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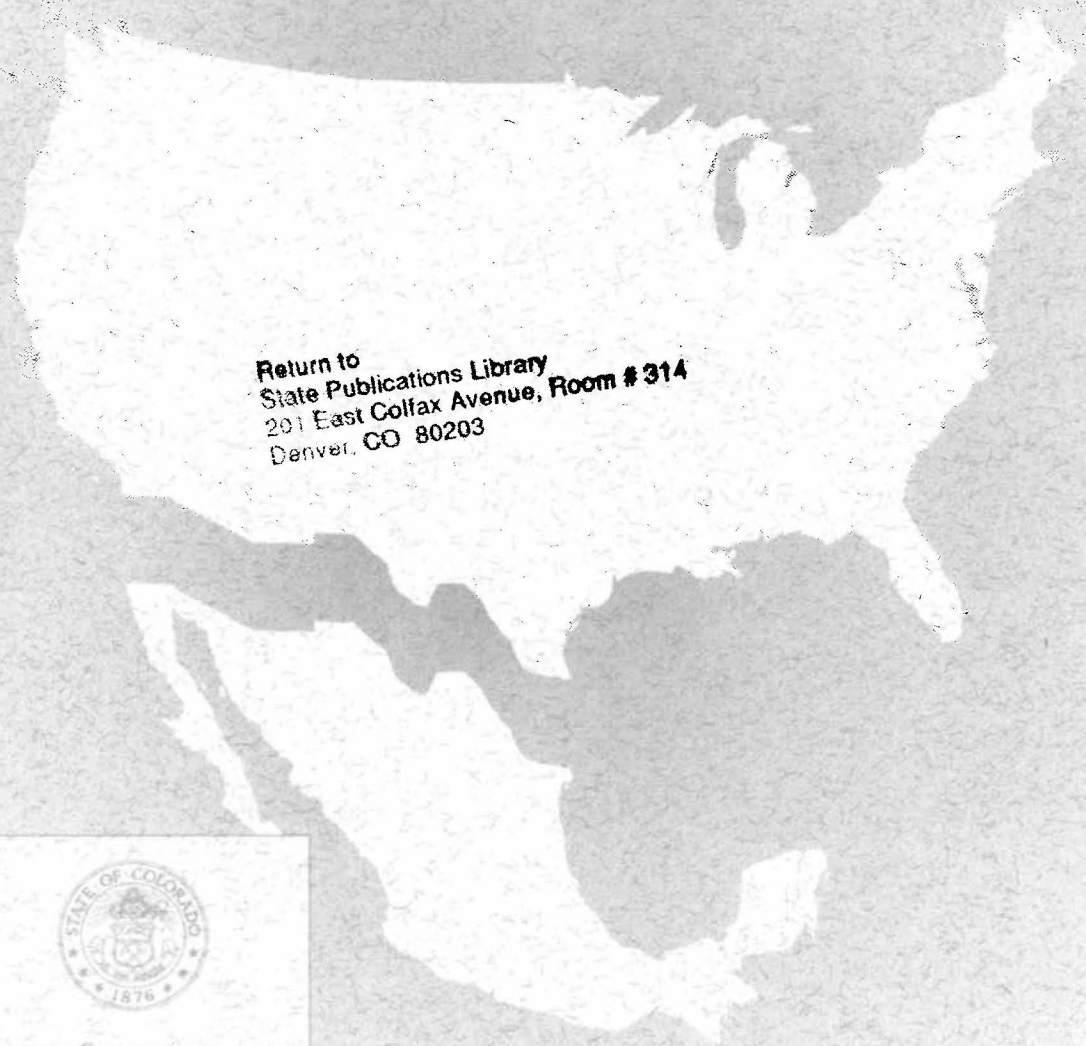
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DEAR COLORADO COMPANY:

The Colorado International Trade Office is dedicated to assisting Colorado firms. As part of the commitment, we offer the following series of case studies written by Professor Mark Correll of the University of Colorado.

Many of the case studies presented in this brochure have been developed from actual experiences of telecommunications companies doing business in Mexico. However, most of the information would apply to any sector in Mexico.

We would like to thank University of Colorado Professor Correll for assembling this series of case studies. His continued support of our office and hard work on this project are greatly appreciated.

In addition to providing information, the Colorado International Trade Office has been instrumental in locating representation in Mexico for a number of Colorado firms. We invite you to contact us for more information on how we can work with your company and wish you much success in pursuit of the Mexican market.

Morgan Smith
Director
Colorado International Trade Office

CASE STUDIES ON EXPORTING TO MEXICO

Research on Behalf of the

STATE OF COLORADO

INTERNATIONAL TRADE OFFICE

1625 Broadway, Suite 680
Denver, Colorado 80202
(303) 892-3850



The following cases are based on interviews conducted with Colorado exporters and Mexican sales representatives during February - May 1993. The focus of most interviews was how to get started exporting telecommunications products to Mexico. However, because the cases reflect a wealth of business experience, they are recommended for anyone interested in doing business in Mexico. The reader should bear in mind that some of the statements may be opinions or impressions.

