooperative ventures. What has been their experience with them?

Above all, the firm should look for partners that possess the resources and capabilities that it lacks on its own but which are necessary for achieving its strategic objectives. Unless there is clear complementarity, there is no point in spending the time and effort involved in partnering.

The firm must also develop confidence that it knows the true intentions of the partner. How will the proposed venture fit into the partner's long-term strategy? Does the partner need the venture to fulfill its own tactical and strategic objectives? Be certain that the firms share the same time horizons and expectations with respect to the pay-back period. After knowing what the prospective partner needs and is seeking from the relationship, the firm can gauge whether it has sufficient bargaining leverage to secure what it wants from the relationship.

Companies also need to know how to protect themselves in partnering arrangements. Ensure that the firm uses the services of a top-notch lawyer who can brief managers on the laws dealing with the protection of intellectual property. Find legal protection for these rights. Take care to guard against unfair appropriation of your know-how.

Finally, partnering internationally introduces the element of national cultural differences into the equation. How well-prepared is your firm to deal with these? Small firms may want to investigate the possibility of obtaining cross-cultural training and assistance. Information on this is available from the government sources listed in the next section. You may also want to consult with others who have had experience doing business in Mexico in your sector.

To pull all these factors together, you should assess the strengths and weaknesses of the potential partner, perhaps by doing an analysis of strengths, weaknesses, opportunities, and threats (SWOT). This is the same kind of analysis that you have already done on your own company to assess your readiness to enter the Mexican market. The attached worksheet at the end of this chapter, which includes another form of SWOT analysis, contains a list of the factors you will want to consider before you select a partner. If you are looking specifically for a distributor for the Mexican market, consider the elements in the attached worksheet on choosing a distributor and/or supplier in the Mexican market.

Getting Help

Getting Help: A List of Possible Sources

- ☐ existing business associates, especially those with experience in Mexico
- ☐ professional business advisers and intermediaries (lawyers, accountants, consultants)
- ☐ financial institutions (banks, insurance companies, brokers)
- ☐ local Canada Business Service Centre
- ☐ specialists at the Department of Foreign Affairs and International Trade (DFAIT) Latin American and Caribbean Branch, Mexico Desk
- ☐ the Canadian Embassy in Mexico City and the Canadian consulates in Monterrey and Guadalajara
- ☐ Canadian business associations or bilateral business councils specializing in Mexico
- ☐ research institutions that may have prepared Mexican market studies
- ☐ the Mexican Embassy or Mexican trade commissions
- ☐ trade shows and professional conferences
- ☐ DFAIT Export *i* Mexican Knowledge Base
- ☐ commercial databases containing country profiles and international economic information

Even when you know exactly what kind of a partner you want, you may not know where to look. A good place to start is to examine any existing business contacts in Mexico, especially any in the same industry. Basing a partnership on an existing business relationship means that you already know how well your companies work together, you have personal ties, and your companies are familiar with each other's skills, resources, corporate culture and values.

If you have no close business contacts in Mexico, you may look for leads from suppliers, customers, industry associations, banks, other financial institutions, auditors, government officials and regulators. Remember too, that the trade commissioners at the Canadian Embassy in Mexico City and its consular offices in Monterrey and Guadalajara can help you identify candidates and arrange for introductions. You may also want professional help from financial advisors, accountants, lawyers, consultants or market researchers who can fill gaps in your own capabilities. If you reach for expert advice, be sure to define clearly what you expect before retaining a professional. This will give them the basis of drawing up a work plan and providing you with satisfactory deliverables.

There are several places to turn for assistance in gathering information and new market ideas. Start with a list of companies with real potential for international partnerships and growth. Make this list available to community developers, business associations and government agencies in target regions. Ask them to suggest names of companies in their region which complement the capabilities of your company. Then organize meetings with potential partners.

Effective partnering depends on effective networking. This is especially true for smaller businesses. Formal and informal linkages are important ways of developing contacts, securing business information, initiating cooperative activities, accessing new sources of capital and obtaining technology.

The Right Partner

The small- and medium-sized Canadian companies interviewed in the preparation of this book, as well as some of the larger companies, particularly stressed the importance of personal relationships with their partners. Good personal relations are important to success.

One important guiding principle to keep in mind is that Latin Americans do business differently than we do. They do business with their friends. Close personal friendships are impossible to guarantee, but the Canadian representative must be available for informal personal events and be seen as taking the time to build a relationship. Where strong personal respect exists, verbal agreements are taken very seriously. Prior experience in the market, often gained through exporting, is considered very helpful by some of the Canadian firms interviewed. It provides a clearer understanding of how the Mexicans do business and opens up new opportunities for joint ventures.

Too Compatible

One Canadian firm entered the Mexican market in the late 1970s without the assistance of a local representative or agent. The decision was made entirely in Canada. Contracts were very slow in developing and required much costly travel and negotiating time in Mexico.

By the mid-1980s, a potential joint-venture partner was located and a protocol of understanding established between the two firms. Yet no cooperative basis for an alliance has evolved. The reason? In the view of the Canadian firm, the partners were too similar in nature. Both were interested in doing the same type of work. This absence of any complementarity meant that they were not strategically compatible. The Canadian firm looks back on its experience and investment in Mexico with some misgivings, and questions whether the market really holds much potential for its product.

Remember: you are not alone. In Canada both the federal and provincial governments provide useful information, resources and networks. Provincial governments have staff working in the field with companies. Agencies focussing on local development such as provincial ministries, the Atlantic Canada Opportunities Agency (ACOA), the Department of Industry (DI) and the Western Diversification Office (WD) operate networks of regional offices. The investment promotion group at the Department of Foreign Affairs and International Trade (DFAIT) and some provincial governments have networks of trade, investment and technology counsellors abroad. By tapping into these networks, firms can gain a good selection of companies from which to choose a partner.

There are other networks available as well. Associations of industrial developers can serve as focal points for the exchange of information. And science parks have formed an international organization designed to compare strategies and devise ways of complementing each other's initiatives.

Explore opportunities for using consultants and specialists to scout potential partnerships and to set up new networks. Keep in mind that some venture companies with investments in a group of local firms may seek partnerships with companies that have invested in a complementary group of firms as a means of helping their clients expand and develop.

Summing Up

The effort involved in identifying the right partner will likely be repaid many times over. It can mean avoiding delays, misunderstandings and the breakup of your alliance because of unsatisfactory performance. In the end, there is no substitute for the intensive screening of potential partners. If you are unable to find a partner who is compatible and trustworthy, you would probably be better off looking for an alternative way of achieving your objectives.

Remember, in any successful partnership, regardless of the structure of the deal, the whole will be greater than the sum of its parts. Each partner will use the other's resources to maximize its own strengths. Together the partners can create and bring to market new technologies, products and services that neither might have been able to create on its own.

Goodfellow Consultants

Goodfellow Consultants Inc. (GCI) is a Mississauga-based, Ontario engineering firm specialized in ventilation design, air pollution control, occupational health and safety, and environmental studies. Approximately 60 percent of its revenues are generated from exports.

In 1986, GCI designed air emission capture hoods for *Hysla*, a Monterrey-based facility. In 1992 and 1993, the company developed three environmental standards for the *Instituto Nacional de Ecología (INE)*, National Institute of Ecology. Two were sourced through a bilateral cooperation agreement between Canada and Mexico, and the third was sourced through the World Bank.

Subsequently, Goodfellow made a decision to develop a more permanent presence in the Mexican market. They developed two "technical cooperation agreements". The first was with *Control Ambiental e Ingeniería Van Ruymbeke*, a Mexico City firm focussing on environmental impact assessments (EIAs). The second was with *Procesadora Metalmécanica de Toluca*, a manufacturer of air pollution control equipment.

According to a GCI executive, a careful selection process was necessary to identify suitable partners. More than 50 potential partners were interviewed before a choice was made.

A Worksheet for Selecting a Partner

Try to satisfy yourself on the elements in this worksheet before making commitments to a partnership.

Capability

- Assess the competitive strengths and weaknesses of your partner, and discuss any particular areas of concern frankly and openly. It may be wise to develop a pre-incorporation agreement identifying the various strengths of the respective partners and what each will contribute.
- Do your technical skills and resources complement each other? In areas where technological obsolescence is rapid (e.g. biotechnology, informatics), be cautious about making assumptions about the capability of a potential partner.
- Does your partner have sufficient financial resources? This issue is especially important if the alliance depends on the partner's financial contribution.
- Does your partner have management resources of sufficient quality and depth to coordinate with you and to administer its share of the alliance?
- Is there sufficient symmetry between your two firms to form the basis for complementarity? Large firms have a tendency to impose their management culture and corporate demands on smaller companies.
- Do you have sufficient bargaining leverage to reduce the risk of your partner demanding far more than it gives to the venture?

Use the information gathered in this section, a form of strengths, weaknesses, opportunities and threats (SWOT) analysis, to fill out the partner profile attached to the end of this chapter. Then go on to deal with the other issues outlined in this worksheet.

Objectives

- A forthright and candid discussion of broad strategic objectives is essential.
- Do you know the real reason why the potential partner wants to do the deal?
- How critical is the proposed alliance to your partner's long-term business strategy?
- Does your partner need the venture in order to meet its own tactical and strategic objectives?
- What resources is your partner willing to commit to the alliance?
- Is there a champion inside the other firm who will strive to ensure the success of the alliance?
- Are the time horizons you want acceptable to the other side?
- Are the expected returns clearly understood?
- Is your potential partner in direct competition with you? If so, in which markets?

Chemistry

- Important cultural differences between partners may prove to be obstacles. Assess the cultural and organizational fit as early in the discussions as possible.
- Pay particular attention to your potential partner's orientation towards risk and profit, as well as its staff and style of management.
- Do you have any information about your partner's track record on cooperation?

continued on next page

Oscardo Inc.

The case of Oscardo Inc., a Toronto-based tie manufacturing company, highlights the importance of finding the right partner. It also illustrates how an effective partnership can combine Canadian expertise with the partner's knowledge of local market conditions.

Eduardo Lulka, President of Oscardo, is a native Mexican, so Mexico was a natural choice as the company's first export market. Ten percent of the company's sales are in the Mexican market, and Lulka expects considerable growth not only in Mexico, but throughout Latin America.

The company decided to work with a Mexican manufacturer that carried a non-competing line, but that was targetting the same type of retailer. As Lulka points out: "retailers in Mexico are used to working with the owners: there are direct relationships based on years of doing business together. The retailers are only now learning to deal with distributors."

Oscardo's first Mexican partner went out of business. Eduardo and Oscar Lulka subsequently founded a new company in partnership with a Mexican men's-wear distributor to manufacture lower-end ties and to distribute the high-quality, Canadian-made silk ties in Mexico. Oscardo considered producing its high-end ties in Mexico, but learned that it could produce them more competitively with the advanced technology and skilled labour in its Toronto plant. Oscardo is also using its technical and marketing expertise to help its Mexican partner improve manufacturing efficiency and develop export markets.

Principles of Partnering

✔ Be willing to commit time and resources to the analysis and selection of partners.

✔ Get help in identifying potential partners.

✔ Identify clearly and precisely the specific venture to be pursued and what is expected from your partner — and make this known to prospective partners. Frank and open communication with your partner is important.

✔ Do not be misled by superficial similarities between you and your potential partner.

✔ Look at the potential partner's balance sheet, financial stability, plans for growth and profit orientation.

✔ If the partner is an unknown to you, start small.

Protection

- It is important to take measures to guard against unfair appropriation of your know-how.
- Increasingly, the sort of technology at risk in a negotiation or in an alliance cannot be protected by patents. This is especially true in young, dynamic fields such as biotechnology. Make sure there are measures in place in your agreement to protect your contribution (e.g. technology protection).
- Are you familiar with the Mexican intellectual property law?. The Canadian Embassy and consulates in Mexico or the Department of Foreign Affairs and International Trade (DFAIT) officials will help you.
- What do people who have already partnered in Mexico in your sector, have to say about their experience ?

Choosing a Distributor and/or Supplier in the Mexican Market

- Who are the best suppliers and/or distributors in the target market?
- What is their market coverage?
- What are their lines and products? Do they complement or compete with yours?
- Who are their customers?
- What is their experience and relationships with their customers?
- What do they need in the target market?
  - physical facilities (e.g. storage)
  - shipping and delivery
  - sales
  - promotion and marketing
  - after-sales service and product support
  - other services
- What kind of staff and capabilities do they have?
- What can they offer you?
  - physical facilities
  - shipping and delivery
  - sales
  - promotion and marketing
  - after-sales service, product support
  - other services
- How capable are they?
- Are they willing to be trained? Can you learn from each other?
- What is their information gathering ability?
- What are their levels of technological sophistication? Use of technology?
- Can they provide after-sales support and customer service?
- Can you get a qualified reference? Are they trustworthy?

Negotiations

Negotiations between prospective partners are the heart of the partnering process. They will set the tone and create the structure of the relationship. Communications should be honest and frank. Cooperation depends on an atmosphere of mutual respect and trust. Trust allows partners to meet challenges and solve problems together. Trust, however, does not mean ignoring difficult questions or brushing aside serious reservations. Nor does trust mean ignoring questions of corporate security. Frank and clear definitions of intent, the scope of cooperation, and the terms of confidentiality are important. Clarity builds trust. The avoidance of important and legitimate concerns can only lead to confusion, unease and suspicion.

