Canada

MOVING INTO MEXICO

BUSINESS GUIDE - 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

Moving into Mexico was developed jointly by the Department of Foreign Affairs and International Trade (DFAIT) and Prospectus Inc. This book was made possible through the support of the Toronto office of Baker & McKenzie.

This business guide is designed to provide an overview of the steps for developing a partnership in Mexico and moving your products or services through this new relationship. 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 in this area. We encourage the reader to use this publication as one of several resources for commercial dealings with Mexico.

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BUSINESS GUIDE:

MOVING INTO 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 in 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 from the Mexican offices serve on a number of domestic and international bodies as representatives of both national business organizations and the Mexican government. Partners from 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.

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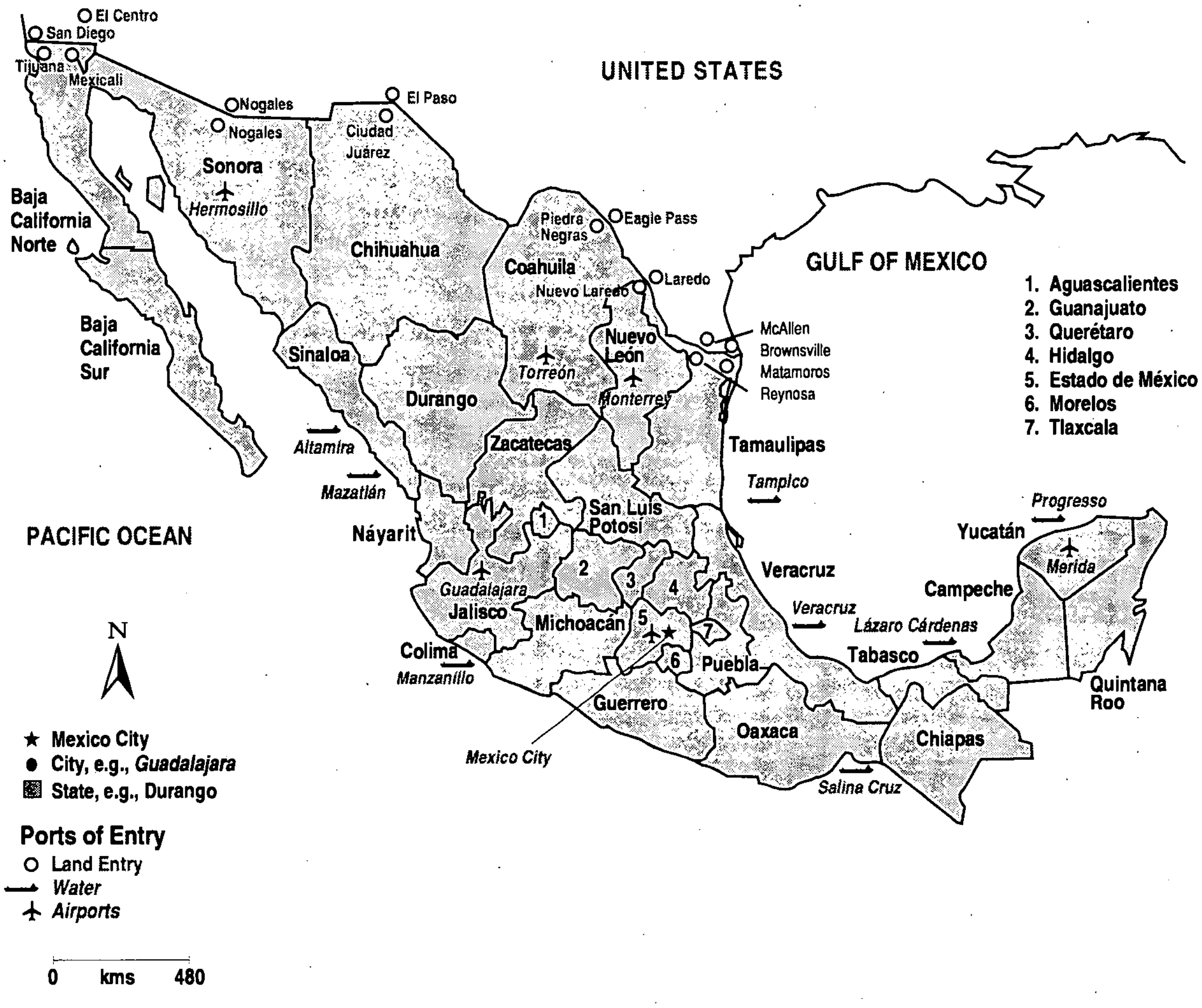
Mexico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The North American Free Trade Agreement (NAFTA)

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
Internet: http://www.dfait-maeci.gc.ca

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Chapter 1. Are You Ready For Mexico?

Why Mexico?

Mexico continues to offer excellent opportunities for the Canadian firm looking for a medium-term export strategy. It has become one of the most open economies in Latin America. As a result, external competitive pressures are forcing Mexican manufacturers to increase their efficiency and product quality. Experience has shown that joint ventures with foreign companies are one of the best ways to accomplish those objectives. Therefore, Mexican firms are receptive to forming links with Canadian partners. Moreover, Mexico continues to enjoy the advantages of a large domestic market, as well as a young population and an abundant and cost-competitive labour supply.

Over the longer term, Mexico can serve as an excellent base for Canadian companies interested in expanding into the rest of Latin America. In particular, Canada's bilateral trade negotiations with Chile, begun in late 1995, are likely to lead to new opportunities in that market. Eventually, plans for liberalized trade on a hemispheric basis are also likely to bear fruit. Companies with an established base in Mexico will be in an excellent position to move into the emerging markets of South America.

Mexico has a number of specific advantages that make it an excellent source of long-run opportunities for Canadian exporters:

- a strategic geographical location including a 3,234 kilometre border with the United States, coastlines facing Europe and Asia, and trade links into Latin America;
- preferred access to the United States, the world's largest market, under the North American Free Trade Agreement (NAFTA);
- a relatively young workforce of more than 30 million people that has proved capable of delivering quality at substantially lower cost than in the advanced industrialized economies;
- plentiful natural resources;
- a rapidly growing domestic market of 92 million people, about half of them under 20 years of age; and
- an open economy and a regulatory climate that favours private business.

Opportunities for Canadian suppliers can be found throughout the Mexican economy. No industrial sector or public enterprise has escaped the forces of change that have swept through the country since the late 1980s. Manufacturers are rationalizing their operations and modernizing to meet the influx of foreign competition. Service providers are working to become more effective in meeting their customers' needs. Government agencies have been forced to become more efficient in the wake of deregulation and budget cutbacks. And on a broader scale, the federal and state governments have embarked on ambitious plans to modernize Mexico's infrastructure. Increasingly, they are turning to the private sector to help make this happen.

This environment of pervasive change creates opportunities for Canada, which had not been a prominent supplier to Mexico's industries. Initially driven by economic reform, the rationalization has been accelerated by the recent peso crisis. Both elements are forcing Mexican buyers and decision makers to consider alternative methods and new suppliers.

What Does It Take?

Before looking at Mexico, start by taking a long hard look at yourself. Has your company evolved to the point where it has the stability and the resources to sustain an export effort? Does it have a competitive product or service? Can it finance a foreign venture? And perhaps most of all, is it ready to make a serious commitment to exporting?

Readiness and Reputation

Before trying to sell abroad, a firm needs to understand what has made it competitive in its existing Canadian markets. Are the factors that have led to success at home transferable to international markets? Exporting is a logical step for a business that has already achieved a measure of success and security in its domestic market. Very rarely is it a solution for the troubles of a company that cannot compete at home.

In general, companies that have been in business for at least a few years will be in a stronger position to try exporting than new or very young firms. This is because they will have mastered the basics of managing their business, their product or service will have proven itself in the marketplace, and their cashflow will have stabilized. Similarly, companies that have achieved significant domestic sales will have better prospects than those whose annual revenues amount to only a few hundred thousand dollars.

If sales have been limited to local customers, or to just a single Canadian region, the firm may be better advised to channel its energies into penetrating other Canadian regional markets. Exporting will be easier once the firm has been successful elsewhere in Canada or in adjacent American markets. If the firm has previously exported on an intermittent basis, or sold through a Canadian-based intermediary such as an export trading company, it may have acquired the experience needed to make exporting an ongoing part of the business.

A Competitive Product or Service

Determining whether the product or service is suitable for sale abroad starts with an evaluation of its competitive strengths and weaknesses in existing markets. Who buys the product or service in the Canadian market? What needs does the firm satisfy for existing customers? What do they value about it? What are its strengths and weaknesses vis à vis competing products and/or services in the home market?

These questions go to the heart of the actual demand for the particular product or service. If the firm lacks a clear understanding of these issues it is almost certain to encounter problems in determining whether the product or service is transferable to Mexico.

Understanding the competition is essential. Is the firm's competitiveness in existing markets based on price, quality, timeliness, delivery, or after-sales service? Can the firm's competitive edge be duplicated in Mexico in relation to a different set of competitors? If not, the likelihood of export success is slim. Are current domestic competitors also involved in the Mexican market? If so, have they made changes to their products or services to adapt to conditions there?

Other questions should also be asked about the product or service before deciding whether it is exportable. For example, does the product or service embody advanced technology? Is that technology proprietary? In order to use it to its fullest potential, does the product require specialized knowledge or training? Are options or accessories available for it in Mexico or must they be imported? Does it require after-sales service?

It may be necessary to modify a successful Canadian product to compete in the Mexican market. Labelling must be developed to conform to Mexican requirements. Packaging may have to be altered to accommodate climatic differences or local preferences. Products must also conform to Mexican health, safety and environmental standards.

Dare Foods

Dare is a private company that was 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 its origins. 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 products to the United States. The firm's success is based on forward thinking. It was the 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. Michael Thompson, Dare's Vice President for International Markets, saw some opportunities in the Mexican market but was initially dissuaded by the country's restrictions on imports. When the border opened after Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, the opportunities looked more promising. Shortly thereafter, a chance meeting led to a contact in Mexico.

Initial discussions lasted six months and involved faxes, letters and telephone conversations. Dare eventually provided the contact with product samples that were well-received and that resulted in a first shipment in March of 1990. The Mexican distributor placed the product with *Gigantes* supermarkets (160 stores) for a promotional sale. Five weeks later, Mr. Thompson 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 of the partnership have benefitted.

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A slightly different set of issues confronts the service exporter. While service exports do not face the need for physical modification, those who provide them may still have to adapt to local regulations, professional standards, and certification requirements. Transferring employees from Canada to Mexico involves visas and work permits, while hiring them locally means conforming to Mexican labour laws. In addition, because a large part of any service business involves the communication of information between people, service providers must display a greater sensitivity to cultural issues, local business practices and customer preferences.

Financing

A strong financial position allows a company to devote the resources needed for successful export market development. Such a firm can aim for medium-term sales growth rather than short-term profitability. In so doing, it will be well-placed to make a significant commitment to exploiting international business opportunities.

If immediate profitability is a firm's key priority, it would be well-advised not to begin exporting. International trade often requires a willingness to forego short-term profits for a longer-term position in the market. Nor is exporting likely to be a good idea for companies finding it difficult to obtain financing for expansion. And committing resources to develop an export business may be either impossible or highly risky for a firm with inadequate working capital.

Commitment and Knowledge

Some companies start exporting because they want to dispose of excess domestic product, supplement domestic sales with occasional foreign orders, stabilize seasonal domestic markets, or extend the lifecycle of products facing obsolescence. None of these are good reasons for undertaking a major export effort. If anything, companies with such motives run the risk of alienating their Mexican customers who will resent being treated as anything less than first class.

There are other more compelling motives for exporting. For example, companies look to enter the Mexican market in order to:

- use existing capacity more efficiently;
- build a base for long-term growth;
- diversify the company's markets;

Dare Foods

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Dare offers the Mexican distributor a quality product, experience in international marketing, training for sales staff, and strategic advice when asked to do so. The distributor has a knowledge of Mexican consumers, market dynamics and business practices. For example, Dare has learned that 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.

Mr. Thompson 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 their products are continuing to appear and are bringing new challenges to both Dare and its Mexican partner. Helping them increase their business increases Dare's own business.

- exploit a unique technology or know-how;
- improve returns on investment over the medium- to long-term; and
- acquire knowledge or experience to help compete at home.

Such motives make good business sense without undermining the basis for a mutually beneficial, long-term relationship with Mexican clients.

Exporting is typically more time-consuming than pursuing domestic business. There is, therefore, a real danger in adding a new set of export-related tasks to the responsibilities of employees who already have their plates full. Any firm doing so will find that its domestic business will suffer and the export effort will likely fail.

There is a definite advantage to having people on staff with some exposure to international business, the mechanics of exporting, and the Mexican market. Does the firm have people who speak Spanish or understand Mexican business practices? Tapping into relevant knowledge and experience inside the organization can provide an edge in evaluating or exploiting possible export opportunities.

But in-house expertise is not a prerequisite for success in Mexico. Many small Canadian firms have been able to sell there by reaching for the many forms of advice and assistance that are available from governments or from private-sector intermediaries. Remember too that a company is never static. Through training and experience, it can develop the export-related skills of its employees.

Most novice exporters begin much closer to home, by doing business with American border states. But there is a growing number of Canadian companies of various sizes that have ventured into the Mexican marketplace and found the experience rewarding.

Are You Ready for Mexico?

Before entering the Mexican market, a company will need to gather information about the local business culture, exchange rates, taxation, distribution and sales networks, as well as the regulatory environment. Above all, it will need to study Mexican customers, their buying habits, their preferences and the extent to which existing suppliers satisfy all of their current or potential needs. This will require devoting someone from the firm, virtually full time, to assemble such data.

Before assigning an employee to the task of gathering preliminary market data, the firm should ask itself the following questions:

- What can the Mexican market do for the product or service? How can the firm discover this?
- Does the firm understand the Mexican market for its products or services well enough to feel comfortable doing business there?

- Does it have the time and human resources available to pursue business in Mexico? What activities would it have to give up to make the time and human resources available?
- What will doing business in Mexico cost in terms of time and money? How does the firm know? How can it find out?
- When must its costs be recovered? How long does it expect to wait for revenues from transactions in Mexico?
- Can it cover these costs out of current operations? Does it need additional financing? Are there any immediate sources of financing available?
- Are there any people in the company who speak Spanish? Are there any who have had some experience in Mexico or in Latin America? Does anyone have specific knowledge of the Mexican economy? Does anyone have personal contacts in Mexico?
- Can the firm afford to assign an employee to focus on pursuing business opportunities in Mexico? Does that person have the authority to act as a leader and make things happen?
- Does the firm know anyone who has done business in Mexico? Does it have any business acquaintances who may know about this market?
- Does the company have access to external sources of help that might assist in entering the Mexican market?

If there are any areas for which the firm cannot give a definite or satisfactory answer, these must become priorities for resolution. Before going any farther, identify the activities that are required to complete the information, the time estimated to perform the task, and the priority of this task.

Conclusion

The preceding analysis should help determine a firm's readiness to enter the Mexican market. If it already has its hands full keeping up with demand from Canadian customers, or if it has significant cashflow or working capital problems, it should be cautious about launching an export campaign. On the other hand, if the analysis suggests that the firm's products or services can be modified to meet Mexican conditions, or that it enjoys a distinctive competitive advantage, it should progress to the next step and begin researching the Mexican market.

Chapter 2. Evaluating the Mexican Market

What to Look For

If preliminary analysis suggests that doing business in Mexico is a realistic possibility, it is time to shift the focus to the Mexican market itself.

Before deciding to enter the Mexican market, the firm must find out about it. Success will depend on knowing about technological sophistication, cost, quality, and the ability to sell to specific market niches. It will need to know what the competition is like. It may also want to put some effort into product modification, marketing or advertising to better position itself in Mexico.

Begin by examining the market research checklist. It contains many of the issues that will determine a company's prospects of succeeding in the Mexican marketplace. Abundant information exists from both public and private sources, as well as the general help that is required in order to do the firm's unique market research.

The answers to these questions will shape the strategic analysis that will suggest the best way of entering the Mexican market.

A Research Checklist for the Mexican Market

General Issues

Demographic

- population and market size
- population density and distribution

Physical

- climatic factors
- shipping distances (especially relevant for perishable and expensive-to-transport products)
- physical distribution and communication networks
- communications infrastructure (phones, faxes, modems, e-mail facilities) and overall technological sophistication

Zenon Environmental Inc.

Zenon Environmental Inc. of Burlington, Ontario 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, which 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 Zenon's efforts 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, 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.

Economic

- level of economic development
- growth rates, actual and potential
- sectoral and industrial distribution of activity (and imports)
- industrial structure
- per capita income
- income distribution
- consumer spending patterns and trends
- general openness of the economy to imports
- levels of import penetration
- most important sources of imports
- currency and exchange rate factors

Politcal and Governmental

- political stability
- government involvement in the economy and business
- the legal framework for doing business
- provisions for the resolution or redress of grievances
- controls over foreign trade
- major trade policy instruments and tariff barriers
- non-tariff barriers such as standards and regulations

Social and Cultural

- literacy rate
- language and customs
- cultural norms and characteristics
- business practices, if they are different than Canadian practices

Product or Service Issues

Market characteristics

- What is the size of the Mexican market for your product or service?
- Who is buying the product or service and what are their characteristics? Are you targetting industries, or consumers and end-users?

The competition

- What are the typical costs, quality and features of competing products already serving that market?
- How are competing products produced, distributed, advertised and sold?
- Is after-sales service available?
- Are there niches available that are not covered?
- Who are your competitors, both domestic and foreign?
- What are their corporate characteristics, e.g. size, financial resources, business direction, and technological capabilities?
- How does your product compare to theirs in terms of cost, quality, service and timely delivery?

Available facilities

- What are the local and regional transportation options for your products and products like them?
- What do you know about warehousing and storage facilities for your products?
- Do you have any information at this stage about such factors as the availability and reputation of local intermediaries such as agents and distributors?

Barriers and requirements

- What are the relevant regulations governing your product, e.g. health and safety rules, technical standards or patents?
- Are there specific rules such as documentation required for importing goods in your industry, such as rules governing food or organic products?
- Are there non-tariff barriers that you know of, such as quotas or "buy local" campaigns?

- What are the applicable remaining tariffs on your product?
- If tariffs apply, how quickly will they be phased-out by Mexico under the terms of the North American Free Trade Agreement (NAFTA)?

Options

- If you are addressing an entirely new and untapped market, how can you establish yourself, build awareness and shape market demand?
- If you are looking at an established market, how do you challenge the competition? Do you compete on the basis of price, quality, features, timeliness, process, service and/or distribution methods?

Sources of Information

Here is a list of some of the most important sources of information on the Mexican market.

- Canadian federal International Trade Centres, located across the country.
- Mexican specialists at the Department of Foreign Affairs and International Trade (DFAIT), and DFAIT profiles on sectors of opportunity in Mexico.
- DFAIT publications on exporting.
- Trade commissioners in the Canadian Embassy in Mexico City or in the consulates in Monterrey and Guadalajara.
- Private intermediaries such as banks, consultants, lawyers and accountants specializing in Mexico.
- Business associations: The Alliance of Manufacturers and Exporters Canada (AMEC), the Canadian Chamber of Commerce in Mexico, Canadian Council for the Americas, Canadian International Freight Forwarders' Association.
- Local Mexican business associations, located through the Mexican Consulate.
- Mexican Embassy in Ottawa or the Mexican Trade Commissioner's service (*Bancomext*), in Vancouver, Toronto and Montreal.
- Government departments. Other government agencies also compile Mexican market intelligence. At the federal level, information is available from the Canadian International Development Agency (CIDA); the Atlantic Canada Opportunities Agency (ACOA); the offices of Western Economic Diversification (WD); the Export Development Corporation (EDC); and the Canadian Commercial Corporation (CCC). Provincial governments also have trade and/or industry departments that assemble market intelligence. All of these sources can be accessed through DFAIT or the International Trade Centre nearest you.

CanadExport

This is the Department of Foreign Affairs and International Trade's (DFAIT's) twice-monthly newsletter, which keeps Canadian exporters informed about key trade matters. Regular features include information on international market opportunities, upcoming events such as trade fairs, official trade visits and conferences, developments affecting the international trading environment, and government programs and services that assist exporters.

To reach the offices of *CanadExport* directly, contact:

Tel.: (613) 996-2225

Fax: (613) 992-5791

FaxLink

FaxLink is a faxback information service operated by the DFAIT InfoCentre. The system stores a wide variety of trade- and foreign policy-related documents and publications, and makes them accessible to the public automatically by fax. This system is easy to use, convenient, and accessible on a 24-hour-a-day, 7-day-a-week basis.

Tel.: (613) 944-4500

- Periodicals. Special coverage of Mexico's economic development is featured in a number of Canadian and international business magazines. Locate these special reports by consulting library catalogues or commercial databases. Especially worth noting is *The Economist Intelligence Unit*, which publishes a comprehensive quarterly survey of Mexican economic, political and business conditions.

- Published market guides. There are many published statistical and market guides to doing business in Mexico. Check the InfoCentre hotline through DFAIT or contact your local public library.

- Databases. Several major commercial databases are available that carry Mexican economic and business information, country and/or industry profiles, and bibliographic references to recent articles in newspapers and periodicals. For information about these databases and how to access them, a good starting point is the nearest public or university library. The best single source of these databases is the Department of Industry (DI) library in Ottawa, but similar databases exist in a number of universities across the country.

- DFAIT online. DFAIT and most of its published material can be accessed over the Internet, through the Government of Canada Home Page, at **http://canada.gc.ca/main_e.html.** This is the Government of Canada one-stop access point for all databases, including those maintained by DFAIT.