I wish to thank the interviewees for their willingness to share their experiences and the Colorado International Trade Office, especially James Mejía, and Morgan Smith, for enthusiasm and support.

Dr. Mark R. Correll
College of Business
University of Colorado
Boulder, Colorado 80309-0419
(303) 492-0440

September 28, 1993

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INTERVIEWS WITH COLORADO EXPORTERS

CASE 1: ITEC, Steve Bolser

ITEC exports used and reconditioned telecommunications equipment. The partners have invested nearly a year, a couple of trips to Mexico, and about \$4000 (out-of-pocket) in laying a foundation for exporting to Mexico. ITEC has yet to sell anything; in fact the company is out one automatic fax switch at this point.

Nevertheless the partners believe they are on the right track. ITEC's plan has been to "get someone there to ship to, and they can do whatever they want with the product." One of the partners has a friend who is a successful businessman in Mexico City. Knowing the complex and personal culture of Mexican business, ITEC decided to make him their local representative, to offer products to him at wholesale prices (including U.S. export costs), and to allow him to develop the business from that point forward. The representative would handle Mexican import costs, licensing, etc.

ITEC likes this plan because the partners trust their friend. Otherwise they would fear shipping products and not getting paid. They do not want to try to develop and manage Mexican sales; they believe that a business needs to have local management, that it requires local presence and awareness. ITEC also believes that they must approach business in the Mexican way in order to succeed. Mr. Bolser states that it would be arrogant and unsuccessful to attempt to impose U.S. business methods on the Mexican market. For all these reasons, ITEC intends to develop exports through their local representative.

The main problem has been inaction. Their representative does not have a telecommunications background and has been distracted by other business interests. It has also been difficult to make progress, especially at long distance. For example, ITEC has set up five conference calls, but none of them has occurred.

On the other hand, trips and personal contact have been very productive. Mr. Bolser recalls arriving in Mexico City, picking up the Yellow Pages, and calling several people, who agreed to meet the next day. Therefore ITEC's principal advice is GO THERE.

Another problem has been the image of used and refurbished equipment. ITEC sees its niche as buying used telecommunications equipment in the U.S., which is practically thrown away, refurbishing it, and selling it in Mexico. This is a well-established practice (note for example the many retired U.S. buses still doing service in Latin America). ITEC investigated the idea of a joint venture with a Mexican company experienced in used telecommunications equipment sales, but could not locate such a company. Their contacts in Mexico claimed that the idea would not work, that the equipment must be new. They were also advised to describe their used and refurbished equipment as "semi-nuevo." This response may derive from Mexico's experience as a dumping ground for inferior U.S. products: used listed as new, shoddy quality, and lack of warranty, parts, or service.

There are also potential telecommunications standards problems. ITEC met with officials of the SCT's (Secretaría de Comunicaciones y Transportes) test laboratory. Like other Mexican contacts, these officials resisted the idea of selling used telecommunications equipment in Mexico. Supposedly there is a list of SCT-approved telecommunications equipment which can be attached to the public network; however, the officials were unable to provide it. ITEC was told that regulations would require each model sold to be tested; for example, an AT&T Merlin, Merlin 2, and Merlin Plus would each have to be tested separately. However, their Mexican representative's attorney said that this would not be ITEC's problem; he implied that installations could proceed, and if the government questioned the equipment approval, it could be handled. (See Note 1, "The Impact of NAFTA on Equipment Standards").

ITEC's next step is to contact Mexican sales agents and installers. ITEC is considering direct contact with potential agents and installers, such as retired Telmex employees. The partners now believe that they may have to develop the agent/installer force themselves, which would then be supervised by their friend. They would also be willing for him to arrange for a distributor who would manage the sales.

ITEC did not try the Agent/Distributor Service run by the Department of Commerce's U.S. and Foreign Commercial Service: "they want brochures, pricing, etc., and what we offer is continually changing depending on what we can buy as used equipment."

CASE 2: Sieco International Trading Co., Donald Siegel

Sieco International Trading Co. exports telecommunications equipment such as fax switches and line-sharing devices, retailing for \$70-400, which they plan to sell to four or five major Mexican wholesalers. Mr. Siegel has been working on the Mexican market for almost one-and-a-half years and so far has only shipped evaluation units. Sieco is also attempting to export computers to Mexico.

Sieco started by attending a general trade show, REPCOM 92. Mr. Siegel found his Mexican sales representative not among the attendees, but in the Mexican staff of the Colorado International Trade Office booth. This woman had connections to major distributors, but she had no experience in the telecommunications business. (See Note 2, "On Finding a Sales Representative").

Even though he found his representative by going to a trade show, Mr. Siegel is cautionary regarding the value of general or telecommunications trade shows for smaller exporters. This is because he found that the agents and distributors who attended were usually looking for major financial backing for marketing. In his case he was looking for connections to distributors with established customer bases. He also reports that hundreds of representatives were interested in his products, but it was very difficult to assess trustworthiness.

Sieco offers its distributors a deduct-from-invoice discount of 3-4% which can be used for the distributors to run their own marketing. The distributor contracts are not exclusive, but they have asked that Sieco not sell directly to their customers.