How to Negotiate

Negotiators should represent the various areas of the company that will be affected by the formation of the partnership. The negotiating team must be well prepared. The members must fully understand the business implications of the proposed arrangement. They need to have done their homework on the other company and be prepared to answer probing questions about their own company. Negotiators should also be familiar with their counterparts on an individual basis: if the two firms have reached the stage that they plan to partner, they should already know each other quite well.

It is critical that negotiators recognize the constraints that cultural factors can place on the negotiating process and choose their negotiating techniques accordingly. Negotiators should be well-versed in the cultural nuances of their counterparts and take care not to create misunderstandings. The use of experienced translators and interpreters will go a long way toward ensuring all points are well-understood by both sides.

The members of the negotiating team should meet at least once before entering into negotiations. This gives them a chance to get to know each other, to assign roles, and to set goals, strategies and tactics. Not only will this increase effectiveness as a team, it will also ensure that the team does not send confused signals to the partner.

Negotiators must establish realistic objectives as to their bottom line. As a general rule of international business negotiations, they should avoid making concessions until all issues have been fully discussed. Sometimes this can require extraordinary patience.

If all else fails, negotiators must be ready to say "no" to a bad partnership deal, or to get a "no" as an answer from their negotiating counterparts.

Gathering Information during the Negotiation Stages

Experienced Canadian firms interviewed for this book offered the following advice.

- ☐ Protracted face-to-face negotiations are essential. No one simply arrives on the spur of the moment and is done with it by the weekend.
- ☐ Most deals take longer to negotiate than expected. Negotiations may become protracted where the time has not been taken to form a good relationship. A stiff or awkward relationship may be a prime cause for delay and mistrust on the part of the Mexican partner.
- ☐ Confirmation of data supplied by the prospective partner will be very difficult to get in the marketplace. Knowledgeable professional assistance will be invaluable at this point.
- ☐ It is unusual for all the information to be offered by the prospective partner during the first round of negotiations. Information is most often held back until the moment is right, or until it is specifically asked for. Knowing the right questions to ask, and when to ask them, is important.
- ☐ Mexicans are shrewd negotiators, urbane and experienced. Some Canadians have a tendency to come to their bottom line too quickly. Patience is the watchword. The two sides need time to sound out each other's position and willingness to compromise before the shape of a possible deal becomes visible.

Who Negotiates

Composition of the Negotiating Team

Who is on the team will depend to some extent on the size of the company. The smaller the company, the more likely it is that the president will take a personal position in the negotiations. Regardless of the size of the companies, it is important to match position for position on the respective teams.

In Mexico, the involvement of top management from both companies is seen as important. Their presence signals genuine commitment. In Mexico's traditional and hierarchical decision-making process, it is usually the owner who calls the shots. Therefore, negotiating with him or her takes on more importance. Where the owner or a top senior executive is not involved, negotiations can be slow and cumbersome. The Canadian representatives may find themselves giving up too much to too many interveners in order to convince them to send in the top people. The last card should be saved for the final session with the Mexican owner, thereby making the final concession only to him or her, and giving all parties credibility.

Every partnership needs a champion. You should appoint at least one person with enough clout to make things happen. This person becomes the key catalyst for the partnership within your firm. He or she is the driving force, taking responsibility within your firm for the creation of the partnership and often serving as the chief negotiator.

Once negotiations have been initiated, personnel with a superior grasp of technical, operational and legal details should be used. Senior executives have been known to avoid raising thorny issues in order to maintain a pleasant, collegial atmosphere. They may also lack detailed knowledge of issues that affect lower levels of management and they may simply assume that difficult details will be ironed out later.

On the other hand, senior executives have the broad strategic understanding and the clout to keep talks on track and break deadlocks in negotiations. Their involvement should come at the right strategic point in the discussions. The choice of that point may be determined by the composition of the potential partner's negotiating team.

It is a good idea to include people who will actually be involved in the management of the partnership. It is an opportunity for them to get to know their future colleagues and help shape and fully understand the structure of the partnership. However, some firms have found that such staff are better introduced later in the negotiating process, after the controversial issues have been hammered out. This way, they are spared a conflict of interest between their desire to further the interests of the parent firm and their desire to nurture a harmonious working relationship with their counterparts.

What to Negotiate

What to negotiate will depend in large part upon the objectives of the partnering arrangement and the type of vehicle chosen for the particular arrangement. The following issues need to be considered in negotiating a complex partnering arrangement such as a joint venture.

- Ownership structure and the valuation of equity contributions.
- Control issues. Method of selecting management and a board of directors. Decision making regarding the future course of the joint venture and expansion into new businesses.
- Division of royalties if a partner markets a product or products based on the technology developed by the partnership.

What are the Warning Signals?

In negotiation, pay careful attention to the attitudes and behaviour of your potential partners. If you get the sense that something is not quite right, take the feeling seriously. Watch out for these warning signals that you might be entering a venture with a high risk of failure.

- ☐ You experience difficulty agreeing on what is proprietary data.
- ☐ They are trying to push you into making quick commitments.
- ☐ You sense they are not being honest and straightforward with you.
- ☐ They are uncomfortable discussing their intentions and plans.
- ☐ They are spending a lot of money without serious thought.

- Policy on the retention or distribution of earnings. Procedures for raising or contributing additional capital later on.
- Staffing procedures. Will the joint venture rely on its own staff, or on contracts from the partners for financial, management or technical services?
- Exit of a partner.
- Dissolution or liquidation of the partnership. Ownership of the joint venture's technology, customer lists, trademarks, brand names and other assets.

The elements in this worksheet are likely to be dealt with in a broad manner, at the level of general principles, in the early stages of negotiations. As the negotiations proceed, however, they will be dealt with in increasing detail.

As negotiations continue, it is important to anticipate as many challenges as possible, but it is unlikely that all contingencies can be provided for in the initial agreement. After all, one of the purposes of forming a partnership is to adapt to rapidly changing circumstances. Even the most carefully constructed arrangement will need to evolve as conditions change. Flexibility in structure, however, will be useless unless it is matched by flexibility on the part of the participants. The partners themselves must be open to ongoing modification of their arrangements. In successful partnerships, the negotiation process never really comes to an end.

Finally, as you enter into more detailed negotiations with a prospective partner, keep in mind that the success or failure of any partnership depends on whether or not it successfully meets the objectives of both sides. To develop a stable partnering arrangement, you need to be clear not only about your own company's goals but also about those of your potential partner.

Some goals and objectives may be explicit and clearly stated; some may be implicit and unstated. Understanding both sets of goals may be essential to success. You can find out the former through the process of negotiating a partnering agreement. The latter, however, may require a careful study of your prospective partner's corporate activities even before you get to the negotiating table.

Remember too, that the two sides in a partnering arrangement do not necessarily need to have the same goals. It is enough, and perhaps even preferable, if their goals are complementary and fit easily into a single overall strategy. Just make sure that the goals of both sides are reflected clearly in the partnering agreement. This may go a long way toward reducing the effort required to manage the relationship. It may also avoid a situation in which the partners may be confronted with a choice between opportunities that favour very different goals.

The effort involved in identifying the right partner and negotiating the right agreement will be repaid many times. It will help to avoid delays, misunderstandings or the breakup of the partnership because of unsatisfactory performance. It will go a long way toward creating a viable and balanced relationship. And, if properly constructed, it can prove invaluable in helping your company meet its corporate objectives.

The Stages of Negotiation

In any type of strategic alliance, there are three key mechanisms that mark the progress of negotiations:

1. the business framework
2. the memorandum of understanding
3. the legal framework

A business framework is an agreement which clearly defines the objectives of the partnership and, in general terms, the form it should take to meet those objectives. This step towards partnering may appear pretty straightforward, but in reality it can take a long time: it is the first time the parties lay down their cards, and express their mutual concerns and objectives.

Once parties have agreed to the terms of the framework, a memorandum of understanding (MOU) is drawn up, outlining the points of agreement in a clear, concise fashion. The MOU can then be used as the basis for the more detailed and formal negotiations of the legal framework.

MOUs can be as short as a single paragraph, or they can be as long as ten pages. They are important because they introduce clarity early in the negotiations. They can be used to define confidentiality, minimizing the risk of loss of proprietary information during negotiations. They also provide an opportunity for the partners to agree not to enter into negotiations of the same nature with other firms.

The legal framework establishes the partnership structure and methods of capitalization and control. It defines the rights and responsibilities of each partner regarding the use and support of technology, licensing and marketing, i.e. protection of the business objectives and competitive positions of both sides.

The Elements of a Joint Venture Agreement

A. Organization and Structure of the Joint Venture

- Scope of the joint venture and arrangements for expansion:
  - specifically identified development projects
  - general cooperation in future identification of projects
  - specific goals of each member identified
- Type of business organization to be selected as joint venture vehicle.

B. Financing the Joint Venture

- Amount of initial capital required and how it will be supplied, i.e., money or assets.
- Means of financing additional working capital and expenses: bank borrowings, including guarantees and mandatory or optional additional capital contributions.
- Consequences of default in making additional mandatory contributions ("dilution" provisions).
- How proposals for expansion will be handled. Consequences of failure to agree, consequences of voluntary contributions.
- Sharing of profits and losses, based on ownership share, capital contribution, stipulated percentage.
- Sharing of liabilities, joint or several. Cost of defence of claims.
- Financial records:
  - appointment of accountants, establishment of accounting procedures
  - keeping of and access to books and records by all parties
  - designation of fiscal year
  - bank accounts
- Salaries, if any.

C. Management and Control of the Joint Venture

- Voting rights.
- Identity, method of selection, and powers and responsibilities of key managerial personnel and their successors.
  - Size and constitution of board of directors, management committee or its counterpart, as appropriate.
  - Method of decision-making by board, i.e. unanimous, majority or otherwise.
- Methods of breaking deadlocks (arbitration, buyout or auction, liquidation provisions).
- Venture policy ordinarily determined through board of directors or management committee, as appropriate.
- Activities which may require formal action e.g. new development programs, levels of production, annual budgets, acquisition or surrender of property, claim settlements, guarantees and other similar matters.
- Transfer of ownership interest, e.g. right of first refusal, exemptions with respect to affiliates, continuing obligations and liabilities of affiliates, appraisal provisions in event of disagreement.
- Pre-emptive rights.

D. Employees of the Joint Venture

- Choice of employees.
- Establishment of general standards for operator (due diligence, workman-like manner, reasonableness, good faith).
- Compensation of employees.
- Consequence of breach.
- Removal proceedings, right to terminate agreement, choice of successor.

E. Marketing of Joint Venture Product

- Responsibility for marketing decisions (management committee or board of directors, unanimous vote of members, or discretion of employee).
- Joint marketing. Note antitrust issues.
- Product supply agreements.
- Development program: master plan and initial plan.

F. Restrictions on Activities of Members of Joint Venture

- Competition within specified territory during and subsequent to joint venture.
- General confidentiality provisions covering all information received in connection with joint venture.
- Area-of-interest provision: any property or interest or other business opportunity acquired by any party to the joint venture or any affiliate thereof must be offered to the joint venture on the same terms and conditions as it was acquired.
- Competition clause: except with respect to joint venture property or area of interest, parties are free to compete as if the joint venture did not exist (limitation of fiduciary duty created by joint venture).
- Provision for reacquisition by parties of surrendered joint venture property; only parties not involved in disposition may reacquire for own account.

G. Default by Members of Joint Venture

- Definition of default.
- Consequences of default (e.g. monetary penalties, forfeitures, waivers of certain rights, termination of joint venture and others). It is important to have different penalties for different defaults.
- Indemnification upon default.

H. Proprietary Rights

- Any special arrangements for supplying patent rights and know-how to the joint venture by members. Need for licensing agreements.
- Provisions relating to use of trademarks, if any.
- Provisions relating to disclosure of improvements.

I. Term and Termination of Joint Venture

- Commencement of term. This should be subject to regulatory approvals obtained and other conditions met.

- Specifics on:
  - duration of term
  - method of termination or prior agreement to terminate
  - method of renewal
  - penalties for wrongful withdrawal
  - consequences of bankruptcy, death of certain parties and other events

- "Hardship reopener": the provision which allows for modification or termination of joint venture in event of financial hardship to member or operation of joint venture on "non-economic" basis.

- Termination issues:
  - Disposition of assets upon termination, including options to purchase assets, division of proceeds of assets, and buy-out provisions.
  - Method of evaluation of terminating party's interest.

J. Miscellaneous Considerations

- Governing law provision.

- *Force majeure* provision.

- Modifications and waivers of joint venture agreements.

- Arbitration of disputes.

K. Documentation of the Joint Venture

- The first step in negotiating a joint venture generally is the preparation of a brief outline of the basic terms of the proposed venture. This outline, or memorandum of understanding (MOU), is usually not intended as a binding document, but rather as an expression of mutual intent with respect to the basic features of the transaction from a business point of view. The outline provides the basis for the detailed negotiations and for the drafting of the formal joint venture documents.

- The specific arrangements concerning the establishment and operation of the joint venture are normally set forth in a joint venture agreement which covers all aspects of the venture in detail.