- Internet sources on Mexico. The best single source is called Cactus Pointers, and it is available at **http://www.wishing.com/~backroads/cactus.html.** This is a collection of Internet links to all things Mexican, including cultural, economic and trade-related issues, government departments, current events, and companies doing business in Mexico.

Market Research and the Product

If initial market research suggests that Mexico represents a promising opportunity, the next step is to focus on sector-specific information. In this stage, market research should focus on developing particular information and conclusions relevant to the company's situation.

Product Demand

Domestic market research should provide a good idea of the kinds of people who buy the firm's products, their preferences, and how quickly the market is growing. A similar set of ideas needs to be developed about the Mexican market.

Is the Mexican market defined in the same way as the Canadian market? Does it function in the same way? Are purchasing decisions made in the same way by similar types of people? These are key to determining the transferability of — and the demand for — the product or service.

For example, when KAO InfoSystems decided to set up manufacturing facilities in Mexico, it was based partly on its analysis of the Mexican market for computer diskettes. It discovered that computers and computer products have reached about 25 percent of the Mexican market and that this market is growing about 25 to 30 percent a year. In spite of the fact that the average purchasing power is lower than in Canada and the US, the specific market which KAO addresses is relatively large and dynamic.

Growing (and Declining) Segments of the Market

Sectoral growth is a key consideration in evaluating market potential. When Zenon Environmental Inc. entered the Mexican market, it was on the basis of its knowledge that environmental issues and the need for wastewater treatment would remain on the political agenda for many years to come. Market research should tell whether a product is in a segment that is growing, stable or contracting.

Can the Market Absorb the Product?

Another consideration is the ability to pay for goods and services. What portion of Mexico's overall population of 92 million is in a position to pay for and afford various consumer goods or services? How many Mexican companies are in the market for particular capital goods? Luxury products or expensive high-tech goods can be sold in Mexico, but their market is quite narrow and the prospective exporter must consider whether the potential returns are worth the effort.

Delivery Issues

If the product depends on timely delivery or is expensive to ship, are transportation facilities sufficiently well-developed to ensure that it will always get to market on time? This could be critical, for example, to exporters of seafood products from Canada to Mexico. The combination of perishability, distance and climate mean that the potential exporter must be absolutely sure of transportation and storage facilities before undertaking such a venture.

After-sales Service

If the product requires sophisticated after-sales service or specialized training, then it can only be sold in markets where these can be provided. How easy would it be to develop a service network in Mexico? What kind of training would be required? How much would it cost to provide instructional materials in Spanish?

Does the Product "Travel" Well?

Cultural differences can determine whether or not a product "travels" well. When Ganong entered the Mexican market with its boxed chocolates, it took care to reformulate the product to meet Mexican tastes. Chocolate consumption in Mexico is as significant as it is in Canada and the United States, but Mexican preferences are for something slightly different. As Mexico opens up, its consumers are developing a taste for imported goods, but it is still a distinct market. Market research ultimately must identify and resolve potential end-user responses to the proposed product or service.

Credit in Mexico

In Canada, the purchase of products such as cars or appliances is usually financed. Such items will be difficult to sell in countries where such financing is either hard to obtain or unavailable. The availability of consumer financing in Mexico should be investigated as well as the way in which Mexicans use their credit cards. For example, would they use them for significant purchases such as appliances or computers? What other forms of consumer credit are available and relevant to the company's products?

Missions, Visits and Trade Shows

There is no substitute for first-hand observation of a potential market. In the words of one specialist, "don't try to do business in Mexico until you've seen the country." A trip to Mexico, however, will only be useful once the firm has done all the research it can at home. With today's global networks, tools such as the Internet can be used to gather a tremendous amount of information from the home office. This should be done early, so that a visit to Mexico can be properly planned and the best use made of it.

Even before getting on a plane, the prospective exporter can make personal contact with experts on Mexico or Mexican business people here in Canada. Incoming missions and market seminars are continuously being organized by both the Canadian and Mexican sides. Trade missions to Mexico provide another valuable opportunity to gather first-hand information. Finally, there are numerous trade shows held regularly throughout the year in Mexico. Canadian firms can either attend such a show to see what the competition is doing, or exhibit at such a show as part of its promotional activity.

Information on these events can be obtained from the Department of Foreign Affairs and International Trade (DFAIT) or one of the other sources listed in Where to Go for More Information, at the end of this publication. In addition, Export *i*, DFAIT's Mexican Knowledge Base, has a catalogue for market publications available with listings of upcoming trade fairs, shows and exhibits.

If there are no missions being organized that suit a firm's needs, it must organize its own trip. In this case, careful preparation is even more critical for success. What is the purpose of the trip:

- to assess the demand for the product or service;
- to evaluate the competition;
- to decide how to market and distribute the product;
- to meet with possible agents, representatives, distributors or local partners;
- to determine what modifications to the product or service may be necessary; or
- to find out what regulatory requirements exist?

Once objectives have been defined, the firm should contact a Canadian trade commissioner or provincial agent general assigned to Mexico. They can be very helpful in providing background information, referrals and introductions.

Chapter 3. Entry Strategies

There are many different ways to enter the Mexican market. Which one is best depends on a firm's business objectives, its strengths and weaknesses and its analysis of the Mexican market. The following pages describe some of the most common forms of entering Mexico. Each has different benefits and challenges that must be related to the firm's specific situation and capabilities. Each approach should be considered in terms of its cost, complexity, operational requirements, overall risk and expected returns.

Indirect Exporting

Canadian firms thinking of exporting to Mexico may find the prospect of dealing with the details of transportation, customs clearance, a foreign language and culture, and distribution problems rather daunting. Small companies with limited resources, or firms that simply want to try out the market before making a commitment, can deal through an intermediary in Canada. This can be an export management company, a trading house, a broker or a foreign purchasing agent. Each has specific characteristics which may be appropriate to different circumstances.

1. An export management company looks for foreign sales opportunities for its clients, and is paid by commission, retainer, or flat fee. It may represent several non-competing manufacturers at the same time. Most tend to specialize in a particular sector, a particular product, or a particular country, and can advise on packaging, documentation and shipping issues.

2. A trading house will take title to the goods being shipped. This means quick returns on export sales. Some trading houses may be in a position to guarantee a certain level of sales, but will insist that the manufacturer maintain inventories at certain levels or guarantee delivery times. The trading house may also wish to make agreements about advertising, packaging, pricing and financing.

3. A foreign purchasing agent is an agent of a foreign company or government institution who makes overseas purchases on their behalf. In such cases, the transaction is made in Canada and the agent is responsible for shipping the goods to Mexico.

4. A broker may specialize in certain products or commodities. A broker acts as an independent intermediary, paid on a commission basis, and, it may also provide assistance with documentation, labelling, packaging and marketing.

Indirect exporting is useful to those firms possessing little international experience and few resources, because they will probably be paid faster and it poses fewer risks than direct exporting. Its disadvantages, however, are that the producer has little control over the marketing of the product in Mexico, will gain little knowledge of Mexican customers, and will have little influence over what portion of the market can be captured. The fees and commissions involved will also reduce profits from the transaction.

Direct Exporting to Mexico

Many companies prefer to export directly once they have become familiar with the market and the techniques of exporting. The advantages of direct exporting include more control over the way the product is positioned and sold, including control over pricing, distribution channels, packaging, promotion and after-sales service. Advantages also include the ability to gather information about the Mexican market and specific customer needs and preferences. Such information can be used to modify the product or change the marketing approach in order to increase sales. Direct exporters are more in touch with market signals.

Disadvantages of this type of exporting are that it requires a higher level of knowledge of the market. Firms must visit Mexico, learn about the market, and meet with customers and distributors as well as with government officials. Ultimately, the level of responsibility — as well as potential rewards — are both much higher.

Joint Ventures in Mexico

Rather than going it alone, many Canadian companies find a partner in Mexico to smooth the entry process. There are many types of partnering, but joint ventures have become especially common.

A joint venture is an independent business formed through the cooperation of two or more parent firms. But it is a distinct corporate entity, separate from its parents. As such, it involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes and contributions of the partners.

Forming a joint venture with another firm is desirable 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 longer-term arrangements that require joint product development as well as ongoing manufacturing and marketing. Mutual trust is an essential element in such arrangements, and from the Canadian firm's perspective, the ideal partner is one with a thorough knowledge of how business is done in Mexico.

MAQUILADORAS

The *maquiladora* program has set aside several in-bond areas where manufacturers enjoy duty-free import of machinery, equipment, parts, raw materials and other components used in the assembly or manufacture of finished or semi-finished goods. Once assembled or manufactured, these goods are exported back to the country of origin or to a third country. In recent years, the regulations governing the *maquiladora* regions have been changed to allow up to 50 percent of total production to be sold within Mexico itself. Thus, a manufacturing or processing operation in one of these areas is an attractive way to enter the Mexican market. The phasing out of tariffs on trilateral trade under the North American Free Trade Agreement (NAFTA) will erode the advantages enjoyed by these free trade zones, but manufacturing and processing operations in the zones will have more freedom to sell their products in the domestic market, something which was restricted prior to NAFTA.

There are three types of *maquiladoras*.

1. Subsidiaries of foreign owned companies comprise the majority of operations.

2. The Shelter Program operates whereby the foreign customer provides the raw materials, machinery and equipment and the Mexican owner manufactures or assembles the goods for the foreign investor. This is the fastest-growing segment of the industry. It is the most popular type for small- and medium-sized manufacturers since it allows them to operate in the *maquiladora* region with a minimum of risk.

3. Contract operations operate whereby manufacturing is contracted out to a Mexican company that is already operating to avoid the costs involved in setting up either a wholly owned or sheltered operation. Under this type of operation, both the foreign firm and the Mexican contractor set the prices, quantities of production as well as the dates and locations for delivery.

To set up a *maquiladora*, it is necessary to obtain a permit from the *Secretaría de Relaciones Exteriores (SRE)*, Secretariat of Foreign Affairs, and the *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development. More information on how to get involved in the *maquiladora* program can be obtained from the Department of Foreign Affairs and International Trade (DFAIT) or from the Mexican government sources.

EXAMPLES OF CANADIAN *MAQUILADORA* OPERATIONS

Company	Area	Products	Started
Custom Trim Ltd.	Matamoros	leather-wrapped steering wheels	1984-85
Dicom Systems Ltd.	Ciudad Juárez	smoke detectors	1988
Dominion Group Inc.	Ciudad Juárez	wiring harnesses and assemblies	1987
Fleck Manufacturing	Nogales, Imuris Ciudad Juárez	wiring harnesses and assemblies	1985
Ideal Equipment Co. Ltd.	Matamoros	sewing machine parts	1978
Noma Industries Ltd.	Ciudad Juárez	artificial Christmas trees and lights	1990

TECHNOLOGY LICENSING

Firms can use technology licensing agreements to sell the rights to its products or services. Since licensing transfers usage rights but not property rights, the licensor still retains some control over the product. Issues that are subject to negotiation include royalties, 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 allow the Mexican partner to manufacture goods under licence for export to markets in other Latin American countries. This advantage will become more important in coming years.

BERCLAIN AMERICA LATINA

Berclain is a subsidiary of the 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 product called MOOPI, a manufacturing synchronization software. 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 that includes 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 97th and 45th floors of a building, who hasn't yet realized that he needs one."

CROSS-LICENSING

Cross-licensing is a strategic alliance between two firms in which one licenses products or services to the other. Today, many companies are exchanging the rights to use their products or services with each other. 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, typical of joint ventures, in which cooperation creates a whole greater than the sum of its parts.

Mexico's intellectual property laws were changed in 1991, significantly increasing the security of licensing or transferring of trademarks, designs, know-how or processes to Mexico. The *Ley de Fomento y Protección de la Propiedad Industrial*, Law for the Promotion and Protection of Industrial Property, stipulates that:

- the initial term for trademark protection is up to ten years;
- terms for patents are up to 20 years;
- industrial designs, which encompass industrial models and drawings, receive 15 years protection, as well, protection from copyright piracy is increased significantly and extended to computer software;
- Mexico now recognizes internationally accepted markings for trademarks and copyrights; and
- stiff penalties are imposed for infractions of these laws.

Franchising

The franchise can be considered a form of licensing. The franchisee is given the right to use a manufacturing or service delivery process, along with relevant business systems or trademarks, and the franchiser controls their use by contractual agreement. The franchiser is remunerated through an initial franchise agreement fee, through 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 ventures and master-franchise sales. Most franchises are in the hotel and fast-food industries. The protection offered by the new law on intellectual property is expected to encourage significant growth in the service and product franchise areas.

Choosing the Best Option

Each of the four market entry strategies has advantages and disadvantages. Much depends on the company's primary interests and concerns. Each of these strategies must be correlated to a list of typical company concerns. Canadian firms looking to enter the Mexican market can adjust their choice of entry strategy to address those issues that are of primary concern to them.

Goodfellow Consultants Inc.

Goodfellow Consultants Inc. (GCI) is a Mississauga-based, Ontario engineering firm specializing in ventilation design, air pollution control, occupational health and safety, and environmental studies. Approximately 60 percent of their 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 (INECO)*, National Institute for Ecology. Two were sourced through a bilateral cooperation agreement between Canada and Mexico, and the third was 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 *Contral Ambiental e Ingeniería Van Ruymbeke*, a firm in Mexico City 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.

Analyzing Entry Options

("XX" INDICATES SPECIAL EMPHASIS; "X" IDENTIFIES THE ISSUE AS A CONCERN)

If the company is concerned that	Then it should consider....			
	Direct Exporting	Joint Venture	Licensing	Franchising
Market demand remains unproven.	xx		x	
The market requires quick responses.	x	xx	x	x
There is a strong preference for local suppliers.		x	xx	x
There are high trade barriers.		x	x	x
Exchange rates remain volatile.	xx			
Local content and/or ownership is required.		xx	x	x
Its intellectual property must be protected.	xx			
Locally-based competition is a threat.		xx	x	x
It needs access to R&D in Mexico.		x		
Mexico can be a base for regional expansion.		xx	x	xx
It should stay close to Mexican customers.	x	xx		
It needs to develop local contacts.		xx		
It does not have to invest a lot.	xx			
It is dependent on Canadian suppliers.	xx			
Canadian suppliers have limited capacity.		xx	x	xx
It will not become dependent on Mexican suppliers.	xx			
It has high inventory requirements.		xx		
It depends on highly personalized service.	x	xx		x
A high knowledge of the product is required.		xx		xx
On-site service and support is required.		xx		xx
Risks remain low.	xx		x	
Cashflow remains steady.			x	x

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 on 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 mid-stream 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.

COSTING AND STRATEGY

Estimating costs is a prerequisite for financial planning and for securing financing, if required. For this, a company needs to develop a sense of its likely costs over the course of a transaction. Once this has been done, a cashflow assessment can be prepared. These costs, however, will vary from one entry strategy to another.

For example, in the case of direct exports to Mexico, cost calculations are relatively simple. They will include the costs of production in Canada and the additional costs of delivering the goods to Mexico, including packing, transportation, export documentation, insurance, tariffs, customs fees if they apply, licences and permits, and the costs of distribution, marketing and sales in Mexico. They may also include the fees and commissions paid out to brokers, agents and distributors. Finally, there may also be special costs incurred to modify the product for the Mexican market, changes to packaging and labelling, and any additional costs of service or repairs to products sold in the Mexican market.

Franchising is an entry strategy that is relatively easy to cost. In this case, estimates should include the costs associated with the sale, such as travel, executive time and other expenses, including research and possibly translation.

Producing in Mexico will involve a set of cost calculations similar to those for the domestic market, but with the addition of items that may be unique to the Mexican market. This might include distinct package design, preparation of customized instructions or other materials, and translation. There may also be costs associated with meeting local standards such as health and safety and environmental rules. Certain components may have to be sourced externally, however, and this will create additional transportation costs as well as supply risks.

Joint ventures represent another level of complexity. If inputs are being shipped from Canada for processing or assembly in Mexico, costs associated with both exporting and local investment will have to be combined. On the other hand, some deductions will have to be made to represent the contributions of the partners.

Calculating Costs

A costing sheet based on the items that are relevant to the transaction will allow a firm to determine its cost per unit. Use a checklist to list the typical charges that might be involved in shipping goods from Canada to Mexico. Research will be required to determine specific rates, but if hard numbers are unavailable, approximations should be used.

A Costing Checklist

Step in Export Process	Possible Cost Item
Manufacturing	■ Research and development ■ Materials ■ Components ■ Labour ■ Product or process modification to suit Mexican market ■ Plant overhead ■ Administration of export venture
Selling	■ Market research (may involve credit check on foreign buyers) ■ Communications (telephone, fax, courier) ■ Travel and accommodation ■ Events (trade fairs, missions) ■ Preparation of marketing materials ■ Translation to Spanish ■ Advertising ■ Negotiations ■ Legal and other fees ■ Foreign agents' commissions
Arranging terms	■ Costs of drawing up letters of credit (L/Cs) ■ Preparation of financing presentation ■ Financing charges ■ Export insurance
Preparing a shipment	■ Labelling (in Spanish) ■ Packaging for Mexican market ■ Packing and crating ■ Marking crate contents ■ Strapping ■ Preparation of documentation such as invoices, bills of lading (B/Ls), certificate of origin, inspection certificates and insurance forms etc. ■ Cargo insurance ■ Freight forwarders' fees

continued on next page

Moore Corporation

For the Moore Corporation of Toronto, Mexico represents 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.

Moore operates in Mexico with a minimal management structure because it found that success in a highly competitive market requires 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 the 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 often need to be prodded into paying their debts. Thus, when it is time to get paid, sending an invoice will be less effective than making a personal visit.

On the other hand, Moore has also 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.

Inland freight (bring to international carrier)	Loading Inland transport Tailgating Unloading
Lading	Demurrage (for delays) Storage (may involve refrigeration) Wharfage Special charges (long and/or heavy loads, congestion) Lading charges
Transportation	Freight
Landing	Unloading Storage (may involve refrigeration) Customs clearance Duties Customs brokers' fees
Delivery	Reloading charges Transport to final destination Unloading charges

The result of this calculation should be compared with the prices of competing goods or services in Mexico. If the costs do not seem competitive with what is known of the Mexican market, the costing sheet can be used to identify expenses that can be reduced or eliminated. The company can then develop a pricing strategy and a sense of its bottom line for use in negotiations with Mexican partners, agents, distributors, retailers or buyers.

Costing estimates should factor in the effect of different rates of inflation in the two countries, as well as differing interest rates, fluctuating exchange rates, taxation and changes to tariffs that are part of the North American Free Trade Agreement (NAFTA) implementation process over the next few years.

Some financing items are comparable to expenses that might be incurred in domestic transactions. However, the costs associated with exchange rate fluctuations are unique to international transactions and need to be accounted for. Other costs may involve specialized services such as the sale of receivables at a discount, the posting of performance guarantees, or the purchase of export credit insurance. There are also costs associated with verifying the creditworthiness of foreign buyers or partners. Though crucial to minimizing risk, such information may not be readily available or may incur significant additional expense, which needs to be factored into cost calculations.

Demurrage is the additional time a ship has to remain in a port for loading or unloading goods that go beyond the number of days that have been foreseen. Demurrage charges are the penalty paid to the ship owner by the firm chartering the ship. This also applies to containers not returned to the carrier within the time allowed by the carrier. In shipping to Mexico, consider the special storage requirements that may not be necessary or usual in Canada, such as refrigeration or packing for a dry climate.

If items are being shipped to a joint venture partner as components for a finished product, there may be tax implications or restrictions on the repatriation of profits that must be factored into the transaction. These may be compensated for by deferral or waiving of customs fees on items destined for re-export. There may also be investment incentives that offset some of the costs of the joint venture.

Pricing

Once a firm has a clear idea of the costs involved in a transaction, it can determine what price to charge for its goods or services. Proper pricing is a key to successful exporting — but it remains challenging, even for the most experienced traders.

Pricing is generally more of an issue for product exporters than it is for service exporters. In many professional service contracts, for example, pricing is determined by the exporter's daily rate plus expenses. The crucial pricing decision revolves around the extent to which that rate is competitive with what other companies charge for similar types of expertise. More complex, however, are service contracts that also involve the sale of products as part of the same package.

In pricing goods, the exporter should gather information that can help to answer the following questions:

- What prices are other suppliers (and exporters) charging for the product? (Can copies of competitors' price lists be obtained?)
- How strong is local demand for the product?
- How fast is local demand growing?

These questions can be answered through careful market research. Talking to potential foreign customers, foreign agents and distributors, other inter-mediaries can provide a reasonably good understanding of local market conditions.

If the calculated price for the export is higher than prevailing prices in the Mexican market, the exporter can still compete by differentiating the product. It can be positioned as offering superior quality, better service, or some other unique attribute that gives it an edge over the competition.

Pricing Strategies

It is important to note that intelligent export pricing consists of more than the mechanical task of simply applying a cost calculation. Successful companies also focus on strategic goals in setting their prices. Any one of a number of strategies can make sense, depending on business objectives and market research.

