



# Mexico & Third-Party Logistics

*A Case for North American Shipping*

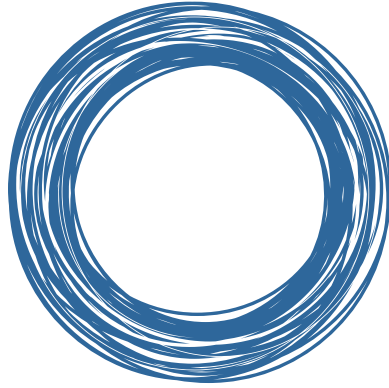


# We love to put order in your chaos.

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Morai Logistics Inc. is a 3rd party logistics provider with an operating agency agreement representing Mode Transportation. We are a powerhouse logistics team based in the Greater Toronto Area and do business throughout North America, including Mexico. Our team is dedicated to our terrific clients and we strive to take the chaos out of your supply chain. We are always on the lookout to do exceptional work with remarkable people and companies!





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# Mexico and Third-Party Logistics

## *A Case for North American Shipping*

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**THE** logistics landscape has changed in the last few years. The shifting economy and recent developments in the logistics industry have created new challenges and opportunities along all steps in the supply chain. From the point of manufacture to the store shelves or your front door, the world of transportation has **shifted**.

Industry leaders have released many articles regarding Mexico this past year and we will explore what makes Mexico the new logistics hot spot and why you should consider it too, especially with a 3rd party logistics provider (3PL) experienced in cross-border shipping.

'**Nearshoring**' and '**nearsourcing**' are two words that have been trending for North American companies when considering where to start a supply chain for their goods. These companies, primarily American, which normally look to China for outsourcing their manufacturing are now considering bringing their services closer to home.

Mexico is seen as an attractive option as it is now priced competitively to China and shares a border with the United States. It has an attractive combination of real estate, land development, and a highly-skilled and cost-effective labour force with regards to industrial capacity.



# Why is Mexico the New Attractive Logistics Spot?

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Researchers at *Jones Lang LaSalle (JLL)* released a paper on the top reasons to consider Mexico as a US cross-border industrial opportunity. What they discovered was that Mexico is indeed becoming more and more attractive as a supply chain location when looking to access the United States (or other countries) for both manufacturing and distribution.

Rising affluence in China has also led to an increase in labour costs, which are going up faster than productivity increases at Chinese companies can offset them. Estimates from JLL suggested that the combination of a decreasing cheap labour pool as well as the rise in land and energy prices is escalating the cost of manufacturing in China by 15-20% each year. This, combined

with shipping lead times which may exceed 15-20 days, really makes Mexico's two-to –three day direct to market truckload delivery an attractive option for American manufacturers.

The geographical advantage of Mexico is indeed something worth looking into as their logistics infrastructure is steadily magnifying and improving. There is development in many modes of transportation specifically catering to its shared border with the United States of America. One of the biggest projects in transportation infrastructure, and one that American companies are eager to see improved, is in [rail development](#).

Shipping via rail has many advantages when crossing the US-Mexico border; it

can be up to 30% cheaper, an important consideration considering increasing freight costs, and clearance is also quicker, only requiring about 30 minutes for a 250-container train compared to the two hours a truck needs for a single container. Thus, cross-border rail traffic is a very attractive option when compared to other land-based modes of transportation.

Mexico has a steadily increasing, skilled, and low-costing workforce. The working-age population of Mexico is over 70 million and more than 2,500 higher skilled educational institutions graduate over 90,000 students every year in engi-

neering and technology related fields. Mexico's workforce as a cost-effective option is now also competitive to China's.

Research from *AlixPartners* exploring manufacturing costs including labour expenses, productivity, currency fluctuation, and freight rates demonstrated that Mexico was in fact lower than the US and five other outsourcing locations (including China). Furthermore, the estimated projected manufacturing costs by 2015 showed that Mexico dominates both the US and China, remaining 20% of the cost below both nations.



*Figure 1: The Golden Triangle of Mexico.* The area in Mexico located between Monterrey, Guadalajara and Mexico City which most of the freight moves to and from and contains 80% of the Mexican population. SOURCE: *Union Pacific*.



# Why Partnering with a 3PL Makes for a Smooth Logistics Transition

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Production and consumption is centered around three cities that make up the majority of Mexico's logistics hub. They are called the **Golden Triangle**: Mexico City, Monterrey, and Guadalajara (see *Figure 1*).

When you are starting to look into Mexico as an option for your manufacturing or other logistics and supply chain needs, partnering with a 3PL can provide you with predetermined performance and put order in the chaos of cross-border affairs.

The right 3PL provider will have the expertise and knowledge needed to properly ensure everything is prepared for a smooth logistics network for your shipping demands.

In order to illustrate this point we will be using a case study of shipping automotive parts southbound from the US to Mexico and all the factors that must be considered when going through the border.

*“Predetermined performance. 3rd party logistics providers offer ease of mind when it comes to getting your products from origin to destination.”*



# Case Study: Moving Automotive Goods

## *Shipping from the US to Mexico*

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Exploring automotive manufacturing can give us a more concrete idea of what you need to pay attention to when dealing with cross-border US-Mexico shipments.

Rising ocean transport costs, peak season surcharges, as well as effort from the Mexican government to grow their manufacturing base has created the right environment that the automotive industry can leverage. It also does not hurt that if something goes wrong when moving product from the US to Mexico it is much easier to recover (i.e. 3000 vs. 13,000 miles).

*Reuters* recently released an article on how the Mexican auto industry is about

to experience a \$10 billion factory building spree. German and Japanese (Toyota, Nissan, Honda, BMW, Volkswagen & Mercedes Benz to name a few) manufacturers have already begun developments in Mexico, looking to produce primarily for the United States.

