



# Doing Business in MEXICO

## Understanding the Market

With a population of 106 million inhabitants, Mexico is the 10th most populous country in the world. Mexico has a very young population. 28 percent of the people are under 14 years of age. Half of the country's population lives in cities of over 100,000 inhabitants. The population of Mexico City and its metropolitan area is over 18 million, which makes it the largest concentration of people in the Western Hemisphere. The country's three most important metropolitan areas, Mexico City, Guadalajara and Monterrey drive Mexico's economy and account for close to 40 percent of Mexico's Gross Domestic Product.

Five states have reported the highest population increases in the last decade: Mexico, Jalisco, Puebla, Baja California and Nuevo León. The northern region of the country has 62 percent of the territory, with 26 percent of the total population, and generates 30 percent of GNP. The central region has 18 percent of the territory, 50 percent of the total population and generates 60 percent of GNP. The southeast region has 20 percent of the territory, 16 percent of the total population, and generates 10 percent of GNP.

Ten percent of the population is defined as wealthy, accounting for 38 percent of national income. The upper-middle class represents about 10 percent of the population and accounts for 17 percent of the national income, while the lower-middle class comprises about 40 percent of the population and accounts for 32 percent of the national income. The result is a market weighted heavily on the two ends of the income scale.

## Distribution and Sales Channels

### DIRECT SALES

This is recommended for service providers, as well as companies exporting to only a few large, easily identifiable customers that are direct importers.

### U.S. DISTRIBUTOR

Mexican firms generally prefer to deal directly with the manufacturer, with a Mexican distributor or representative rather than through U.S. distributors.

### MEXICAN DISTRIBUTOR

- Recommended for U.S. firms wishing to explore and grow the market through a local presence.
- Allows the manufacturer to build on the expertise and client base of an established Mexican firm.
- Distributors are usually preferred for the sale of goods which require warehousing and in-country service.
- All Mexican importers must apply and be listed on the "Padrón de Importadores" maintained by the Secretariat of Finance and Public Credit.

### AGENT/REPRESENTATIVE

These are solely responsible for developing sales. Recommended for large, expensive and/or custom-made products where no inventory is held locally. Payment is made on a commission basis.



## WHOLESALE

Efficient method for consumer products along with business and industrial consumables.

## FRANCHISING

No barriers to the franchising of any product or service in Mexico.

## Opening an Office in Mexico

Opening a branch office or subsidiary is recommended for companies that have already been in the market for some time and are willing to make a capital commitment to have a more permanent presence in Mexico. Firms should carefully select the appropriate type of incorporation, as this determines the operations they are allowed to perform in Mexico and their tax obligations, among other liabilities.

## Due Diligence

Due diligence is essential before entering any type of agreement in Mexico. Keep the following points in mind when choosing a Mexican business partner:

- Product and industry knowledge, track record, enthusiasm and commitment should be weighted heavily.
- Personally interview potential candidates at their home offices.
- Provide appropriate training, product support and timely supply of spare parts.
- Obtain information from a local consulting or law firm or local business chamber.
- Establish clear performance goals with your Mexican partner in writing.
- The Mexican legal system differs significantly from the U.S. system and even differs from state to state.

## Pricing a Product

- Look carefully at import duties, brokers' fees, transportation costs and taxes to determine if the product/service can be priced competitively.
- Mexican Customs collects a 15 percent value-added tax or IVA (assessed on the value of the invoice plus all costs) from the importer on all foreign transactions. The IVA typically is recovered at the point of sale.
- Payment terms and financing costs also make a difference in the pricing structure.

## Essential Factors for Success

- High quality products at competitive prices
- Financing, delivery, brand name recognition, before and after sales support and customer service
- Efficient business culture
- Strong personal relationships in all Mexican business transactions

## Import Requirements

The basic Mexican import document is the "pedimiento de importacion". This document must be accompanied by a commercial invoice in Spanish, a bill of lading and documents demonstrating compliance with Mexican product safety and performance regulations, if applicable.

Products qualifying as North American must use the NAFTA Certificate of Origin in order to receive preferential treatment.

A number of products entering Mexico must comply with Official Mexican Standards (NOM). It is important to make sure imported items comply with these standards and to obtain the appropriate product certification from authorities before entering the country.

All products intended for retail sale in Mexico must bear a label in Spanish prior to their importation to Mexico.



## Government Procurement

In many cases, having a representative or office in Mexico is a prerequisite to obtaining government contracts. It often simplifies preparing bids, providing after-sales services and tracking parts supplies. U.S. firms are encouraged to carefully analyze tender specifications with their Mexican representatives, as a bid will be disqualified if it does not comply with the tender in all details. To learn more about tenders and bids, please visit <http://www.compranet.com.mx>.

## BUSINESS AND CULTURAL PRACTICES IN MEXICO

### Punctuality, Appointments, and Local Time

- Time is more fluid in Mexico than the U.S., so do not be offended if someone is not on time for an appointment. Nonetheless, be on time yourself to meetings.
- A 15-minute delay for a meeting is accepted, except in Monterrey.
- Make appointments approximately two weeks prior to your arrival in Mexico by e-mail or phone, then reconfirm one or two days before your trip.
- Establish your contacts as high up in the organization as possible. Using a well-connected local consultant to make introductions and contacts for you will greatly increase your chances.
- Mexico is one hour behind U.S. Eastern Standard Time (E.S.T. -1).
- Working hours are usually from 9 a.m. to 6 p.m. with a one-hour lunch break. Lunch hours for higher level executives are longer, since business is often conducted over meals, and are often later than in the U.S.
- In general, Mexican businesspeople dress more formally than in the U.S. It is recommended to wear a suit and tie for business meetings in Mexico.
- It is customary to shake hands upon arrival and to exchange business cards right away.
- Mexicans use both the paternal and maternal surnames and might have several first names. Make sure you address the person correctly. When in doubt, ask.

### Negotiating

- The business atmosphere is friendly, gracious and unhurried.
- Decisions are made at top levels, with consultation at lower levels. This may take time. Be calm and patient with delays and build them into your expectations.
- Personal friendships are vital to business in Mexico. Mexicans look for long-term relationships based on mutual trust and reliability. Plan to make repeated visits and maintain contact after your trips.
- Mexicans do not like to be confrontational. In many instances, Mexicans will say “yes” to avoid conflict, offending counterparts, or simply to avoid saying “no.”
- Get all agreements in writing and honor your commitments.
- Seek partners that match your size, sales and, most importantly, your goals.
- When negotiating, emphasize the trust and mutual compatibility of the two companies. Stress the benefits to the person and his or her family and pride. This emotional approach may be more effective than the logical bottom line of a proposal.
- Leave yourself a reasonable margin for negotiating in your prices.
- Mexicans are status-conscious. At least one member of the negotiating teams should be from higher-level management.
- Business professionals that want to do business in Mexico should visit the country several times to assess Mexican business practices and style
- One major barrier in negotiations is the issue of financing the cost of foreign goods and services. Be prepared with some creative financing solutions.



## Language

- Most high level businesspeople and government officials understand English; however, they often do not feel comfortable speaking it. Plan for an interpreter on your first visit.
- Mexicans will appreciate any effort made at speaking the language.
- Make an effort to translate promotional and technical materials into Spanish.

For more information on doing business in Mexico or how to export to Mexico, contact your Trade Specialist in Atlanta or the State of Georgia Mexico office:

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