Pricing Strategy and Market Entry

Strategy	Description
Static pricing	Charging the same price for all customers. Used in a market with relatively stable demand and little competition. It is seen as fair for all and easy to administer, but does not respond to price sensitivity and thus may not capture every potential buyer.
Flexible pricing	Charging different groups of consumers different prices as a means of capturing all possible demand in the marketplace. This requires positioning the product differently with different audiences. For instance, airlines use flexible pricing a great deal, capturing the bulk of their revenues from business travel and using discounts or seat sales to market their excess capacity to special classes of customers.
Penetration pricing	Charging low prices to capture market share and knock competitors out of the game. Large sales volumes allow a company to benefit from economies of scale. Excessive use of this mechanism, however, runs the risk of eliciting a response in the form of anti-dumping legislation on the part of the government in the target market.
Market skimming	Charging premium prices and focussing on the wealthiest market segment as a way of maximizing profits from low sales volumes. This is often used when a new technology is introduced as a way of quickly recovering R&D costs.
Market maintenance	Holding prices down to maintain market share, even if costs rise. For example, when the Mexican peso was devalued in December 1994, companies exporting to Mexico would have had to raise their prices drastically to cover their domestic costs. Some may not have done so, however, in order to keep their share of the Mexican market.

Constraints on Export Pricing

In setting their prices, exporters must also include international constraints on pricing such as: anti-dumping legislation, resale price maintenance legislation, price ceilings and price level reviews, international transportation costs, intermediaries in elongated international channels of distribution, and multinational account servicing.

Anti-dumping legislation

Dumping is defined as selling goods in a foreign market at a price below the market price in the producer's home country. This practice is generally viewed as unfair, and the World Trade Organization (WTO), the successor to the General Agreement on Tariffs and Trade (GATT), to which Canada, the United States and Mexico are all signatories, allows countries to impose penalty tariffs (anti-dumping duties) on imported goods found to be unfairly priced and causing injury to domestic producers. Anti-dumping duties raise the market price of the imported goods, thus offsetting any competitive advantage they might have previously enjoyed.

Subsidies in international trade

International trade can be influenced and distorted by government subsidies. For a company, subsidies can provide a tangible competitive advantage in international trade, but they tend to be viewed as unfair trading practices — particularly if they are focussed on export production or specific industries or companies, and are therefore not part of "generally available" government programs. Exported goods which have benefitted from government subsidies in their country of origin can harm domestic industries in the importing country. Accordingly, many countries, including Canada and the United States, have developed trade rules which permit the levying of penalty tariffs (countervailing duties) on imported goods judged to have been subsidized by foreign governments. These duties are designed to remove the cost (and thus the price) advantage gained as a result of the subsidies.

CASHFLOW PLANNING

A key step in financing any export venture is to determine when costs are likely to be incurred and when expected revenues are likely to be received. Companies can fail if they do not manage their short-term cashflow effectively.

Effective cash management is especially important to the exporter. Compared with a purely domestic enterprise, an exporter must:

- sell to a foreign customer base that may be less susceptible to the usual means of accelerating payment and less accessible in the event of a default;
- contend with a variety of factors that can interrupt, disrupt or delay payments: these can include transmission delays, currency exchange fluctuations, and even the imposition of exchange controls;
- use flexible payment terms as a sales tool both more often and more aggressively than is the case in the domestic market; and
- incur proportionately higher costs (e.g. shipping, transportation, insurance, customs) to achieve the same sales volume.

Some of these factors serve to delay payments, others to make collection more risky, still others to lengthen the gap between incurring a cost and collecting revenues.

Export cashflow planning compares expected cash outlays with revenue inflows over time. Companies can forecast these by using a cashflow planning sheet. Costing estimates should be arranged on the basis of when these items will have to be paid. These pay-outs should then be compared against the dates on which revenues are expected. The cumulative total at the bottom of the sheet should provide a running summary of the company's cash position during any period.

It should be added that cashflow sheets can be prepared for a particular venture, such as exporting to Mexico, to test its impact on the firm. They should then be integrated into the firm's overall cash planning.

A strongly negative cashflow projection should not be taken as a reason for cancelling an export deal. Instead, it should be seen as a warning to the exporter, to make appropriate financial counter-arrangements in advance.

For example, it may be possible to revise the terms under which the goods are sold. Generally, these terms define the relative responsibilities of the buyer and the seller, and specify at what point in the process title to the goods is to be transferred to the buyer and payment is to be remitted. By transferring title to the buyer earlier, the exporter might avoid responsibility for certain costs (e.g. transportation) and receive payment earlier.

Alternatively, the exporter may ask the buyer for cash in advance, or try to get an agreement to advance the date on which payment is specified in a letter or credit or collection. Such a proposal may not be accepted, however, since it increases the buyer's risk.

If the buyer is unwilling to offer more favourable terms, the exporter may have to look for some form of export financing to cover periods of negative cashflow.

Sample Cashflow Planning Sheet

	Period			
Type of cashflow	**1**	**2**	**3**	**4**
Costs				
Product				
Sales				
Financing				
Shipment preparation				
Inland freight				
Transport				
Lading				
Customs				
Delivery				
Financing charges				
Total cash outflow				
Revenues				
Cash advances				
Installment payments				
Due on settlement				
Drawbacks and holdbacks				
Factoring (sale of receivables)				
Total cash inflow				
Balance for period				
Cash at beginning of period				
Cash at end of period				
Cumulative total				

A Note on Billing in Mexico

One peculiarity of doing business in Mexico is the fact that payments between companies are usually made in person. In part, this avoids the uncertainties of sending cheques in the mail; in part it harks back to a time when business was conducted between people who knew and trusted each other. Therefore, invoices should not be sent in the mail, since they are likely to be ignored. Instead, a company should take the time to set up a meeting between its representative and the buyer to present the invoice in person.

Common Methods of Financing

In many export transactions, there is a significant gap between cash going out to effect a transaction and proceeds coming in as payment. In such instances, the exporter will have to find financing to bridge the gap.

Bank Lines of Credit

Commercial banks will sometimes provide businesses with operating lines of credit to finance their ongoing activities. However, banks normally define an upper limit for each operating line of credit according to two parameters. First, they set an absolute ceiling based on the size and creditworthiness of the company. Second, they issue credit based on accounts receivable (often about 75 percent of total acceptable accounts receivable). This is common practice for domestic businesses. Foreign accounts receivable, however, may not be considered acceptable, except perhaps when they involve customers in the United States. The reluctance of commercial banks to set up operating lines of credit finance has been a major stumbling block for many exporters and has led them to look for alternative ways to finance their transactions.

Instead of offering operating lines of credit, exporters might be able to access commercial bank financing against signed contracts. This might take the form of a term loan secured by the contract. If the bank is uncertain about the creditworthiness of the purchaser or has questions about the exporter's ability to fulfill the terms of the contract, it may ask for additional security in the form of liens or mortgages against property or other assets.

Discounting Receivables (Factoring)

Companies can accelerate the inflow of cash by selling their receivables to another institution at a discount. This allows exporters to satisfy short-term cashflow requirements even if their receivables are long-term. Factoring also relieves exporters from the burden of securing payment from buyers. The financial institution purchasing the receivable takes over the responsibility for collecting payment. This also means that the exporter is freed from any risk of non-payment: the institution buying the receivable assumes the risk and the costs in the event of a default.

Banks and factoring houses will purchase export receivables at a discount. The discount charged will reflect the institution's assessment of the risks and costs involved in the transaction. If the exporter is able to negotiate a letter of credit (L/C) or some form of promissory note from the buyer, there is less risk involved than with other forms of payment.

Canadian commercial banks are becoming more active in this kind of arrangement, especially if the contract with the Mexican purchaser is accompanied by a guarantee from a Mexican bank. In addition, both the Export Development Corporation (EDC) and the Canadian Commercial Corporation (CCC) offer financing against export receivables.

Exporters contemplating factoring should consult with their own bank. The bank will be able to advise on whether factoring is appropriate, as well, it may be able to direct the exporter to a suitable provider of the service, or provide the service itself. Alternatively, the exporter should make contact with export financing houses specializing in this function.

Sources of Financing

Many sources of financing are available to the prospective exporter, but different sources may specialize in different types of financing. If acceptable collateral is available, short-term financing can usually be arranged through banks. Operational financing may need to come from private investors or lenders. Long-term financing may come from government institutions or international financial institutions.

Commercial Financing Sources

Canadian exporters can select from a wide array of commercial sources of export financing, each with its own priorities and perspectives and each offering different rates, terms and services. In looking for capital, the prospective exporter should investigate what is available from the following typical private-sector suppliers of export financing:

- confirming houses, which act as buyers' agents;
- export finance houses, which can buy exporters' receivables as well as provide exporters with financial management services such as invoicing, accounting, and collections;

- factoring companies, which assume the risk of buyer default by purchasing receivables at a discount;
- Mexican partners, who sometimes have better access to financing than the Canadian exporter has;
- private investors, who may be flexible and available but who often seek a very high rate of return; and/or
- commercial banks, known for their breadth and depth of service but also for their caution.

COMMERCIAL BANKS

All major Canadian banks have established a presence in Mexico. The National Bank of Canada is the most recent Canadian bank to set up operations there. It joins a list that also includes the Bank of Montreal, Royal Bank of Canada, Bank of Nova Scotia, Toronto-Dominion and Canadian Imperial Bank of Commerce. Their presence facilitates such transactions as cashing letters of credit, making bank transfers, negotiating local trade financing, and obtaining credit references on Mexican buyers. Any small business with an established relationship to one of these institutions should probably consult it first to explore what trade financing services are available.

Another commercial financing avenue worth exploring is the Mexican banking community. Two of the largest Mexican banks, *Banamex* and *Banca Serfin*, are testing the Canadian market by establishing representative offices in Toronto. The Canadian offices of these Mexican banks can help selected Canadian firms by sharing their knowledge of the Mexican business environment as well as specific Mexican companies. The Canadian firm can also take advantage of the banks' bold approach to finding Canadian investors for their Mexican clients.

CANADIAN GOVERNMENT AGENCIES

Several federal departments and agencies have a mandate to foster Canadian exports by providing firms with financing. Since this mandate is focussed on Canada, these agencies will tend to focus on the Canadian content of any project and the extent to which it creates jobs and wealth in this country. A similar role is played by provincial governments, which provide some financing assistance to exporters from their own provinces.

Export Development Corporation (EDC)

EDC is Canada's official export credit agency. Its mandate is to promote Canadian exports by providing Canadian exporters with lines of credit, receivables financing, and various types of insurance. Because most of this financing is on relatively favourable (i.e. below market) terms, EDC insures and finances 50 to 60 percent of Canadian business ventures in Mexico.

EDC can also help Canadian exporters by providing financing to their prospective foreign customers. It has a mandate to finance up to 85 percent of the foreign buyer's purchases of Canadian capital goods, equipment and services. It does so through three types of medium- and long-term financing:

1. direct loans, typically financed over seven to ten years, with fixed and floating rate portions;

2. allocations under lines of credit, which occur only after the transaction, buyer and exporter have been approved; or

3. note purchase and forfaiting that is usually applied to small- and medium-sized transactions extending from two to five years.

Credits issued to foreign borrowers are paid directly to the Canadian exporter by EDC, as the exporter delivers on its obligations. EDC then collects from the borrower according to the agreed interest rates and repayment terms.

EDC's lines of credit are particularly useful for small- and medium-sized exporters looking to finance sales of capital goods to Mexico. As well, companies can benefit from a newly streamlined approval process. But EDC financing is not automatic, and potential exporters must work hard to secure it. Before it arranges financing, the EDC must be confident that the transaction is feasible, that the exporter has the technical and financial capability to complete the transaction as contracted, that Canadian content has been maximized, and that the foreign buyer is creditworthy. To proceed with the transaction, it may require:

- product information on the goods being exported;
- an estimate of the contract price;
- expected terms of payment and delivery;
- a Canadian content declaration;
- a draft proposal or commercial contract;
- a profile of the exporter;

- audited financial statements for the past three years; and
- a summary of the exporter's international sales experience.

EDC will also investigate the creditworthiness and reliability of the foreign buyer or financial institution. It demands details of the financing support requested. For larger projects, it may also require a feasibility study, details of any consortial arrangements, as well as financial projections for the project.

EDC can help the exporter put together a deal by issuing a number of supporting letters.

- A General Letter of Interest signifies that EDC financing could be available to support the transaction.
- A Detailed Letter of Interest provides some indications of the nature and amount of EDC support available for the transaction.
- The Proforma Letter of Offer sets out the terms and conditions of likely EDC support.
- A Letter of Offer sets out the final terms of financing and conditions to be set out in the formal loan agreement.

By contacting EDC early, potential exporters can secure these letters to assist them in their marketing efforts.

The EDC and the commercial banks have worked out a new, cooperative approach to sharing the risk involved in medium- to long-term financing such as might be needed for capital goods projects. EDC will undertake medium- and long-term financing in developing country markets, but does not have the distribution network within Canada to provide services nationwide, especially to small- and medium-sized enterprises (SMEs). Commercial banks have both the networks and the resources needed to expand the Crown corporation's capacity to support capital goods exporters. To combine their respective strengths, a number of frameworks for risk-sharing are being developed. Details of these programs can be obtained through the EDC.

Canadian Commercial Corporation (CCC)

CCC specializes in bridging the gap between Canadian exporters and foreign governments. It enters into "back-to-back" contractual arrangements through which it strengthens the position and credibility of smaller Canadian firms pursuing business opportunities abroad. Under these arrangements, the corporation signs a contract with a foreign buyer (usually a government) to supply specified goods and services from Canada. It then signs a separate contract to purchase the goods and services from a Canadian supplier. By interposing itself in this way, it assumes the risks from both sides of the transaction. Since the Canadian exporter has a contract with the corporation, it is protected from the risk of non-payment by a foreign government that it would otherwise have a difficult time pursuing for collection. Similarly, the foreign government is protected from the risks of non-performance by a company outside of its jurisdiction.

By guaranteeing the performance of Canadian suppliers, this corporation reassures foreign purchasers and makes them more likely to issue contracts that involve Canadian firms. Its participation can expand the financing options available to Mexican public sector clients. Finally, its assistance is available to eligible Canadian suppliers throughout all stages of a transaction, including opportunity identification, project analysis, risk analysis, bidding, negotiations, invoicing and collection.

Exporters working through these contracts may not have to wait as long for payment, since they invoice the corporation while it invoices the foreign buyer. In the event of default, the corporation can bring to bear the full weight of the Canadian government to ensure payment.

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)

CIDA is Canada's official development aid agency. It channels Canadian funding to the major multilateral development banks and it sources goods and services required by developing countries directly from Canadian firms.

If a capital project involves environmental improvement, technology transfer, developmental assistance to women, job training or job creation, CIDA may provide some financial support through the Industrial Cooperation Program (CIDA/INC).

A key criterion used by CIDA/INC in assessing whether or not to support a project is that it ultimately create jobs in Mexico, while not having a negative impact on employment in Canada. If a project meets this criterion, the Canadian company proposing it may be eligible for grants to perform studies and provide professional advice to Mexican clients.

To qualify as an eligible supplier to CIDA-sponsored projects, Canadian exporters must demonstrate their technical ability and the competitiveness of their product. In addition, the goods and services provided must meet a minimum of two-thirds Canadian content, while consulting services and technical assistance provided through CIDA's bilateral program must be provided by firms established in Canada and owned by Canadians.

International Financial Institutions and Multilateral Agencies

The international financial institutions (IFIs) include organizations such as the World Bank and Inter-American Development Bank (IADB). The multilateral agencies include organizations such as the United Nations Development Program (UNDP), the Food and Agriculture Organization (FAO) and the World Health Organization (WHO).

IFIs and multilateral agencies fill a need in an emerging market such as Mexico's by offering long-term financing, often at attractive rates with more flexible terms and conditions than is available from private sources. Much of this financing is specifically directed to projects that are significant to the country's development but which would otherwise have difficulty in securing funding. The participation of an IFI in an international transaction provides a level of comfort to other potential investors and financial institutions by providing assurance that the project has been properly assessed and that it will be managed appropriately. Most international development financing involves a complex blend that may include private firms, merchant banks, investment dealers, governments and IFIs, as well as other development institutions. The funding can be provided through means such as parallel financing, co-financing, the extension of guarantees, or equity contributions, all of which may be required to see a deal through to completion.

IFIs do not act as a direct source of funds or insurance for the exporter. Instead, through their lending and support programs, they provide opportunities for providers of goods and services to bid on specific projects. IFIs and multilateral agencies work directly with government bodies in Mexico to identify high priority needs that require funding which is otherwise unavailable. The government or borrowers determine which projects to initiate. They also manage the projects, hire consultants and award the contracts. As bankers, however, the IFIs review the process, ensure guidelines are followed and establish terms and conditions for monitoring the project from start to finish.

The World Bank and associated institutions

The World Bank provides financing for development projects around the world. Its primary role is to lend to governments that are unable to secure long-term funding from traditional sources of financing. For more developed countries such as Mexico, the World Bank provides lending services through the International Bank for Reconstruction and Development (IBRD).

Companies cannot contact IBRD directly to request funds for exports or investment. Instead, the opportunity to sell goods or provide services arises from projects which are funded usually only in part by the World Bank. The borrower of the funds, in this case the Mexican government, determines which projects are priorities and whether or not to seek funding from the World Bank or other international financial institutions. Marketing a company's product or service thus needs to be directed to the organization designated as project manager by the Mexican government. This designated organization is called an executing agency.

The International Finance Corporation (IFC) was established in 1956 to promote growth in developing countries by supporting the private sector. It invests directly in private commercial enterprises by means of loans, equity financing and guarantees in collaboration with other investors. It also offers stand-by financing, risk management and quasi-equity instruments, such as subordinated loans, preferred stock and income notes. In addition to funding, it also provides financial, legal and technical advice to private enterprises. Unlike the IBRD and the IDA, the IFC does not require government guarantees of repayment.

Mexico is one of the World Bank's largest borrowers, accounting for more than US $23 billion, or ten percent of its total commitments since 1948. In 1994, Mexico was the bank's second largest borrower after China.

Three-quarters of the World Bank's lending in Mexico to date has been for investment projects and one-quarter for structural adjustment loans. Almost all World Bank projects in Mexico have included technical assistance components for training, consulting services and feasibility studies, which together account for more than seven percent of all approved funding.

THE INTER-AMERICAN DEVELOPMENT BANK (IADB)

IADB is an international financial institution aimed at helping accelerate the economic and social development of its member countries in Latin America and the Caribbean. Created in 1959 and with its headquarters in Washington, D.C., the Bank is owned by 46 member countries. Of the 28 members in the region, 26 countries can borrow from the Bank while the remaining two, Canada and the United States, are non-borrowers. There are also 18 member countries from outside the region. Companies from all 46 member countries are eligible to bid on IADB contracts. The objectives of the IADB are:

- to promote the investment of public and private capital in the region;
- to use its own capital for high-priority economic and social projects;
- to encourage investment that contributes to economic and social development, and an improvement in living standards;
- to help member countries make better use of their resources while fostering foreign trade;
- to provide technical cooperation, often in the form of grants, to help countries conduct feasibility studies for projects and development plans as well as to provide specific training or assistance as a way of strengthening the country's institutions.

The financial resources of the Bank consist of subscribed capital, reserves, funds raised through borrowings, and trust funds established by member countries. The Bank also has a special fund for lending on concessional terms to economically less-developed countries.

IADB is the world's largest regional development bank with authorized ordinary capital in excess of US $100 billion. With this base, its lending capacity is about US $8 billion per year, although lending levels for the next few years are unlikely to go much beyond US $6 to $7 billion. Since its inception, IADB has approved more than US $70 billion in loans and generated more than US $178 billion in related investment.

At its headquarters in Washington, D.C., the IADB maintains three regional departments supported by sector specialists. Each potential project is assigned a task manager who is responsible for coordinating and managing its involvement in the venture.

Canada has its own IADB executive director supported by a staff of three representatives who reside in Washington. They are responsible for commercial liaison, CIDA coordination and monitoring, as well as finance. The commercial liaison representative is the key contact person within IADB for Canadian companies interested in getting additional information about projects or setting up meetings with task managers. In addition to its Washington headquarters, IADB has offices in each of the borrowing countries. These offices are very active in the development, implementation and evaluation of projects.

In general, the IADB is shifting its emphasis from developing physical infrastructure such as roads and power plants, to more comprehensive social programs aimed at reducing social inequality and creating opportunity. These include projects in education, health, urban development and the environment. All of these activities will result in new opportunities for consultants in areas such as program development and institutional strengthening. A large proportion of the budget, however, will continue to concentrate on physical infrastructure and civil works such as schools, water supply and sewage systems, as well as soil and forestry conservation.

Canadian firms have traditionally fared less-well in projects funded by IADB than in Latin American projects funded by the World Bank. In part, this is because World Bank projects contract a larger amount of the lending to non-borrowing nations. It is also a function of the type of project funded by the IADB and the type of service or goods required. Canadians tend to do better at providing consulting services, and this represents a much smaller part of IADB's business.

Chapter 5. Partnering in Mexico

The Purpose of Partnering

Most Canadian firms seeking to take advantage of opportunities in Mexico follow the route of direct exporting. Many have discovered that exporting usually benefits from the services of a local agent or distributor who is familiar both with the product and with the Mexican market for that product. A growing number of internationally active companies have gone beyond agency agreements, however. They are using various other forms of partnering, sometimes called strategic alliances, to complement and enhance their export efforts. Partnering internationally enables the firm to:

- leverage their 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;
- be more effective at responding to change; and
- share the high costs and risks of business.

The forms of partnering vary from participating in a joint venture to an exchange of products through a cross-licensing agreement. What they share in common is that they can provide a firm with the technology, capital or market access it needs in order to enter foreign markets, that it might not be able to afford or achieve on its own. Even small firms can compete in Mexico by linking with partners. The linkages formed are limited only by the company's ability to manage its relationships.

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

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.

