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Tools and Hardware



THE OPPORTUNITY

The Mexican consumer market for tools and hardware offers important opportunities for Canadian suppliers.

- Consumer tools and hardware are used mostly by homeowners seeking to improve or modify their homes.
- Mexico has a desperate shortage of housing and, for many families, renovations are perceived as an alternative to moving to a new home.
- Although do-it-yourself (DIY) methods do not have a tradition in Mexico, products that can be used by untrained individuals are rapidly growing in popularity.
- Small Mexican contractors are using the new generation of DIY retail stores to supply themselves with tools and hardware.
- Although American manufacturers and retailers dominate the DIY market, there are many potential opportunities for Canadian suppliers.

THE DO-IT-YOURSELF BOOM

Owner-built housing has always been important in Mexico. About half of all new homes are construc-

ted by the "informal" housing sector. Usually the owner does most of the work, with help from small unregistered contractors. Typically, owner-built homes are constructed without access to formal financing and often without title to the land. The other half of Mexican homes are built by construction companies either through government-assisted programs for low-income housing or for direct sale to middle- and upper-income buyers.

Historically, the consumer market for tools and hardware has been limited by the fact that owner-built homes in the informal sector are very basic. Homes are built a little at a time, using traditional masonry construction, very basic materials and little finishing. Products that feature convenience, speed or improved accuracy find little demand in this sector.

The market for tools and materials used in home improvement products has also been relatively small in the formal sector. Traditionally, small contractors have done most of this work. Until recently, it was unusual for middle-class Mexicans to undertake their own renovation projects. There is a long-standing cultural attitude that people of substance do not do the job of *mil usos*, the

SUMMARY REPORT

This market information on Mexican tools and hardware has been produced and published by Prospectus Inc. under contract with DFAIT, along with other market profiles and summaries on business opportunities in Mexico. It is available from:

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"handyman." This pattern has changed over the past few years as middle-class Mexicans have discovered the benefits of do-it-yourself (DIY) home improvements.

This trend has been fuelled both by a greater need for consumers to do the work themselves, and by the greater availability of DIY products in the Mexican market. Several American DIY retailers have moved into the Mexican market, and most supermarkets and department stores have also joined this trend. Product demonstrations and even training seminars are offered by a wide range of retailers.

Another positive development is funding for renovations being made available by the Mexican government. In early 1996, President Zedillo said that national housing organizations would grant 380,000 loans during the year, of which 115,000 would be for renovation projects.

These factors are behind a major growth in the home improvement market. There is demand for all types of tools and hardware that can be used by untrained people. The United States Department of Commerce has estimated that the 1996 market for DIY products was about US \$1 billion, or about 10 percent of the total market for residential construction and renovation.

SECTOR OVERVIEW

Tools and hardware in the do-it-yourself (DIY) consumer sector are those that can be used by an untrained person. These products are used throughout the home for repair and renovation projects. The tasks involved include carpentry, plumbing, electrical and masonry work, as well as painting and landscaping. In many cases it is difficult to separate home hardware items from similar products used in commercial construction or by other professional users. This summary

focuses on products that can be used for home improvements, even if they are also used by professionals. In fact, there is little distinction in Mexico, since many small contractors buy the same tools in the same consumer DIY stores frequented by homeowners.

A strong demand for tools and hardware for use in the home is driven by the fact that Mexico faces a housing shortage of crisis proportions. According to official government estimates, at least three million additional homes are needed to adequately house the current population. Independent experts put the shortfall closer to seven million units. According to the World Bank, more than 800,000 new houses are needed every year to keep up with demand, but only 600,000 are built. The economic crisis spawned by the devaluation of the peso in December 1994 has made the situation worse, and it is common for extended families to live in one home.

The housing shortage has led to a strong trend towards owner-completed renovation projects. This trend has been accelerated by the development of specialized DIY stores, many of them set up in partnership with American retailers. The American firm Payless Cashway, for instance, has partnered with *Grupo Alfa*, a major Mexican industrial group, to open 25 retail establishments in the next five years under the name Total Home. Their product mix is split evenly between domestic and imported products. Other foreign retailers in Mexico are Builder's Mart and Home Mart.

Products in demand include the full range of hand tools, including small electrically operated tools. They also include hardware such as fasteners, hinges, locks, electrical and plumbing components and painting supplies.

This product line is so diverse that it is difficult to make generalizations about the ability of Mexican manufacturers to supply the demand. But for

the most part, Mexican suppliers are most competitive in the middle market levels. At the lowest price points, Mexico has seen a flood of cheap Asian hand tools. Countervailing duties have been imposed against imports from China, and a system of minimum prices has been set up for basic hand tools. At the higher end of the scale, the US dominates the market for sophisticated hand tools and hardware products designed to make installation easier for untrained users. Import penetration is estimated at about 40 percent for hand tools, but it falls to only about 10 percent for paint and painting supplies.

