Made in Mexico and Beat Asian factories

**Summary** :

To make Mexico's shoe factories more competitive with Asian manufacturers and increase their market share in the US, several strategies can be implemented:

1) Financial support: Establish a credit insurance system to secure export payments and create an export service company to provide financial assistance for orders, logistics, and customs clearance. Initial target funds should be around $100 million.

2) Quality monitoring and training: Collaborate with international experts to set up training classes for factory workers to upgrade their skills in quality control, factory management, and inspection. Regular compliance checks should be conducted to ensure adherence to high standards.

3) Effective management training: Provide training for factory owners and executives to enhance their management skills and financial arrangements, ensuring cost-effectiveness and profitability. Monitor funds spending to avoid defaults if financial support is received from the export company.

4) Encourage entrepreneurship: Support and nurture entrepreneurship among young individuals by selecting and providing special assistance to five candidates each 6 months. Focus on the development of startups for design and sales in the footwear and leather industry.

5) Establish a product development lab: Set up a lab to share the latest technology and provide technical support to factory members. This will enable the adoption of advanced techniques and enhance the overall capabilities of the industry.

6) Optimize the supply chain: Analyze and optimize the supply chain by studying different categories. Provide support to Mexico's factories to ensure they can source materials at similar costs to Asian factories. Collect and analyze monthly data to guide decisions and tap into the same sources.

7) Streamline import-export regulations: Adjust import duties based on the value of components, allowing Mexico to access duty-free status if the material value is less than 60% of the total export price. This flexibility in sourcing and manufacturing will attract more Asian factories to set up branches in Mexico.

8) Set a target: Aim to have 25% of the total shoe market in the US made in Mexico within 20 years. The government and relevant organizations should provide grants and funds to support this goal.

These strategies should be further developed and implemented in detail in the following chapters:

**Chapter 1:**

**Establish a credit insurance company to secure export orders.**

Setting up financial security for export orders requires the establishment of a Mexico Export Insurance Company (MEI). MEI will function as a credit-verified service company, ensuring that purchase orders from buyers are thoroughly verified. Only approved buyers will be eligible for insurance coverage within a specified period of time.

MEI will rely on credit bureau data from the USA to make determinations. Once insured, factories or export companies will be guaranteed payment after shipment. This coverage can be on a purchase order (PO) basis or for the overall period of time, depending on the total amount to be covered.

It is important to adhere to Mexican insurance laws when establishing MEI. If necessary, the company can be based in the Caribbean area to comply with regulations. It would be advantageous to seek government incentives for this critical step in boosting exports while ensuring cautious operations to prevent fraud.

Typically, insurance costs range from 1% to a maximum of 1.5% of the total purchase order value. Payments can be made in two ways: 50% upon insurance or the balance upon export, or an annual fee based on the estimated total amount, paid monthly or quarterly. Factory details for each PO can be submitted through a website application with digital confirmation.

The total funds required for setting up MEI will be determined by government regulations. Collaboration with leading American credit and factoring banks, such as CIT or others with Mexico units, can strengthen the partnership. MEI can also form multiple shareholder agreements with Mexican banks and insurance companies.

Only insured purchase orders and the factory or export company involved will be eligible for financial support from banks or trading houses for PO financing or payment guarantees. Another financial institution can be established specifically for trade finance to support factories and export companies based on each purchase order.

**Chapter 2:**

**Create a trade finance company to provide funds for qualified export orders**.

To provide finance for qualified export orders, the establishment of a Mexico Trade Finance company (MTF) is proposed. Initially, a target of 100 million funds can be set, but starting with a 10 million quota is also feasible.

The ideal approach is for the government to contribute 20% as seed money, serving as a guarantee, while the remaining funds are provided by financial institutions and banks. The interest rate on the loan can be Libor + 3-5%, depending on the specific case. However, all PO financing will be subject to coverage by MEI. Interest will be calculated based on the time and amount utilized by the factory or export company.

MTF's role extends beyond cash loans; it can also facilitate guarantees between factories and suppliers for various services. Loan officers will be assigned to a specific number of factories and companies, with rotations taking place annually to prevent internal fraud. Regular monitoring and monthly double checks of loans should be conducted to avoid any potential corruption. Establishing a working manual for loan officers and management to follow is necessary.

Guarantee charges can range from 1-2% of the total purchase amount. Loan officers need to receive weekly reports on the progress of PO processing from the factories and export companies. Valuation should occur on a weekly basis. The factory and export company must disclose their fund usage and materials, addressing any quality issues promptly between suppliers and purchasers.

The guarantee function of MTF can streamline order processing, reduce financing costs, and enable pre-approval based on set criteria. This will boost production flow and expedite exports.