- Additional documentation may include:
  - the organizational documents of the joint venture vehicle
  - patent, know-how, or trademark licence agreements
  - technical assistance agreements
  - leases
  - construction contracts
  - management contracts
  - employment contracts for key personnel

Structuring the Deal

Identifying a suitable partner and entering into negotiations is only the beginning of a complex and ongoing process of shaping the relationship to suit the objectives of both sides. Having arrived at a memorandum of understanding that lays out the general framework for the partnership, it is then time to deal with the more detailed issues that will affect how the partnership works from day to day.

Control

One of the critical issues that must be resolved early on is that of decision-making and control. Insufficient control will impair the partnership's ability to deliver what is expected. Too much control may be both crippling and expensive.

The relative weight of each partner's influence on the relationship must be established at the outset. For example, in constructing a joint venture, should the Canadian side aim for a minority, majority or equal position? Securing a majority position may avoid costly decision-making deadlocks, it may prevent leaks of proprietary information and it may focus the partnership more explicitly on satisfying the controlling partner's overall objectives.

On the other hand, exercising one-sided control may diminish the partnership's overall performance. A 50-50 split, by contrast, may have important symbolic value in securing enthusiasm and commitment from both sides. An even split also protects the interests of both partners, fosters decision-making by consensus and encourages the partners to negotiate as equals. Interestingly, between 1981 and 1988, joint ventures in which control was evenly divided showed a higher survival rate (58 percent) than did ventures with majority ownership (48 percent).

Some partners view a fifty-fifty split as a symbol of equality and of the commitment and continuing interest of both partners in the joint venture. On the other hand, partners with a majority equity position usually exercise a greater degree of control over the venture. Nevertheless, they will not be able to dictate everything. Minority partners can influence areas such as human resources and the appointment of managers. They can also safeguard their position by establishing their right to veto decisions made by the majority partner regarding key staff appointments, major financial expenditures, major changes in business strategy, or shareholdings. Occasionally, joint venture partners who hold less than 25 percent are only considered to be investors with minimal responsibilities.

MANAGEMENT

How ownership is divided, however, may be less important than how the partnership will be managed. In negotiating the partnership, make sure that you have a decisive say in those activities that are strategically important to your interests. This will give you greater practical day-to-day influence in crucial areas than your ownership share might warrant.

There are four major ways of defining managerial control in a joint venture.

1. Dominant partner: one partner dominates the decision-making process. This one is relatively easily to manage.

2. Shared management: each partner plays an active role in operational or strategic decisions. Joint ventures with shared management are more likely to experience conflict, but because both partners have a voice and a hand in the venture, there is also more opportunity for both sides to be heard and effective compromises reached.

3. Split control: each partner controls specified areas. Hopefully, partners are assigned areas of responsibility that are close to their strategic objectives. Because neither partner enjoys decisive control of the venture, the coordination and maintenance of clear objectives is extremely important.

4. Independent: the joint venture's general manager takes responsibility for decisions. The autonomy of the joint venture must be recognized and respected by all the partners.

Responsibility means costs. Whoever controls the operation must have the resources and the will to take on the responsibilities involved. For example, exercising control over the management of a joint venture will divert attention from other activities in the parent company, and may increase overhead and administrative, monitoring, enforcement and human resource costs.

It may be useful to bear in mind that independent ventures have the lowest control costs; dominant-partner arrangements are slightly more costly; split-control ventures are costlier still; and shared management ventures are the most complex and costliest to control since they require the most coordination between the partners.

Some Key Technology Issues

Partners need to resolve:

- ☐ questions of ownership of technologies developed by the alliance;
- ☐ the right to use and market technologies to be developed, technologies from outside sources, and core technologies;
- ☐ division of royalties if a partner markets technology or products based on technology that were developed by the alliance;
- ☐ ownership and rights to use improvements in the technology;
- ☐ decision-making procedures concerning products based on new technology; and
- ☐ legal rights involved if a third party infringes on technology developed by the partnership.

Valuation

Another critical aspect of negotiating a partnership involves putting a fair value on the respective contributions of the two sides. Where the contribution is financial, there is no problem, but there are a host of other assets, some of them intangible, which clearly have value and yet are difficult to evaluate with any precision. They include the following:

- land and the rights to land
- facilities and equipment
- personnel and managerial expertise
- technology and technological expertise, proprietary technology or processes
- name brands, trademarks, copyrights and patents
- access to preferential financing
- access to distribution channels
- access to government or other types of contract opportunities
- a network of valuable contacts
- regulatory approval and certification
- corporate identity, reputation and good will

Each side may value these assets in different ways. They may also account for them and depreciate them in different ways. The value set on each side's contribution will affect how the venture is structured, what taxes are likely to be incurred and how proceeds are distributed. And, as if this were not complex enough already, there are fluctuations in the exchange rate between the Canadian dollar and the Mexican peso that can have dramatic consequences for any financial arrangement.

Policies and Procedures

It is inevitable that Canadian and Mexican firms will exhibit different approaches to the task of operating the partnership. In negotiating the partnership, make sure that you come to some explicit understanding about how you propose to handle the following issues:

- accounting practices
- budgeting and financial reporting
- health and safety guidelines
- environmental protection
- personnel practices

Some Important Marketing Issues

The control and coordination of the marketing plan can be difficult when both partners market the product or line of products. Key issues to address are:

- ☐ Who decides what the product will be?
- ☐ Who designs the product?
- ☐ Who chooses the product name?
- ☐ Will you share advertising or marketing campaigns?
- ☐ Who decides on improvements or new additions to the product line?
- ☐ Who is responsible for warranty obligations?
- ☐ Who is responsible if a customer is injured?
- ☐ What happens if the product infringes on the intellectual property rights of someone else?
- ☐ What happens to marketing rights if the partnership ends?

- public relations and communications
- sourcing of raw materials, components and other inputs
- transfer pricing and evaluating profitability
- reinvestment or dividend payouts
- conflict resolution
- maintaining the confidentiality of proprietary information

Clarification of these points at the outset will save much time and energy later on in the relationship. Partnerships can only succeed if both sides are willing and able to devote enough time, energy, resources, financing and skilled people to make them work. They also require surrendering a certain amount of independence. Only when both sides are prepared to make concessions and display flexibility can the partnership prosper. If you find that there is little understanding or flexibility on these points during the negotiation process, you may be well advised to cut your losses, look for another partner or try a different market entry strategy because it is not likely that the relationship will work.

When considering questions relating to the structure of the relationship and its expression in the legal framework document, it is especially important to make sure that the agreement defines both the scope of cooperation and the procedures involved. This will facilitate the smooth functioning of the partnership and protect the relationship by reducing the likelihood that trade secrets or technology will fall into the hands of competitors. For example, in a joint technology development effort, the creation of a separate entity to perform the work ensures that the technological contributions of each partner can be jointly owned by all participants. If structured accordingly, future spin-offs or future generation products from the partnership will also be jointly owned. This precaution ensures that proprietary technology shared in one alliance does not stray into a different alliance.

Finally, it is important to remember that relationship issues are intimately connected with the more formal issues discussed. Firms with experience in partnerships in foreign countries have pointed out that mutual dependency can be fostered with many informal linkages between partners. The greater the reciprocal needs for each other's markets, technology and capital, the less likely it is that one partner will try to take advantage of the other.

A Comment on Terminating a Partnership

Termination of a partnership is an important issue. In fact, it is one you cannot afford to ignore, and some provision for exit must be built into the legal framework at this point.

Financing the Venture

The financial arrangements involved in the partnership must be specified in the negotiations leading to an agreement. For example, the method used to finance new investment should be established as part of the deal. The same goes for the timing of establishing a new plant and sending personnel and inventory; conditions for debtors and creditors; and banking arrangements to be negotiated in new markets. In addition, a plan should be made to deal with foreign currency transactions in existing markets; and new sources of business financing and their costs, including overseas banking. There is also the issue of dividend payouts and reinvestment of profits.

Five factors are important in determining how the alliance should be financed. They cannot be considered in isolation but are an interconnected whole. The decision on the form and amount of financing should be made based on how each factor influences the overall deal.

Structure of the Partnership

The type of partnership being contemplated will influence the nature of the financial commitment by the partners. For instance, a joint venture based on equal shares for the partners will have different financing implications than would a licensing arrangement or a marketing agreement. Joint ventures involve more significant legal and financial obligations than do other forms of cooperation. In fact, co-marketing, cross-manufacturing and cross-licensing alliances may not require a substantial financial commitment at all since, in many cases, they use resources that can be financed out of existing operations budgets.

Roles of Parties

The amount that a company may be willing to invest in a partnership will depend on its role. It may assume the role of financier, in which case it takes on the responsibility for providing capital for the whole project. If it wants a controlling interest, it will have to make a corresponding financial contribution. Sometimes, an investment is required as evidence of serious commitment to a project. It may also be limited to an initial exploration of future possibilities for cooperation. If the role of one of the parties is to contribute know-how to a project, it may offer patent rights in exchange for shares in the venture.

Capital Sources Available

Much depends on the financing available to each of the partners. In addition to financing available through the commercial banking system, the Canadian partner may also be eligible for financial assistance from various federal programs. Financing is also available in Mexico, though it currently tends to cost significantly more than capital in Canada. The specific rate charged, however, will depend on the quality of the borrower and the nature of the investment. Part of the difference in the rate is due to the risk still associated with Mexican ventures, especially in view of recent turmoil in that market. It is also associated with higher rates of inflation and a relatively weak peso. Part of the additional cost of Mexican capital, however, arises from the large bureaucracies of the Mexican banks themselves. The effects of bank privatization should overcome this problem in the medium term. State governments and various incentive programs established in Mexico may be helpful in providing access to local sources of financing or incentives. Private-sector financial specialists may also be instrumental in sourcing financing or guarantees. The strength and reputation of either party may make a stock issue possible in Mexico, depending on the nature of the project and prevailing market conditions.

Risks and Rewards

The willingness of either party to make a financial commitment to the partnership will also depend on what other investment opportunities are available. If participation in the relationship promises one of the sides greater rewards for less risk than other alternatives, that partner will be more willing to increase its contribution in exchange for a larger share of the returns.

Statement of Financial Criteria

The Canadian firm should formulate financial criteria that will make it easier to define financial performance objectives as well as targets for investment, risk financing, new share issues, retained earnings and earnings-per-share. The firm should also make clear at the outset what its intentions are regarding additional funding, potential sources of new funds, key financial ratios and dividend goals. Finally, it should describe the organization and structure to be used for the financial management of the proposed venture.

A partnership in Mexico can be evaluated according to the same criteria for success as are normally applied in Canada. Even so, it is better to take a long-term view of the venture since it is likely to take several years before significant financial returns materialize. Ultimately, however, the purpose of any business venture is to generate profits. There should be a clear agreement between the partners as to how profits are to be handled. In the case of some partnerships, any dividends due are deferred or reinvested during the venture's early years. In addition, some companies are able to arrange for profits to accrue to them through transfer prices and service contracts. Over the long term, the partners may come to differ over the issue of retaining earnings for reinvestment or redistributing them to the partners. Some of this can be avoided early in the relationship by specifying how much and how quickly the partners want their venture to grow and also by making the appropriate arrangements for the disposition of earnings at that time.

FINANCING CONSIDERATIONS

Financing is an all-important element in any business transaction. Do you have enough financing available to carry through on the deal? If not, can you get the financing you need at a reasonable rate? At an early stage in the process, it would be a good idea to answer the following questions:

1. Which of the following expenses would be involved in pursuing the business opportunity you have in mind? How much would each item cost?
   - market research
   - travel to Mexico
   - hiring professional assistance, e.g. translators, lawyers and tax specialists in Mexico
   - production of items for export into the Mexican market
   - product modifications for the Mexican market
   - transportation costs
   - agents' and distributors' fees
   - sales commissions
   - marketing in Mexico

2. How much of this cost can you cover from available resources or from operations? How much additional financing does the transaction require? How much of it is one time only (up-front) expenditure? How much is ongoing?

3. When do you need the financing? Do you need it all at once? Can it come in stages?

4. Which of the following external sources of financing are available to you?
   - commercial banks
   - programs offered by the Canadian federal government
   - provincial programs
   - investors: who and on what terms?
   - your prospective Mexican partner
   - the Mexican government
   - international agencies, e.g., the World Bank or agencies of the United Nations

5. If conventional financing is unavailable, can you arrange for a commercial factoring house to purchase your receivables at a discount and thus pay you faster than you could expect to be paid by your Mexican partners?

MANAGING THE RELATIONSHIP

The value of an alliance is the product of the joint efforts of the partners. "When a firm enters into a strategic alliance, it must realize that it has nothing more than a contract on a piece of paper", remarked an executive, "it is up to the partners to convert the agreement into a productive relationship". That transformation is the challenge of alliance management.

Michael S. Yoshino and U. Srinivasa Rangan.[6]

CULTURAL ISSUES

A NOTE ON MEXICAN NAMES

Mexicans tend to use the family names of both their fathers and their mothers, as in Carlos (given name) Salinas (father's family name) de Gortari (mother's family name). The father's family name comes first and is the one that is normally used, for example when asking for the individual. The full name is generally used in correspondence. Any titles or academic degrees should also be added to the address or salutation in a letter and be used in conversations with individuals that you do not know very well.