FOREIGN TRADE

Imports of hand tools into Mexico fell by 42 percent in 1995, to US \$68 million. Imports of paints and painting supplies fell by 32 percent to US \$80 million over the same period. It is difficult to be precise about the specific products involved, since under Mexican import classification system, a large proportion is classified simply as "other."

Estimates by the United States Department of Commerce put the American share of the import market for hand tools at 68 percent, and the share of paint and painting supplies at about 76 percent.

Canada's share of the import markets for these products is not significant except for two products. Canada claims almost one-third of the import market for chains for chain saws, and about 15 percent of the market for polymer/aqueous paint. Total tool sales were less than US \$1 million, and paint and painting supplies totalled about US \$3 million.

It is not possible to estimate trade in consumer hardware products because they are mixed in with too many other goods in the international trade statistics. The statistics shown here are for

total trade in the categories indicated. An unknown proportion of these products is destined to professional rather than consumer markets.

Although the volume of imports from Canada is not large, total imports are substantial. More than three-quarters of the imports in both the tool and paint categories comes from the United States. This suggests considerable potential for Canadian products.

is for homes exceeding US \$40,000. For the most part, the demand for Canadian tools and hardware is limited to middle- and upper-class home owners. According to one estimate, roughly 20 percent of the Mexican population have family incomes of US \$10,000 or more. These consumers are concentrated in urban areas. Middle- and upper-income households include almost 30 percent of the populations of

products, for consumers who can afford them.

There is a secondary market consisting of small home-repair contractors who are not really construction professionals and who tend to use lower-priced consumer-grade tools. These customers tend to buy in the same home-repair specialty stores as homeowners. In fact, there is a trend towards contractors visiting do-it-yourself (DIY) stores with their customers to pick out such items as cabinet hardware, plumbing fixtures, lighting hardware and finishes. Since the homeowner sees the retail prices and pays for the purchase, this reduces risk for both parties. There have been recent reports of small contractors flooding the training seminars put on by DIY stores in order to upgrade their skills.

DIY products have spread from specialty stores into the retail mainstream. Department stores, supermarkets and hypermarkets are all getting into these lines. All of them are featuring improved packaging, designed for the home user.

Supermarkets have always offered a large range of non-food items, and most include a hardware section. But now they are increasing display space and offering point-of-sale demonstrations. There are special promotions of DIY products, including mass media advertising. Some are offering books and videocassettes providing instructions.

IMPORTS OF HAND TOOLS, PAINT AND PAINTING SUPPLIES

US \$ dollars

Product	World		Canada	
	1994	1995	1994	1995
Hand tools	118,190,597	68,021,773	854,619	669,660
Hand tools for gardening and landscaping	8,235,748	3,843,299	15,646	3,664
Chains for manual chain saws	1,801,512	1,455,771	548,703	469,031
Other hand saws and blades	18,263,760	10,359,023	77,634	39,158
Files, pliers, shears, punches etc.	18,488,286	10,578,303	24,280	34,999
Hand spanners, wrenches and sockets	20,858,801	10,301,935	19,792	20,905
Other hand tools	46,043,217	29,845,390	166,969	101,348
Measuring tapes, levels and calipers	4,499,273	1,638,052	1,595	555
Paints and painting supplies	118,392,475	79,999,686	676,191	3,021,692
Paints and varnishes based on polymer and aqueous medium	26,958,149	15,915,460	172,267	2,436,774
Other paints and varnishes	51,823,734	40,157,088	394,865	359,454
Painting supplies	39,610,592	23,927,138	109,059	225,464

Source: Banco Nacional de Comercio Exterior (Bancomext), Mexican Foreign Trade Commission, 1996.

CUSTOMERS

Homeowners are the principal buyers of consumer tools and hardware. According to the 1990 census, there are just over 16 million housing units in Mexico. Independent houses account for about 83 percent of the total. There are about 2.2 million apartments, and the rest are hotels, camps, shelters and mobile homes.

It is estimated that almost half of the current annual demand is for homes valued at less than US \$15,000, while only 10 percent of the requirement

Mexico City, Guadalajara and Monterrey, creating a market of about 7.5 million people who can afford imported products. Other relatively affluent cities with a population of one million or more include Toluca, Puebla, León and Torreón.