Partnering does require an investment of time and money to find a suitable partner or negotiate an agreement. Before making such an investment, and given the challenges involved in any relationship between companies, the Canadian firm should make sure that partnering makes sense given its situation and its strategy. A careful and detailed examination of reasons for entering an alliance represents good business sense; rushing into an alliance in the hope that a synergistic plan will somehow evolve does not.

The Challenges of Partnering

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

The company 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 whom a partner wants to rid itself.

An excessive amount of management 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, for example, it may need to consult and arrive at consensus.

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 that is 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.

Types of Partnership

The most common method of moving into the Mexican market is to enter into an agreement with an agent or distributor, although some companies do set up their own local sales office or corporation.

An agent acts on behalf of the foreign company and has the power to make binding agreements. Therefore, it is essential to find an agent who has no conflict of interest, and to identify the precise limits of the agent's powers and responsibilities.

A distributor, on the other hand, acts on its own account. They cannot bind the foreign supplier and exercise a great deal of discretion over how goods will be resold. They may take title to the goods, or handle them on consignment. 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 and local sales offices, often operating from the United States. But this is beginning to change. Partnering forms are beginning to emerge as Canadian companies become more familiar with doing business in Mexico.

Joint Venture

A joint venture is an independent business formed through the cooperation of two or more parent firms. Its basic characteristic is that it is a distinct corporate entity, separate from its parents. As such, it involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes and contributions of the partners.

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 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 have been the keys 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 unfamiliar 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.

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.

Licensing and Cross-Licensing

These are arrangements allowing companies to benefit from each other's technologies and processes. While the volume of licensing and cross-licensing arrangements between Canadian and Mexican companies is not as large as between Mexican and American companies, the numbers are growing as more companies use Mexican operations as a base to reach markets in the rest of Latin America.

Cross- or Co-Manufacturing Agreements

These are a form of cross-licensing in which companies agree to manufacture one another's products. Co-manufacturing may be combined with co-marketing or co-promotion agreements, through which companies cooperate to advertise and sell each other's products. 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.

Co-Marketing

This is also done on the basis of a fee or percentage of sales. For companies 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. It allows firms with complementary products to fill out a product line while avoiding expensive and time-consuming development.

Joint Production Agreement

In this type of agreement, companies cooperate to produce goods. 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

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 companies 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 carrying a non-competing line which targetted 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, and 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 to improve manufacturing efficiency and to develop export markets.

industries, competing firms often form an alliance to make components used by all the competitors.

Franchising

The franchise is a specific form of licensing, and is a rapidly growing segment of the market in Mexico. Most franchise operations to date have been pursued by American companies, partly because of the huge advantage that name recognition gives to American companies which advertise extensively in the North American market. However, the new law on intellectual property offers significant protection which may make this a growth area for Canadian companies as well.

Virtual corporations and relationship enterprises

These are the newest and most distinct forms of collaboration. The virtual corporation might be thought of as a partnership of companies that will be formed on a temporary basis. Firms are brought together by computer networks and a specific market opportunity. Each member contributes only 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 concerns.

Relationship enterprises are much like their cousins, the virtual corporations, but the relationships they form are of a longer-term nature and involve larger undertakings. Due to the long-term component of relationship enterprises, they are more likely to be international in scope, which might eventually allow a relationship enterprise to operate on a home-country basis in each partners' market. Based on this quality, a relationship enterprise will have 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 individual production facilities of the collaborators are electronically connected and integrated, not created;
- the companies contribute their core competencies to the undertaking but do not transfer them; and
- the new forms of collaboration can be formed with comparatively loose ties by virtue of a highly flexible network infrastructure, rather than extensive legal arrangements and financial investments.

Finding Suitable Partners

Entering a partnership without a clear set of objectives may result in the loss of control over its direction. Firms contemplating partnering should develop a clear plan before engaging in the process. The following checklist can be used to clarify company objectives and focus partnering strategy.

Partnering Strategy

Partnering objectives: What does the firm want the 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 the company have needs or deficiencies?	■ human resources ■ information ■ contacts ■ operations ■ distribution ■ marketing ■ financial resources ■ knowledge of market ■ time
Evaluation criteria for potential partners:	■ market knowledge ■ manufacturing capacity ■ technological capabilities ■ location ■ human resources ■ financial strength
Issues for negotiation:	■ complementarity ■ cooperation ■ organizational compatibility ■ measures to establish confidence ■ approach to customer service ■ financial contributions ■ level of risk accepted ■ reinvestment criteria ■ deployment of human resources

Having defined overall business objectives and clarified why the firm needs a partner, the next step is to profile several different candidates, interview them and select the most suitable. The extent and nature of the firm's need to interact with a 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. The more a firm needs to interact with a partner, the more important it is to find one whose organization is complementary. This involves issues of size, organizational structure as well as management style, operating policies and philosophy. It is worth taking the time to find out if the firm can really work with a potential partner.

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, questioning whether the market really holds much potential for its product.

Important Criteria in Looking for a Partner

Technical complementarity	This is the minimum criterion for selecting a partner.
Ability to cooperate easily and effectively with the potential partner	Otherwise, there will be 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 which otherwise could 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 the divergence, the greater the risks 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.

Above all, the firm should look for partners possessing 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? Do they need the venture to fulfill their own tactical and strategic objectives? The prospective partners should share the same time horizons and expectations with respect to pay-back period. Knowing what the prospective partner needs from a 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. The firm should use the services of a top-notch lawyer who can brief managers on the laws dealing with the protection of intellectual property. These rights should be protected against unfair appropriation.

If an acceptable candidate is not found, the firm should reconsider alternatives such as licensing, short-term contracts, mergers, acquisitions, or a greenfield investment. It should not feel pressured into a decision. Better a delay or change of course than to undertake a serious venture with an inappropriate partner.

Negotiating a Partnership

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, however, does not mean ignoring difficult questions or brushing aside serious reservations. Trust allows partners to meet challenges and solve problems together. Nor does trust mean ignoring questions of corporate security. Frank and clear definitions of intent, of the scope of cooperation, and of the terms of confidentiality are important. Clarity builds trust. The avoidance of important and legitimate concerns can only lead to confusion, unease and suspicion.

Tips on Negotiating in Mexico

Protracted face-to-face negotiations are essential. No one simply arrives on the spur of the moment and is finished by the weekend.

Most deals take longer to negotiate than expected. Negotiations may drag on if time has not been taken to form good relationships. 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 information to be offered by the prospective partner during the first round of negotiations. Information is most often held back until the right moment, or until it is specifically requested. Knowing what to ask and when 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.

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The Stages of Negotiation

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

1. A business framework is an agreement which clearly defines the objectives of the partnership and the form it should take to meet those objectives.

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

Tips on Negotiating in Mexico

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Who is on the team will depend to some extent on the relative size of the two companies. The smaller the company, the more likely it is that the president will take a personal position in the negotiations. Despite differences in size, 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 signaling genuine commitment. In Mexico's traditional and hierarchical decision-making process, it is usually the owner who calls the shots. Therefore, negotiating with the proprietor 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 intermediaries to convince them to send in the top people. The last card should be saved for the final session with the owner — thereby making the final concession only to that individual.

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 to help shape and fully understand the structure of the partnership. But such staff are better introduced after the controversial issues have been hammered out, saving them from a conflict of interest between the interest of the parent firm and their desire to nurture a harmonious working relationship with the other side.

MOUs can be as short as a single paragraph, or they can be as long as ten pages, but they are important because they help to introduce clarity early in 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.

3. 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.

What to Negotiate

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 selection of management and the board of directors. Decision-making on 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.
- Policy on the retention and/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 service contracts from the partners, for financial, management or technical services?
- Exit of a partner: define the boundaries.
- Dissolution or liquidation of the partnership. Ownership of the joint venture's technology, customer lists, trademarks, brand names and other assets.

The items on this list are likely to be dealt with at the level of general principles in the early stages of negotiations. As the negotiations proceed, however, they should be addressed in increasing detail.

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."

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 accommodate rapidly changing circumstances. Even the most carefully constructed arrangement will need to evolve as conditions change. Flexibility in its structure, however, will be useless unless it is matched by flexibility among 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.

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, the firm needs to be clear about its own goals and about those of the potential partner. Some goals and objectives may be explicit and clearly stated; some may be implicit and unstated. Understanding both is essential to success. The former can be discovered through the process of negotiating a partnering agreement. The latter, however, may require a careful study of the prospective partner's corporate activities even before the parties come to the negotiating table.

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; however, incompatible ideas may indicate you are entering a venture with a high risk of failure:

- you experience difficulty agreeing on what is proprietary data;
- your prospective partner is 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; and/or
- they are spending a lot of money without serious thought.

If all else fails, negotiators must be ready to say "no" to a bad partnership deal or to receive a "no" from their negotiating partners.

Cultural Issues

Partnering in Mexico introduces the element of (national) cultural differences into the business equation. How well-prepared is the Canadian firm to deal with these? Small firms can fit easily into a single overall strategy. The goals of both sides, however, should be reflected clearly in the partnering agreement. That 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.

WARNING SIGNS

In negotiation, pay careful attention to the attitudes and behaviour of potential partners. If there is a sense that something is not quite right, pay attention. Watch out for these warning signs; you may want to investigate the possibilities for obtaining cross-cultural training and assistance. They may also want to consult with others who have had experience doing business in Mexico in their sector.

The first step for the newcomer is to understand and appreciate the cultural differences between Mexico and Canada. Mexican culture is distinctive: 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 punctual, 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.

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 "yes" which has been given in response to a question. Saying that one does not have the answer is difficult for Mexicans to do: 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.

GETTING HELP

Even when a firm knows exactly what kind of a partner it wants, it may not know where to look. A good place to start is to examine any existing business contacts in Mexico, especially 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 the consulates in Monterrey and Guadalajara can help you to identify candidates and arrange for introductions. You may also want professional help from financial advisers, accountants, lawyers, consultants or market researchers who can fill gaps in your

PARTNERING: POSSIBLE SOURCES OF HELP

- ☐ Existing business associates, especially those with experience in Mexico.
- ☐ Professional business advisers and intermediaries (lawyers, accountants, consultants).
- ☐ Financial institutions (banks, insurance companies, brokers).
- ☐ Local International Trade Centre.
- ☐ Specialists at the Department of Foreign Affairs and International Trade (DFAIT) — Latin American and Caribbean desks.
- ☐ The Canadian Embassy in Mexico City and the 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 Trade Commissions.
- ☐ Trade Shows.
- ☐ DFAIT Mexican market studies.
- ☐ Commercial databases containing country profiles and international economic information.

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 for 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 the names of companies in their region that complement the capabilities of your company. Then organize meetings at which your company can meet 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.

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 include provincial ministries, the Atlantic Canada Opportunities Agency (ACOA), Department of Industry (DI), the Federal Office of Regional Development (Quebec) and the Western Diversification Office (WD). Other investment promotion agencies 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. Associations of industrial developers can serve as focal points for the exchange of information. And science parcs have formed an international organization designed to compare strategies and devise ways of complementing one another's initiatives.

Explore opportunities for using consultants and specialists to scout potential partnerships and to set up new networks. And 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.

Chapter 6. Promotion

Well-planned promotional strategies are critical to export success, but the strategies must address market specifics. In attempting to sell to Mexican customers, the Canadian firm should familiarize itself with the unique characteristics of the Mexican market. Acquiring that kind of familiarity, however, can be time-consuming. The company in a hurry can get started by hiring marketing specialists in Mexico itself.

The promotional options available in Mexico to exporters are similar to what exist in Canada: advertising in the public media (radio, television, newspapers and magazines); outdoor advertising (posters and billboards); specialized trade and/or business magazines and directories; the preparation of direct promotional materials such as brochures; and participation in trade fairs and exhibitions. There are also similar opportunities for promotional campaigns. Consider carefully which of these options best matches the company's requirements.

Advertising in Mexico

Mexican companies do not pay as much attention to promotion and advertising as their Canadian or American counterparts. Given the strong Mexican preference for imports, especially from the United States, much of Mexico's advertising is typically North American.

The *Consejo Nacional de Publicidad*, National Advertising Council, is a private organization funded through its 125 member companies and associations. It coordinates public service campaigns and is the media's biggest customer in Mexico. Mexico has a well-developed advertising infrastructure that focusses on the print and broadcast publicity. About 320 newspapers and 200 major magazines are published in Mexico. Total newspaper circulation is close to ten million copies a day.

Approximately ten million households have television sets. Seven television networks operate throughout Mexico. Some areas of the country receive transmissions from the United States via cable or satellite dish.

Over 900 radio stations operate throughout the country and most are commercial. Estimates put the number of radios in Mexico at 22 million.

Of the US $2.17 billion spent on advertising in Mexico in 1991, 60 percent was directed at television advertising, 20 percent was spent on radio, 15 percent on print and 5 percent on outdoor advertising.

Advertising is relatively expensive. One minute of prime-time advertising on *Televisa*, the largest television network, costs US $10,000. A one-page advertisement in *El Universal*, a large daily with a circulation of 1.2 million, costs up to US $6,000.

Trade Magazines

Advertising in trade journals, business directories or catalogues is a popular way to reach a more targetted audience of prospective buyers. Note that many English-language trade publications and business directories enjoy wide circulation in Mexico. All trade publications tend to carry a great deal of product advertising, and are widely read by buyers for this reason. That makes such publications a good source for market research. The new exporter can learn a great deal about competitors' products, prices and marketing approaches by reviewing magazines and catalogues that focus on a particular sector or product category.

Specialized Promotional Materials

Promotional materials describe a product or service, inform potential customers why they should consider purchasing it, and indicate how to place an order or obtain further information. Promotional materials can be used in a direct-mail campaign or distributed at a trade fair or show. They can be directed either at the target market, importers and/or distributors, foreign agents and representatives, or end-users.

Promotional materials should be modified for the Mexican market. Ideally, they should be written in Spanish as opposed to simply being a translation of an English or French original. Canadian exporters should not simply rely on what they use at home. Here are some important points to remember.

- Where necessary, rewrite the sales letters and literature to adapt them for the Mexican market. Use fairly simple and straightforward language, and steer clear of slang words or other terminology that a buyer whose first language is not English is unlikely to understand.
- Pictures are often an effective way to communicate a message and portray the application of a product or service. Where possible, use colour photographs and illustrations. Pictures and/or illustrations can also replace lengthy descriptions.

- If a translation is necessary, hire a first-class translator who has experience working with commercial and business-oriented materials. The translated materials should be reviewed by someone who is fluent in Spanish and is familiar with the Mexican market.
- Examine the meaning and acceptability of brand names and logos used in Canada. Make sure that no negative or inappropriate connotations are conveyed.
- Make sure that colour and symbols used in promotional material are sensitive to local tastes and consumer preferences. Again, check the final product with someone who is familiar with Mexican culture and preferences.

You may decide to use direct-mail promotion, particularly if you have gained access to a buyer database or business directory that lists potential customers and their addresses. You may also decide to target Mexican distributors or agents. An initial direct-mail promotional package might consist of:

- a covering letter, in Spanish, that introduces the company and line of business, indicates how long it has been in business, and provides other basic facts about the company (it can also be helpful to provide a banking reference);
- product literature, in Spanish, checked for appropriateness and accurate translation; and
- a return sheet or reply card that allows an interested prospective customer to respond quickly to the solicitation and provide basic information on his or her business and need for the product or service.

Once a potential customer (or agent and/or distributor) reacts to the initial letter, respond quickly with a sales follow-up letter, more detailed product information, further information on the company, and price quotations (if requested). This should preferably be in Spanish, even though most professionals in Mexico are reasonably fluent in English.

Trade Fairs and Exhibitions

Trade fairs are an effective way of acquiring familiarity with the Mexican market or promoting a product with prospective Mexican buyers. Most trade shows and exhibitions focus on particular industries. Typical objectives in attending these events include displaying merchandise, making business contacts, checking into the market, learning more about competitors and their products, and making sales. Some trade fairs are geared toward order-taking. Attendees come prepared to buy or, in the case of agents and/or distributors, to negotiate representation agreements. The Canadian exporter should, therefore, be ready to take orders or to discuss the possibility of being represented by a Mexican intermediary.

Ganong Bros. Limited

Ganong Bros. is a confectionery company headquartered in St. Stephen, NB 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 both to supplies of raw materials and clients.

Closer to home, the company has developed business in Puerto Rico and Argentina. Thus it has some experience in Latin America. This has inspired Ganong to address the Mexican market. In addition, political changes in Mexico 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 chocolates.

Because Mexico's population presents an enormous potential market, Ganong is continuing to search for partners with the necessary facilities, distribution networks and thorough knowledge of regional markets throughout the country. In turn, Ganong 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 Program for Export Market Development (PEMD), official trade missions, and Export Development Corporation (EDC) programs 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."

Each year, the Department of Foreign Affairs and International Trade (DFAIT) participates in a number of trade fairs in Mexico. Assistance in selecting, planning for and funding attendance at international trade fairs is available in Export *i*, the Mexican Knowledge Base, which can be accessed through DFAIT's InfoCentre. Information is also available from provincial trade ministries, and from the Mexican Embassy and Consulate.

A Note on Promoting Services

Services are not generally promoted in the same way as products. Many service contracts are issued by government institutions or international development agencies and the supplier has to keep an eye on what contracts are being put out for tender. In such cases, the major form of promotion tends to be the lobbying associated with the proposal, bid or tender that leads to the contract. The support of the Canadian government and embassy, or the services of an agency such as the Canadian Commercial Corporation (CCC) or the Canadian International Development Agency (CIDA) can be extremely important.

In non-governmental service work, promotion of a service provider's offerings can involve conventional advertising though in many instances there is no substitute for direct approaches based on cold calls and personal contact. In many service-oriented sectors, a company's reputation spreads by word-of-mouth or personal referrals.

Chapter 7. Agents and Distributors

For smaller companies that have never exported, the use of intermediaries such as an agent, a foreign distributor, or a Canadian trading house, is likely to be an effective way of entering the Mexican market. This is particularly true if some or all of the following conditions apply:

- the firm is unfamiliar with Mexico;
- it plans to make only small or intermittent export sales;
- it sells a low-cost, mass-produced product;
- the Mexican market for the product has a large number of end-users and high sales potential;
- the product requires extensive on-site training and support;
- the company is not able to provide after-sales service or customer support; or
- the product is normally sold through distributors in Mexico.

Agents and Representatives

Most Canadian companies currently exporting to Mexico are focussed on selling capital goods, machinery, equipment, or components for assembly. A preferred and quite common approach for such companies is to enter into a relationship with a Mexican agent.

Agents obtain and transmit orders from customers, and receive a commission from the exporter in return for their efforts. The agent sells at prices you set and does not normally stock your product. If you use an agent, however, remember that the risk associated with loss or nonpayment, and the responsibility for service and warranty remain with you, the Canadian exporter. Manufacturers' representatives are specialized agents who generally operate within a given geographic territory and sell related lines of manufactured goods to a specific group of customers.

Agents solicit business on behalf of their principals but do not take title to goods. Many of them specialize in a particular product line or industrial sector where they have built up a network of contacts. In selecting an agent, key considerations include the regions covered, product lines handled, knowledge of the product,

Bovar Inc.

Bovar is a Calgary-based company specializing in pollution control and waste disposal technology. Its entry into Mexico, through a subsidiary, Bovar Engineered Products, was largely driven by appreciation of that country's huge and growing market. Mexico is a leading producer and refiner of oil and natural gas, activities that can have a negative impact on the environment. The country's recent interest in pollution monitoring and control represents a tremendous opportunity for companies such as Bovar.

As a leading-edge manufacturer of engineered and specialized environmental technologies, Bovar knew that it was in a strong position to compete in Mexico. It also knew that if it did not move to take advantage of this opportunity, other companies would. A chance to participate in a trade show was the event that opened the door. It took time, however, for the company to develop the opportunity. Representatives participated in a trade mission in 1984 but they did not make their first sale until 1987.

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Bovar Inc.

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Bovar does not operate a subsidiary inside Mexico. Its products are too complex to be produced inside the country, given current capabilities. Instead, its Mexican activities are administered from an office in Houston that has both experience in the Mexican market and with Spanish speaking people. All local account-related decisions are left to a Mexican representative with whom it has a long-term agreement to market the company's products and serve its Mexican clients. Bovar is conscious that Mexico represents a unique business culture. Therefore, a key role played by the representative is to advise the company on the nuances of the Mexican market and its business practices. Bovar confines its own activities to providing support for both the Houston and Mexican offices.

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 representative used 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 as is appropriate. The company has generally found that it takes much longer to finalize a deal than in the rest of North America. This is especially true for the Mexican government and its related agencies such as *Petróleos Mexicanos (PEMEX)*, the national oil company, but the process accelerates appreciably when they let their representative do the negotiating.

Bovar's experiences 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 are crucial. Thus Bovar's message to its staff is simple: "do business the Mexican way."

track record, size and quality of sales staff, after-sales service, reputation, and the commissions required. More than this, however, success depends on developing a good working relationship between the Canadian exporter and the Mexican sales representative. To achieve this, ongoing personal contact is vital.

Mexico's tax laws are one reason for the popularity of agency agreements. All sales in Mexico are subject to income and value-added taxes. These include sales made by agents and sales subsidiaries who have the power to bind the Canadian exporter or those where the title passage occurs within Mexico. Most exporters, therefore, establish agreements that do not give the agent legally binding power, to accept purchase orders locally, or to make deliveries to customers. Instead, the agent promotes an exporter's goods on an exclusive basis and operates through a representative office that can contact potential clients and supply information about what is being offered. In this way, the agent serves as a liaison between potential Mexican customers and the Canadian exporter. When goods are shipped to Mexico, it is not the agent but the buyer who receives the goods from customs. Otherwise, title to the goods would pass from the exporter to the purchaser within Mexico, making the transaction subject to a 15 percent *Impuesto al Valor Agregado (IVA)*, value-added tax.