Canadians will find Mexico to be as diverse, complex and sophisticated as their own society. Doing business there may seem like a daunting task, especially for a company with limited international experience. The time needed to research market information, to analyze the opportunities in Mexico, to locate an agent or other type of partner, to negotiate an understanding, and to battle through red tape may seem insurmountable. For those who persevere, however, the rewards can be substantial.

The first step for the newcomer is to understand and appreciate the cultural differences between Mexico and Canada. Mexican culture is distinctive, and being aware of Mexican values will help cement a solid and harmonious business relationship.

Mexicans are inclined to be more formal than their Canadian and American counterparts. In meeting with Mexican business people, bring business cards and be on time, even if those with whom you are meeting are late. At the beginning and the end of a meeting, they will take the time to shake hands with all those in attendance. They will make small talk about current events or the interests of their Canadian guests. For Mexicans, personal relationships are very important, and developing them is the key to success. Mexicans do not like doing business over the telephone. They prefer to meet in person as a way of developing a closer and more trusting relationship. The time spent developing such relationships will be repaid well.

The family is predominant in Mexican life and the family hierarchy is also the model for business. The notion of delegated responsibility, therefore, is not always readily accepted by Mexicans. Everyone is more comfortable when the person in charge makes the decisions. Mexican subordinates may be reluctant to go beyond instructions without specific authorization. They are more likely to make constant reference back to the manager.

---

6 Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995, p. 109.

Temprano Associates

Temprano Associates is an established Ottawa-based firm that has been successfully selling its architectural services in Mexico. It first came in contact with that market when the firm's owner, Eliseo Temprano, was invited to Mexico to discuss the implications of the North American Free Trade Agreement (NAFTA) by virtue of his position on the Canadian Architectural Council.

A key advantage was Temprano's fluent Spanish, which surprised and pleased Mexicans who noted that no American business people ever dealt with them in their own language. This opened the door to a wide network of contacts throughout Mexico. Temprano took the opportunity to give talks on architecture, Canada, and the NAFTA. "Leave your attitudes at home and build relationships," says Temprano. He also feels that his knowledge of and respect for Mexico's language and culture has been a key to his success. Also important has been his non-aggressive marketing strategy that relies on personal contact and patience to build a solid long-term business.

The approach is beginning to pay off. Many of his Mexican contacts have been, in effect, marketing Temprano's wood-framework architectural techniques and are now calling with business opportunities. For example, the company is currently designing an office and exhibition facility in Mexico City.

Temprano's experiences in Mexico have led him to conclude that Mexicans are generally not familiar with Canadian capabilities. And yet, there are great opportunities for partnerships between the two countries in areas such as planning, environmental protection, transfer of appropriate technology, project management, communications (as in public opinion polling or surveys) and approval processes. These are perhaps not traditional areas for architects, but they do represent real needs where there is ample scope to develop a business.

One thing that Temprano does counsel Canadians to do is to look for a "made in Mexico" solution to Mexican needs. Mexicans are a proud people who cherish their independence and who appreciate a cooperative approach that shares benefits. Partnerships between equals offer better opportunities for mutually fruitful business that will extend over the long term. Thus, instead of going to the expense of setting up a Mexican branch office or hiring locally, Temprano is looking for associates and partners in various cities as projects arise that require them.

Mexican culture is changing, however. Both government and business are challenging traditional business practices. The youthfulness of the workforce and the liberalization of the regulatory environment has given birth to a new "can do" spirit which is gradually permeating both society and business. Even so, old customs die hard.

Honour is important. The sensitive business person deals first with the individual and then with the issue. For this reason, an employee should never be corrected in front of peers. This could cause personal damage which may be impossible to repair. Privacy and delicacy are much appreciated in such situations.

Canadian business people with extensive experience in Mexico have commented on the reluctance of Mexicans to say no. It can take a while for the Canadian newcomer to understand how to interpret the "ye"s which has been given in response to a question. Saying that one does not have the answer is difficult for Mexicans; they tend to be very polite and solicitous at all times. It is better to provide no answer at all than to deliver bad news. Sensitivity is essential and there is no substitute for experience.

Competent Spanish speakers who are well-acquainted with the interests of the Canadian firm are vital to any negotiations. This remains true even when the Mexican officials and company executives on the other side are proficient in English. Even if expert translation is available, language can still be a barrier to doing business in Mexico. It is not so much a question of rendering words exactly but of capturing nuances and interpreting gestures. Canadians doing business in Mexico should be careful to go beyond simple words to understand the spirit in which the transaction is being conducted.

The selection and training of personnel to manage international partnerships is critical to how the firm is able to deal with associated cross-cultural issues. These managers must be able to:

- appreciate their partners' points of view;
- understand how the behaviour of the respective parties is perceived by the partner;
- express their ideas so that counterparts can easily understand both their intentions and the messages communicated;
- manage stress and ambiguity; and
- sensitize themselves to the cultural background of others and adapt their management style as appropriate to the situation in which the partnership operates.

Staffing and Personnel Issues

Managers

Finding the right person to run the strategic alliance, or to look after liaison between the partners, is of vital importance. Such an individual must possess enough power within your firm to make things happen, plus a good understanding of the culture and the way things run in both parent companies. He or she must be active listeners, able to sense the unspoken and hidden dynamics of the other side and find reasonable compromises.

This "champion" is the driving force. Having taken responsibility within the firm for the successful formation of the relationship, and frequently having acted as a negotiator, the champion should continue to support the partnership once a deal is struck. It is vital that the benefits of the relationship continue to be promoted to other executives in the parent organization.

Apart from a champion in head office, a successful partnership will need a good manager on the ground. This manager should be flexible, and know the parent company well. In Mexico, a knowledge of Spanish is a definite asset, as is prior experience either in Mexico itself or in other overseas markets. It might be wise, for example, to designate one of the individuals involved in negotiations to serve as a key manager once the venture is launched.

The general manager can make or break the joint venture. Whether he or she is recruited from within the company or from outside, the general manager must be able to understand and balance the needs of both parent companies and the interests of the joint venture itself. It would be a mistake to hire the general manager from within your own ranks in the hope that he or she will favour the interests of your company over those of your partner's. It is upon such short-sighted motivations that joint ventures easily founder. Zero-sum games — games in which a winner is always balanced by a loser —should be avoided. After all, why should the loser cooperate?

It is important that other managerial staff in a joint venture be able to work well with the general manager and with each other. It has been suggested that members of the board of directors should be competent to effectively monitor and advise on specific areas of the joint venture. Technical staff will probably have to adapt to new ways of doing things and to a new and evolving culture. And, given the rapidly changing environment most strategic alliances have been created to tackle, the success of your venture may well depend on the quick and effective work of your technical people. Clearly, they will need to have both strong technical and interpersonal skills.

Meetings

Working around cancelled meetings is a common problem. You can make an appointment but it may be cancelled by your Mexican counterpart on very short notice. Fine distinctions must be made in such matters. For instance, the other party may cancel a meeting because a positive outcome is deemed unlikely. Or your Mexican counterpart may feel forced to cancel because of a sudden demand for his or her time by a senior official. Mexicans avoid giving offence at all costs. A cancelled meeting may be seen as a much lesser offence than failing to agree to a meeting in the first place.

Doug Clark, Managing Director, Northern Telecom, Mexico, D.F.

Language

"Language extends far beyond the spoken word. Very often that which was written in English or Spanish, and which both parties have appeared to understand, is badly interpreted in practice. The innuendo of the language, be it English or Spanish, is as important as the spoken word. Body language often communicates the message and cannot be readily interpreted by someone new to either the Mexican or Canadian culture. The nuances of body language will tell you more about the state of your business transaction than the spoken word. Misinterpretations can quickly dispel the advances made in your discussions."

Minister Counsellor, Embassy of Canada

Establishing the Right Atmosphere

"Establishing the right atmosphere is the most important task in alliance management," observed one alliance manager. Unless your managers have the right chemistry with their counterparts in the partner firm, the alliance will not go anywhere. The manager defined right chemistry as "organizational trust, that is, trust within a firm and trust between a firm and its partner". The alliance manager is responsible for creating and preserving both.

Michael S. Yoshino and U. Srinivasa Rangan.[7]

[7] Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press. 1995, p. 123.

Recognizing the Importance of Internal Relationships[8]

Marshalling the internal support needed to ensure that the alliance is a success is a key part of the alliance management process:

- ensure middle managers assign it a high priority;
- maximize internal understanding of the role of the alliance in the firm's overall strategy; and
- try to overcome the "not-invented-here" syndrome.

John L. Robinson, Interior Designer, Toronto, Ontario

John Robinson is an interior designer from Toronto who has lived and worked in Mexico for many years. He has seen a lot of foreigners arrive with big ideas and leave disappointed. "I don't think the cultural differences are stressed enough. It is the biggest hurdle foreigners must overcome and its impact on doing business should not be underestimated," he says.

Robinson has seen large, sophisticated operations founder on the inability of its expatriate staff to handle day-to-day business. "It is not just the language, it is the culture. You might understand the words, but what do the words really mean?" asks Robinson, referring to the many nuances a Mexican can place on what, to a foreigner, may sound like a straightforward conversation.

New entrants to the Mexican market should look for a partner "who is bicultural as well as bilingual," counsels Robinson. Not only does it take a great deal of time, patience and sensitivity to tap into the Mexican culture, there also exists a certain amount of hesitancy on the part of Mexicans to deal with North Americans. "There are insecurities on both sides," explains Robinson, "and these have to be understood." However, Robinson is quick to point out that cultural differences should pose no barrier to selling services into the Mexican market. For his part, Robinson loves the warmth and generosity of the Mexicans. Notes Robinson: "The people are terrific to work with."

[8] Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995, pp. 137 ff.

Training and Appraisal

It is important to have effective systems for staff appraisals. Formal staff assessment procedures will allow you to improve areas of venture performance, determine effective rates of pay and ensure that important functions are conducted correctly. It is probably best if the performance standards used to judge the performance of employees in the parent companies are not applied to the staff in a joint venture. Because both parent companies have their own strategic objectives in mind, it is likely that they will use different criteria when assessing alliance staff. As long as these differences are seen clearly and their causes recognized, they need not cause confusion.

Performance appraisals should be used more for spotting strengths and weaknesses and applying appropriate development programs, than as reward and punishment exercises. Long- and short-term goals should be developed. And because strategic alliances operate in environments that change quickly, these objectives and related assessment criteria should be reassessed regularly.

Special training for alliance staff can make all the difference. Large companies tend to have in-house programs, while smaller companies tend to go outside for staff training. Be careful, however, that the training is relevant to the actual tasks your people will be carrying out.

At all costs, do not allow your strategic alliance to become a dumping ground for incompetent personnel. Make it clear to those involved that their work is vital to the company's interests and that effective performance will be rewarded.

Motivating Staff

How will you alter your incentive system to conform to the new dimensions of your strategic alliance? It is no secret that conflicting or anti-productive incentives can seriously undermine cooperative initiatives. It is important that you create an environment where alliance success reflects individual success.

A well-structured incentive program that includes both financial and non-financial rewards will go a long way to ensuring that personal goals correspond to corporate goals. It is surprising how many firms leave conflicting incentives in place. For example, if a technologist is rewarded for developing new patents and publishing papers, being assigned a new role in an alliance that involves sharing information with his counterpart may require changes be made in the way he or she is rewarded for their work. Otherwise, in carrying out his new task, he could be hurting his own chances of developing a new patent. Perhaps he could be awarded the same amount for successfully completing his alliance-related assignment as he is rewarded for developing a new patent. Companies usually have quite a bit of leeway to structure benefit packages so that both corporate and personal goals are realized.

Large and small firms may need different types of incentives. In the large firm, the group or division in charge of the alliance should have a stake in the smaller partner's success. The group can encourage the rest of the company to buy into the alliance by passing along advantages and new expertise gained from the alliance to other units. The champion must develop an incentive scheme that encourages risk taking and rewards success.

A small firm allied with a large partner usually has a natural motivation, since cooperation probably means access to a much larger market by selling directly to its partner or through its partner's distribution system. However, since small firms are unlikely to have a single alliance champion, senior management's compensation should be tied directly to alliance success.

Conflict Resolution

How Ready are You to Resolve Conflicts?

- ☐ Are you prepared to reach a compromise? Remember to get something in return.
- ☐ How solid are your communication links?
- ☐ Can conflict be resolved by direct reference to an original alliance agreement or a memorandum of understanding (MOU)?
- ☐ Are you prepared to attempt more informal ways of resolving your conflict?
- ☐ Have you considered training staff in interpersonal skills such as effective listening, negotiation and conflict resolution techniques?

A good deal of thought should be put into anticipating and resolving conflicts. No matter what formal methods you implement, both sides should remember that disagreements are inevitable and that circumstances will change. The ability to adapt to change and to find intelligent compromises is invaluable. Flexibility is more important than any formal method of conflict resolution. Some disputes can be avoided through the clear delineation of responsibilities.

Since legal systems differ so greatly, using the justice system to settle disputes with international partners is problematic. It is better to look at means of averting or resolving them in other ways. Solid lines of communication go a long way to solving this problem. During negotiations, potential problems are anticipated and formal methods of resolving them are established. Usually, when conflict arises, those involved can inform their managers who can then resolve it then and there.