For the most part, Canadian tool and hardware products must compete in the high-quality, medium-priced market. Competing Mexican goods tend to be inexpensive but are generally of poor quality. And the Mexican producers themselves are seriously threatened by cheap Asian imports. Nonetheless, there are niche markets for higher-priced Canadian

HOUSING CLASSIFICATIONS, 1994

Category	Approximate US \$ Equivalents
Low-income	up to \$18,000
Mass market	\$18,000 to \$22,000
Middle class	\$22,000 to \$112,000
Upper class	more than \$112,000

Source: US Department of Commerce, 1995.

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The larger chain stores buy directly from manufacturers but since the devaluation of the peso in December 1994, many of them are trying to simplify their procurement procedures by dealing through a smaller number of distributors. Privately branded products are the principal exception to this trend.

There are also about 25,000 small specialty stores selling hardware, plumbing supplies, paint and painting supplies, and other DIY products. They buy mainly from wholesalers or distributors. In general, they carry fairly limited lines and are more expensive than the large chain stores. Some of them provide home repair contracting services.

The larger retail chains in Mexico include *Gigante*, *Aurrerá*, *Casa Ley*, *Comercial Mexicana*, and *Soriana*. Together they operate more than 400 hypermarkets, which are defined as full-line stores with between 4,500 and 10,000 square metres of sales area. The largest stores are 23 megamarkets operated by *K-Mart de México* and *Wal-Mart de México*. These are stores with more than 10,000 square metres of display space. There are also 431 supermarkets, 129 warehouse stores and 480 department stores listed in the directory of the *Asociación Nacional de Tiendas de Autoservicios y Departamentales (ANTAD)*, National Association of Supermarket and Department Stores.

COMPETITORS

Mexican manufacturers, including operations of multinational companies, produce a wide range of hand tools and hardware products. Their market share is largest in paints and painting supplies, where they claim 90 percent of the market. It is lowest in hand tools where they supply 60 percent of the market.

US-BASED COMPANIES ACTIVE IN THE MEXICAN TOOLS AND HARDWARE MARKET

Company	Product Line
Alterra, Corp.	Hand tools
Amana Tool, Corp.	Hand tools
American Tack & Hardware	Decoration products
American Tool International	Hand tools
Ames Lawn & Garden Tools	Gardening tools
Black & Decker	Hand tools
Cooper Tools	Hand tools
Dap Incorporated	Adhesives & cementing products
De Vilbiss Ransburg	Spray guns & accessories
Defleco Corporation	Hardware products
Du Pont	Paint & painting supplies
Genova Products	PVC pipes & fittings
Masco Corporation	Plumbing & hardware products
Sherwin Williams	Paint & painting supplies
Skil	Hand tools
Stanley Hardware	Hardware products
Storehorse	Carpentry products
Pittsburgh	Paints
Preval	Spray guns & accessories
The Scotts Company	Gardening products
3M	Protective equipment
Vermont American Tool	Hand tools

Source: US Department of Commerce, 1996.

These manufacturers were severely harmed during 1995 by the economic crisis, but the market recovered strongly, beginning in the second quarter of 1996. American companies, with or without manufacturing facilities in Mexico, are the main competitors for Canadian suppliers. They claim about two-thirds of the import market, with the rest accounted for mainly by Asian producers of low-cost basic hand-tools.


TRENDS AND OPPORTUNITIES

Two major trends have characterized the tool and hardware market in Mexico over the past few years. The

first is the development of the demand for do-it-yourself (DIY) products. The second is the entry into the market of large American-based DIY retailers mainly in association with large Mexican firms. Both of these trends indicate that the DIY culture should continue.

THE DO-IT-YOURSELF CULTURE

Mexico's gradual economic restructuring and, more recently, the economic crisis spawned by the devaluation of the peso in December 1994 have severely reduced the wealth of many families. Many upper-class people have found themselves bumped down into the middle class and have been forced to change some of their attitudes. Young people are finding it increasingly difficult to leave their



parent's home, even after they are married. There is a severe housing shortage, estimated at 7 million units in 1996. For all of these reasons, fewer families are able to move into new homes. This is driving an expanding demand for home repair, remodelling and renovation.

At the same time, householders are beginning to learn that many small contractors do not deliver good quality for the money. It is difficult to find workers who are both skilled and honest. A massive crime wave, fuelled by the economic crisis, is also making many families reluctant to let strangers into their homes. And finally, cultural changes are now beginning to create a sense of pride in well-done home projects.

These changes in demand are matched by important developments on the supply side. Major DIY retailers such as Home Mart have moved into the Mexican market. Television programs are educating people about DIY methods. Even supermarkets and department stores are running seminars showing the latest techniques and products. Consumers have come to understand that with little training and fairly inexpensive tools they can undertake their own home projects.

