Mexican Industrial Growth Suggests Opportunity in Fastener Space

by Steven Rainwater

Mexico is doing the unexpected. That is, when the subject is manufacturing, no one really expected Mexico to occupy a "front and center" position in the conversation. But the laid-back Latin American destination is steadily becoming a powerhouse on the manufacturing stage. For those in the fastener and fixing industry looking to add some excitement to the current "wait and see" experiences, being experienced in many markets, Mexico just might contain the spice you've been looking for.

Thanks to Mexico's strategic location, and many years of steady and consistent investment by the US and other international manufacturers, Mexico's manufacturing sector is experiencing healthy growth. Mexico's reputation as the "place to manufacture" is beginning to stick, and the message is spreading. Automotive investors were the first to create strong supply chains, advanced facilities, state-of-the-art technology and a growing skilled labor pool that is ready to get to work. This momentum also is finding its way to other industries.

There are some specific reasons why in the current global and economic business climate, Mexico is becoming a solid, stable destination, considered strategic by many global companies. So what is it about Mexico that's so interesting these days, and what does the current fastener environment and opportunity look like?

Growing Momentum in Mexico

Perhaps the most critical advantage Mexico holds is its location. Being connected to the large North American consumer market has distinct benefits which begin with logistics. Two decades ago US manufacturers were racing to China to take advantage of new markets and reasonable manufacturing costs. But with such a high percentage of manufactured goods still being returned for consumption in the North American market, many US manufacturers openly state that basing operations in China are not as profitable as initially thought. Some manufacturers moving operations back to North American from China select Mexico as a strategic location. Additionally, manufacturers seeking to open new operations to service North American markets, often give Mexico serious consideration, and for good reasons.

Mexico has very cost-competitive labor. While the standard of living in Mexico continues to rise, thanks to growth in business and industry bringing in turn, higher wages, Chinese manufacturing wages, by comparison have sometimes grown exponentially, even doubling in some cases. Additionally, products from China bound for North America already suffer from reduced margins due to shipping costs and lead times. Operations based in Mexico can help significantly reduce expense to reach North American markets, ultimately leading to better competitiveness. Wages overall in Mexico are said to currently be around 30 per cent less expensive than China, overall.

Another component to the cost advantage equation is free trade agreements. Mexico has more free trade agreements than any other country in the world and more than the US and China combined. According to Bloomberg Business, Mexico's free trade agreements cover 44 countries, where the US has 20 free trade partners and China has 18. For this reason, companies looking to do business beyond North America may also find significant cost advantages in reaching their markets by basing operations in Mexico.

Mexico is clustering localized supply chains in specific geographic areas of industry expertise. So component suppliers are often found in very close proximity to large assembly facilities or discrete manufacturing plants, helping facilitate responsiveness to orders and reduction of lead times. This also enables Mexico to offer large amounts of expertise in specific industries. Automotive and appliance are two of the largest industries experiencing the most growth in Mexico. But the country is home to a strong presence in construction, petroleum, machine building and plastics, as well as a growing presence in aerospace.

Mexico is an attractive destination then for manufacturers because the infrastructure is already in place. Modern industrial parks are sprouting up on the landscape, and large tracts being developed for major assembly operations. For example, 16 Mexican states now contain plants specializing in aerospace parts and assemblies. Since 2008 dozens of aerospace plants have been opened throughout the country. The Mexican plastics industry, whose moldmaking vertical is attractive to fastener suppliers, is currently worth about US$20 billion annually in production. The auto industry by comparison, produces in excess of US$70 billion in annual revenue.

The Wall Street Journal reported in early February, that Ford Motor Company plans to double its vehicle production in Mexico by 2018, adding capacity to an existing facility and building a new one, bringing another half million vehicles of capacity to their already strong export presence there. Thus the area around San Luis Potosí will continue to be a focal point for the Ford supply chain. One fastener industry related example of response to this kind of expansion, is Japanese owned Topy Industries, who announced in a press release in April 2015, their formation of a new company and structure of a new facility in San Luis Potosí, to support the growing automotive market, and specifically the "American" market.

Fastener Consumption in Mexico

This leads to another important aspect of Mexican manufacturing of interest to fastener manufacturers and sales organizations. Fastener consumption in Mexico is explicitly tied to US industrial fastener consumption. This is because most of what is produced via Mexican industrial manufacturing is (1) not Mexican, i.e. not the direct result of companies whose origin is based in Mexico, and (2) not for the Mexican market, i.e. the majority of industrial finished goods assembled in Mexico (autos, machinery, building components, appliances, etc.) are built for export, and the majority of exports are destined for North American markets.

One way Mexican manufacturing has responded to competition from China has been to increase capacity in higher end types of products, like already mentioned automotive as well as electronics, medical devices and other assembly components. Industrial manufacturing companies which are consuming metal screws, nuts, bolts are in many cases looking for additional suppliers to handle growing volumes, and meet tighter lead times.

So industrial fastener consumption in Mexico has two important characteristics. First, industrial fasteners used in Mexico, regardless of where they're sourced, have a good chance of finding their way into the American Market. 83% of Mexico's manufacturing output is produced for export to North America (80% US and 3% Canada). Every major auto manufacturer has made significant investment in Mexico. Business relationships in Mexico can serve to create a presence in the growing American market but can also be a platform reaching additional US-based opportunities.

There is a strong attitude in Mexico that promotes sourcing fastener procurement in-country from local suppliers. Of course the largest US manufacturers have local Mexican facilities, but as demand grows, Mexican owned companies and facilities continue to be added. One online Mexican procurement directory lists about 250 major facilities and distributors in their Screws, Nuts and Bolts lookup for suppliers. China and Taiwan as the leading international region for fastener and fixing manufacture, offer supply via local joint ventures, as well as seeking to build strong distributor relationships. And since there is still plenty of space for growth in Mexico, companies from that region are actively seeking opportunities to build direct supplier relationships as well as in recruiting local distribution. In some cases new facilities are also being developed.

A key fastener fair being held in June 2016 demonstrates the growing fastener opportunity in Mexico. The cross section of exhibitors shows how Asian manufacturers are currently viewing Mexico as an important market in which to build business relationships. Of the more than 200 companies registered as exhibitors at the time of writing this article, almost half are from China and Taiwan (61 and 21 exhibitors respectively). This number nearly equals the combined total of US and Mexican companies currently registered to exhibit (about 40 each). Of course many North American and Mexican companies may not see a need to exhibit, due to ongoing business relationships. However, many Asian fastener suppliers, some who already have presence in Mexico, see this timing as an important opportunity to build business. About 1,000 attendees are currently registered for this event. And it's still early, so even more are anticipated.

While 2015 statistics on Mexican industrial manufacturing fastener consumption still are not readily available at the time of this article, the manufacturing climate clearly demonstrates an assumption of 2016 growth following a year of continued momentum. As the US consumption continues to rebound, Mexico continues to be one of the most strategic places to access opportunities to reach North America.