Measures for resolving disputes include:

- use of a predetermined third party, such as a respected lawyer or director of the joint venture;
- use of a conflict resolution board drawn from both firms to hear the issues and pass judgement;
- the chairperson should be independent; and
- anticipating potential problems, and establishing formal methods of resolving them, during negotiation of the partnership arrangement.

Large and small companies often have different sorts of conflicts. Large firms will have both external and internal conflicts to manage. Other divisions or departments of the company may not be as pleased about the alliance. Large firms may have problems coordinating daily operational activities with small firms that are more entrepreneurially focussed.

> **How to Avoid Unpleasant Surprises**
>
> "You can never afford to surprise your partner. You must treat him like a customer. That means you have to talk a lot. Things you might normally do as reflex or routine you have to explain and be prepared to change."
>
> Richard Dulude, Group President of Corning[9]

Small firms may be surprised to find that their larger partner's needs are inconsistent with the strategic goals of the small firm. Operating procedures may be too simplistic to handle the complexities of the larger firm. Or the small firm may find itself overwhelmed with "help" sent in by the larger partner.

Interpretation problems can arise as well. For example, one firm may believe it has manufacturing rights for the whole product line, when that was not the intent of their partner. Whatever the type of problem, if negotiators and upper management are on the lookout for potential conflicts, they will be able to nip many in the bud. Forethought and flexibility are the vital ingredients.

Conflict is not always bad. One multinational division president remarked that there should be occasional complaints from counterparts about employees who are unwilling to share information. These complaints can be an indication that gatekeepers are doing their job by controlling the release of peripheral or questionable information. A certain amount of conflict can also mean that ideas are fully considered before they are carried out. When a relationship is healthy, disagreements can be treated more lightly: they can be viewed as opportunities for cooperative efforts that will create improvements.

Performance Measurement and Evaluation Issues

> **Questions to Ask When Establishing a System for Monitoring Alliance Performance**
>
> - ☐ Are the criteria used for measurement related to the circumstances of the alliance rather than those of the parents?
> - ☐ Were both long- and short-term objectives considered when drawing up the measurement criteria?
> - ☐ How often will alliance performance reviews be made?
> - ☐ Who will make the assessment? What training will they receive? Will the management teams from the parent firms be involved?
> - ☐ Are performance reviews in tune with changes in the objectives or the operating conditions of the alliance?

Monitoring the results of alliances enables firms to assess and improve their performance. It also allows firms to end alliances when predetermined objectives have been met and to withdraw from unsuccessful alliances with a minimal amount of harm done.

Most companies do not adequately monitor the performance of their alliances. Often, they do not even have a clear idea of the levels of performance that were expected in the first place. A successful alliance meets the expectations of its partners. It is important that each partner define its criteria for success. While the alliance manager should have a clear sense of the strategic objectives of the alliance as an integrated whole, a good understanding of the different priorities of each partner will add clarity to the assessment process as well as help avoid unpleasant surprises. These criteria may also change over time due to the growth of the importance of the strategic alliance or to changes in the market.

Criteria for judging alliances include objective factors such as profitability, growth in sales, market share, ability to meet margins, return on investment and capital intensity. Objective criteria can be measured and quantified. There are special problems involved in collecting and assessing alliance-related data. Data on the alliance needs to be differentiated from data pertaining to the parent companies, and, eventually, the information-gathering systems involved may have to be separated. This is especially true as the strategic importance of an alliance grows. Special attention should be paid to accounting and to financial reporting procedures. Separating costs and assets that are shared can be frustrating, but the process is a worthwhile one, for it enables you to ensure that the alliance remains on track.

[9] C. Leadbeater. "The Business Column". *Financial Times*, 22/1/90.

The Importance of Learning

The first strategic goal ... is to add value to an activity. The second goal of a partner is to augment its strategic competencies by learning from its opposite. Learning is an implicit, if not explicit, strategic objective of every firm that strives to maintain its competitive position. Willingness to learn leads to product and process innovation.[10]

Qualitative criteria can be just as vital to the assessment of an alliance. An important criteria for assessing the success of an alliance is often what was learned from it. An alliance may be valued because it adds to company prestige or because it helped the company gain the confidence of the financial community. Improvement in strategic position, improved relations with other firms, enhanced product recognition, improvements in the quality of a product, and the building of a long term profit base, are all important alliance accomplishments. Sometimes alliances may be unsuccessful in terms of objective criteria, but nevertheless still meet the essential goals of a partner.

In evaluating an international partnership, it is best to take a long-term view of the venture since it is likely to take several years before significant financial returns materialize. There should, however, be clear financial targets established at the outset, and the evaluation should determine whether or not these targets have been met.

Coordination and Communication Issues

Is Your Company Ready to Communicate?

- ☐ Is your corporate culture favourably disposed toward alliances? It goes without saying that your alliance team must be fully committed to the project, but what about the attitudes of the rest of the company? Your company will need to promote a long-term, positive attitude among all those who work with and within the alliance structure. For example, the activities of the alliance should be viewed as just as important as those of a subsidiary.
- ☐ Have you created an organizational structure that will support the proper functioning of the alliance? Have you designated contact points at all levels within your company and the alliance?
- ☐ How is information disseminated and absorbed within each firm? How will the information be shaped and who will receive it? It is important to keep in mind that how information is interpreted and distributed will have a powerful effect on alliance activities and on the attitudes people bring to bear on them.
- ☐ Have you set up appropriate ways for participants to meet? Have you considered formal or informal meetings, staff visits or exchanges, or teleconferencing?

Careful attention should be paid to fostering mutual trust and joint commitment. Exchange programs have been rated highly by participants and sponsors for short-term efforts that involve both companies or for longer-term, cross cultural training programs. In a joint venture, it is often an excellent idea if the general manager consults with senior management in both parent companies on major decisions, regardless of whether or not they have any real expertise in the particular issue at hand. Those consulted are reassured by their ongoing involvement and are far more likely to be on-side when the actual decision is made.

There are different schools of thought concerning how much and what kinds of communication are appropriate between a joint venture and its parents. Some managers feel that joint ventures fail because the parents did not nurture it properly in its formative years. According to them, managers in the parent companies should carefully supervise and support the activities of the joint venture.

Other managers feel that too many joint ventures are smothered by over-protective, interfering parents who are unable to trust the new child. Or it may be that the parameters of communication and the purpose of the relationship need to be better defined. For example, managers in a large parent company may deluge a small joint venture with more requests than it can handle. Sometimes the attempted solution to this problem is worse than the disease: managers in the parent company, frustrated that they are not getting the response they expected, add new layers of management to the venture, and what was once intended as a small, flexible vehicle becomes yet another bureaucracy.

[10] Michael S. Yoshino and U. Srinivasa Rangan. *Strategic Alliances. An Entrepreneurial Approach to Globalization.* Boston: Harvard Business School Press, 1995. p. 18.

BOVAR

Bovar is a Calgary-based company specializing in pollution control and waste disposal technology, a leading edge manufacturer of engineered and specialized environmental technologies. Bovar moved into the Mexican market in recent years to take advantage of Mexico's growing need for pollution monitoring and control technology.

Bovar found that one of its biggest challenges in Mexico was to find a local partner that was both capable and qualified enough to represent the company's products. The first partner did not meet the company's expectations. Eventually, however, they found a more suitable representative with the help of the Canadian Embassy, and the company began to experience a rapid expansion of its Mexican business.

Mexican marketing practices are so unique that Bovar leaves its representative the freedom to act appropriately. The company has generally found that it takes much longer to finalize a deal than in the rest of North America. Bovar's experience in the Mexican marketplace convinced it to pay close attention to cultural differences. Mexicans value friendliness: honesty and openness are received extremely well. Forming real friendships that transcend the business relationship is crucial. Thus Bovar's message to its staff is simple: "do business the Mexican way".

In order to adapt to the new demands of strategic alliances, some companies have restructured themselves. In one case, the vice president for indirect marketing looks for the right partners, promotes the company both internally and externally, does the initial negotiations, manages contractual relationships, and provides guidance on sales and marketing approaches. The business manager of this company spends time with the partner, assists on initial sales and marketing efforts, coordinates resources, is locally-based and understands business practices. The technical support position provides technology transfer, does technical training, puts people on-site during the start-up period, provides telephone support on an ongoing basis, and consults on the internationalization of technology. Any alliance will benefit from having commitment from both operational and executive levels.

Some companies have successfully adopted a team approach in which people with critical functional expertise form a team and work closely with the other company's team on alliance-related tasks. Each company contributes specialists from its particular areas of strength. This approach not only devotes human resources to work exclusively on the alliance, it also creates the perfect opportunity for people to buy into the alliance at an early stage in the alliance-building process.

Using the team approach, members meet regularly as a group and individually as required. This way all the members of the project understand both the obstacles encountered and the successes achieved. A project team provides a forum for frequent communication, ensuring all members understand the issues. It also helps foster a spirit of cooperation and commitment.

Companies may choose to place more emphasis on the role of the champion. Staff are encouraged to develop direct links as the relationship develops. The champion is informed on the outcome of discussions. Many companies develop a sophisticated communication infrastructure which identifies key people in different areas and links them together.

Regardless of the number of people in the network, a simple organizational structure is often most effective. In fact, business in general is seeing a trend toward organizations with fewer levels of hierarchy and less bureaucracy. This trend is particularly suited to strategic alliances because it encourages communication between employees and between firms.

Exit Strategies

Some partnerships are not created to last beyond a certain objective. Others are a mistake from the word go.

Therefore, it is wise to build exit clauses into the negotiation process and into the terms of the partnership agreement. There are many reasons for this.

- Clearly defined responsibilities, rights and procedures reduce tensions.
- The partners know what is expected of them and know the consequences of breaking up the alliance without careful consideration.
- Exit clauses become especially important if a conflict arises that cannot be resolved.

Unfortunately, too many managers do not familiarize themselves with the terms of the legal agreement until they are in dire need of an effective exit clause. They can only hope then that their lawyers served them well when they defined the terms of exit. Clearly, management should be aware of the various options and ramifications of each part of the legal agreement while it is being negotiated. When the alliance has ended, it may well be the exit clause that determines your strategic position.

Winding down a partnership will include issues such as:

- how to dispose of the assets of the partnership (property, goodwill, client lists etc.);
- how to deal with technology and patents;
- use of techniques such as right of first refusal and shotgun clauses to ensure that paralysis does not ensue when a partnership winds down;
- non-disclosure of trade secrets;
- non-competition;
- repatriation of profits;
- disposition of staff; and
- responsibility for warranties, guarantees and product liability.

Most of the legal detail in an exit clause will be concerned with the disposition of assets, staff, technology and patents when an alliance breaks up. In the case of a joint venture, termination clauses usually either give the right of first refusal to the other partner or they dictate the terms of some kind of shotgun sale. Usually, a share price is specified in the exit clause. After all, it is easier to be objective and arrive at a fair price when you do not know whether you will be the buyer or the seller. However, it is also possible to leave this sort of arbitration to a third party.

Exit clauses can be formulated implicitly if for some reason it is not possible to settle on an explicit one. What this means is that instead of explicitly defining a point when the alliance would be ended, the agreement includes provisions for renegotiation if specific sales or profit targets have not been met within a certain period of time.

Risks to investors can be minimized by distributing capital in increments, each of which is contingent on the achievement of technological or other milestones by specific dates.

It is also possible to stipulate fines a partner must pay if it breaks an alliance unilaterally.

Matters of this complexity need to be dealt with by lawyers who are familiar with the legal system in both Canada and Mexico. Keep in mind, though, that complex legal detail is often needed by creditors, but over-zealous attention to minute detail can kill an alliance before it gets off the ground.

SUMMING UP

In determining whether or not a partnership will help your dealings in Mexico, it is useful to draw on the experience of Canadian firms that are already established there. A survey of their opinions suggests the importance of these issues.

- Know the market and do your research.
- Adopt a clear set of market objectives and a well-defined corporate strategy suited to the Mexican market.
- Choose complementary partners to avoid feelings of perceived competition later on.
- Be prepared for major delays and costs due to bureaucratic procedures that are different from those encountered in Canada.
- Assign a world-class manager who is flexible and knowledgeable in English and Spanish as well as in the Mexican business culture.
- Be sure you are providing something that the Mexicans need and that your niche is well-identified.
- Ensure that your contribution of capital and/or technology are duly recognized in the joint-venture agreement.
- Aim to have the Mexican operation become self-sustaining.
- Negotiate, wherever possible, the appointment of a Canadian manager to the project in Mexico for the first few years of operation. This will ease the adjustment, and facilitate both communication and problem-solving.

According to a trade official at the Department of Foreign Affairs and International Trade (DFAIT), a well-defined state of mind, a long-term perspective, deep pockets, a resilient constitution and the appropriate human resources dedicated to the project will make the venture work.

CANADIAN GOVERNMENT DEPARTMENTS AND SERVICES IN CANADA

DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE (DFAIT)

DFAIT is the Canadian federal government department most directly responsible for trade development. The **InfoCentre** should be the first contact point for advice on how to start exporting. It provides information on export-related programs and services, acts as an entry point to DFAIT's trade information network, and can provide copies of specialized export publications and market information to interested companies.