Sieco will ship to Laredo, be subject to 15-20% tariffs, and the distributors will handle the product from there into Mexico. Sieco uses the standard letter of credit typical in international trade.

Mr. Siegel recommends doing business in person, and he recommends using a Mexican sales representative. He says that correspondence, including fax, is fruitless until a personal relationship has been established. In his experience, when he has been in Mexico with an agent who has called for appointments, he has been able to meet with distributors within a day or two.

His major problem now is certification standards. There are two related standards, the NOM (Norma Oficial Mexicana) and the Homologación Certificada. It has been difficult finding information on the standards and the certification process. At first it was unclear whether the equipment actually needed to be certified. Then one of the distributors insisted that it must be. There are licensed electricians, called "peritos" (meaning experts), who conduct equipment tests for about \$35, a process that takes about two weeks.

While this process does not seem to be a major obstacle, there are two rumors about certification that have Sieco worried. First, it is rumored that the NOM can be issued only to a Mexican company, and, second, it is rumored that schematics of the product must be submitted for certification. The fear, of course, is that the product design could then be sold. Mr. Siegel reports that this happened to one of his manufacturers, who provided schematics as part of a certification and later discovered that his product was being manufactured in Brazil. (See Note 1, "The Impact of NAFTA on Equipment Standards").

Donald Siegel was interviewed a second time, about a month later. Currently his master distributor in Mexico is walking the products through the licensing process. His earlier concerns have been relieved because apparently the certification will be issued to the product (and not a Mexican company) and product schematics will not be required. He believes that this is not special treatment resulting from the status of his distributor.

The next step is to receive a proposal from the distributor including a summary of the marketing plan, market evaluation and initial order size. The distributor plans to offer the products to other distributors based on a reduced-margin resale.

The agent who arranged this business is the international representative of the Mexican Manufacturers Association (recall that Mr. Siegel found her working at REPCOM).

Sieco is also working on a second sale to Mexico. They are one of five finalists bidding to supply 350 computer systems to PEMEX. Currently Sieco has supplied a color laptop and a 486 desktop for evaluation. In what is becoming a familiar story, Mr. Siegel met a computer and peripherals agent at REPCOM, and this agent has relatives working at PEMEX. The agent will be compensated by adding his fee onto the Sieco quotation.

CASE 3: XEL Communications, Donald Bise

XEL Communications manufactures business access equipment for telephone companies. XEL got started by attending a trade show last December, REPCOM 92, as part of the delegation organized by the Colorado International Trade Office. XEL's experience was that many agents came by the booth, frequently with apparently-inflated claims, such as, "I know the minister of telecommunications and can get you right in to see him."

Mr. Bise found his Mexican representative during the trade show. (See Note 2, "On Finding a Sales Representative"). As in Case 2, XEL's representative worked for the Colorado trade mission, rather than being one of the trade show attendees. This woman located a telecommunications product distributor who had experience with one of XEL's competitors. After talking with XEL, the distributor was able to set up an appointment with the Telmex transmission manager. Hopefully Telmex will become XEL's customer.

XEL just signed a one-year, exclusive-representation agreement with the Mexican distributor. Mr. Bise states that it is very similar to U.S. agreements.

Mr. Bise believes that XEL was lucky in moving so quickly from going to a trade show to talking to a customer. He now expects to invest at least a year in negotiations and product design before shipping to Telmex.

It is not yet clear whether XEL will face a problem with certification standards (as in Cases 1 and 2). Working closely with Telmex may suffice.

CASE 4: WestComm Technologies, Inc., Katrina Millikan

WestComm Technologies sells and installs new and used telecommunications equipment. Ms. Millikan has had two Mexican export experiences.

Ms. Millikan was a member of the October 1990 trade mission to Mexico led by Denver Mayor Federico Peña. During a visit to "one of the many Mexico City chambers of commerce," she found a book with descriptions of distributors and identified three possibilities. She managed to set up appointments with two of them and met with one. The next six months were spent faxing back and forth. Finally she decided that the remainder of her business required her time, and she quit pursuing Mexican exports.

A number of obstacles emerged during the course of negotiations. First, there were substantial language barriers and difficulties in understanding business practices and technical specifications, even after translation. As an example Ms. Millikan notes that the engineers did not understand the ability of equipment to hunt for a vacant line in a multi-line system.

The second obstacle was pricing. The Mexican distributor claimed that its cost after importing U.S. products would be higher than the delivered prices of comparable products from Europe.

The third obstacle was difficulty with distributing used equipment. The distributor already handled new equipment directly from the U.S. manufacturer and was concerned about complicating that relationship, as well as the potential effects on new equipment sales and customer perceptions. Ms. Millikan managed to negotiate part of the solution, to warrant all equipment as if it were new.

More recently, WestComm set up a satellite phone system between a hotel in Cabo San Lucas and the hotel headquarters in California. The equipment supplier had experience in exporting to Mexico and handled the arrangements there, apparently without difficulty.