There are two primary factors that require a great deal of logistics knowledge, tools, as well as the right network in order to create a smooth logistics experience. The first is the consideration of shipping options and the second is mastery of best practices to actually move goods across the Mexican border.



# Shipping Options for US-Mexico

There are many modes of transportation to get goods from the United States to Mexico; you have truckload, less-than-truckload (LTL), rail, or a combination of modes (Intermodal transportation). As previously mentioned, rail has about a 30 minute average border check time while trucks have a much more rigorous process due to risk mitigation tactics at the border.

When it comes to cross-border shipping via truck, you have two distinct options: transloading and direct service (or shipment). Transloading involved goods being transferred from one trailer or container to another at a warehouse or terminal before crossing the border, upon which it will be taken to its final destination. Direct service on the other hand involves the same trailer or container that crossing the border from origin to destination.

*C.H. Robinson* provides a great outline of the four factors that affect almost every cross border shipment. These factors are

additional considerations that can be much easier when outsourced to a 3PL specializing in cross-border shipments.

The first factor is that carrier restrictions create the need for three carriers on almost every load. This is because both Mexican and US dray carriers (a.k.a. border transfer carriers) are only allowed to haul freight within 26 km on either side of the border.

Another factor is that any cross-border shipment can be stopped and inspected multiple times for both security and duty/VAT, which will be discussed in more detail in the next section below. The third factor is that carriers are not obligated to carry cargo insurance in Mexico, something that is required in the US.

Finally, equipment availability varies widely for direct and transloaded shipments. Direct services are usually a premium cost and have limited availability, while transload services leverage Mexico and US backhaul carrier opportunities and are less expensive and wider spread.

## Cross-Border Customs Requirements

A well connected 3PL provider can advise on the best option based on your logistics needs, specifically one that focuses on lowest total cost.

In the automotive industry, mixed or intermodal shipping makes sense especially when moving products south. In intermodal transportation, most parts manufacturers have multiple points of origin for supplies moving southbound to Mexican manufacturing/production facilities, and a well-networked 3PL provider can provide the route option.

Mexican manufacturing is also incentivized, meaning that shippers can pay lower duties on parts that go southbound and are shipped back northbound as a finished product due to efforts by the Mexican government to promote growth in the logistics industry.

Moving products within a country has the ease of not having to go through a customs procedure, and while Mexico is just a drive south from the United States, having that border makes all the difference.

Jumping headfirst into organizing a logistics route from origin to destination from the US to Mexico can lead to many problems when crossing the border.

Simple, but common, mistakes like late documentation and not having the required information can not only cause major delays and additional costs, but also scrutiny and an increased chance of being flagged for future shipments.

*“Mexico is currently in a good position for manufacturing hubs in the auto industry as government incentives have been introduced to specifically cater to an easier supply chain process.”*

The earlier you start the paperwork, the better it will be in the long run. It gives you time to review and check for mistakes, which is extremely important as even a minor one can lead to major delays at the border.

A good 3PL provider will not only make sure that the paperwork is done early, but they will also go through their documentation checklist to make sure all of your paperwork is complete. For a

sample of the required paperwork, please refer to *Figure 2*.

The automotive industry has a decree from the Mexican government that allows parts to clear beyond the border, specifically informing the shift back to North American manufacturing. A good 3PL provider will be able to best take advantage of arrangements like these and can create a cost-effective shipping flow to your plants.



Figure 2: *Cross-Border Forms: A Sampler*. These are some of the sample paperwork necessary in order to successfully ship goods southbound from the United States to Mexico.

# Summary and Conclusions

At the end of the day, the move to Mexico is very depended on a company's stage of development. Are they looking to start their supply chain? Or further develop it? Companies that already have established manufacturing plants in China for example looking to move to Mexico might be hesitant due to the initial cost of set-up, even though there might be a positive long-term forecast.

A North American start-up on the other hand might look to Mexico as the most appealing logistics hub as the costs are now competitive when compared to North America and the distance between the ever popular China are may not be worth it, despite the potential cost savings.

Furthermore, specific industries such as manufacturing, food and beverage, as well as electronics and appliance have a lot to look forward to with a manufacturing hub expansion into Mexico due to governmental initiatives to increase their logistics infrastructure and become a competitive option today, and an even more appealing option in the future.



# 3 Facts You Should Know About Us.

## 1 Our Philosophy

The Greek word “*moira*” means ‘part’ or ‘portion.’ **Morai Logistics** is based on the three Fates of Moira from Greek mythology. They are composed of three sisters that represent the past, present, and future and they are responsible for every individual’s ‘thread of life.’ Similar to how the three Fates are cognizant of one’s fate from beginning to end; our logistics services *control your shipments from pick-up to delivery.*



## 2 Our Services



As a 3rd Party Logistics Provider, we pride ourselves in giving you the highest quality customer service matched with the lowest total cost. Our core services range from truckload (TL), less-than truckload (LTL), intermodal, and small package transportation. This includes cross-border services (Canada, US, Mexico) as well as domestic within each country. We also cater to specialized services, here are just a few:

Alcohol Permitted	<i>beer, wine and spirits carriers</i>
Hazardous Materials	<i>dry van, tanker, etc.</i>
Temperature Controlled	<i>refrigerated and frozen</i>

## 3 Our Affiliations

Our President, Kelli Saunders has taken initiative as an entrepreneur and started Morai Logistics as an agency of **Mode Transportation** in 2011. Outside of Morai Logistics, Kelli is very active in various organizations and events. She is a proud member of the Women Presidents Club, WeConnect Canada, and Worldwide Who’s Who. She was also the former president of the Toronto Transportation Club.