In response to the devaluation, *Secretaría de Desarrollo Social (Sedesol)*, Secretariat for Social Development, has initiated a new program for home improvements. It combines technical advice from universities with subsidized construction materials in an effort to promote DIY remodelling. In early 1996, President Zedillo announced that 115,000 home renovation loans would be made through public lending agencies during the year.

AMERICAN-STYLE RETAILERS

The tool and hardware market has been the target of aggressive marketing by American retail chains, some of them operating in association with

large Mexican firms. A good example is the partnership between *Grupo Alfa*, one of Mexico's top-ten industrial groups, and Payless Cashways, a US-based firm with 1994 sales of US \$2.7 billion. *Alfa* has a 51 percent stake in the joint venture, known as Total Home. The first store was opened in Monterrey in 1994, which was quickly followed in early 1995 with a second outlet in Mexico City. There are plans for 25 outlets throughout Mexico over the next few years. Sales are projected at up to US \$600 million, and employment at 3,000 employees, once all of the stores are in operation.

The Monterrey store illustrates the Total Home marketing style. It has 33,000 square metres, of which 6,000 is in sales area, 2,000 in storage, 12,000 in patio space and 13,000 in parking. The store features 17 product centres, and the product mix is about half-and-half domestic and imported. The company claims to offer "everything from nails to computer-designed kitchens."

Total Home's nearest competitor is Builder's Mart, which is associated with Grossman, another American company. Home Mart is a new entrant into this market, but by March 1996 it had five stores in operation, with a total sales area of 46,000 square metres. These specialized do-it-yourself (DIY) specialists will face stiff competition from more broadly-based US retailers who have entered the market in association with Mexican partners. *Wal-Mart de México* had 19 megamarkets operating in 1996, with 277,000 square metres. *K-Mart de México* had 4 stores averaging about 10,000 square metres each.

REGULATORY ENVIRONMENT

All products offered for retail sale, including tools and hardware, are subject to Mexico's labelling regula-

tions. Some products, including paint, are also subject to mandatory quality standards. In addition, basic hand tools are covered by regulations setting minimum prices, and some have been subjected to countervailing duties.


LABELLING REGULATIONS

A new labelling decree was proclaimed in 1996 and became effective in March 1997. There are two levels of regulation. One set of rules applies to generic products. This is the minimum level of Spanish labelling that must be affixed to every retail product before it can cross the border. Briefly, the regulation requires that the label bear the name of the product, the name and address of the importer, the net contents, precautionary warnings and use and/or handling instructions.

The required information can be printed on a label affixed to the product, on a hanging tag, or for small products, on the container or package.

Products which are subject to special regulation under Mexico's system of *Normas Oficiales Mexicanas (NOMs)*, official standards, may also have special labelling requirements that are set out in the *NOMs*. If so, they are exempted from the generic regulations. Paints and varnishes are the only significant product covered in this summary which are subject to such special labelling regulations. *NOM-003-SSA1-1993* sets out very detailed labelling requirements for those products. The regulations for generic products are established in *NOM-050-SCFI-1994*.

Mexico's labelling regulations have been in a constant state of revision since 1994, when the government first announced that it would no longer accept stick-on Spanish labels applied by the retailer. Since March, 1994, labelling regulations have been enforced at the border, effectively



transferring the onus for compliance from the importer to the exporter.

Canadian exporters are strongly advised to verify all labelling requirements with their agent, distributor or other importer prior to shipment.

CERTIFICATES OF COMPLIANCE

Mexico has a system of official quality standards known as *Normas Oficiales Mexicanas (NOMs)*. These regulations can be set by any ministry and are promulgated through official "decrees," which are published in the *Diario Oficial*, Mexico's Official Gazette.

A long list of products is subject to special regulation. They must be tested in Mexico and a certificate of compliance must accompany the goods when they cross the border. Currently, none of these *NOMs* appear to apply to tools and hardware products other than paint. Nonetheless, the regulations are constantly being revised, and exporters should verify the requirements with their agent, distributor or importer prior to shipment. Technically, the regulations apply to the importer, but shipments that arrive at the border without adequate documentation may be subject to serious delay.

MINIMUM PRICES AND COUNTERVAILING DUTIES

Mexico has established minimum prices for some imports, principally those that are likely to be dumped. While few Canadian products will ever fall subject to these regulations, exporters should be aware that a list exists that names tools that are subject to this form of regulation. These regulations were published in the *Diario Oficial* on 28 February 1994, 4 May 1994 and 13 May 1996. Many hand tools are affected, including handsaws and saw blades, axes, circular saw blades, hacksaws and blades, pliers, wrenches, sockets, hammers, trowels, scrapers, punches and chisels.