Based on these experiences, Ms Millikan advises small companies to seek partners experienced in Mexican trade, rather than going it alone for the first few deals. She found that entering the Mexican market required more labor and capital than she could afford on her own.

CASE 5: John Clark, Inc., Nat Bostwick

John Clark, Inc. manufactures underground mining equipment. Nat Bostwick is the International Regional Manager and spoke recently on "Managing Your Distributor in Latin America." This is a summary of his remarks.

There are many channels into international trade, and the right one depends on what the market expects and what the exporter can afford. In Mexico customers expect on-the-spot service, parts, and training. Therefore local representation is critical.

To find a good agent or distributor, Mr. Bostwick uses an evaluation form which is appended (See Note 3, "Agent/Distributor Evaluation Form"). He recommends going to trade shows as the fastest and easiest approach, but he cautions that the exporter should choose the right show, preferably focused on your industry. For assistance and possible discounts, exporters should contact the Colorado International Trade Office, the World Trade Center Association, and the U.S. Department of Commerce International Trade Administration (DOC/ITA).

Mr. Bostwick also recommends the Agent/Distributor Service offered by the DOC/ITA's U.S. and Foreign Commercial Service. This service is available for most countries at a cost of \$250, although he warns that the U.S. Embassy in Mexico is presently overloaded. (The Denver DOC/ITA representative, Ms Selina Marquez, clarifies that the cost in Mexico is \$250 per region — Mexico City, Guadalajara, or Monterrey — and takes about six weeks. The product must be at least 51% U.S. origin, and the process may be initiated with any DOC/ITA office).

Mr. Bostwick's experience with the Agent/Distributor Service is instructive. He was looking for a mining equipment representative in Brazil. He began by submitting about 25 brochures describing his products, and about six months later he received a list of 5-6 distributors (note that the ADS does not evaluate these prospects). He faxed them and got responses from four. Some of these were competitors, and some were unrelated to his field.

At this point the Agent/Distributor Service did not appear to be fruitful. However a month later he received a call from another Brazilian distributor

who had been representing one of John Clark, Inc.'s competitors. This competitor had been acquired by another firm with its own Latin American distribution network, so that now this experienced distributor was looking for a mining equipment line to represent.

Mr. Bostwick has found that "doing your homework" here in the U.S. is sometimes misleading, since the library information on Latin American markets is often wrong. He strongly recommends going there to investigate markets and marketing. The commercial libraries at the U.S. embassies are often useful.

Mr. Bostwick also cautions that representatives may have the incentive to become overloaded with clients or products. Similarly, they may be unable to cover an entire national market, so that exporters should be wary of exclusive representation contracts. He recommends waiting a year to assess performance before negotiating exclusive contracts.

INTERVIEWS WITH MEXICAN SALES REPRESENTATIVES

CASE 6: CYDESA, Aaron Pardo Rodríguez

CYDESA (Componentes Y Desarrollos Electrónicos, S.A. de C.V.) is a Mexico City distributor of electronic components, ranging from transistors, integrated circuits and microchips to rechargeable batteries and solder. Their suppliers include Motorola, Omega, Phillips, ITT and SGS Thomson. Although CYDESA is not presently distributing telecommunications products, the interview is informative on several issues.

CYDESA sells to approximately 650 Mexican electronics manufacturers, parts wholesalers and parts retailers. It also sells to Telmex. Asked if CYDESA might be interested in expanding its product line, Mr. Rodríguez responds that they are always evaluating potential expansions, and that they would be interested in seeing catalogs. His list of requirements for an export relationship is (a) the product's potential commercialization, (b) its price, (c) its record in its home market, and (d) the reliability of its supply and service.

CYDESA has used three types of payment with exporters. It has used cash in advance and letters of credit, but CYDESA prefers to establish an open line of credit as quickly as possible in order to avoid the 3-5% cost of bank letters of credit.

Mr. Rodríguez agrees that there is some risk in submitting technical specifications and plans in order to receive government standards approval (see Case 2 above). He says that the chambers of business (in his case, the Chamber of the Electronics Industry) may help to protect the information against leakage from the government. He also notes that the revisions in Mexican copyright and patent laws and the NAFTA negotiations may also help to reduce the risk.

CASE 7: General de Radio, S.A. de C.V., David Fernández Lovera

General de Radio distributes radio-communications equipment, representing General Electric and Ericsson. The company is not limited to these suppliers and might be interested in expanding its product line.

Mr. Fernández' immediate reaction to questions about representing products was to ask to see the product or its literature. His advice, in the true tradition of sales, was that the product should be "bueno, bonito y barato" (good, attractive and cheap).

When the possibility of selling used equipment was raised, Mr. Fernández reacted negatively. He stated that customers want state-of-the-art products and that selling used equipment would be difficult. Used goods have a bad reputation, not only as outdated but also as poorly-supported (warranty, parts, service).

In an entirely typical finish to the interview, Mr. Fernández noted that he has a friend whose business is installing private telecommunications systems, and he offered to be the contact person for interested exporters.