Both agents and representatives are authorized to enter into contractual sales agreements with foreign customers on behalf of the Canadian exporter. They usually work on a commission basis: they are only paid when they sell the product. Depending on the agreement reached, they may or may not be paid for their expenses. When searching for Mexican agents and representatives, look for complementary products, which are likely to facilitate sales of your product. However, avoid agents who represent competing lines.

An agreement with a Mexican agent or representative immediately gives the Canadian company an experienced, Spanish-speaking sales force in the Mexican market. The costs of overhead and sales are lower than the costs of establishing a direct sales force. More frequent sales calls are possible when using a local representative. With a local agent or representative, the exporter retains control over the product and its price — an important advantage.

A small business — particularly one new to exporting — can benefit from the wide range of advice and services offered by a good agent or representative. Areas where they can be especially helpful include gathering market intelligence, advising on financing and transportation, customs clearance assistance, providing access to potential customers, collection support, and information on local business practices, legal rules and cultural traditions.

KAO

KAO InfoSystems opened for business in Japan in 1886, and for most of its life it was Japan's foremost soap maker. In 1986 it branched out into computer diskettes, audio tape and CD-ROMs. At around the same time, the company entered the Canadian market, where it quickly became Canada's leading supplier of diskettes. It has also been very successful in the United States. The decision to move into Mexico was a logical extension of its existing business in North America. Changes in the political climate, economic reforms and changes to the trading environment in Mexico all made the country more attractive. In addition, the proximity and size of the internal market were important factors. Computers and computer products have reached about 25 percent of the Mexican market, and this market segment is growing at about 25 to 30 percent a year. By entering now, KAO hopes to secure a leading position in the Mexican market within the next few years.

KAO made its first contact with the Mexican market through leads provided by the Mexican Embassy. At Comdex, a trade show in Las Vegas, company officials met a potential distributor. They attended a trade show in Mexico to look further into the market and explore the possibilities of a venture with the contact made in Las Vegas. A deal was struck after six months, but the distributor eventually closed its business. KAO spent another three to four months developing another relationship, with a former employee of the original Mexican distributor. This person eventually became a manufacturer's representative for KAO in Mexico. This arrangement allows KAO's products to be marketed through several different distributors. At the same time, it allows the representative to make more contacts and develop the business.

Johanne Allaire, International Business Manager, stresses the need to "do your homework. You must build a personal relationship with your partner; be willing to spend both the time and the money." Allaire also notes that most professional Mexicans are fluent in English, but it is still a good idea to learn Spanish and it is essential to incorporate the Spanish language into the packaging of products and company literature.

Distributors

Unlike agents, distributors actually purchase the exporter's product and then re-sell it to local customers. For example, a Mexican distributor may import a consumer product from the Canadian producer. It then sells the imported product to retail outlets in Mexico, perhaps with the aid of its own advertising and promotion program. Often, distributors set the selling price, provide buyer financing, and look after warranty and service needs. Because they assume risks, foreign distributors typically insist on longer payment terms and on control over the product once they take possession of it.

A significant potential advantage for the Canadian exporter is that the distributor is often able to provide after-sales service in the Mexican market. The main disadvantages of using a foreign distributor are that margins are reduced, the exporter has less control over the product and price, and does not benefit from direct contact with foreign customers.

Distribution channels are generally less well-defined in Mexico than in Canada or the United States. Consequently, Canadian firms are well-advised to be cautious in selecting a distributor. Make sure that proper attention is being paid to the product and that the distributor is not treating it as an afterthought to fill out a particular product line. Consider issues such as the regions covered, product specialization, specific lines handled, the size of the firm, knowledge of the product, the distributor's track record, the size and quality of sales staff, relations with local governments, the condition of facilities, the distributor's willingness and ability to keep an inventory of the product, the possibility of offering after-sales service, and the company's reputation and its relationships with financial institutions. Ultimately, the exporter has to decide on how much interaction and cooperation will be required to make the relationship work and be comfortable with it. Perhaps most important, attention should be paid to the percentage that the distributor proposes to add to the final price.

If the transaction involves selling consumer goods, it may be possible to enter into a direct relationship with a retail chain. Larger retail chains and discount stores are playing an increasing role in the distribution of products to consumers in Mexico. Using marketing techniques similar to those found in the rest of North America, they are also introducing techniques such as bar-coding to speed up customer service. *CIFRA*, the largest retail chain in Mexico, operates approximately 200 supermarkets, cafeterias and department stores and does about US $2 billion annually in sales. Other important retail chains include *Comercial Mexicana*, *Grupo Gigante* and *Soriana*.

Suppliers of goods and services to the Mexican government, its agencies and controlled corporations are required to be registered as such with the *Secretaría de Programación y Presupuesto (SPP),* Secretariat of Planning and Budgeting. The requirements for registration include filing copies of the company's charter of incorporation, recent financial statements as evidence of solvency, and proof that the company can deliver the goods or services that it is offering to the Mexican government. Every year, the *SPP* publishes a list of approved government suppliers.

Trading Houses and Export Management Companies

Trading houses or export management companies are domestically based intermediaries that market Canadian goods abroad. A full-service Canadian trading house handles all aspects of exporting, including conducting foreign market research, arranging merchandise transportation, appointing overseas distributors or agents, exhibiting products at trade shows, advertising and arranging documentation. The trading house can take full responsibility for exporting on behalf of Canadian companies that generally lack direct experience in this area.

A trading house looks for several things from a prospective Canadian client:

- a product suitable for export;
- a commitment to export on an ongoing basis;
- a willingness, on the part of the Canadian company, to view the trading house as its exclusive channel for distributing into a particular foreign market; and
- a fair pricing arrangement, bearing in mind that the trading house must also earn a profit for the work it performs (and the risks it assumes if it buys the product directly).

Companies that can benefit from the services of a trading house include:

- small- and medium-size enterprises (SMEs) that are new to exporting and do not want to sell directly to foreign customers or go through the process of finding a foreign agent or distributor;
- companies involved in specialized fields such as agri-food, fisheries, or high technology;

- manufacturers of industrial products sold on a subcontractual basis; and
- Canadian companies wanting to sell into foreign markets that are very distant or that present special difficulties because of differences in language, culture, and business practices.

Canadian trading houses have formed the Council of Canadian Trading Houses. There is also a body representing Quebec-based trading houses, the *Association des maisons de commerce extérieur du Québec.* These organizations may be able to direct a firm to a trading house that is appropriate for its needs. Officials from the Department of Foreign Affairs and International Trade (DFAIT) can help to make contact with these organizations.

SELECTING AN AGENT OR DISTRIBUTOR

TIPS ON SELECTING AN AGENT OR DISTRIBUTOR

- ☐ Experienced distributors and agents are difficult to find, especially outside the main commercial centres.
- ☐ Some agents are former manufacturers with established networks—though these networks may be limited to former purchasers.
- ☐ Establish the agent's responsibilities clearly and ensure that the agent does not go beyond them. These responsibilities should mesh with your long-term corporate goals.
- ☐ The agent may want to use a Canadian business card, but it is preferable, at least initially, for agents to use their own cards bearing the designation "Agent Representative for XYZ". This way, if the agent makes a mistake, the company's reputation is not irreparably damaged.
- ☐ Agents are usually hired on a retainer basis, at least at first. Percentages are negotiated later and tend to be based on varying percentages of transaction values. Do not relinquish access to the client.
- ☐ Some companies spend up to a year visiting Mexico to find the right agent.

The search for a good foreign agent or distributor starts with the assembling of a professional-looking kit that contains the following information:

- an overview of the company, its history and objectives;
- a description of its capabilities, including a clear description of the product, appropriate promotional material (pictures and brochures), and information on the firm's ability to provide parts and after-sales service;
- the firm's view of the market for the product: who will buy it and why;
- the price list for the market targetted by the exporter, inclusive of insurance and freight, and stated in Mexican pesos;
- information on transportation options and costs, and on frequency of delivery; and
- customs documentation.

Looking for a foreign agent or distributor is relatively easy and there are many sources of help to do so. In the private sector, Canadian trade associations, bilateral business councils and banks can be a useful source of intelligence. Talking to other Canadian exporters can also shed light on what to look for in a foreign agent or distributor and assist in identifying particular agents or distributors in the Mexican market.

In the public sector, government agencies and departments, particularly the Department of Foreign Affairs and International Trade (DFAIT), are committed to helping Canadian exporters sell abroad. Canadian trade commissioners in Mexico can provide advice and information on Mexican markets, distribution channels, and trade shows. They may be able to identify prospective customers and suggest suitable agents or distributors.

Once a list of potential candidates has been developed, the next step is personal contact. The exporter's representatives should visit Mexico to meet with these candidates. The most important objective of such a trip is to gain an understanding of the ability of the representative or distributor to promote the product effectively, as well as to get a sense of its general market potential. Some of the questions to ask include:

- What is the candidate's previous track record? How many companies and/or products have been successfully represented or marketed?
- What facilities (e.g. for storage or display) do they have available in the target market? This is only relevant in the case of a distributor. An agent will not store a product.
- What is the agent or distributor's financial position?
- What kind of regional and industry coverage can the candidate provide?
- What marketing and promotional programs does the company currently have in place?
- Who are their current customers?
- What lines do they currently carry?
- Do they provide after-sales service?
- What about terms and conditions of sale and payment?

In picking an agent or distributor, look for someone with complementary capabilities. For example, a Canadian manufacturer contemplating exporting machinery to Mexico should be looking for an agent with experience in sales, marketing or distribution to the specific industry that buys such equipment.

Use the worksheet (see opposite) to guide you in what to look for while selecting an agent, representative or distributor in the Mexican market. Consider as many different candidates as possible, and measure them against the general questions in this worksheet.

Several firms should be interviewed and references always must be checked. The Canadian firm can also protect itself by entering into a limited-term trial agreement. If the foreign intermediary does not meet expectations, the company can look for an alternative after the trial period is over.

Worksheet:
Considerations in Choosing an Agent, Representative or Distributor in Mexico

Who are the best agents, suppliers or distributors in the market in which you are interested?	
What is their market coverage?	
What are their lines and products? Are they complementary or competitive to yours?	
Who are their customers?	
What is their experience and relationship with their customers?	
What do you need in the Mexican 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 and 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?	
Do they have the ability to provide after-sales support and customer service?	
Can you get a qualified reference? Are they trustworthy?	

DRAFTING AN AGREEMENT

In Mexico, contracts between exporters and their agents are not subject to government regulation. However, be careful to define the relationship with the agent clearly so that it is not construed as an employer-employee relationship, which is subject to tax and labour regulations. If the agent has the legal power to bind the Canadian exporter, this may be construed as an employer-employee relationship. In that case, the exporter would be obliged to provide the agent with a series of statutory benefits and pay taxes on the agent's income to the Mexican government.

It is important to protect the company's interests, especially if it owns proprietary technology. An agent or distributor who knows a lot about the technology could cause damage if the firm does not protect itself against divulging proprietary information.

- Are there measures in place in the agreement that has been drawn up to protect the firm's technology, ideas, patents and processes?
- Is the firm familiar with Mexican intellectual property laws? Does it know how to apply them to protect itself?
- What practical measures can be taken to preserve confidentiality or to guard against unfair appropriation of know-how?

INCOTERMS

Trade terms define who is responsible for the different steps in the export process. For example, the terms of sale may specify that the goods are to be transferred to a Mexican buyer at the Canadian manufacturer's premises. This is known as an ex works (EXW) arrangement. In this instance, the buyer assumes responsibility for all the steps connected with moving the goods from Canada to the final destination in Mexico.

At the other extreme, the Canadian manufacturer may agree to assume responsibility for transporting the goods, clearing them through customs and delivering them to the buyer's premises in Mexico. This is known as a delivered duty paid (DDP) transaction and it confers maximum responsibility on the exporter.

Terms such as EXW and DDP are two of the thirteen terms developed by the International Chamber of Commerce to define different divisions of responsibility between the parties to an international transaction. Referred to as Incoterms, these standardized terms help to define the parameters of a deal and can also be crucial in resolving contractual disputes.

By incorporating Incoterms into the contract on a formal basis, the exporter has the basis for referring to an independent arbitrator in the case of a contractual dispute. Moreover, using Incoterms can help to avoid litigation, since their clear definitions prevent any misunderstandings arising from a poorly drafted contract.

Each term has a direct impact on a company's cash position. In an EXW transaction, the goods are made available to the buyer at the factory gate and the exporter incurs no further costs. At the other extreme, the DDP transaction requires the exporter to bear all risks and costs until the goods arrive at their final destination. Clearly, these different levels of risk and responsibility will be reflected in the purchase price negotiated: buyers will pay less for goods EXW than they will for goods DDP. As well, the trade terms agreed to will have an impact on who assumes liabilities for insurance purposes. What may be more important for a cash-strapped exporter, however, is that the "E" and "F" terms of sale will place less strain on cashflow than the "C" or "D" terms.

Export Quotations

Many companies begin exporting when they receive an unsolicited request for their goods from a prospective foreign buyer. The initial contact with a prospective buyer may have occurred through a trade show, a foreign trade mission, or some other personal medium. Alternatively, the Canadian firm might have been recommended to the buyer by a third party. In any case, the buyer usually sends the manufacturer a request for a quotation on the price of a specified number of units of a product, delivered to a particular location.

The foreign inquiry and an initial response are the first stages in what may become a lengthier process by which the terms of a transaction are negotiated and finalized. There is no deal, however, until both sides are satisfied with its terms.

Receiving Inquiries and Orders

When inquiries are received from a prospective buyer, it is essential that all communication is clearly understood by both parties. The process starts with procedures for handling foreign correspondence.

All foreign correspondence (letters, faxes) should be passed directly to the division with direct responsibility for exports. If the inquiry arrives by telephone, the call should be routed to the export sales staff, who should log it, make notes of the conversation and ask for subsequent written confirmation. These simple measures can save considerable confusion when trying to reconstruct what was agreed to some weeks after the fact.

Letters or faxes written in a foreign language should be handled with special care. Unless a firm has someone on staff who is fluent in the language and its business idioms, it is best to have the letter translated by a professional translation service. The original letter should remain attached to the translation for subsequent reference and verification.

When responding to an inquiry from Mexico, companies should not attempt to use Spanish unless someone on staff is familiar with it. Canadian firms can use English or French in their correspondence and leave any translation to the Mexican correspondent. If communication occurs by telephone, the caller should plan what is going to be said in advance. For example, compiling a list of all discussion topics can be an extremely useful and time-saving exercise.

THE CONTENTS OF A QUOTATION

Quotations ought to include:

- ☐ a detailed product description;
- ☐ the quantity of the product offered;
- ☐ the quality of the product and how it is guaranteed;
- ☐ a description of how the product is to be packaged;
- ☐ the mode of transport, intermodal transit requirements and dates specifying when the goods can be shipped (e.g. by sea, air, train or truck, "right away," or "first opportunity");
- ☐ frequency of delivery;
- ☐ the price of the product (by weight, length, unit or other measure);
- ☐ the currency of the quotation (Canadian or US dollars, Mexican pesos);
- ☐ the origin of the quotation (the company's plant and/or head office, a sea or air port);
- ☐ the terms of delivery (e.g. DDP)
- ☐ the term of sale (e.g. letters of credit (L/C), documents on payment, documents on acceptance, COD at foreign airport; and
- ☐ the shipping and delivery date.

A quotation sent to a potential buyer in response to an inquiry is a binding commitment to deliver goods at the price and on the terms specified. Therefore, great care must be taken to ensure that all the relevant details are included and fully understood by the prospective customer. A freight forwarder can offer valuable assistance in developing quotations.

After the firm responds to the initial inquiry, the prospective buyer may choose to make a formal offer to buy. Acceptance of the offer can be made only by the firm to which the offer is directed. If the offer prescribes a procedure or a timeframe within which the offer must be accepted, acceptance can only be made in accordance with the required procedure and within the required timeframe. An accepted offer constitutes a legally binding contract. Once acceptance has been made, no changes can be made to the contract without the mutual written consent of the parties.

Alternatively, an offer can be modified through a counteroffer. If the gap between the parties is too great to handle through an exchange of letters or faxes, then formal negotiations may have to be undertaken to close the deal.

The quotation can take the form of a "pro forma" invoice transmitted by letter, fax or telex. Export price quotations are typically more detailed than those prepared for domestic sales. The quotation should include the product, the price at point of delivery, the time of shipment, and the terms of the sale (e.g. irrevocable letter of credit, sight draft, etc.). It should also include information on the gross shipping weight, cubic volume, or other relevant measures. Freight insurance and other costs should be included if requested by the buyer, to allow for calculation of the landed cost.

CONTRACTS

The following are some of the features of a written contract for the export sale of goods that should be kept in mind by the exporting firm. The contract should:

- be drawn up by persons who have the legal power to bind the parties to the contract;
- specify which country's laws govern the contract;
- explicitly exclude any terms that the parties do not wish to include;
- specify the price of the goods, the terms of sale, the terms of payment and the currency of settlement;

- indicate which party is responsible for compliance with the regulations, standards and codes of the export market, its packaging and labelling laws, and its transportation regulations;
- make provision for arbitration to reinforce the fact that it is preferable to settle a dispute outside of court;
- specify who will assume financial liability if governing laws increase warranty protection and product liability; and
- specifically address all other matters agreed to by the parties.

Order Processing and Order Fulfillment

How a company responds to foreign orders will potentially have a huge impact on the scope of its business. Ideally, it should have a system for dealing with foreign business before it receives its first inquiry. A larger organization may designate a specific division as its export sales office. In smaller companies, the functions performed by such an office may fall to one individual. Much depends on the efficiency with which the export sales function is handled and how well integrated it is with the other parts of the company. This involves defining and assigning responsibilities for export sales, production, storage, assembly, packaging and shipping, then establishing clear lines of communication between the groups involved.

Order Entry

Orders can enter the system in a number of ways. They may be brought in by sales personnel, ot they may come in by mail, fax or phone. However they are received, the system should respond to orders by performing whatever credit checks and other validation are required. It should also trigger an immediate inquiry to determine whether or not the product is available in inventory in the quantities ordered. If the product is not in inventory, the export sales office should find out when it is scheduled for production. And it should determine if any modifications are required to the normal production process.

The customer's order must match the specifics of any quotation sent previously from the firm to the potential buyer. The sales office should verify that the order is based on a recent quotation and not one that is out of date. It should also examine the proposed methods of payment to establish their acceptability. It should check to see if the buyer wants the seller to arrange for shipping, freight and insurance. Finally, the sales office should note whether or not the customer will need a pro forma invoice in order to open a letter of credit on behalf of the exporter.

Whether or not the order is accepted depends on the terms being proposed and capabilities of the company. If a firm receives an order without first having offered a quotation, it may still wish to send the buyer a quotation, specifying whatever details may remain ambiguous in the order. At a minimum, such a quotation is a confirmation of the terms of the agreement and represents an additional bit of security to both parties.

Once an order is accepted, acknowledgement will usually occur via fax or telex rather than a mailed letter, although follow-up by mail usually occurs after a fax or telex communication. Many organizations still refuse to accept a fax as a legally binding document and will require confirmation by letter. If additional information is needed before responding to a foreign order, a telephone call may be useful. The Canadian exporter should never assume that an order can be modified simply on the basis of a verbal discussion: written confirmation must always be provided.

Routing Information

A complete order processing system automatically sends information about a transaction to everyone in the company who will be directly involved in fulfilling the order. It also provides information that is useful to other departments of the company involved in strategic planning.

The system should transmit information about the transaction to the accounting department for invoicing purposes, and picking, packing and shipping instructions for the warehouse personnel. In addition, the export sales office should inform the marketing department of the order so as to facilitate strategic market planning. It should coordinate the order with the production department for planning and scheduling purposes, or to arrange for special requirements or modifications. And it should inform the financial administration of any implications for the company's cashflow.

Shipping

At the same time as this information is being routed to other parts of the company, the export office should begin the process of preparing the documentation required for the shipment as well as arranging for transportation and cargo insurance. Larger firms will have the infrastructure and the experience to make these arrangements on their own. Smaller firms and firms that export infrequently may engage the services of a freight forwarder or an export house. A freight forwarder will handle all of the logistics involved in taking a product from a producer's factory to a buyer's receiving dock. An export house can actually assume all of the functions performed by an export sales office in larger firms, taking orders, processing them, arranging for shipments and invoicing the buyer.

Keeping Records

There are a variety of internal documents such as work orders, planning schedules, packing notes and marking instructions designed to enable each sub-unit within the company to carry out its specific task. Many of these are copies of the original order modified with additional information designed to enable each part of the company to carry out its function. Each should include a section that allows a report to be made of any setbacks that might occur though forms should be as simple and standardized as possible. The point is not to add to internal paperwork, but to keep an accurate track of an order's progress.

The overall monitoring of the progress of the order may be the responsibility of the export sales department or of the shipping department. Whoever is responsible will keep in touch with the production and warehouse staff as all of the elements in the schedule unfold. It is important to remember to schedule enough time for assembling all of the documents and completing the paperwork involved.

The records used to track an order's progress can be filed in the sequence in which tasks are carried out, or according to the types of activities that need to be performed. Whatever approach is chosen, a separate file should be opened for each order and that file should be monitored daily until the order is completed. The file should contain all correspondence and documentation relating to the order from the initial inquiry right through to the costing information assembled after the final payment has been met. Such files are invaluable when it comes time to preparing future quotations and they will help firms to avoid repeating mistakes.