To control dumping, Mexico has also imposed countervailing duties in excess of 300 percent on many hand tools from China. Therefore, Canadian exporters of these products must be certain to ensure that their shipments are covered by proper North American Free Trade Agreement (NAFTA) certificates of origin. These certificates are normally necessary only if the product will be imported under NAFTA preferences. But they can also be used to avoid possible countervailing action aimed at non-NAFTA countries.

MARKET ENTRY STRATEGIES

Canadian companies that want to participate in Mexico's expanding tools and hardware market, will have to compete with an array of established American-based firms, operating in partnership with Mexican companies. Home Mart and Total Home are the market leaders. They are closely followed by more diversified retail giants like K-Mart and Wal-Mart.

Some Canadian tool and hardware manufacturers may already be participating in this market through their affiliates in the United States. Other companies will have to find retailers who are open to new suppliers and unfamiliar products. In general, Canadian products are not well known in Mexico. While Canada enjoys a good general reputation, Canadian companies have a reputation for being risk averse and lacking staying power in the market.

Ironically, the same Mexican buyers who complement Canadians for being easy-going and less impatient and arrogant than their American counterparts, quickly add that they are not aggressive enough. Thus, Canadian companies breaking new ground in the tool and hardware markets —

which have not yet been significantly penetrated — will have to overcome this general perception. Canadian companies that have succeeded in this market say that establishing a local presence is essential.

Many large retail chains in Mexico buy direct from foreign suppliers. Approaching those that would be most likely to carry do-it-yourself (DIY) products represents a good start. But many Canadian suppliers have found it more practical to engage a Mexican distributor or form a partnership with an exclusive agent.

Another effective market entry strategy is to form a joint venture with a Mexican manufacturer of tools or hardware. Many Mexican companies have been hard-hit by the economic crisis and lack the capital to modernize. Today's DIY consumers are demanding attractive packaging, easy-to-use products and practical instructions. Canadian hand tool and hardware manufacturers have solid capabilities in these areas, and they could partner with Mexican firms which are able to offer immediate market access in return. This is a good way to overcome language and cultural barriers. Canadian firms contemplating this approach should understand that they will be expected to be the main providers of capital.

Attending trade shows is one of the most common ways of finding prospective buyers and partners. *Expo-Ferretería*, an annual hardware show, is held in Mexico City. The 1996 show was in September. Another important event is the *Convención Nacional del Comercio Detallista*, National Convention for Retailers, annual show of the *Asociación Nacional de Tiendas de Autoservicios y Departamentales (ANTAD)*, National Association of Supermarket and Department Stores. This is held in Guadalajara in the spring.

The Canadian Embassy in Mexico City and the consulates in Monterrey

and Guadalajara can be helpful in making introductions for Canadian companies who have prepared an export strategy.

KEY CONTACTS

CANADA

Canadian Government

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
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The Trade and Economic Division of the Embassy of Canada 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.

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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.

World Information Network for 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 24,000 Canadian

exporters. For general information, call (613) 944-4WIN (4946); to register on WIN Exports, call (613) 996-2057, 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. For general information, call the InfoCentre at 1-800-267-8376. For applications for assistance through this program, call the International Trade Centre nearest you. In Quebec, PEMD is administered by the 13 regional offices of the Federal Office of Regional Development (FORD Q).

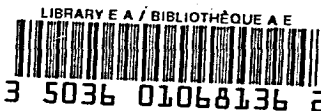
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Canadian International Development Agency (CIDA)

CIDA is an important possible source of financing for Canadian ventures in Mexico. A special fund is available through CIDA under the Industrial Cooperation Program (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. For more information, call (819) 997-7905, or fax (819) 953-5024.



Export Development Corporation (EDC)

EDC helps Canadian exporters compete in world markets by providing a wide range of financial and risk management services, including export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

EDC has established relationships with leading commercial and public sector institutions in Mexico and Latin America. For information on the full range of EDC services, call (613) 598-2500, or fax (613) 598-6858.

Revenue Canada

Revenue Canada, Trade Administration Branch provides service in English, French and Spanish. Revenue Canada publications and customs notices are also available by calling or faxing the NAFTA Information Desk: 1-800-661-6121 or (613) 941-0965; fax: (613) 952-0022.

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The Canadian Chamber of Commerce

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Forum for International Trade and Training Inc.

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Language Information Centre

240 Sparks Street RPO
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Open Bidding Service

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MEXICO

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