CASE 8: Experts Abroad, Tricia Moya

Experts Abroad provides general business services in Mexico City, including finding distributors or agents, conducting research, setting-up appointments, assisting business travelers, and managing trade shows.

Tricia Moya is the Mexico City representative for Experts Abroad. Because of the richness of information in this interview, it is presented as an edited transcript.

MRC: You were saying yesterday that the experience you've had working for me (setting up the CYDESA interview, Case 6) is instructive. Maybe we should talk about that.

TM: Yes.

MRC: You started with this set of business cards, and were just kind of cold-calling these people.

TM: Okay, in your specific case I got a request to make appointments. It was with General Directors, if I'm not mistaken?

MRC: Yes.

TM: It was for people high up on the corporate scale. Sub-directors and directors. When you're trying to make an appointment with somebody at that level in Mexico, you're dealing first with a title, and the title means that you have to go through maybe three other people.

Plus you've got to go through the switchboard if you don't have a direct line. Once you get to the switchboard, they've got somebody else who answers it. Not necessarily his personal secretary. So then you've got to go through that person.

Then if you're lucky you get through to the secretary, then the secretary's probably going to say, "may I take message?" And a lot of times if you leave a message, the chances that this person will get back to you are basically nil. Unless you can say, "I am calling on the part of somebody that's a big shot, from whatever company, and he's here to make a big deal with you." And that'll give you an in.

So you can make 2, 3 or 4 calls, which is what you're going to have to do to make it, be insistent, and at least get the secretary to understand that you're going to keep calling until you get somewhere. Maybe you get through.

You might try to follow up with a fax. The fax most likely is going to get lost somewhere in the office. Somebody's desk, or maybe just filed into the wastepaper basket.

Now, you try to look for an alternative. You call and say, "Okay, I don't know if this is the right person, maybe I'm not contacting the right person, is there anybody else I can see?" "Oh yes," they say, and send you to somebody else. You go through the whole system again.

So, I guess the bottom line is, the chances of getting an appointment are not very high. Unless you've got some sort of contact, unless you can make your reason for calling very impressive.

MRC: Yes, or you can drop a name, if you have a connection.

TM: If you've got a connection, it's great. Connections here work lickety-split.

We have a client, to give you an idea, who's looking into selling animal feed. So I call my connections in the agricultural field. Now, I luck out in this area, because my father happens to be a big shot in this area. He's worked with agriculture for years. And he worked here in Mexico for five years. So I call up the people I know personally.

And that is how it works. If you've got a contact, then you use his name. That's the way you do business here, and it's not easy.

It's basically impossible for somebody, such as yourself, to make a long distance call from the States and make contact. So it's much easier if you've got somebody in the country, and even then you've got obstacles.

MRC: How does Experts Abroad get started with a client?

TM: Typically a client will contact our Colorado, Florida, or Washington office, and give us a description of what service he's looking for.

In this case let's say he's looking for a distributor for a computer mouse. We ask him a couple questions to make sure that that's all it entails. Is he just looking for the distributorship or is he looking for information on customs, for example, as well?

Then the office will fax me what the person's looking for. I will come back with an estimate of how much time it's going to take to get this done. For instance, to make an appointment.

The job might include getting their equipment down here. If I have to promote a computer mouse, I can't say, "I have this great new mouse." Oh, great, what is it all about? So it's much easier for me as your contact to go into somebody's office and say "Here's the product and it works like this."

If I am representing Company X I need a lot of their background, I need to know who the CEO is, I need to know how long they have been working, what kind of equipment they use, what's their market potential, what kind of sales they have, where do they sit in the market? I need to be able to walk in and look like I know what I am talking about. And not say, "Well, I will get back to you."

MRC: You do a lot more than set up an appointment. You might actually do demonstrations, presentations of products.

TM: We do conferences, expositions, product presentations. We can become your PR. We are your link in Mexico. That is what we are.

A lot of companies say, "Well, heck. With NAFTA, I would like to be able to promote this product, and I've made the initial study and I know it's not being used in Mexico; it's definitely environmental safe; it's something that is really great for the market; but I don't know the first thing about doing business in Mexico. I don't know who to contact; I don't know what kind of custom papers I need; I don't know shipping; I don't know anything."

So that could take a lot of time; it could be very costly. You can't compare the \$100 an hour that we charge for our service to flying somebody down here, wasting time trying to make contact, paying hotel bills, taxi bills, or renting a car. There is a big difference in your expenses. So we are a money saver for you as well.

MRC: What I've understood in doing this research is that personal contact is really essential to doing business in Mexico. Is there some point at which the businesses that you are representing really ought to send an official down to close the deal or something like that?

TM: Oh sure. When we get to that point, if it means closing a deal and we have to do it between two CEOs, we are talking a different level. Then we step out. Definitely. But that's not the same as, for instance, finding representatives for equipment.

We make the contact, we put the people together. Let's say you are that person, I can even offer a service of meeting you at the airport, getting you to your appointment, making that contact. Once the two people are together then we step aside.

MRC: What is your advice on the distinction between sales agents and distributors in terms of success of doing business as an exporter, or does that distinction make sense here?