InfoCentre
Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board (IBB):
Tel.: 1-800-628-1581 or (613) 944-1581

The Latin America and Caribbean Branch promotes trade with Mexico. There are several trade commissioners at the Embassy of Canada in Mexico City, as well as in the satellite offices in Monterrey and Guadalajara. Trade commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping to identify suitable Mexican firms to act as agents, and compiling strategic business intelligence on potential foreign customers.

Mexico Division
Latin America and Caribbean Branch
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 996-5547
Fax: (613) 996-6142

INTERNATIONAL TRADE CENTRES

International Trade Centres have been established across the country as a convenient point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of the Department of Industry (DI), the centres operate under the guidance of DFAIT and all have resident trade commissioners. They help companies determine whether or not they are ready to export, assist firms with market research and planning, provide access to government programs designed to promote exports, and arrange for assistance from the trade commissioners in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you:

Newfoundland
International Trade Centre
P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9
Tel.: (709) 772-5511
Fax: (709) 772-2373

Prince Edward Island
International Trade Centre
P.O. Box 1115
Confederation Court Mall
134 Kent Street
Suite 400
Charlottetown, PE C1A 7M8
Tel.: (902) 566-7400
Fax: (902) 566-7450

Nova Scotia
International Trade Centre
P.O. Box 940, Station M
1801 Hollis Street
Halifax, NS B3J 2V9
Tel.: (902) 426-7540
Fax: (902) 426-2624

New Brunswick
International Trade Centre
1045 Main Street
Unit 103
Moncton, NB E1C 1H1
Tel.: (506) 851-6452
Fax: (506) 851-6429

Quebec	International Trade Centre 5 Place Ville-Marie Seventh Floor Montreal, PQ H3B 2G2 Tel.: (514) 496-4636 Fax: (514) 283-8794
Ontario	International Trade Centre Dominion Public Building 1 Front St. West Fourth Floor Toronto, ON M5J 1A4 Tel.: (416) 973-5053 Fax: (416) 973-8161
Manitoba	International Trade Centre P.O. Box 981 330 Portage Avenue Eighth Floor Winnipeg, MB R3C 2V2 Tel.: (204) 983-4540 Fax: (204) 983-2187
Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4th Avenue South Suite 401 Saskatoon, SK S7K 5X2 Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta **Edmonton office is also responsible for Northwest Territories*	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3 Tel.: (403) 495-2944 Fax: (403) 495-4507
	International Trade Centre 510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2 Tel.: (403) 292-6660 Fax: (403) 292-4578
British Columbia **Vancouver office is also responsible for the Yukon*	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1 Tel.: (604) 666-0434 Fax: (604) 666-8330

World Information Network for Exports (WIN Exports)

WIN Exports is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 23,000 Canadian exporters. To register on WIN Exports, call (613) 996-5701, or fax 1-800-667-3802 or (613) 944-1078.

Program for Export Market Development (PEMD)

PEMD is DFAIT's primary export promotion program. It supports a variety of activities to help Canadian companies expand into export markets.

PEMD shares up to 50 percent of eligible expenses. Program financial assistance is a repayable contribution, not a grant, and must be approved in advance. Funded activities include:

- Market Development Strategies, which consist of a package of support for visits, trade fairs, and market support initiatives, under one umbrella of the company's marketing plan.
- New to Exporting Companies, which provides a vehicle for these companies to seek out individual export opportunities, either through a market identification visit or participation in an international trade fair.
- Capital Projects Bidding for specific projects outside Canada involving international competition/formal bidding procedures.
- Trade Association Activities undertaken by non-sales national trade or industry associations on behalf of their member companies.

Support is provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business persons and officials who can influence export sales. For general information, call the InfoCentre at 1-800-267-8376. For applications for assistance, call the International Trade Centre nearest you.

International Financing

DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFIs). Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine if an IFI-funded market opportunity is practical and worth pursuing. DFAIT can provide information and advice on the availability of Canadian government-funded assistance programs and can assist companies in developing effective export marketing. For further information, contact:

International Financing Division
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-7251
Fax: (613) 943-1100

Technology Inflow Program (TIP)

Managed by DFAIT and delivered domestically by the National Research Council, TIP is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. The Department of Industry (DI) also helps in program promotion. TIP officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The Program also helps Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies, as well as how to negotiate to acquire them. For information, call (613) 993-5326.

Investment Development Program

The Investment and Technology Bureau (TID) promotes Canada as an attractive, competitive destination for business investment to potential foreign investors. It actively encourages investments that take the form of new plant and equipment, joint ventures or strategic partnerships. The Bureau is especially interested in attracting investment that introduces new technology into Canada, which is key to creating new jobs and economic opportunities. It also helps Canadian companies to find international investment partners and to access international sources of capital and technologies. TID provides support to the chief executive officers of Canadian subsidiaries of multinationals which are seeking to attract manufacturing and R&D mandates to Canada. It also monitors and analyzes investment trends and perceptions of Canada as an investment site. TID works closely with the "geographic" branches of DFAIT and the investment counsellors at Canadian missions around the world, as well as with provincial and municipal authorities, and professional and business organizations. For more information, contact:

Investment and Technology Bureau (TID)
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-4128
Fax: (613) 995-9604

Department of Industry (DI)

DI was created with a broad mandate to make Canada more competitive by fostering the growth of Canadian businesses, by promoting a fair and efficient marketplace for business and consumers, and by encouraging commercial ventures in scientific research and technology. In the area of small business, it has been given specific responsibility to:

- develop, implement and promote national policies to foster the international competitiveness of industry; the enhancement of industrial, scientific and technological development; and the improvement in both the productivity and efficiency of industry;
- promote the mobility of goods, services, and factors of production within Canada;
- develop and implement national policies to foster entrepreneurship and the start-up, growth and expansion of small businesses;
- develop and implement national policies and programs respecting industrial benefits from procurement of goods and services by the Government of Canada; and
- promote and provide support services for the marketing of Canadian goods, services and technology.

The regional offices of DI work directly with Canadian companies to promote industrial, scientific and technological development. They help clients recognize opportunities in a competitive international marketplace by providing services in the areas of business intelligence and information as well as trade and market development. DI also promotes and manages a portfolio of programs and services.

The following are areas in which DI regional offices have special competence:

- access to trade and technology intelligence and expertise;
- entry points to national and international networks;
- industry-sector knowledge base;
- co-location with International Trade Centres connected to DFAIT and Canadian posts abroad;
- client focus on emerging and threshold firms; and
- business intelligence.

For more information, call (613) 941-0222.

Business Service Centre
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 952-4782
Fax: (613) 957-7942

NAFTA Information Desk
Department of Industry
235 Queen Street
Fifth Floor, East Tower
Ottawa, ON K1A 0H5
Fax: (613) 952-0540

The Business Opportunities Sourcing System (BOSS)

BOSS is a computerized databank that profiles over 25,000 Canadian companies. It lists basic information on products, services and operations of use to potential customers. The system was established in 1980 by the Department of Industry (DI) in cooperation with participating provincial governments. BOSS was originally established so that trade commissioners posted around the world by DFAIT could find Canadian companies that might be able to take advantage of foreign market opportunities. Today, more than 11,000 domestic and international subscribers use the system, not only to locate Canadian suppliers, but also to obtain market intelligence and identify market opportunities. The majority of subscribers are Canadian companies. For more information, call (613) 954-5031.

Market Intelligence Service (MIS)

MIS provides Canadian businesses with detailed market information on a product-specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer and new manufacturing investment opportunities. The intelligence is used by Canadian businesses in decisions regarding manufacturing, product development, marketing and market expansion. A request for information can be custom-tailored to meet each client's particular need. Previously-published customized reports are also available on request. The database is updated quarterly and annually. MIS is offered free of charge by fax, letter or telephone. For more information, contact:

Strategic Information Branch
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 954-5031
Fax: (613) 954-1894

Revenue Canada

Revenue Canada, Customs Program Branch provides a NAFTA Help Desk telephone line with service available in Spanish. Revenue Canada publications and customs notices are available by calling or faxing the NAFTA Information Desk. For more information, contact:

NAFTA Spanish Help Desk
Tel.: (613) 941-0965

NAFTA Information Desk
Revenue Canada, Customs Programs Branch
191 Laurier Avenue West
Sixth Floor
Ottawa, ON KIA 0L5
Tel.: 1-800-661-6121, or (613) 941-0965
Fax: (613) 952-0022

Canadian International Development Agency (CIDA)

An important possible source of financing for Canadian ventures in Mexico is the special fund available through CIDA under the Industrial Cooperation Program (CIDA/INC). This program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. INC supports the development of linkages with the private sector in Mexico by encouraging Canadian enterprises to share their skills and experiences with partners in Mexico and other countries. A series of INC mechanisms help enterprises to establish mutually beneficial collaborative arrangements for the transfer of technology and the creation of employment in Mexico.

There are five INC mechanisms that help eligible Canadian firms to conduct studies and that provide professional guidance and advice to potential clients. Where a project involves environmental improvement, technology transfer, developmental assistance to women, job training or job creation, early contact with CIDA's Industrial Cooperation Division is suggested. An important CIDA criterion is that the project creates jobs in Mexico without threatening jobs in Canada. In fact, most CIDA-assisted projects have produced net increases in Canadian jobs. For more information, contact:

Industrial Cooperation Division
Canadian International Development Agency
200 Promenade du Portage
Hull, PQ K1A 0G4
Tel.: (819) 997-7905/7906
Fax: (819) 953-5024

Atlantic Canada Opportunities Agency (ACOA)

Atlantic Canadian companies seeking to develop exports to Mexico may be eligible for assistance from the ACOA. The Agency works in partnership with entrepreneurs from the Atlantic region to promote self-sustaining economic activity in Atlantic Canada.

ACOA provides support to businesses as they look to expand existing markets through the development of marketing plans. Efforts include monitoring trade opportunities arising from global economic change, communications efforts to promote the region, trade missions and associated activities, as well as better coordination with federal and provincial bodies that influence trade and investment opportunities. For more information, contact:

Atlantic Canada Opportunities Agency
Blue Cross Centre
644 Main Street
P.O. Box 6051
Moncton, NB E1C 9J8
Tel.: 1-800-561-7862
Fax: (506) 851-7403

Western Economic Diversification Canada (WD)

WD is responsible for federal economic development activities in Western Canada. The Department works in partnership with the western provinces, business, industry associations and communities to stimulate the western Canadian economy.

WD's "New Directions" program will work to enhance the export position of western companies by boosting their competitiveness in domestic and global markets.

The Department no longer provides repayable loans to individual companies, but seeks new innovative partnerships within both the public and private sectors. These partnerships will address the needs of small- and medium-sized enterprises for information, business services and capital, particularly for high growth industries critical to Western Canada's economic diversification.

One of WD's new products focussed on export development is the International Trade Personnel Program. This federal-provincial initiative links export-focussed western firms with recent post-secondary graduates. The program accomplishes two important socio-economic goals: it gives companies the extra person-power they need to penetrate new markets, and it gives recent graduates valuable work experience. Under the new program, the length of export-development projects may vary from one to three years. Approved projects will be eligible for assistance ranging from C $7,500 for one year, to a maximum of C $37,500 per graduate. For more information, contact:

Western Economic Diversification Canada
The Cargill Building
240 Graham Avenue
Suite 712
P.O. Box 777
Winnipeg, MB R3C 2L4
Tel.: (204) 983-4472
Fax: (204) 983-4694

Export Development Corporation (EDC)

EDC is a customer-driven, financial services corporation dedicated to helping Canadian businesses succeed in the global marketplace. EDC provides a wide range of risk management services, including insurance, financing and guarantees to Canadian exporters and their customers around the world.

EDC's products fall into four main categories:

- export credit insurance, covering short- and medium-term credits;

- performance-related guarantees and insurance, providing cover for exporters and financial institutions against calls on various performance bonds and obligations normally issued either by banks or surety companies;

- foreign investment insurance, providing political risk protection for Canadian investments abroad; and

- export financing, providing medium- and long-term export financing to foreign buyers of Canadian goods and services.

EDC has established relationships with leading commercial and public sector institutions in Mexico and Latin America. Exporters can call (613) 598-2860 for more information.

Smaller exporters, with annual export sales under C $1 million, should call the Emerging Exporter Team at 1-800-850-9626.

Exporters in the information technology sector can call EDC's Information Technologies Team at (613) 598-6891.