Tracking and Monitoring

Orders must be tracked and monitored at every step of the process until they are delivered to the customer. This is a customer service responsibility. The necessary information has to be provided in the order system so tracking can be managed in a timely and effective manner. Order monitoring steps might include:

- ordered entered;
- credit approved;
- order picked by warehouse complete as ordered;

- order shipped with associated carrier information;
- in-transit de-consolidations, transfers and border crossings; and
- order delivered to customer.

One of the most difficult activities to monitor is the delivery phase. This is particularly true with a common carrier. Progressive service companies today are insisting that the carrier confirm each delivery when it is made. Sometimes this requires a telephone call from the truck driver to customer service. Deconsolidations and transfers at terminals can be tracked by bar-code scanning and electronic data interchange (EDI).

If anything goes astray, the customer service representative must be empowered to act to correct the situation. This is one of the major reasons that the customer service function is placed high in the organization structure. It is also one of the reasons that customer service representatives must be trained in all aspects of the operation, so that they can locate and fix problems when they occur.

Expediting Orders

The major objective of customer service is to achieve credibility with customers. A supplier must keep all order fill and delivery promises. A customer should never have to expedite an order. When this happens, something has failed in the customer service program and requires immediate attention. The supplier should always know where the order is and if it will arrive when promised. If a promise is going to be broken, the customer must be notified immediately. Having to expedite orders in today's customer service environment is sufficient reason to change suppliers.

PREPARING GOODS FOR SHIPMENT

PACKING

Proper packing and marking is necessary for goods being shipped to Mexico. Merchandise shipped via ocean or regular air freight is susceptible to damage and loss. In selecting the appropriate packing method, several factors must be considered.

- The type of goods being exported. Are they at risk of damage during handling, in transit or in storage? Do they require special temperature control or protection while being shipped and/or in storage?
- The carrier used to ship the product. Packing can be affected by the mode of transport chosen. For goods carried by ship, it is important to know whether they will be placed above or below deck.
- Weather conditions that may be experienced in transit. Extreme temperatures can damage many types of products.
- The nature and quality of port and handling facilities at the point of entry into Mexico, and during transit within Mexico.
- Protection against theft during transit. Proper packing can reduce the threat of pilferage.

MARKING

Marking containers identifies a firm's goods in relation to the cargoes of other shippers. Marks shown on the shipping container(s) must conform to those shown on the commercial invoice and/or bill of lading. Markings required include the following:

- buyer's name or some other form of agreed-upon identification;
- point and/or port of entry;
- gross and net weights in kilograms;
- identification of the country of origin;
- package numbers (required for shipments consisting of more than one container);

- warnings and/or cautionary markings, if necessary; and
- the packing list, plus one copy in each container, itemizing its contents.

If a firm has little experience in exporting and shipping, it is advisable to have export packing and marking done by a freight forwarder.

PRODUCT LABELLING: *NOMs* AND OTHER REQUIREMENTS

Product labelling in Mexico is governed by the *Ley Federal de Proteccion al Consumidor*, Consumer Protection Act. It should be noted that labelling requirements for imported goods sold in Mexico are essentially the same as for domestic goods, with, in some cases, additional information needed about the importer and exporter. Since the labelling requirements for goods sold in Mexico are enforced at the border, ensuring they have been met should be considered part of the shipping and exporting process, as well as the manufacturing and packaging process.

The Consumer Protection Act requires that all information contained on a product or its labels, containers and packages be in Spanish. But the labelling decree of June 19, 1987 allows pre-packaged goods to enter Mexico with foreign labels as long as minimum Spanish labelling is added by affixing stickers. Later regulations have been more strict on this score, however, and exporters should ensure that they have the latest information with respect to labelling.

Labels must identify the importer, the exporter and the product. They must also contain instructions for use and care, or assembly, if necessary. In most cases, the product instructions can be either on a label or in a separate booklet as long as the consumer is advised to read the instructions. Warranties, if applicable, must be in accordance with standards set out under the Consumer Protection Act and specify the location of service centres in Mexico.

Official standards, known as *Normas Officiales Mexicanas (NOMs)* apply to a wide range of consumer products and capital goods sold in Mexico, whether domestic or foreign, and these standards have labelling requirements that imported goods have to meet. In most cases, goods subject to *NOM* regulations have to meet these requirements at the border. *NOM* labelling requirements are in addition to the general labelling requirements.

More information on *NOM* regulations can be obtained from Mexican government officials, who can also help with information on how to meet with all the requirements.

Food and beverage products

Under regulations established by the *Secretaria de Salud (SS)*, Secretariat of Health, food and beverage labelling must include a product description, a date of expiration, a list of ingredients, and the nutritional content of the product if nutritional quality is claimed. The labels must be in Spanish and must be affixed at the point of origin. A "best before" date is optional, but instructions for preservation should also be included. If the product contains outside packaging or wrapping, the labels must be on the outside wrapper or the wrapper must allow for the visibility of inside labels. The new regulations also specify certain claims that may not be made on a label.

Textiles, clothing and leather

Textiles, clothing and leather (including linen, towels, curtains and rugs) must meet special labelling requirements, which are enforced at the border. Labels must be affixed to the product and not to the packaging. The *NOM* requirements include the importer's Mexican *Registro Federal de Causantes (RFC)*, tax registration number, and sizing information in Spanish and in metric units. Product care information must include washing and drying instructions, ironing instructions, information about the use of bleach, and special recommendations.

Refrigerators

Refrigerator labels must contain energy efficiency information. The label must show the refrigerator's type, size in cubic metres, model number, average energy consumption and the annual energy cost.

Meat products

NOMs covering meat have been amended several times in the past few years, but include the following requirements, in Spanish: country of origin, producer's name and address, product name and description, lot number and net weight. The label must also include the words *mantengase en refrigeracion o congelado*, keep refrigerated or frozen.

Exemptions

Several categories of goods are exempt from labelling and certification provisions, including:

- goods accompanying passengers on international flights;
- goods that are part of household effects;

- goods imported by educational, scientific and non-commercial organizations;
- samples;
- temporary imports destined for repair or in-bond assembly;
- capital and intermediate goods, provided that a written statement of final use accompanies the goods;
- bulk goods, defined as those that "must be weighed or measured in the presence of the consumer at the time of sale," unless they are covered by a *NOM* requirement;
- couriered packages valued at less than US $1,000;
- goods imported by duty-free shops;
- imports into border cities and towns;
- live animals; and
- books, magazines and newspapers.

A number of other products may be eligible for exemptions under exceptional circumstances, but require separate application.

COMMON MODES OF TRANSPORT

There are four ways of getting goods from Canada to Mexico: road, rail, ship and air. Of these, road transport is the most popular. In 1993, about half of Canada's exports to Mexico went by road. Based on the volume of merchandise shipped, the most important Mexican ports of entry are:

- Veracruz and Tampico-Altamira on the Gulf of Mexico, for maritime traffic;
- Manzanillo and Acapulco on the Pacific Coast, for maritime traffic;
- Tijuana in the northwest and Nuevo Laredo in the northeast, for land-based traffic; and
- Mexico City International Airport for air shipments.

The decision about which mode of transport to use depends on a combination of factors including the nature of the product, the costs involved, the time it takes to move the goods, the complexity of the procedures involved and the provision of any additional services. Exporters can purchase transportation services directly through a trucking company, railway, airline cargo office or marine shipping agent, or else they can deal with a freight forwarder.

TRUCKING

Road transportation to and from Mexico has grown in importance in recent years. The proportion of Canadian exports transported by road grew from one-third in 1988 to more than half in 1993. Only large quantities of bulk commodities are outside the domain of truck transportation. Refrigerated cargo moves almost exclusively by truck. Road transportation from major Canadian cities to the Mexican border at Laredo, Texas, takes about four days in full truckloads (FTL) and up to seven days for less-than-truckload (LTL) shipments. Once customs is cleared, another two or three days are required for the goods to reach Mexico City.

Many Canadian trucking companies have developed arrangements with American and Mexican truckers and can provide a complete transportation package for the Canadian exporter. Examples include Gerth Transport, Mill Creek Motor Freight, Can Pac International Freight Service, SGT 2000, Canadian American Transportation, SMR Transport, N. Yanke Transfer, Challenger Motor Freight, Future Fast Freight and Trimac.

RAILWAYS

The use of rail transportation for exports to Mexico has declined in recent years from about 20 percent of total exports in 1988 to less than 14 percent in the early 1990s. Rail transportation is used mostly for bulk commodities, intermodal traffic and double-stack loads.

The Canadian exporter must first ship the goods to the United States before they can continue to Mexico, since the trains to Mexico originate there. At Laredo, *despacho previo*, a new customs preclearing system, has improved efficiency and has shortened the time it takes to cross the border. Shipments can, with correct pre-clearing procedures, move across the border in less than 24 hours. High priority trains, such as those carrying auto parts, have benefitted more from this system than others. Trains carrying products that have been designated as low priority, or are not classified as just-in-time (JIT) shipments, may still experience delays.

Nevertheless, American and Canadian rolling stock can cross into Mexico, eliminating the need for reloading at the border. Rail service is improving with the increasing availability of double-stack trains, express trains and intermodal trains. In addition, rail traffic congestion is being alleviated with the construction of new facilities on the American side of the border and the slow but continuous upgrading of the Mexican railway system. In particular, *Ferrocariles Nacionales de México (FNM)*, the national railway, has been developing "rail ports" that allow truck-rail intermodal transportation.

Husky's Customs Lessons in Mexico

Success in Mexico means having management there that understands both the Mexican and American-Canadian cultures, according to Husky Injection Molding Systems of Bolton, Ont.

Husky's Mexican office has about 15 people and all but the general manager are Mexicans according to Jim Wilson, commercial manager for services and sales for the Americas.

Wilson says he understands Latin culture because he originally came from Peru. Several years of work experience in the United States and Canada, which included time with Husky, gave him an insight into the priorities back at head office.

Having a local presence, with local employees, is important in this market because it demonstrates commitment. As well, people with local background are familiar with the culture. Often, knowing what not to say is as important as knowing what to say.

One important lesson Husky learned early was to be sure to choose the right trucking company. Not all companies will allow their trailers to go into Mexico, and this meant that cargo would have to be shifted from one trailer to another. Husky's precision machinery tends to be heavy and is easily damaged if handled improperly. Husky now makes sure its cargo is transported on the same trailer during the entire journey.

In dealing with brokers and customs officials, Husky has found that it helps to deal with the same individuals each time, so they can become accustomed to the company and its shipments.

The company is using this period of economic difficulty as an opportunity to solidify relationships with customers, demonstrating that it has long term commitment to them and their success.

Source: *Plant Magazine*, November 20, 1995.

Marine

Marine transportation has varied in popularity in recent years. Marine transport declined from 48 percent of total Canadian exports to Mexico in 1988 to a low of 17 percent in 1990, and then increased to 32 percent in 1992. Marine transport rates are currently quite competitive with both truck and rail freight rates. The disadvantage is that marine transport requires at least ten days of transit time with an additional four to five days for customs clearance and warehouse storage. Nonetheless, some cargo is well-suited to shipment by sea, particularly bulk shipments such as grains and oil. In addition, cargoes that are not particularly time sensitive benefit from the lower rates that can be obtained by using marine shipping.

Air

Air traffic between Mexico and Canada is mainly vacation-oriented and is not well-adapted for cargo transport. Nonetheless, air transportation may be appropriate for products with a high value-to-weight ratio, such as electronics components, or perishables, such as flowers. Some producers of specialty meat products ship by air directly to Mexico City, where they reportedly receive rapid customs clearance. At present, Montreal, Toronto and Vancouver are points of origin for direct commercial services to Mexico.

Intermodal Transport

Increasingly, Canadian exporters are choosing multiple modes of transportation to get their product to the Mexican market. Several carriers have attempted to meet this increasing demand. Highway trailers can be shipped by rail, and marine transporters offer linkages with both rail and truck transporters. Intermodal transport will be facilitated by CN North America's decision to construct a new tunnel under the St. Clair River between Sarnia and Port Huron, and the recent enlargement of the Detroit-Windsor tunnel.

Intermodal operators, which include shippers' agents, offer a complete transportation package on a contract basis. These operations will negotiate freight rates with railway and truck operators on behalf of the exporter. Transit time from Montreal or Toronto to the Mexican border can be as little as four or five days. Intermodal operators providing services between Canada and Mexico include Inter-American, Sunac America and Wheels International.

The Role of Freight Forwarders

Freight forwarders are independent companies that handle export shipments for a fee. They provide advisory, administrative and physical services to facilitate exports. Freight forwarders can arrange shipments for Canadian exporters using any mode of transportation. They offer a complete service package that can be especially valuable to the first-time exporter. They are an excellent source of information on regulations, documentation and shipping methods and can save the exporter money on transportation rates because of economies of scale.

The services provided by freight forwarders typically include the following:

- providing or arranging shipment handling, including packing and crating, marking, inspection and storage;
- preparing documents for shipping and customs, as well as translating, certifying and transmitting documents, and obtaining permits, licences and certificates;
- providing financial assistance such as negotiating letters of credit (L/Cs), arranging collections, placing insurance and filing insurance claims;
- prepaying and collecting freight charges;
- providing advice about foreign requirements, transportation, government regulations, customs procedures and project management; and
- assisting with transportation arrangements, including selecting routes and carriers, negotiating rates, booking transportation space, securing charters, consolidating shipments, arranging local delivery, tracing shipments and leasing equipment.

While individual transport companies can sometimes make similar arrangements, they are geared toward exporters with large frequent shipments and will not always offer the full range of services of a freight forwarder.

To take advantage of the services offered by freight forwarders, the exporter should ensure that the product is properly prepared, unitized or containerized. Otherwise, carriers may refuse to carry the goods and insurance companies may refuse to cover any damage or losses. There are a few simple rules for preparing a shipment:

- assess the total transportation route and pack for the toughest leg;
- determine the frequency of transshipment, and of unloading and reloading: prepare the goods for multiple handling;
- determine the packaging requirements that apply in the country of origin, for each carrier, at all ports of exit and entry, and in the country of destination;

- know the capabilities of the packaging, the strengths and weaknesses of the goods contained in it, its "stackability," and its susceptibility to weather;
- package the goods to minimize internal movement and to protect corners, edges, finishes, valves, dials and knobs, or upholstery and material;
- use appropriate unitizing devices and place, load and secure goods properly;
- determine the kind of handling equipment to be used and its availability at transshipment points, pack for the equipment and its capabilities; and
- when shipping to Mexico, check climate considerations, which can vary from hot and dry to rainy and damp.

INSURANCE

Most exporters purchase insurance to protect themselves against theft and losses or damage incurred while moving goods from Canada to their destination. Carriers do carry liability insurance, but it is unlikely that this insurance alone would cover all contingencies or provide full restitution. In fact, there are significant restrictions to carriers' liability that exclude compensation for damages caused by Acts of God (weather-related damage), terrorism, any perceived flaws in the goods, and the way they were packed for shipping.

The terms of sale will determine when title to the goods and liability passes from seller to buyer. For example, if the terms agreed to are costs, insurance and freight (CIF), then the seller is responsible for insuring the goods to the agreed destination. If they are free on board (FOB), the seller or exporter is responsible for insuring the goods until such time as they are safely on board. At that point, title to the goods passes to the buyer, who assumes responsibility for further insurance.

Whenever possible, the Canadian exporter should try to control the purchase of insurance. Although an exporter can generally control the purchase of insurance on CIF shipments, it can also contract to handle the insurance on FOB shipments at the direction of the buyer. The same is true, in reverse, for an importer.

The exporter or importer can arrange insurance directly with the insurer or with a licensed insurance broker or agent, a freight forwarder or a customs broker. It is recommended that an open policy be arranged or advantage taken of the bulk buying power of a freight forwarder or a customs broker.

Policy Types

Two main types of policies are available: individual and open cover policies. An individual policy covers one specific shipment of goods which is specified in the policy. Although these policies allow the exporter to arrange insurance on each individual shipment, they can be cumbersome and expensive. A shipment may be overlooked and thus be uninsured. Insurance rates can fluctuate and, unless long-term coverage is arranged, the premium on each shipment could vary according to the claims experience of previous shipments.

An open cover policy extends over a period of time and specifies the type of goods and voyages covered. If a company has regular overseas business, it is advantageous to arrange for such a long-term contract with an insurance company. With the purchase of an open policy, the Canadian exporter-importer acquires coverage that is specifically tailored, which, in addition to covering the specific shipment, also provides the following:

- automatic coverage for all shipments (including protection in the event of actually forgetting to report a shipment);
- protection against loss or damage due to rejection by customer (i.e. cover would continue in storage or return, subject to the advice of insurers);
- the option to purchase Seller's Interest Insurance (also known as Contingency Insurance), if sales are made FOB. This protects the shipper should the buyer's insurance coverage be inadequate for the export shipment and, alternatively, should a difference in conditions exist for shipments; and
- agreed limits of liability for any one ship, aircraft or location.

Some of these policies are for a stated period of time, others may be continuous and subject to cancellation upon notice by either party. The insured is given definite provisions as to conditions and rates applicable under normal circumstances. While awaiting shipment or after discharge, there is generally a monetary limit per location and vessel. Details and values are generally sent to the insurer at regular intervals.

The open cover policy cannot be transferred to overseas entities. When a policy of insurance is demanded by the buyer, a certificate of insurance is issued which outlines the coverage terms under the open policy and has spaces for the exporter to fill in details of the particular shipment involved.

Cargo Insurance Policy Certificate

A policy certificate is a form provided by insurance companies to a company that has acquired an open policy type of insurance coverage for a shipment of goods overseas.

The form bears the number of the open insurance policy and contains spaces in which to describe the goods, insert the value of the goods, indicate the name of the carrier, write in the amount of insurance, the type of policy and any additional coverage required. The form is in triplicate and is generally used by companies to request insurance coverage in addition to that provided by the open policy. It is one of the required export documents on sales the exporter has agreed to insure. This certificate should be signed by an authorized company official and submitted to the insurance company prior to shipping the goods.

The benefits of using the certificate rather than applying for a separate policy for each additional shipment are that:

- a required export document is instantly prepared;
- no time is lost nor is the shipment delayed by the process of waiting for a separate policy to be sent by the insurance company;
- in most transactions involving bank credit, a certificate of insurance is a prerequisite; and
- the certificate provides the means of transferring the insurance protection to other interested parties such as the buyer, importer or consignee.

Mode-specific Insurance

Each mode of transportation has its particular practices concerning insurance. For example, while most policies issued include "aircraft" as an extension of "vessel" in ocean voyage clauses, there are specific clauses designed for air cargo. Because the expensive nature of air shipments restricts its use to finished goods rather than bulk product, air cargo shipments are written on an "all-risk" basis.

Inland transit movements (road or rail) are covered as an extension of the ocean voyage or air shipment on "all-risk" insurance policies and are subject to terms of purchase and sale.

Pure land shipments that are an extension of overseas shipments require separate insurance coverage, having the same terms and conditions as the "all-risk" air or ocean movement, eliminating only the coverage that is not applicable.

Other more specific coverage can be purchased in certain situations. For example, when an aircraft is used to transport a bulk shipment because of the immediate need (rather than by another, slower mode), special insurance coverage is required.

The use of a specialized insurance broker is recommended as many commodities (e.g. flour, rubber, oil) have clauses designed specifically for them.

Documenting a Claim

If there is loss or damage to the cargo, the party holding ownership title to the goods should conduct an internal check to ensure that the goods were indeed shipped as per the bill of lading (B/L) and the customer's order. All relevant documents should be collected and all possible explanations of damage and loss (delay, short shipment or returns) eliminated.

In the event of loss or damage, the insured company should immediately contact the claims representative identified in the policy. Once this is done, the insured company should contact the carrier, advising it of the loss and inviting them to inspect the damaged goods. This initial telephone conversation should be followed up by a written notice of confirmation of loss.

The following is a list of documents required to process a claim. Copies should be submitted to the insurance company or its representative:

- the supplier's commercial invoice and packing list;
- the ocean bill of lading (ocean B/L) or airway bill (signed);
- the inland B/L, or freight bill, in the event there was an inland journey not covered by a through B/L;
- customs entry, if duties and sales tax were insured;
- original insurance certificate or policy: if insured under an open policy, the open policy number and declaration number must be shown;
- copy of the written notice to the last carrier, confirming the telephone conversation; and
- copy of the correspondence from the carrier.

Chapter 10. Customs Clearance

Mexican Customs Procedures

Under the North American Free Trade Agreement (NAFTA), tariffs facing Canadian exporters are decreasing according to a specific and negotiated timetable. In addition, the rules of origin provisions in the NAFTA are now the governing factor in determining whether a particular set of goods exported from Canada will qualify for special treatment. Exporters are advised to consult their broker or the Department of Foreign Affairs and International Trade (DFAIT) for information on the timing of this phase-out and on the rules governing certificates of origin, including NAFTA certificates. Exporters should also be aware of the packaging and labelling requirements, and the documentation necessary, to import goods into Mexico.

Shipments arriving at the border usually clear customs the next day, but can be cleared the same day if they arrive early in the morning, and if all the documentation has been prepared in advance and is in order.

About one truck in ten is randomly selected by computer and is pulled over for customs inspections, which involves unloading the trailer. Rail shipments are treated similarly, except that American rolling stock can enter Mexico: goods thus transported are not normally unloaded and reloaded. Shipments arriving by sea are unloaded at government docks and kept in a customs warehouse until they are cleared. Air shipments go to a bonded storage area, which is normally operated by the carrier or by a customs broker. From here, customs clearance procedures are similar to those for goods brought in by truck.