TM: Well if I understand correctly, your sales agent will look for the distributor. The distributor is the person who is going to be actually

moving your product around. A sales agent will have a number of clients. He might handle different areas, like telecommunications, petro-chemicals, and feed grain, and he will have the market covered in those areas.

MRC: Well, part of the distinction that I am making is between a distributor who would actually purchase the product from an exporter and handle it as soon as it gets into the country, whereas the sales agent might make sales on behalf of an exporter who is located in the United States but would be selling the product on the road without ever actually taking possession of the product. Which of those approaches do you think works better here?

TM: I think you need a sales agent. There is a lot of distance between the US and your final distributor in Mexico and a lot of things could happen. You have to go through US transport, US customs. You have to go through the border, then you have to go through Mexican customs, and then Mexican transport. Then it might end up in a warehouse. Then from the warehouse, it has to get to the distributor. Well, maybe the warehouse is his, maybe not. Maybe it's shared with some other people.

So, with all that distance, and all the people that are going to be handling this product, all kinds of things can happen. Whereas if you have an agent in between then you know there is someone who is constantly watching out for your product. That doesn't make it foolproof but it gives you better control of the process.

MRC: What about joint ventures? Have you done any work with setting up potential partnerships between Mexican companies and American companies?

TM: No I haven't. But I wouldn't have any problem doing it. Basically if there are two interested parties, we are talking about getting lawyers involved, most likely the companies have their own lawyers. That wouldn't be difficult to do. It's finding the interested person though, it's finding the company that is interested.

MRC: I've thought some about a lot of Mexican companies who are fearful of the free trade agreement because they believe they are going to be undercut by these huge corporations coming in. But, on the other hand, the Mexican companies have access to the Mexican market that companies from the United States may lack, so it seems like there is a lot of potential partnerships there that could be very productive.

TM: And I think if both companies are fair-sized, they are going to have good lawyers. And they are going to be able to come together and draw up an agreement that is going to protect both sides. I don't think that would be hard to do.

MRC: Okay. That's an interesting area to explore.

TM: I want to clarify something. Your distributing agent, there is another word that we use down here for them, consultants ("consultores"). I have contacted numerous consultants, and they handle things in a lot of areas. For example, we have consultants in the bag specialty, the bags they use for carrying grain.

They will, for something like a retainers fee, for x amount a month, draw up contracts for the American client. They will be in contact with the client, make new contacts on a constant basis, keep up with the market. They will basically be your personal representative in Mexico and promote your product.

MRC: Would this person actually be an employee of your company legally so that you are required to do pensions and health care and all of that stuff?

TM: No. They are not employees. It is an outside hire. It is like hiring a service. And then you have your own personal contract with them.

Let's see, to give you an idea, there is one person who represents a petrochemical company and he says, "Alright, you are going to pick up my phone bill, you are going to pay part of my secretary's salary, and I am sending you all my fax costs and my plane fares" because this person travels all over Mexico promoting the product; making contacts. The consultant also gets a commission for every sale.

MRC: Okay. We have a lot of companies that are interested in selling to Telmex. How would you tackle that?

TM: I have contacts inside Teléfonos de México. Actually, I should say that I have contacts who have contacts.

It really will depend on what products we are talking about because I think that the United States has an idea that because it is a great product for the US, it is a great product for Mexico and that's not necessarily the case.

To give you an idea, fax line sharing devices, those cable splitters, are a great thing for the States, you know. In Mexico, they might not work, depending on where you live. Also, people are not used to using these things, the line gets cut off, or they are not used to hearing the fax tone, so they will leave their fax not on automatic but on regular phone mode, so the thing won't pick up. It's used on automatic. It won't pick up your fax tone. Now I am trying to get these on the market; they aren't so hot here.

MRC: Interesting. Well, let's go with that. What has been your experience, or how have you tackled this particular product?

TM: Okay, well, I have a number of contacts. I have lived here in Mexico for fourteen years. So in fourteen years' time you can imagine the list of people I have dealt with. In this case, computer equipment, my contact with Teléfonos de México says, "Hey listen. Give this guy a call. He is a friend of mine. He has his own distributorship for computer products. Give him a call. Tell him you are calling from me."

Then that gives me a direct entrance to the owner of the company. I've generated other contacts through the people who have given me service on my fax machine and my copier. I call them. They give me contacts. So the ball starts to roll.

MRC: Okay. Let's go to the other end, for example, telephone central office equipment, these huge switching banks that Telmex is

installing. Those have tended to be deals with companies like Northern Telecom, AT&T, and Ericsson, but there are other companies that would be interested in getting into that market. It seems to all come down to making contact with the one key person in Telmex. You know, there are a lot of questions about how do you attack a bureaucracy like that.

TM: Having contacts.

MRC: You basically do the same thing, you start calling people?

TM: It would be difficult, to be honest with you, it would be difficult for me to just call up and say "I would like to talk to Carlos Slim." It would be difficult for me to call and say, "Here I am and I am representing this company." That's not going to get you in.