For information on the full range of EDC services, contact any of the following EDC offices:

Ottawa
Export Development Corporation
151 O'Connor Street
Ottawa, ON K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690

Vancouver
Export Development Corporation
One Bentall Centre
505 Burrard Street
Suite 1030
Vancouver, BC V7X 1M5
Tel.: (604) 666-6234
Fax: (604) 666-7550

Calgary
Export Development Corporation
510-5th Street S.W.
Suite 1030
Calgary, AB T2P 3S2
Tel.: (403) 292-6898
Fax: (403) 292-6902

Winnipeg
**office also serves Manitoba and Saskatchewan*
Export Development Corporation
330 Portage Avenue
Eighth Floor
Winnipeg, MB R3C 0C4
Tel.: (204) 983-5114
Fax: (204) 983-2187

Toronto
Export Development Corporation
National Bank Building
150 York Street
Suite 810
P.O. Box 810
Toronto, ON M5H 3S5
Tel.: (416) 973-6211
Fax: (416) 862-1267

London
Export Development Corporation
Talbot Centre
148 Fullarton Street
Suite 1512
London, ON N6A 5P3
Tel.: (519) 645-5828
Fax: (519) 645-5580

Montreal
Export Development Corporation
Tour de la Bourse
800 Victoria Square
Suite 4520
P.O. Box 124
Montreal, PQ H4Z 1C3
Tel.: (514) 283-3013
Fax: (514) 878-9891

Halifax
Export Development Corporation
Purdy's Wharf, Tower 2
1969 Upper Water Street
Suite 1410
Halifax, NS B3J 3R7
Tel.: (902) 429-0426
Fax: (902) 423-0881

Canadian Commercial Corporation (CCC)

The CCC, a Crown Corporation, provides Canadian exporters with valuable assistance when they are selling to any foreign government, or to an international organization. In such sales, CCC acts as a prime contractor and guarantor for the sale of Canadian goods and services to the foreign customer.

The CCC certifies the Canadian exporter's financial and technical capabilities and guarantees to the foreign buyer that the terms and conditions of the contract will be met. The CCC's participation in a sale provides Canadian suppliers with the tangible backing of their own government. This enhances their credibility and competitiveness in the eyes of foreign customers, which can often lead to the negotiation of more advantageous contract and payment terms.

The CCC offers a range of useful tools to provide access to specialized markets such as the U.S. Department of Defence. It can also assist exporters in their transactions with foreign private-sector buyers.

The Corporation's services, as well as the credibility it offers, are of particular benefit to Canadian small- and medium-sized enterprises (SMEs), many of whom are less-known internationally. In 1993 to 1994, nearly 70 percent of the Corporation's suppliers were SMEs. The CCC's recently introduced Progress Payment Program will make it easier for SMEs to obtain pre-shipment financing.

The Progress Payment Program was developed in co-operation with Canada's financial institutions. It makes pre-shipment export financing more accessible to small- and medium-sized exporters. The program allows exporters to draw on a special line of credit, established by their principal banker for a particular export sale. In most instances, the borrowing costs will approximate those associated with a typical demand line of credit. The program is available for transactions with foreign-government and private-sector buyers.

This program aims to get the exporter, its bank and the CCC working together to complete a successful export. The process usually is as follows:

- First, CCC will work with the company to determine whether the CCC can participate in the deal. The CCC assesses risks and the structure of the proposed contract. The customer's method of payment must be acceptable to the CCC.
- A positive assessment leads to preapproval by the CCC and the exporter's financial institution for pre-shipment financing. Negotiations can then begin with the customer, within parameters agreed to by the exporter and the CCC.
- The CCC will normally assume the role of prime contractor in the transaction to provide the performance assurance on which progress payment financing is based.
- Once a deal is in place, the CCC will work with the exporter, monitoring progress in completing the contract. The exporter's financial institution will release progress payments according to the progress of the work as well as the incurred project costs.
- The CCC will collect from the exporter's customer and remit payments to its financial institution.

For more information about the CCC, please contact:

Head Office
Canadian Commercial Corporation
50 O'Connor St., 11th Floor
Ottawa, Ont.
K1A 0S6
Tel.: (613) 996-0034
Fax: (613) 995-2121
Telex: 053-4359

National Research Council (NRC)

Canadian companies hoping to succeed in the Mexican marketplace may require additional technology to improve their competitiveness. The NRC works with Canadian firms of all sizes to develop and apply technology for economic benefit. The Council manages the Industrial Research Assistance Program (IRAP), a national network for the diffusion and transfer of technology. The Council also manages the Canada Institute for Scientific and Technical Information (CISTI) database.

The IRAP network supports the process of developing, accessing, acquiring, implanting and using technology throughout Canadian industry. IRAP has been in existence for 50 years and has acquired a reputation as one of the most flexible and effective federal programs. IRAP takes advantage of an extensive network of more than 190 different locations within approximately 90 communities across Canada, including numerous provincial technology centres, the NRC's own laboratories and research institutes, federal government departments, and technology transfer offices in Canadian universities. For further information, contact:

Industrial Research Assistance Program
National Research Council
Montreal Road
Building M-55
Ottawa, ON K1A 0R6
Tel.: (613) 993-1770
Fax: (613) 952-1086

Canada Institute for Scientific and Technical Information
National Research Council
Montreal Road
Building M-55
Ottawa, ON K1A 0S2
Tel.: (613) 993-1600 or 1-800-668-1222
Fax: (613) 952-9112

Multilateral Organizations

The World Bank
Washington, D.C. 20433
U.S.A.
Tel.: (202) 477-1234
Fax: (202) 477-6391

Inter-American Development Bank
1300 New York Avenue N.W.
Washington, D.C. 20577
U.S.A.
Tel.: (202) 623-1000
Fax: (202) 623-3096

Key Contacts in Canada

Sponsoring Organizations

Baker & McKenzie

Baker & McKenzie is one of the largest international law firms with offices in 35 countries. They presently have four offices in Mexico, in the cities of Juárez, Mexico City, Monterrey and Tijuana. In addition to providing legal advice, the firm's offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand their activities in Mexico. For more information, contact:

Baker & McKenzie
Barristers & Solicitors
BCE Place
181 Bay Street
Suite 2100
Toronto, ON M5J 2T3
Tel.: (416) 865-6910/6903
Fax: (416) 863-6275

Business and Professional Organizations

Canadian Council for the Americas (CCA)
The Council is a non-profit organization formed in 1987 to promote business interests in Latin American as well as Caribbean countries. The CCA promotes events and programs targetted at expanding business and building networking contacts between Canada and the countries of the region.

The Canadian Council for the Americas
Executive Offices
360 Bay Street
Suite 300
Toronto, ON M5H 2V6
Tel.: (416) 367-4313
Fax: (416) 367-5460

Canadian Exporters' Association
99 Bank Street
Suite 250
Ottawa, ON K1P 6B9
Tel.: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association
75 International Boulevard
Fourth Floor
Etobicoke, ON M9W 6L9
Tel.: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce
55 Metcalfe Street
Suite 1160
Ottawa, ON K1P 6N4
Tel.: (613) 238-4000
Fax: (613) 238-7643

Forum for International Trade Training Inc.
155 Queen Street
Suite 608
Ottawa, ON K1P 6L1
Tel.: (613) 230-3553
Fax: (613) 230-6808

Language Information Centre
240 Sparks Street RPO
Box 55011
Ottawa, ON K1P 1A1
Tel.: (613) 523-3510

Open Bidding Service
P.O. Box 22011
Ottawa, ON K1V 0W2
Tel.: 1-800-361-4637 or (613) 737-3374
Fax: (613) 737-3643

Canadian Standards Association
178 Rexdale Blvd.
Rexdale, ON M9W 1R3
Tel.: (416) 747-4000
Fax: (416) 747-4149

Standards Council of Canada
45 O'Connor Street
Suite 1200
Ottawa, ON K1P 6N7
Tel.: (613) 238-3222
Fax: (613) 995-4564

MEXICAN GOVERNMENT OFFICES IN CANADA

The Embassy of Mexico and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about the immigration regulations related to doing business in Mexico. For more information, contact:

Embassy of Mexico
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-8988
Fax: (613) 235-9123

Mexican Consulate in Ottawa
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-6665
Fax: (613) 235-9123

OTHER MEXICAN CONSULATES GENERAL IN CANADA

Consulate General of Mexico
2000 Mansfield Street
Suite 1015
Montreal, PQ H3A 2Z7
Tel.: (514) 288-2502/4916
Fax: (514) 288-8287

Consulate General of Mexico
199 Bay Street
Suite 4440
P.O. Box 266, Station Commerce Court West
Toronto, ON M5L 1E9
Tel.: (416) 368-2875/8141/1847
Fax: (416) 368-8342

Consulate General of Mexico
810-1139 West Pender Street
Vancouver, BC V6E 4A4
Tel.: (604) 684-3547/1859
Fax: (604) 684-2485

MEXICAN FOREIGN TRADE COMMISSIONS

Banco Nacional de Comercio Exterior (Bancomext) is the Mexican Foreign Trade Commission and has offices in Canada. It offers credits, export guarantees and counselling services to Mexican companies seeking to do business in Canada.

MEXICAN BANKS WITH OFFICES IN CANADA

Banco Nacional de México (Banamex), Banco de Comercio (Bancomer), and *Banca Serfin* are private-sector banks which offer specialized services through their international trade information centres. The centres participate in a computerized communications network with access to numerous economic, governmental and financial databases throughout the world. These banks are located throughout Mexico and maintain offices in Toronto.

Banco Nacional de México (Banamex)
1 First Canadian Place
Suite 3430
P.O. Box 299
Toronto, ON M5X 1C9
Tel.: (416) 368-1399
Fax: (416) 367-2543

Banco de Comercio (Bancomer)
The Royal Bank Plaza
South Tower
Suite 2915
P.O. Box 96
Toronto, ON M5J 2J2
Tel.: (416) 956-4911
Fax: (416) 956-4914

Banca Serfin
BCE Place
Canada Trust Tower
161 Bay Street
Suite 4360
P.O. Box 606
Toronto, ON M5J 2S1
Tel.: (416) 360-8900
Fax: (416) 360-1760

KEY CONTACTS IN MEXICO

CANADIAN GOVERNMENT DEPARTMENTS AND SERVICES IN MEXICO

Commercial Division
The Embassy of Canada in Mexico
The Commercial Division of the Canadian Embassy in Mexico can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well-informed about the market and will respond in whatever measures possible to support a Canadian firm's presence in Mexico.

Note: to telephone Mexico City, dial 011-52-5 before the number shown. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes.

Commercial Division
The Embassy of Canada in Mexico
Schiller No. 529
Apartado Postal 105-05
Col. Polanco
11560 México, D.F.
México
Tel.: 724-7900
Fax: 724-7982

Canadian Consulate
Edificio Kalos, Piso C-1
Local 108-A
Zaragoza y Constitución
64000 Monterrey, Nuevo León
México
Tel.: 344-3200
Fax: 344-3048

Canadian Consulate
Hotel Fiesta Americana
Local 30-A
Aurelio Aceves No. 225
Col. Vallarta Poniente
44110 Guadalajara, Jalisco
México
Tel.: 616-6215
Fax: 615-8665

Quebec House
Representing the Government of Quebec, the office deals with a wide range of issues. On the commercial side, it promotes Mexican business opportunities with Quebec firms and helps to prepare them for the Mexican marketplace.

Quebec House
Taine No. 411
Col. Bosques de Chapultepec
11580 México, D.F.
México
Tel.: 250-8208
Fax: 254-4282

The Canadian Chamber of Commerce in Mexico
The Canadian Chamber of Commerce in Mexico — *La Cámara de Comercio de Canadá en México* — brings together Canadian business people working in Mexico. Its main objective is to provide information and contacts to Canadian firms interested in doing business in Mexico.

The Canadian Chamber of Commerce in Mexico
c/o Bombardier
Paseo de la Reforma No. 369, Mezzanine
Col. Juárez
06500 México, D.F.
México
Tel.: 729-9903, 207-2400
Fax: 208-1592

CANADIAN BANKS IN MEXICO

Bank of Montreal
Horacio No. 1855-301
Col. Polanco
11510 México, D.F.
México
Tel.: 203-8211
Fax: 203-8542

Royal Bank of Canada
Hamburgo No. 172, Piso 5
Col. Juárez
06600 México, D.F.
México
Tel.: 207-2400
Fax: 208-1592

Toronto Dominion Bank
Paseo de Reforma No. 389, Piso 15
Col. Cuauhtémoc
06500 México, D.F.
México
Tel.: 905-431-4355 (temporarily)
Fax: 520-0127

Bank of Nova Scotia
Hamburgo No. 213, Piso 10
Apartado Postal 6-931
Col. Juárez
06600 México, D.F.
México
Tel.: 256-0622
Fax: 208-7182

Canadian Imperial Bank of Commerce
(representative office)
Campos Eliseos No. 400, Despacho 402
Col. Polanco
11570 México, D.F.
México
Tel.: 281-1238/1074
Fax: 280-3069

National Bank
(representative office)
Lope de Vega No. 117, Piso 10
Col. Polanco
11540 México, D.F.
México
Tel.: 254-7030/7090
Fax: 531-6930

Mexican Federal Government Departments

Secretaría de Comercio y Fomento Industrial (SECOFI)

This department of the Mexican federal government is responsible for developing the country's industry and its foreign and domestic trade. It administers supply and price policies, establishes industrialization, distribution and consumption policies for agricultural, livestock, forestry, mining, and fisheries products. *SECOFI* also promotes Mexico's foreign trade, and defines tariffs and sets official prices. It studies and determines the fiscal incentives needed for industrial promotion. *SECOFI* offices pursue investment throughout Mexico and encourage trade by local industry. They can be important sources of information.