Dealing with Customs Officials

Customs officials may ask how the imported goods are to be used or what material they are made from. The answer to these questions should be carefully considered, since it could have an impact on the level of duty charged on the goods. Such requests should be checked with the customs broker, who should be asked to deal with any challenges to a change in duty rate or value. Under some circumstances customs duties can be deferred or avoided, and some imports are dealt with under special rules.

1. Re-exports. Exporters can avoid import duties on goods if they are to be re-exported. This can include rental equipment, containers, material to be used in exhibits, material to be used for processing or repairs, and goods going to designated industrial areas where they will be incorporated into products that will be exported from Mexico. In most cases, it will be necessary to post a bond or other form of guarantee.

If the exporter wishes to change the status of the goods to a permanent import, they should notify the authorities promptly, meet any new import duties and import permit requirements, and pay the required duty and taxes, at which point any bonds or guarantees will be cancelled or returned.

2. Duty drawback. In some cases, Mexican companies or persons who are involved in exporting may be eligible for a refund or a drawback of duties or taxes on raw materials, parts and components if they are incorporated into goods for export. This is also true of components, parts and raw materials imported into the *maquiladora* zones. At present, Canadian exporters are eligible for duty drawback on materials that originate in non-NAFTA countries if the materials are incorporated into goods exported to other NAFTA countries. These drawbacks are due to be eliminated by 2001.

3. Bonded warehouses. Goods stored in a bonded warehouse operated by private companies under government supervision may avoid duties until they are removed from the warehouse. This can result in a large reduction in the up-front funding needed to ship to Mexico. As well, goods in a bonded warehouse are immune to any changes in duties or taxes resulting from changes in the rates or in exchange rates.

4. Samples. Samples are usually subject to duties, and must be accompanied by normal health and sanitary certificates. All samples must be accompanied by an invoice stating that they are not for commercial use. However, samples are exempt from some product certification requirements. Personal use samples can be imported without prior authorization or documentation. Samples for research and testing, in quantities up to three, can be imported for use by laboratories conducting tests for certification or for other purposes. However, they must have a written notification from the *Secretaría de Salud (SS),* Secretariat of Health, that the goods are for research or testing and not for human consumption. Receipts for any duty paid should be retained and shown, where required. Similarly, samples for exhibition or tasting can be imported as long as they are accompanied by the appropriate certificate.

5. Goods destined for free trade zones. Products entering the free trade zones, or *maquiladoras*, are exempted from some or all taxes and duties and import permit requirements, and may enter the zone with a minimum of control and documentation. However, these goods may not enter the rest of the country. Free trade zones include a 20 kilometre area along the border between the United States and Mexico, a similar zone on the Mexican-Guatemalan border, the ports of Cancun, Cozumel, Chetumal, and La Paz. The free trade zones also include the state of Baja California, the city of Agua Prieta and an area in the state of Sonora.

DOCUMENTATION

Every product exported to Mexico requires a specific set of accompanying documents. It is best to work with a Mexican customs broker to ensure that documents that are needed for the transaction are included with the shipment. These include a commercial invoice, an export declaration form, a packing list specifying contents, a bill of lading (B/L) or air waybill, import permits, a certificate of origin and any special certificates specifically required by the nature of the transactions.

It is important to note that in addition to these export-related documents, goods imported into Mexico are required to meet the regular labelling requirements for goods sold in Mexico. In most cases, these labelling requirements will be enforced at the border and should be part of the planning process for shipping goods, since the responsibility for meeting Mexican labelling requirements rests with the exporter. Information on these labelling requirements can be obtained from the Department of Foreign Affairs and International Trade (DFAIT), or from the Mexican government departments responsible for the particular labelling requirements.

COMMERCIAL INVOICE

A commercial invoice must accompany every shipment and should be prepared in Spanish. If in English, the Spanish translation can follow the original text on the invoice or else a translation may accompany it. The invoice should be manually signed by the exporter. Mexican officials insist on absolute accuracy and completeness in all documentation, and any discrepancies will cause delays, penalties or confiscation. Make sure that the documentation includes the following:

- place and date of issue;
- complete name and addresses of the Mexican buyer or importer as well as the exporter;
- detailed description of the merchandise, including marks, numbers, types and quantities;
- all freight and insurance charges;
- signature of seller, along with name and title;
- shipper's invoice number and customer's order number; and
- the importer's *Registro Federal de Causantes (RFC),* taxation registration number.

Copies of all shipping documents should be faxed to the Mexican importer and customs broker before the shipment leaves Canada. This will allow time to make revisions or to obtain special permits, if necessary. The original documents should accompany the goods. The exporter should also advise the importer and broker exactly when and how the goods were shipped, including the bill of lading number.

If possible, the invoice should be accompanied by a catalogue or other literature describing the goods shipped. This may be helpful for properly classifying the goods for customs purposes. The original invoice should be accompanied by as many as eleven copies, depending on the importer or customs broker involved.

Canadian Export Declaration (Form B-13)

Under the provisions of the Customs Act, most goods exported from Canada must be reported to Canadian Customs on Form B-13. This form is required by Canada Customs, and is used to collect data on export volumes for use by policy makers, as well as to limit or prevent the export of certain types of controlled goods. The exporting company is ultimately responsible for preparing and submitting this form, though agents or brokers will prepare and submit the form on behalf of the exporter. The form is required for:

- shipments valued at C $2,000 or more;
- controlled, regulated or prohibited goods (e.g. goods exported under a permit or certificate) regardless of value;
- goods in transit through the United States;
- goods exported from a bonded warehouse;
- goods repaired in Canada where the repairs or additions to the goods are valued at C $2,000 or more; and
- gifts, donations and company transfers valued at C $2,000 or more.

Bill of Lading (B/L)

The B/L is the shipper's acknowledgement that the goods have been received. It should include:

- the weights and measurements of the packages and their types;
- the names and addresses of the shipper and the Mexican importer, consignee or customs broker;
- the ports of origin and destination;

- a description of the goods;
- a list of freight and other charges;
- the number of B/Ls in the full set; and
- the carrier's official acknowledgement of receipt on board of the goods for shipment.

One set of these documents should be kept by the exporter, one should go to the importer and one to the customs broker.

Import Permit

Import permits are currently required for about 300 items, some of which may be subject to import quotas. The list includes used machinery, cars, trucks, tractors and parts, some luxury goods and some agricultural items that are considered vital to Mexico's economy, such as some beans and powdered milk, natural gas, petroleum and gasoline, some chemicals and pharmaceuticals, as well as firearms.

These permits are issued by the *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development. Delays are possible, and import permits have a time limit of nine months. In some cases, it may be necessary to have letters of valuation, which are authorized and endorsed abroad by a Mexican Consulate. It is not advisable to begin shipping goods until it is clear that a licence will be issued.

US Transit and Exportation Bond

This bond is required by American authorities if the shipment is passing through American territory.

Packing List

When more than one package is being shipped, a packing list is necessary unless the commercial invoice is detailed enough to provide this information. The list will include the number of packages and a detailed list of the contents of each package. The packing list should include net, gross and legal weight of each package, as well as of the total shipment. It should also include the volume or measurement of each package and of the total shipment. All of these measurements should be in metric units. A minimum of four, and up to seven copies may be needed, depending on the mode of transportation.

Certificate of Origin

Certificates of origin are used by customs officials to determine the country in which goods were manufactured. This will affect the rate of duty that applies. In Mexico, duties on goods from some countries of the Far East exceed 300 percent.

Canadian exports to Mexico are rarely affected by country of origin rules, because the Mexican regulations state that compliance with the North American Free Trade Agreement (NAFTA) marking rules is sufficient to demonstrate country of origin. For practical purposes, this can be satisfied with a NAFTA certificate of origin. This is a uniform document established by all three countries, and can be completed in the language of the importer or the exporter. Its purpose is to demonstrate that the goods satisfy NAFTA rules of origin, and is used if preferential treatment under NAFTA is being claimed.

To support a certificate of origin, full records of the sources of inputs must be kept for five years. Mexican customs officials may want to see these documents to verify the status of a shipment. These records should be comprehensive, and include the final purchase price of the goods being exported, as well as the cost of all materials used in producing them.

If a NAFTA certificate of origin is not possible, then a general certificate of origin should be included if there is any chance that the goods may be subject to countervailing action or high tariff rates. NAFTA certificates of origin, and instructions, can be obtained from Revenue Canada.

Special Certificates

The exporter should determine at least three months in advance if the goods to be shipped are subject to special import requirements. If so, it will be necessary to work with the agent or importer to obtain the necessary permits or certificates. Special certificates fall into a number of main categories that are not strictly export-related, since they are required for all products sold in Mexico, whether imported or domestic. But since the requirement, in most cases, must be met at the border, they should be regarded as an export requirement.

MEXICAN STANDARDS (*NOMs*)

Official standards, known as *Normas Officiales Mexicanas (NOMs)*, apply to a wide range of consumer products and capital goods, including leather, textiles, electrical appliances and electronic equipment, building and construction materials and chemicals, as well as medical equipment. These standards are administered by the *Dirección General de Normas (DGN)*, Bureau of Standards, which is part of *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development. Goods subject to *NOM* standards must be accompanied by a certificate of compliance to enter Mexico. *DGN* publishes catalogues of products and quality standards required for a *NOM* certificate. Exporters should consult with their customs broker or freight forwarder to determine if a product confirms to *DGN* standards and is eligible for a *NOM* certificate.

AGRICULTURAL STANDARDS

Agricultural regulations cover unprocessed agricultural and animal products. The regulations include phytosanitary and animal health certificates, and some products may require a prior sanitary authorization. These regulations are administered by the *Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)*, Secretariat of Agriculture, Livestock and Rural Development.

HEALTH STANDARDS

Health regulations cover fish and fish products, processed foods and materials used to produce food, and fertilizers and pesticides as well as medicines and health and personal care products. Specified products must be approved for import and must be accompanied by a sanitary authorization. These regulations are administered by the *Secretaría de Salud (SS)*, Secretariat of Health.

OTHER STANDARDS

Mexican standards for capital goods, machinery and industrial equipment are generally similar to those in most other industrialized countries. Mexico uses the standards set by the American Society of Mechanical Engineers (ASME), the American Society for Testing of Materials (ASTM) and the Society of Automotive Engineers (SAE), but all measurements and standards are expressed in metric units.

SECOFI has issued two decrees, on March 8, 1994 and August 29, 1994, listing products which require special certificates under the categories listed above. The regulations covering these requirements are subject to change. Exporters should consult their agents, or importer, or a Canadian customs broker to make sure that they are aware of the most current requirements. Copies of the decrees can be obtained from the Department of Foreign Affairs and International Trade (DFAIT) InfoCentre, trade commissioners in Mexico, the Mexican Embassy and from other Mexican government officials.

The Role of Customs Brokers

Customs brokers facilitate the importation process and can be a valuable business tool. They are familiar with complex international trade laws and regulations, not only in Mexico but elsewhere in the world. Typically, the Canadian exporter will deal with a single Canadian broker who will make arrangements with its counterparts in the United States and Mexico to handle the shipment every step of the way. Nonetheless, it is useful for the exporter to understand the role of brokers.

Under Mexican law, all imports valued at more than US $1,000 must be handled by a customs broker. Only Mexican customs brokers are authorized to issue a *pedimento aduanal*, a petition for import into Mexico. Most Canadian exporters ship to Mexico using Incoterms of cost, insurance and freight (CIF) or cost and freight (C&F) Laredo, Texas. The importer takes possession of the goods in Laredo and is responsible for clearance through Mexican customs, using a Mexican broker. The reason for this is that costs and risks vary widely beyond Laredo, and it can be difficult to provide accurate cost quotations. For example, fees for services such as drayage tractors that are used to transfer the goods over the border for unloading and reloading, and for temporary storage can run into hundreds of dollars. Nonetheless, some Canadian firms ship "CIF or C&F destination" and retain their own Mexican broker to make the arrangements.

Mexican customs brokers charge a fee of 0.45 percent of the invoice value, plus expenses incurred by the broker, plus a service fee set by each broker to cover their operating expenses. The minimum fee is US $40. This increases with weight and/or value to a maximum of approximately US $300.

Regardless of the arrangements at the Mexican border, the Canadian exporter is responsible for preparing a commercial invoice and other documents before the goods leave Canada. The requirements are very detailed and the documentation must be in Spanish. Many exporters retain a Canadian customs broker to complete most of these documents. Although the broker can provide advice, the preparation of the North American Free Trade Agreement (NAFTA) certificate of origin is the responsibility of the exporter. If the shipment will travel by land, the Canadian broker deals with an associated American broker to travel through the United States. This bond must be cancelled by American authorities at the export yard, before the goods cross into Mexico. The Canadian broker also sends the necessary documents to the Mexican broker, before the shipment arrives at the border. Some Canadian brokers verify receipt of the documents by the Mexican broker before the shipment leaves Canada.

Chapter 11. Collections

There is an inevitable gap from the moment that an export sale is made to the moment that payment is received. Even if the exporter has goods in inventory, they must still be packed and shipped, passed through customs and delivered to the final destination. The exporter is unlikely to undertake all of this effort without some reasonable assurance that payment will be made. On the other side, the buyer may not be willing to release funds until the goods are inspected and accepted. Financing instruments address these uncertainties and delays by providing assurances to both sellers and buyers that payment will be made as long as the shipment conforms to all the terms specified in the purchase agreement.

Methods of Payment

There are four basic payment methods, which carry different credit risks and financing costs for sellers and buyers. At one end of the spectrum, payment in advance results in minimal risk to the exporter and maximum risk to the importer. At the other, trading on open account carries a maximum risk to the exporter and minimizes the risks borne by the importer.

Advance Payment

Cash in advance, or prepayment, usually involves payment for the goods either at the time that they are ordered, or prior to shipment. Another type of prepayment involves progress payments for the design and manufacture of specialized equipment before it is delivered to the foreign buyer.

Once payment has been made, the buyer has little leverage over the timing of the shipment, the quality of the goods or the receipt of documentation. Consequently, it is unlikely that such terms will be readily agreed to by most foreign buyers.

However, payment in advance, either full or partial, eliminates the need for financing, eliminates any risk to the exporter and bolsters working capital. Therefore, it may be worth trying to negotiate such an arrangement, especially in service contracts where charging an initial fee ("on signing") followed by progress payments, is a relatively common practice.

Prepayment can be advantageous to both buyer and seller if financing costs, i.e. interest rates, are lower in the importer's than in the exporter's country. In such a case, prepayment terms allow the transaction to be financed at a lower cost and permit the prices to come down, because the exporter does not incur the higher rates in his or her own country. Prepayment terms also allow the importer to avoid foreign exchange losses if the domestic currency depreciates against the exporter's currency after the contract is signed — but before receipt of the goods.

Letters of Credit

A letter of credit (L/C) is issued by a bank on behalf of the importer for a fee, and is generally payable to the exporter's bank, also for a fee, when the terms and conditions of the contract have been met.

In terms of collections, the buyer instructs its bank to send a document to the exporter's bank, instructing the exporter's bank to pay the exporter upon presentation of specified documents. Because payment is made only on presentation of these documents, usually shipping documents, the buyer is assured that the exporter will not be paid until the contract terms are met. Because the exporter knows that payment will be made when the documents are presented, the goods can be shipped without worrying about payment. Both the importer and the exporter rely on their banks to protect their interests.

The exporter's bank will inform the exporter that an L/C from the importer has been received. Confirmation of the L/C adds the guarantee of the exporter's bank, meaning that the exporter will be paid upon presentation of the documents specified.

Letters of credit can take different forms, some of which are:

- Documentary L/C . This requires presentation of specified documentation before payment is made. This L/C requires only a simple demand for payment.
- Revocable or irrevocable. An irrevocable L/C cannot be amended or cancelled without the consent of all parties.
- Confirmed or unconfirmed. In the case of a confirmed L/C, the Canadian bank agrees to pay the exporter even if the Mexican institution defaults.
- Sight or term. This type of L/C is payable on sight, i.e. immediately upon fulfillment of the contract terms, or payable after a term specified in the L/C.
- There can also be combinations of L/Cs. An "irrevocable and confirmed" L/C, which is payable on sight, offers the exporter the optimal level of security. It also involves the highest fees.

Whatever the terms, the exporter should always strive to ensure that the language of the L/C is consistent with the contract agreed upon between the exporter and the buyer. It should provide the simplest possible conditions for approval of payment. And it should set strict limits on the time allowed for approval or disapproval of the invoice.

Letters of credit can be used in financing both buyers and sellers. If the exporter agrees to receiving a term draft payable 90 days after the documents are received by the buyer's bank, the exporter is actually providing the buyer with short-term financing. At the same time, however, the term draft was accepted by the exporter's bank and is referred to as a Bankers' Acceptance. This is regarded as a short-term obligation by the bank. In effect, the exporter holds a financial instrument that matures in 90 days, plus a grace period, and that can be sold at a discount to receive immediate cash. Thus, both buyer and seller have short-term financing.

Letters of credit are highly flexible instruments. For example, if an exporter wants to receive partial early payments, it is possible to send partial shipments as long as the L/C provides for this and deadlines are met. L/Cs can also contain red clauses, often printed in red, authorizing the exporter's bank to make advances to the exporter against the guarantee of the importer's bank. Transferable L/Cs can be used to share the proceeds of a transaction between parties. Back-to-back L/Cs can be drawn up between exporter and buyer and between the exporter and a supplier of inputs as a way of financing more complex transactions. Standby L/Cs are used to guarantee performance under a commercial contract and serve as bid bonds or advance payment guarantees. Finally, revolving L/Cs are automatically renewable as to time or amount in order to cover a series of shipments occurring over a period of time.

There are four major parties to a transaction involving an L/C: the importer, the importer's bank, the exporter and the exporter's bank. Each of the four parties is responsible for performing a number of tasks when using an L/C to effect payment.

- First, the buyer and exporter agree on the terms of their contract.
- The buyer then applies to its bank for a L/C in favour of the exporter.
- The L/C specifies which documents have to be presented to secure payment. The buyer's bank accepts the application, prepares the L/C, and forwards it to the exporter's bank.

- The exporter's bank forwards the L/C to the exporter.
- The exporter ships the goods according to the terms of the contract.
- The exporter presents the specified documents to the bank for payment.
- The exporter's bank checks the documents to ensure compliance with the L/C. It can then issue payment to the exporter.
- The exporter's bank then forwards the documents to the buyer's bank.
- The buyer's bank also checks the documents for compliance. If satisfied, it can release funds to the exporter's bank.
- The buyer's bank forwards the shipping documents to the importer.
- Finally, with the shipping documents in hand, the importer can take delivery of the goods from the carrier.

On receiving an L/C, the exporter should carefully check its details. The exporter must be satisfied that the credit amount is sufficient and that all of the specified documents can be assembled and prepared in the time allowed for payment. Particular attention must be paid to issues such as the spelling of names, the description of the goods, their quantity, expiry dates, ports of shipment and destination, and insurance specifications.

If an examination of the L/C shows some conditions to be untenable, or if the terms of the sale have changed, the exporter should insist that the importer instruct the issuing bank to make a formal amendment to the L/C before shipment.

Collections or Bills of Exchange

Documentary collections are probably the most common form of payment used in international trade. They consist of a bill of exchange accompanied by commercial documents transferring ownership to the importer after payment is made for the goods. In a documentary collection, payment is obtained on submission of commercial documents such as invoices, shipping documents or documents of title. The documentary collection is a relatively secure means of payment because the bank will not release the goods without either payment or a promise to pay from the buyer.

As with an L/C, four players are involved in a collection: the exporter, the exporter's bank, the importer, and the importer's bank. The bill of exchange and related documentation are forwarded by the exporter to the buyer through their banks. The collection order issued by the exporter to the bank lists the documents enclosed and specifies the terms and conditions of payment before the documents are to be released to the buyer. The exporter's bank then contacts the buyer's bank to deliver these instructions. At this point, the buyer informs its own bank of its agreement to accept the goods and pay the draft.

The role of the banks is confined to an examination of the documents involved to ensure that terms, conditions and descriptions match. The banks do not examine the goods themselves. The exporter relies on them to transfer shipping and payment documents and to obtain payment after the goods are shipped. As a result, the exporter should ensure that the documents required in the collection order match the terms of the commercial contract between the exporter and importer, and that all documents are properly completed when submitted for collection.

In certain cases, "clean collections" are used to effect payment for an export transaction. These are not accompanied by shipping documents, usually because it has been previously agreed that preparation of these documents is the responsibility of the importer. In a clean collection, only financial documents such as bills of exchange, promissory notes, cheques, payment receipts or similar instruments are used to obtain payment.

A bill of exchange can secure payment immediately (a demand bill), within two business days (a sight bill), or at a future date (a term bill). If a term bill is used, the exporter may have to borrow funds to cover the transaction until the bill comes due. In effect, this extends credit to the importer. There may be no alternative to this. The incurred interest charges, however, are commonly added to the price paid by the buyer.

Where an accepted bill of exchange (or acceptance) has been tendered in exchange for the shipping documents, the exporter can arrange to discount the acceptance at the bank and receive payment immediately rather than wait until the bill matures before receiving cash. Acceptances can be discounted on either a recourse basis (the exporter guarantees the importer's payment of the bill) or a non-recourse basis (the bank agrees to accept the risk that the importer might not pay). Charges for discounting acceptances are based on an interest charge for the time until payment is due and on a risk premium to cover the possibility of non-payment.