Your best bet would be using a consultant or representative. Now again, well let me make this a little clearer too. Hiring a consultant or representative would not necessarily have to be such a big cost. It depends on the kind of deal they draw up. It might be just as easy as saying "all I want to do is get this one piece of equipment into the market. I need you to make the contact."

And this consultant will say, "I'll get you the contact. I'll make everything run smoothly. You can hire me on a retainer fee basis instead of a contract." The retainer fee, I don't know, might be a thousand dollars a month maybe. Maybe a thousand five hundred just to cover office costs. And that person for that amount of money will make sure that everything runs smoothly, but the actual contract will be between the company and Teléfonos de México.

MRC: You said it might be a one shot deal.

TM: Yes, it might be exactly. The consultant might charge you \$4,000, make the right contact, make sure you have the sale. Once the sale is made, he steps aside. It is just a one shot deal.

I don't know if it is the same all over the world, but definitely in Mexico, if you don't have contacts, it is hard to get in.

MRC: I think it is the same all over the world.

TM: Oh, and there is a lot of catches in doing business here. You have to go, a lot of deals cannot be signed just sitting down in your office. A lot of times you have to wine and dine.

There are certain things that they look at, businessmen here look at. It's the way you dress, the way you communicate. Once you have the initial contact, you have met this person a couple times, how do you come across?

In other words, you can't just come and say, "Hi, it's nice to see you again. Let's talk business." You need to say, "How's your wife, how are the kids, how's the weather been, what's the traffic been like," you know, small talk.

And there are definite ways of doing business here that are unique to Mexico. A lot of people think that just because you've made the contact and he's saying yes, yes — real excited about this — he's actually saying "no, no, no. I'm not interested." But he doesn't

know how to say no. He says, "Give me a call next week, let's get together." Basically, forget ever seeing him again. And that is another reason it is very important to have somebody here doing your contact for you.

MRC: Do you think that a trade show, participation in a trade show, is the most efficient way to get started with making connections, or would it make more sense to try to locate these consultants or agents without going through a trade show to start?

TM: I think a trade show is very important, and especially with NAFTA, I think that if you come down, you as an American come down, and participate in or just visit a trade show, you make big connections. And especially right now with NAFTA coming up.

A lot of people are interested in seeing who is new in the market, who is interested in getting into the market, what's going to be available in Mexico, how they can enter the market and beat somebody else to it. And so a lot of people are visiting these trade shows within their area of expertise to see exactly how they can get ahead of somebody else. So you make a lot of contacts at the trade shows and I think that between now and next year it is going to be the place to make contacts.

That doesn't mean it is going to make it easier for you to get into the market. Once again, I need to stress that if you want to have complete control over everything that is being done, you need to have an on-site representative in the country, making sure that things are being done the right way; that your contacts are still there.

Going back to the bag example, suppose you are selling bags to a grain company and your bags are shipped but they are faulty. That's a lot of wasted time and money if you have to wait for somebody from the States to fly down, find his way to these people, and make the arrangements.

And nobody likes to take responsibility. So if you are trying to find out who is the culprit or where things went wrong, it's going to take forever. If you have a representative in the country, things will move much quicker.

MRC: Well, okay. Let's see. I'm not thinking of anything else to ask you.

TM: There is one thing that I want to add. When you are doing business, it's almost like forming a friendship in Mexico and it becomes close ties and you have to be able to keep it going, this friendship or this marriage if you want to call it that. If you're living in the States, it's very difficult to maintain regular contact. There is no way you can once a week, or even once a month call this guy up and say, "Hey let's have lunch" or let's have dinner, or let's talk about what's going on in the market. If you have a consultant or representative, then you've got somebody who is making the relationship and keeping it going.

MRC: Do you also do background checks on these potential representatives?

TM: Yes.

MRC: That involves calling people who hired them in the past, that kind of thing?

TM: Yes. In Mexico, as big as Mexico is, the group of people that we are dealing with is a very small number. Everybody knows everybody. And once you have the name of one consultant or representative, he will most likely tell you, "Oh I can't handle a new client right now. I am too busy. I'm saturated, I don't have enough time, but do you know who might be able to?" and he will send you to a friend of his who is in the same business. So it's a huge network.

TM: I am going to fax to you the final copy of some of the suggestions we give our clients on how to do business here.

MRC: Oh, wonderful!

TM: It's not really a how-to but what not to do and what to do.

MRC: Excellent. You know, that question is on my list but I thought you had covered all that.

TM: This is something that I put together that we are going to include as part of the package that we give to a client who is interested in doing business down here.

And just to run by a couple of them, take for example confirmed appointments. When they say your appointment is confirmed, it doesn't necessarily mean you are going to see that person. It doesn't mean it is confirmed either. Just to give you an idea, CYDESA called me yesterday morning and said "Is the appointment still on?" and I said "Yes, of course it is still on," and she said "Oh, because this Mr. So-and-So has another appointment that he has to go to." And I said, "No, please, the appointment is on. Please wait for Dr. Correll."

MRC: Why, thank you.

TM: Let's see. This is important: major contacts and meetings should be done over a lunch or dinner, not in an office. Your initial contact might be in an office, but by the second time that you meet this guy, it should be over a lunch or dinner.