Secretariat of Commerce and Industrial Development
Secretaría de Comercio y Fomento Industrial (SECOFI)
Sub-Secretaría dePromoción de la Industria y el Comercio
Insurgentes Sur No. 1940–P.H.
Col. Florida
01030 México, D.F.
México
Tel.: 229-6560/6561, 229-6100
Fax: 229-6568

Other Government Departments

Secretariat of Agriculture, Lifestock and Rural Development
Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)
Insurgentes Sur No. 476, Piso 13
Col. Roma Sur
06760 México, D.F.
México
Tel.: 584-0786/0271/6288
Fax: 584-2699

Secretariat of Communications and Transportation
Secretaría de Comunicaciones y Transportes (SCT)
Av. Universidad y Xola, Cuerpo C, P.B.
Col. Narvarte
03020 México, D.F.
México
Tel.: 530-3060, 538-5148/0450
Fax: 519-9748

Secretariat of National Defence
Secretaría de la Defensa Nacional (SDN)
Blv. Avila Camacho y Av. Industria Militar
Col. Lomas de Sotelo
11640 México, D.F.
México
Tel.: 395-6766, 557-8971
Fax: 557-1370

Secretariat of Energy
Secretaría de Energía (SE)
Insurgentes Sur No. 552
Col. Roma Sur
06769 México, D.F.
México
Tel.: 564-9789/9790, 584-4304/2962
Fax: 564-9769, 574-3396

Department of the Federal District
Departamento del Distrito Federal (DDF)
Plaza de la Constitución
Esquina Pino Suárez, Piso 1
Col. Centro
06068 México, D.F.
México
Tel.: 518-1100, 782-2088/3000
Fax: 542-1429

Secretariat of Finance and Public Credit
Secretaría de Hacienda y Crédito Público (SHCP)
Palacio Nacional
1er. Patio Mariano
Col. Centro
06066 México, D.F.
México
Tel.: 518-5420 through 29
Fax: 542-2821

Secretariat of the Environment, Natural Resources and Fisheries
Secretaría del Medio Ambiente, Recursos Naturales y Pesca (SEMARNAP)
Periférico Sur No. 4209
Col. Jardines en la Montaña
14210 México, D.F.
México
Tel.: 628-0602/0605
Fax: 628-0643/0644

Secretariat of Foreign Affairs
Secretaría de Relaciones Exteriores (SRE)
Ricardo Flores Magón No. 1, Piso 19
Col. Guerrero
06995 México, D.F.
México
Tel.: 782-3660/3765
Fax: 782-3511

Secretariat of Health
Secretaría de Salud (SS)
Lieja No. 8, Piso 5
Col. Juárez
06600 México, D.F.
México
Tel.: 553-7670/7940
Fax: 286-5497

Secretariat of Planning and Budget
Secretaría de Programación y Presupuesto (SPP)
Palacio Nacional, Patio de Honor, Piso 4
Col. Centro
06740 México, D.F.
México
Tel.: 542-8762/8763
Fax: 542-1209

Secretariat of the Interior
Secretaría de Gobernación (SG)
Abraham González No. 48
Col. Juárez
06699 México, D.F.
México
Tel.: 566-8188/3132, 592-1141
Fax: 546-7388

Secretariat of Labour and Social Welfare
Secretaría del Trabajo y Previsión Social (STPS)
Periférico Sur No. 4271, Edificio A
Col. Fuentes del Pedregal
14140 México, D.F.
México
Tel.: 645-3715/5466
Fax: 645-2595

Secretariat of the Navy
Secretaría de Marina (SM)
Tramò H. Escuela Naval Militar 861
Eje 2 Oriente No. 861
Col. Cipreses
04830 México, D.F.
México
Tel.: 684-8188
Fax: 684-8188 ext. 4328

Secretariat of Public Education
Secretaría de Educación Pública (SEP)
Argentina No. 28, Piso 2
Col. Centro
06029 México, D.F.
México
Tel.: 510-2557, 512-0358, 328-1000/1067
Fax: 518-4350, 5218293

Secretariat of Tourism
Secretaría de Turismo (SECTUR)
Presidente Masaryk No. 172, Piso 8
Col. Polanco
11587 México, D.F.
México
Tel.: 250-8171/8228
Fax: 254-0014

Secretariat of Social Development
Secretaría de Desarrollo Social (SEDESOL)
Av. Constituyentes No. 947
Edificio B, Planta Alta
Col. Belén de las Flores
01110 México, D.F.
México
Tel.: 271-8481/1616
Fax: 271-8862

Secretariat of the Comptroller General
Secretaría de Contraloría y Desarrollo Administrativo (SECODAM)
Insurgentes Sur No. 1735 – P.B.
Ala Norte, Oficina 22
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 662-2762/3263, 663-3636
Fax: 662-4511

Mexican Foreign Trade Commission
Banco Nacional de Comercio Exterior (BANCOMEXT)
Av. Camino a Santa Teresa No. 1679
Piso 12, Ala Sur
Col. Jardines del Pedregal
01900 México, D.F.
México
Tel.: 652-8422/8620, 327-6000
Fax: 652-9408

Other Agencies and Organizations

Mexican Investment Board — *Consejo Mexicano de Inversión (CMI)* is a non-profit joint venture of the Government of Mexico and the private financial sector. It was created to assist foreign investors. Information on how the Board assists investors can be obtained from the Mexican Embassy or from consular offices operated by *Bancomext* in Vancouver, Toronto, and Montreal.

Mexican Investment Board
Consejo Mexicano de Inversión (CMI)
Paseo de la Reforma No. 915
Col. Lomas de Chapultepec
11000 México, D.F.
México
Tel.: 202-7804
Fax: 202-7925

National Chamber of Manufacturing Industry — *Cámara Nacional de la Industria de Transformación (CANACINTRA)* offers a wide range of services to companies wishing to do business in Mexico. It offers information on government regulations and procedures as well as advice on trade, financial incentives, industrial parks, and joint ventures. A separate division of the Chamber prepares studies of Mexico's economic situation while the international affairs division focuses on trade promotion.

National Chamber of Manufacturing Industry
Cámara Nacional de la Industria de Transformación (CANACINTRA)
Av. San Antonio No. 256
Col. Ampliación Nápoles
03849 México, D. F.
México
Tel.: 563-3400
Fax: 563-5381

Financial Institutions

Mexico's Central Bank
Banco de México
Tacuba No. 4, Piso 1
Col. Centro
06059 México, D.F.
México
Tel.: 512-5817, 237-2378
Fax: 237-2370

National Development Bank — *Nacional Financiera (NAFIN)* provides financing for small- and medium-sized enterprises and promotes economic and regional development. To support business development in Mexico, it will offer venture capital to foreign entrepreneurs involved in joint ventures as well as domestic businesses.

National Development Bank
Nacional Financiera (NAFIN)
Insurgentes Sur No. 1971, Piso 13
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 325-6000, 661-7165/4044
Fax: 325-6042, 661-8418

Bancomer — *Banco de Comercio* specializes in financing small- and medium-sized companies. It will also handle the Mexican financing for joint ventures. Its officers can serve as intermediaries between foreign investors and Mexican partners.

Banco de Comercio, S.A. (BANCOMER)
Av. Universidad No. 1200
Col. Xoco
03339 México, D.F.
México
Tel.: 621-3301/3302, 621-0034
Fax: 621-3988

Mexican Stock Exchange
Bolsa Mexicana de Valores
Reforma No. 255
Col. Cuauhtémoc
06500 México, D.F.
México
Tel.: 208-8174
Fax: 591-0534

National Banking Commission
Comisión Nacional Bancaría y de Valores
Insurgentes Sur No. 1971
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 724-6900/6000
Fax: 724-7364, 661-3608

Major Business and Professional Organizations

Mexico has a number of Chambers of Commerce and professional organizations that can provide assistance and guidance to Canadian companies in Mexico. Their standards of service vary widely and you should consult with Canadian officials to determine which organization would best suit your needs.

Mexican Association of the Automotive Industry
Asociación Mexicana de la Industria Automotriz, A.C. (AMIA)
Ensenada No. 90
Col. Condesa
06100 México, D. F.
México
Tel.: 272-1144
Fax: 272-7139

National Association of Importers and Exporters of the Mexican Republic
Asociación Nacional de Importadores y Exportadores de la República Mexicana (ANIERM)
Monterrey No. 130
Col. Roma
06700 México, D.F.
México
Tel.: 564-8618/9218
Fax: 584-5317

Mexican Business Council for International Affairs
Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI)
Homero No. 527, Piso 7
Col. Polanco
11570 México, D.F.
México
Tel.: 250-7033
Fax: 531-1590

Mexican Confederation of Employers
Confederación Patronal de la República Mexicana
Insurgentes Sur No. 950, Piso 1 y 2
Col. del Valle
03100 México, D.F.
México
Tel.: 687-6465/6467
Fax: 536-2160

Mexican Confederation of National Chambers of Commerce
Confederación de Cámaras Nacionales de Comercio (CONCANACO)
Balderas No. 144, Piso 3
Col. Centro
06079 México, D.F.
México
Tel.: 709-1559
Fax: 709-1152

National Chamber of Commerce of Mexico City
Cámara Nacional de Comercio de la Ciudad de México (CANACO)
Paseo de la Reforma No. 42
Col. Juárez
06030 México, D.F.
México
Tel.: 592-2677/2665
Fax: 705-7412, 592-3571

National Chamber of the Construction Industry
Cámara Nacional de la Industria de la Construcción (CNIC)
Periférico Sur No. 4839
Col. Parques del Pedregal
14010 México, D.F.
México
Tel.: 665-0424, 424-7400
Fax: 606-6720

National Chamber of the Apparel Industry
Cámara Nacional de la Industria del Vestido (CNIV)
Tolsá No. 54
Col. Centro
06040 México, D.F.
México
Tel.: 578-0788, 761-6541, 588-7664
Fax: 578-6210

National Institute for Statistics, Geography and Informatics
Instituto Nacional de Estadística, Geografía e Informática (INEGI)
Edificio Sede
Av. Héroe de Nacosari No. 2301 Sur
Fraccionamiento Jardines del Parque
20270 Aguascalientes, Aguascalientes,
México
Tel.: 918-6947
Fax: 918-6945

HELP US TO SERVE YOU BETTER

We are interested in your views on this publication. Please take a few minutes to respond to the questions below.

1. What is your overall opinion of this publication?
   - ☐ **very useful**
   - ☐ **useful**
   - ☐ **moderately useful**
   - ☐ **not useful**

2. Please provide your assessment of each of the following aspects of this publication.

   a) Quality of text discussion (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   b) Presentation of information (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   c) Use of graphics and other visual aids (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

3. If this publication were updated, revised and re-issued in the future, would you be interested in receiving a copy?
   - ☐ **yes, very interested**
   - ☐ **probably interested**
   - ☐ **no, not interested**
   - ☐ **not sure**

4. How did you find the structure and format of this publication?
   - ☐ **clear and easy to follow**
   - ☐ **confusing and difficult to follow**

5 For your purposes, did this publication provide a sufficiently complete treatment of the subject(s) reviewed?
   - ☐ **yes, definitely**
   - ☐ **to some extent**
   - ☐ **no**
   - ☐ **can't say/don't know**

6. This publication would have been more useful to me if it had (mark all that apply):
   - ☐ **provided more qualitative information**
   - ☐ **provided less quantitative information**
   - ☐ **made greater use of graphs, charts and tables**
   - ☐ **contained a longer textual discussion**
   - ☐ **contained a shorter textual discussion**
   - ☐ **used more examples, case studies, company profiles**

7. In your opinion, was there important information missing from this publication?
   - ☐ **yes — please specify:**

   ____

   ____

   ____

8. Are there any issues relevant to the subject of this publication that you would like to have seen covered in more detail?

   ____

   ____

   ____

9. Please offer any suggestions for improving the next version of this publication.

   ____

   ____

   ____

10. Will this publication assist you in your business development?
   ☐ **yes** ☐ **no**

11. a) Does your company currently export?
   - ☐ **Yes, go to 11 b)**
   - ☐ **No, go to 11 c)**

   b) If yes, to which foreign markets?
   - ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
   - ☐ **Mexico** ☐ **Latin America**
   - ☐ **Other (please specify)**______________

   c) If not, are you planning to export within the next 12 months?
   - ☐ **Yes, where?**
   - ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
   - ☐ **Mexico** ☐ **Latin America**
   - ☐ **Other (please specify)**______________

12. What is the approximate size of your company?
   - ☐ **under $1 million**
   - ☐ **$1 to 5 million**
   - ☐ **$5 and $10 million**
   - ☐ **over $10 million**

To discuss this evaluation may we contact you? If so,

Name: ______________________________

Company: ______________________________

Address: ______________________________

Tel.: ______________ **Fax.:** ______________

Please return the completed survey by fax to (613) 996-6142 or to the address below:

Latin America and Caribbean Branch
Department of Foreign Affairs and International Trade
Lester B. Pearson Bldg., 125 Sussex Drive
Ottawa, Ontario K1A 0G2

Export i» MEXICO

BAKER & McKENZIE

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
Latin America & Caribbean Branch

InfoCentre

Fax:	(613) 996-9709	Toll free:	1-800-267-8376	Bulletin Board	1-800-628-1581
FaxLink:	(613) 944-4500	Telephone:	(613) 944-4000	(IBB):	(613) 944-1581