Open Account Trading

In open account trading, the exporter sends the goods, shipping documents, and an invoice to the buyer, all at the same time. Trading on open account allows the exporter to incur minimal documentation and transaction costs, but also to assume most of the risk in the transaction.

In this case, any financing required is provided entirely by the exporting firm until the payment is received from the importer.

Generally, open account trading is used where the seller has established a trusted and ongoing relationship with the buyer. In effect, the trading partners move to the simplest possible payment procedures once a relationship has been established.

As Canada's trading relations with Mexico expand and develop, it is likely that more transactions will be settled on open account terms. The strengthening of links among North American financial institutions and credit agencies will undoubtedly facilitate this process.

If a firm chooses to deal on open account terms, it should do a thorough credit check on the client. It should speak with the buyer's bank, suppliers and clients personally. A firm should not deal on open terms until it is completely satisfied with the financial risk it is assuming. Terms of payment should include an incentive to pay on time. For instance, the buyer could be advised that all payments received on time will receive a 10 percent credit or rebate.

If the buyer fails to respond to the invoice, collection procedures have to be undertaken. In Mexico, collection often occurs in person. What is important is that the exporter determine the reasons for non-payment and secure a commitment to pay. If this proves impossible, it may be necessary to place the matter into the hands of a collection agency. Dun & Bradstreet Canada offers collection services worldwide through their international affiliates. Fees are calculated as a percentage of the amount collected. The Canadian exporter can also contact a Mexican collection agency or legal firm directly, although particular care must be taken to ensure that the costs of collection do not outweigh the expected proceeds.

Managing Risk

Commercial Risk

The biggest risk facing the exporter is that the buyer might default on the agreement. Credit management is a key concern for most businesses in dealing with their foreign customers. Often it is necessary to extend credit in order to win and retain foreign customers, but precautions should be taken to confirm the buyer's creditworthiness.

- Do a thorough credit check of foreign customers.
- Use a sales contract: this constitutes a legal agreement.
- Make sure the goods shipped are exactly as described, taking care to follow the importer's instructions with respect to documentation.

If problems do arise in getting paid, and if the importer is clearly the one at fault, there are several avenues of recourse.

- Try to collect through persistent persuasion.
- Lodge a formal protest to register the debt. This establishes your legal claim on an importer who is unable or unwilling to pay. A notary in the buyer's city will prepare and present the protest documents demanding payment.
- If the above does not bring results, take the claim to court or to commercial arbitration. Most industrialized countries have standing arbitration procedures that apply in the case of defaults or other commercial disputes.

Exchange Rate Risk

International trade can put either the importer or the exporter at significant foreign exchange risk. A contract that is to be paid in dollars — the preferred option for the Canadian exporter — would leave the importer at risk of currency fluctuations. By contrast, the Canadian exporter is put at risk when the contract specifies payment in pesos. Such risks can be mitigated or avoided through hedging or coverage in the foreign exchange market.

For the exporter expecting payment in Mexican pesos, hedging involves negotiating the future payment by the importer at the exchange rate prevailing at the time the contract is signed. This eliminates the exporter's exposure to the risk of possible fluctuations in the value of the peso vis-à-vis the Canadian dollar. Banks and other financial institutions can help in taking steps to manage exchange rate risks. Ideally, however, the firm should try to transfer exchange rate risk to the foreign importer of the product by persuading it to agree that it will make payment in Canadian (or American) dollars.

Export Credit Insurance

Apart from the payment terms mentioned earlier, there are other forms of security. The most common is export insurance. Both the Export Development Corporation (EDC) and private insurance firms will offer policies to protect export receivables from non-payment by foreign buyers. Key factors to be considered when purchasing export credit insurance include the risks covered, the extent to which risks are shared between the insurer and the insured party, the premiums charged, and the services provided by the insurer.

Export credit insurance usually covers commercial risks such as foreign buyer insolvency, default, and repudiation or unilateral termination of the contract. It will also cover political risks such as blockage of funds or transfer difficulties, war, hostilities, revolutions, and cancellation of export and import permits by foreign governments.

Export credit insurance does not cover losses from commercial disputes between exporters and foreign buyers. Usually, these disputes must be resolved to the satisfaction of the insurer before claims are considered for payment. Thus, for example, if a buyer refuses to pay for goods on the grounds that the shipment was not what was ordered, that claim would have to be adjudicated by a court of arbitration in favour of the exporter before the latter could collect on the insurance policy.

The premiums charged for export credit insurance are directly tied to the riskiness of the transaction and the extent to which the exporter is willing to bear some of that risk. Export credit insurers usually require some risk sharing on the part of the exporter.

Co-insurance results in the exporter sharing a portion of the insured export credit loss. In a 90/10 co-insurance policy, the insurer would pay $90 of every $100 loss, while the exporter would have to absorb the remaining $10 loss. Risk sharing through co-insurance tends to incline the exporter to avoid ventures with a high credit risk when selling abroad.

A deductible requires the exporter to take the first loss from a bad export receivable up to a certain, specified amount. For example, in a $100 deductible policy, the exporter would absorb the first $100 of a $5,000 loss, with the insurer paying the remaining $4,900 loss to the exporter. Deductibles generally serve to reduce administrative costs to the insurer that would occur from processing very small claims.

The insurer determines the risks involved in a transaction by reviewing the following issues.

- The type of coverage required. For example, "political risk only" coverage is less risky for the insurer but leaves the exporter more exposed than if coverage were taken out for both political and commercial risk.
- The spread of risk. A diversified portfolio of export receivables is less risky to the insurer than a portfolio which contains only one or two large customers: coverage for the latter would be more expensive than for the former.

- The credit terms. Open account terms providing for payment 90 days from delivery will be more expensive, whereas L/C terms are less so.
- The buyer's standing and country. Not surprisingly, large, established customers operating in stable countries are less risky than small or financially troubled companies.
- The exporter's own standing. Exporters who are able to demonstrate prudent credit granting practices and the ability to deliver under their commercial contracts lessen the risk for the insurer.
- The type of goods being exported. Specialty items with little salvage value pose more risk to the insurer than off-the-shelf items, which can be readily sold to other buyers.

Export Development Corporation (EDC)

The largest export credit insurer in Canada is the EDC. The EDC is wholly owned by the Government of Canada and promotes Canadian exports through the provision of export credit insurance and export financing facilities. The EDC insures a wide range of Canadian exports including raw materials, commodities, semi-processed goods, consumer goods, and services. The Corporation offers short- and medium-term insurance, performance-related guarantees, and foreign investment insurance to meet the varying needs of exporters.

EDC regulations specify that a certain percentage of the goods or services being insured must originate in Canada and conform to Canadian content requirements. Canadian content is comprised of the value of Canadian exports minus the costs of the goods and services imported into Canada for incorporation into those goods that are then exported from Canada. As part of its mandate to support Canadian exports, EDC requires that the highest practical level of Canadian content be achieved. By insisting on higher levels of Canadian content, EDC aims to ensure that Canadian sources of supply are considered for the export contract.

To comply with EDC's Canadian content requirements, exporters must complete a Canadian Content Report. It breaks down the export contract into Canadian and non-Canadian portions for selling costs, materials, direct labour, shipping, other costs (including overhead), and profit to determine the actual percentage of Canadian-sourced costs to total Canadian exports. This is called the Canadian Content Ratio. This Ratio is normally required to exceed 60 percent in order to qualify for EDC insurance.

OTHER INSURERS

A number of other export credit insurers — and quasi-insurers — also serve the market although they account for a relatively small number of the total policies sold. These include private firms such as Marsh & MacLennan, Zurich, Affiliated, Lloyd's, and Canadian Financial as well as government agencies such as the Business Development Bank Canada (BDC), and certain small business development corporations. Private insurers are often able to offer more flexible export credit insurance coverage than the EDC because they are not bound by federal restrictions concerning the origin of the goods and services being exported.

ALTERNATIVES TO EXPORT CREDIT INSURANCE

It is possible to avoid credit risks by selling or discounting the export receivables. Sale of the receivables permits the exporter to transfer the credit risks and results in an immediate cash receipt. Such a service is not cost-free. Charges by the bank for this service include premiums to cover the buyer and country risks assumed, as well as a financing charge (interest) for advancing funds before the export receivable is collected.

A different type of security is provided by the Canada Commercial Corporation (CCC). It will facilitate a deal between Canadian suppliers and foreign purchasers by providing assurances to both sides. For foreign buyers, the corporation undertakes to guarantee the performance of the Canadian supplier, ensuring that goods or services will be delivered as specified. For Canadian exporters, the corporation guarantees that payment will be made if the terms of the contract are fulfilled and, in many cases, it accelerates payments.

Chapter 12: Drawing Conclusions

Build a Team

A key element in getting an export drive started is to secure the commitment of those employees who will be charged with its implementation. Regardless of their level in the organization, they should be brought into the process and informed about why the company is taking the initiative, the role each individual is to play, what the company hopes to gain, and what each participant can expect to get out of it. This is the first step in developing an export-oriented mind-set within the company.

Ideally, the team should include a variety of functional areas and skills to ensure that it can respond effectively to the wide variety of issues that will arise. For many smaller companies, at least in the initial phases of the export drive, it is more realistic to speak of the individual who is tasked with managing the export plan. In many smaller firms, that person may be the owner.

Regardless of how many people are involved in the effort, it is vital that there be a champion with the authority to make things happen and the persistence to carry the effort through to a successful conclusion. This individual should be sensitive to the cultural nuances of the target market and possess strong interpersonal skills to bridge gaps and establish fruitful relationships.

The Importance of Testing

The best approach to implementing many major business initiatives consists of a series of manageable small steps, none of which puts the business at risk. Because the steps follow each other in rapid succession, the company can move swiftly toward its objective. For the novice exporter, the recommended approach is to test the waters with a trial run. Once the team has gained experience and confidence, more ambitious export objectives can be pursued.

On completion of the first successful sale, it is a good idea to review several features of the export strategy and, if necessary, revise the export plan in light of the experience acquired. The firm should ask itself a series of critical questions.

Ten Common Exporting Errors

In reviewing the success of the trial run, keep in mind the ten most common errors made by novice exporters. The firm may have made some or all of these mistakes. If so, it is in good company. Exporting success does not depend on avoiding all mistakes but on learning from them.

1. The firm did not gather all the necessary background information about the Mexican market. It failed to develop a marketing plan before attempting to export.
2. The company did not have the commitment or the determination to overcome the difficulties associated with exporting, and it lacked the resources to meet the financial obligations incurred during the initial stages of exporting.
3. Not enough attention was paid to choosing an agent or distributor. The one chosen performed poorly and the company became discouraged.
4. In the first flush of enthusiasm, the company spread itself too thin, attempting to enter several different markets rather than focussing on one and establishing a base of expertise and strength.
5. The company treated exporting as a safety net, turning to it only when the domestic market experienced a downturn and abandoning it when domestic business recovered. It did not develop a long-term strategy or presence.
6. The company treated its partners, agents and distributors with less consideration than it treated its partners and associates at home.
7. The company failed to adequately modify its products to respond to regulations or cultural preferences in the Mexican market.
8. The company did not bother to provide itself with capabilities in Spanish, nor did it seek to produce documents in Spanish.
9. The firm attempted to do everything by itself instead of engaging specialists such as freight forwarders and customs brokers to handle the technical details of exporting.
10. The company failed to investigate the potential benefits of partnerships, joint ventures and technology exchanges as a way of enhancing their export efforts.

The Product

- Does it need to be modified in some way that may not have been anticipated initially?
- Does the firm need to strengthen its ability to provide training to use the product?
- Is it necessary to make better arrangements for providing after-sales service?

Pricing

- Is the price competitive?
- Can the firm accept a reduced profit margin to improve the appeal of the offering?
- Is it possible to raise the price and boost profits?

The Mexican Market

- What surprises has the Mexican market produced? Did the firm make any erroneous assumptions about the market? If so, what are the implications?
- Are there better markets to pursue?
- If there has been some initial success should the firm expand its export effort within Mexico, or add other countries to its list?

The Export Process

- Has the firm mastered the techniques required to maintain control over the export process?
- Is it comfortable with each of the steps involved? If not, how can it improve the way in which it deals with them?

Agents, Representatives, Distributors

- If selling via intermediaries, is the firm happy with their performance?
- If selling to a distributor, have the expected quantity of orders been placed?
- If not, what explanations does the distributor offer to account for this? What changes, if any, in the product, service or price is recommended?
- If selling through a trading house, how successful has it been in selling the product? If performance has been poor, what are the alternatives?
- If working through partners, is the relationship stable and mutually beneficial?

Financial Issues

- What methods has the firm been using for payment of those sales made to date?
- Has the experience been satisfactory?
- How long must the company wait to get paid?
- Has there been a negative impact on working capital?
- Has the firm faced credit or collection problems?
- Has it incurred any bad debts?
- Is the firm satisfied with the service provided by its bank?

Promotion and Marketing

- Are there more cost-effective ways of promoting the product?
- Should the promotional material be improved?
- Has the firm learned anything about Mexico that suggests a reassessment of its promotional strategy? For example, are there trade magazines or exhibitions that appear more promising than those that were initially used?

Shipping

- Are the firm and its customers satisfied with the shipment and delivery of the product?
- Are there less expensive or quicker ways to get the product to the market?
- Is the firm's freight forwarder doing a good job?

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):
1-800-628-1581 or (613) 944-1581
Internet: http://www.dfait-maeci.gc.ca

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.

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. 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
30 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

The Federal Office of Regional Development (Quebec)

The Federal Office of Regional Development (Quebec) is a federal regional economic development organization. Through its commitment to provide services tailored to its clients, FORD Q supports the development of the economic potential of all regions of Quebec and the creation of viable jobs by promoting a business climate in which SMEs can grow and prosper. FORD Q uses the relevant and sought-after expertise of the federal government to work with the entrepreneurial spirit of Quebecers in every region and improve their competitive position. It also seeks, through strategic activities and partnerships in the community, to improve the business climate, an essential factor in the growth of SMEs.

FORD Q provides one-stop access to federal services and programs aimed at SMEs, particularly with regard to innovation, R&D, design, market development and entrepreneurship. Through its 13 Small Business Access Centres, FORD Q provides access to Team Canada export services and programs in the areas of awareness, export preparation, information, networking, advice and counselling, funding and access to funding.

In terms of access to funding, PEMD, with the exception of the component on preparing projects for submission, is delivered through the Small Business Access Centres. IDEA-SME, a FORD Q program, can also support firms during the export process. In addition, through alliances with banks, Small Business Access Centre advisors can facilitate access to funding for foreign marketing strategy projects.

Small Business Access Centre
Abitibi/Témiscamingue
906 5th Avenue
Val d'Or, PQ J9P 1B9
Tel.: (819) 825-5260
Fax: (819) 825-3245

Small Business Access Centre
Bas Saint-Laurent/Gaspésie/Îles-de-la-Madeleine
212 Belzile Street
Suite 200
Rimouski, PQ G5L 3C3
Tel.: (418) 722-3282
Fax: (418) 722-3285

Small Business Access Centre
Bois-Francs
Place du Centre
150 Marchand Street
Suite 502
Drummondville, PQ J2C 4N1
Tel.: (819) 478-4664
Fax: (819) 478-4666

Small Business Access Centre
Côte-Nord
701 Laure Boulevard
Suite 202B
P.O. Box 698
Sept-Îles, PQ G4R 4K9
Tel.: (418) 968-3426
Fax: (418) 968-0806

Small Business Access Centre
Estrie
1335 King Street West
Suite 303
Sherbrooke, PQ J1J 2B8
Tel.: (819) 564-5904
Fax: (819 564-5912

Small Busines Access Centre
Île de Montréal
800 Place Victoria Tower
Suite 3800
P.O. Box 247
Montreal, PQ H4Z 1E8
Tel.: (514) 283-2500
Fax: (514) 496-8310

Small Business Access Centre
Laval/Laurentides/Lanaudière
Tour du Triomphe II
2540 Daniel-Johnson Boulevard
Suite 204
Laval, PQ H7T 2S3
Tel.: (514) 973-6844
Fax: (514) 973-6851

Samll Business Access Centre
Mauricie
Immeuble Bourg du Fleuve
25 des Forges Street
Suite 413
Trois-Rivières, PQ G9A 2G4
Tel.: (819) 371-5182
Fax: (819) 371-5186

Small Business Access Centre
Montérégie
Complexe Saint-Charles
1111 Saint-Charles Street West
Suite 411
Longueuil, PQ J4K 5G4
Tel.: (514) 928-4088
Fax: (514) 928-4097

Small Business Access Centre
Nord-du-Québec
800 Place Victoria Tower
Suite 3800
P.O. Box 247
Montreal, PQ H4Z 1E8
Tel.: (514) 283-5174
Fax: (514) 283-3637

Small Business Access Centre
Outaouais
259 Saint-Joseph Boulevard
Suite 202
Hull, PQ J8Y 6T1
Tel.: (819) 994-7442
Fax: (819) 994-7846

Small Business Access Centre
Quebec City/Chaudière/Appalaches
905 Dufferin Avenue
Second Floor
Quebec City, PQ G1R 5M6
Tel.: (418) 648-4826
Fax: (418) 648-7291

Small Business Access Centre
Saguenay/Lac-Saint-Jean
170 Saint-Joseph Street South
Suite 203
Alma, PQ G8B 3E8
Tel.: (418) 668-3084
Fax: (418) 668-7584

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 over the 3-year period. 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 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)

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.

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. CCC's participation in a sale provides Canadian suppliers with the tangible backing of their own government, enhancing their credibility and competitiveness in the eyes of foreign customers. This can often lead to the negotiation of more advantageous contract and payment terms.

The Progress Payment Program, developed by CCC in co-operation with Canada's financial institutions, makes pre-shipment export financing more accessible to small- and medium-sized exporters. The program allows an exporter to draw on a special line of credit, established by his or her 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.

For more information about CCC and its programs, contact:

Canadian Commercial Corporation
50 O'Connor Street
Eleventh Floor
Ottawa, ON K1A 0S6
Tel.: (613) 996-0034
Fax: (613) 995-2121

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 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

Multilateral Organizations

Inter-American Development Bank
1300 New York Avenue NW
Washington, D.C. 20577
USA
Tel.: (202) 623-1000
Fax: (202) 623-3096

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

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 Associations

Canadian International Freight Forwarders' Association, Inc.
P.O. Box 929
Streetsville, ON L5M 2C5
Tel.: (905) 567-4633
Fax: (905) 542-2716

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 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), 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

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

Canadian Government Departments and Services in Mexico

Trade and Economic Division The Embassy of Canada in Mexico

The Trade and Economic 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.

Trade and Economic 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

Key Contacts in Mexico

Mexican Government Departments

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

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

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 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

BANKS

National Bank of Construction and Public Works
Banco Nacional de Obras y Servicios Públicos (BANOBRAS)
Tecoyotitla No. 100, Piso 4
Col. Florida
01030 México, D.F.
México
Tel.: 723-6000
Fax: 723-6108

National Bank of Construction and Public Works
Banco Nacional de Obras y Servicios Públicos (BANOBRAS)
Viena No. 4, Piso 5
Col. Juárez
06600 México, D.F.
México
Tel.: 627-0785/0786
Fax: 705-6217

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

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

Banco Nacional de México, S.A. (BANAMEX)
Isabel la Católica No. 44, Piso 1
Col. Centro Histórico
06600 México, D.F.
México
Tel.: 225-6504
Fax: 225-5422

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

Banca Serfin, S.A.
Prolongación Paseo de la Reforma No. 500
3er. Nivel, Módulo 310
Col. Lomas de Santa Fe
01219 México, D.F.
México
Tel.: 259-8860/8861, 257-8000
Fax: 257-8387

Banco Inverlat, S.A.
Bulevar Manuel Avila Camacho No. 1, Piso 18
Col. Lomas de Chapultepec
11560 México, D.F.
México
Tel.: 229-2531/2004/2929
Fax: 229-2157

Banco Mexicano, S.A.
Paseo de la Reforma No. 156, Piso 3
Col. Cuauhtémoc
06500 México, D.F.
México
Tel.: 592-5472, 629-3000
Fax: 629-4447

Banoro, S.A.
Obregón y Angel Flores s/n
Col. Centro
80000 Culiacán, Sinaloa
México
Tel.: 15-1722, 16-4350
Fax: 15-0122

Banco Interestatal, S.A. (INTERBANCO)
Av. Manuel Vallarta No. 2086 Sur
Col. Fraccionamiento Centro Sinaloa
80120 Culiacán, Sinaloa
México
Tel.: 17-4305/4306/5600
Fax: 14-7257

Banco Mercantil del Norte, S.A. (BANORTE)
Zaragoza Sur No. 920, Piso 3
Col. Centro
64000 Monterrey, Nuevo León
México
Tel.: 319-5202/5200
Fax: 319-5222

Banco Promotor del Norte, S.A.
Berna No. 6, Piso 6
Col. Juárez
06600 México, D.F.
México
Tel.: 627-9211, ext 1117-/18
Fax: 627-9293

Banco de Oriente, S.A. (BANORIE)
Av. 2 de Oriente No. 10
Col. Centro
72000 Puebla, Puebla
México
Tel.: 46-5196/4700, 32-4251
Fax: 42-0381

Banco del Bajío, S.A.
Paseo del Moral No. 506
Col. Jardines del Moral
37160 León, Guanajuato
México
Tel.: 73-4719/5300, 17-0322
Fax: 73-4718

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

BUSINESS AND PROFESSIONAL ASSOCIATIONS

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

The Canadian Chamber of Commerce in Mexico
Cámara de Comercio de Canadá en México
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

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

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

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**