In the States it's mostly, "Hi come on in, sit down and let's hit the books." That would offend a Mexican businessman. Terribly.

Let's see, what's another good one? Yes, if you are not a drinker, nurse your drinks because you can bet that meetings will be done over a number of drinks, you'll have lunch and dinner and then you go out and have drinks after that and then during this maybe six to eight hour session, you know, you will be nursing a couple of drinks.

Offer to pick up instead of being picked up. If your contact says, "can I pick you up?" Then you say, "Oh, no, let me do the honors, let me pick you up wherever, and let me take you to wherever." It is natural for somebody who is coming in from the States to think, you know, let them pick me up, I don't know about this city. On the contrary, hire a car, a limo or whatever, and offer to pick the guy up. Now if he insists, no problem.

MRC: Okay. Well, thanks a lot. I really enjoyed talking with you.

TM: You're welcome. I hope I helped a lot.

MRC: Yes, I think you have. Basically what I think we are going to do is just write all this up, and then it will be available for people to read who are thinking about different ways of trying to get into this market.

NOTES

NOTE 1: The Impact of NAFTA on Equipment Standards

If approved as written, the NAFTA draft of September 6, 1992, may eventually resolve the standards issues discussed in the preceding cases:

No later than one year after the date of entry into force of this Agreement, each Party shall adopt, as part of its conformity assessment procedures, provisions necessary to accept the test results from laboratories or testing facilities in the territory of another Party for tests performed in accordance with the accepting Party's standards-related measures and procedures.

(NAFTA Draft, September 6, 1992, Chapter 13: Telecommunications, Article 1304: Standards-Related Measures, §6).

Furthermore, the NAFTA draft calls for transparent (straightforward) approval requirements and procedures:

Further to Article 1802, each Party shall make publicly available its measures relating to access to and use of public telecommunications transport networks or services, including measures relating to:

- (a) tariffs and other terms and conditions of service;
- (b) specifications of technical interfaces with such networks or services;
- (c) information on bodies responsible for the preparation and adoption of standards-related measures affecting such access and usage;
- (d) conditions applying to attachment of terminal or other equipment to the public telecommunications transport network; and
- (e) notification, permit, registration or licensing requirements.

(ibid., Article 1306: Transparency).

NOTE 2: On Finding a Sales Representative

This note is written by James E. Mejía, Trade Specialist, Colorado International Trade Office.

NOTE 3: Agent/Distributor Evaluation Form

This is the form used by Nat Bostwick (see Case 5).

Although many of the companies featured in this series of case studies were fortunate enough to find Mexican representation very quickly, it is more often the case that U.S. companies spend months in the search for representation abroad.

Our own search for Mexican representation has yielded only 3 or 4 capable representatives in the last 3 years. Though many factors have been taken into consideration, the six most important factors for our requirements have been:

- 1** The ability to help us localize our efforts. Local offices, cultural familiarity, and bilingual capabilities are essential.
- 2** The ability to add to our local market knowledge. Industry knowledge and key contacts within target industries is of utmost importance.
- 3** The ability to provide adequate attention to our efforts. Foreign representatives often carry numerous lines and companies should ensure that their products or services don't get lost in the mix.
- 4** The ability to cover target geographic areas. Several representatives will ask for exclusive agreements for large geographic areas. Be certain that their expertise is applicable for all pertinent areas.
- 5** The ability of the representative to mesh with our corporate culture and strategy. Considering that this relationship should be a lasting one, getting to know your potential representative should be the most important step in your evaluation process. Your success in Mexico will last only as long as the friendship with your representative.
- 6** As a final precaution, be patient during the selection process. Hastily entering into an agreement with an overseas representative may seem like a quick and easy answer to your foreign marketing concerns but if representation is inadequate for any reason, the parting process can be extremely costly in terms of time and money.

International Dealer/Distributor/Representative Evaluation Form

BACKGROUND INFORMATION

Company Name: _____

Address: _____

City: _____ State: _____ Country: _____

Telephone: _____ FAX #s: _____

Type of business and ownership of firm: _____

Principals of firm: CEO/President: _____

V.P.s/Managers: _____

MARKETING INFORMATION

Industry sector markets covered: _____ No. yrs: _____
(Automotive, industrial, retail, etc)

Market system (Branch offices, sales personnel, distributors?) _____

Where are they (above) located? _____

What lines do you market? _____ Percent of total sales? _____

Have you dropped or added any lines recently? _____ Why? _____

Geographic area served by your company? _____

SALES FORCE INFORMATION

Number of inside sales persons? _____ Number of outside sales persons? _____

How often are sales meetings and seminars held? _____

COMPETITIVE INFORMATION

Who are the competitors in our line? _____

How does the competition market their product? _____

Do you know what percent of the market they control? _____

What is your competitive advantage? _____

FINANCIAL INFORMATION

Sales volume in U.S. dollars last year: _____ Estimated sales volume this year: _____

Will you agree to an annual purchase volume? _____

Can you estimate what the first year's sales of our product will be? _____

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