MTF can also provide an initial quota of funds to qualified youth and start-up companies to support their export endeavors. This area entails higher risks, and government funds can be used to cover potential losses. These qualified individuals and start-ups will undergo thorough training and be subject to accounting monitoring for fund usage. MTF officers or appointed CPAs can co-sign fund usage, ensuring transparency and accountability.

If direct funds cannot be obtained, the option of establishing a guarantee company for the PO process between factories can be explored. The setup process for a guarantee company in Mexico must adhere to government regulations.

**Chapter 3:**

**Set up an export service company to support effective supply chain management and automation efficiency.**

Mexico Export Service Company (MES) aims to enhance supply chain efficiency and automation in the export industry, initially focusing on leather goods such as shoes and leather finished products, and later expanding to other export sectors like apparel.

MES will operate in two primary areas: services and trading.

Services:

1) Export Procedures: MES will handle all the necessary paperwork and customs clearance for import and export operations, providing professional assistance to small companies and startups.

2) Logistics Service: MES will assist with import and export logistics, including booking space, trucking, and global shipping. Fees will be charged for both import/export procedures and logistics, typically ranging from 1-2% for procedures and an additional percentage for logistical support.

The principle of MES is to charge a small fee while targeting high volumes of business throughout the year. It aims to support the growth and flourishing of the export industry.

Continuous training and experienced supervisors will be crucial to avoid mistakes and errors in service provision. Comprehensive record-keeping in both physical and digital formats will be maintained for several years. MES will provide monthly summaries of all services and paperwork to factories and export companies for easy review.

Trading:

1) Market Research: MES will study the market, source necessary materials and trims, and build a comprehensive fabric and trim library for factories, designers, and export companies. The goal is to provide easy access to sample yardage and meet bulk demands in a cost-effective and timely manner. MES will also establish a bonded warehouse to facilitate duty-free usage for qualified factories and export companies, reducing material costs.

 Profit and margin control will be a priority, with the average profit not exceeding 10% gross. In most cases, the maximum margin will be set at 5% unless stock service is required. Domestic sales can be priced at normal market rates.

If possible, MES will explore the establishment of an export zone where factories can set up operations without paying import duties, enabling duty-free exports to the USA and other countries.

MES will also engage with the Mexican government to initiate discussions with the USA regarding new NAFTA terms that allow for increased manufacturing in Mexico while maintaining duty-free status. The specifics, such as import value thresholds and corresponding duties, will vary by product and require further examination.

2) Machine and Parts Imports: MES will conduct research to assist factories in obtaining updated automation machinery at lower costs by selecting overseas suppliers from Europe and Asia. MES will establish a fast-track, integrated parts supply system.

3) Sewing Parts and Materials: MES will maintain stock of sewing parts and materials and sell them at competitive prices with a maximum margin of 15%.

MES aims to start with a small team of 5-10 people and seek 5-10 co-founders who can contribute seed money. Co-founders should possess strong industrial and financial backgrounds, relevant connections, extensive experience in trading and logistics (over 15 years), ownership of leading companies in the industry, and financial qualifications such as being a bank executive or CPA.

The target fundraising goal for MES is $1 million within 12 months through a second round of fundraise involving share expansion and government grants. Subsequently, MES plans to raise up to $10 million in funds through investors or bank loans to increase stock, machinery, and parts to further boost exports.

MES will seek to convince banks to provide loans if MES can contribute 20% of the total purchase as its own funds, with the remaining amount covered by the bank to accommodate high demand scenarios.

**Chapter 4:**

**Establish a leather college for training, quality control, and attracting young entrepreneurs**.

Leon Leather College (LLC) is established with the aim of focusing on quality, training, and attracting young entrepreneurs in the leather industry.

LLC will serve the following purposes:

1) Training: LLC will provide training programs for young people and workers in factories to become skilled leather craftsmen.

2) Quality Council: LLC will develop a quality manual that all factories can follow and obtain certification from LLC.

3) Management Skills: LLC will offer management skill training for owners, managers, and supervisors to enhance daily operations.

4) Business Training: LLC will provide business training with a focus on leather goods and apparel manufacturing and export, offering a specialized mini EMBA program.

5) Automation Training: LLC will offer training on the latest automation systems to improve manufacturing efficiency. This will enable factories and exporters to adopt effective technologies for their companies.

6) Test Lab: LLC will provide comprehensive testing services for product qualification.

LLC will invite global experts to come to Leon and provide teaching and hands-on training for various leather products and parts. The goal is to enhance the skills and quality of all Mexican factories, enabling them to compete in the market.

Factories that receive the LLC 3-star or 5-star quality certificate will have easier access to financial support. LLC experts will conduct unannounced visits to factories to ensure compliance with the quality standards. This qualification will enhance buyer trust and confidence.

LLC will be open to students worldwide, particularly from North and South America, with different fee structures. Mexican citizens will have lower fees, and scholarships may be available for qualified overseas students depending on fund availability. Factories can also sponsor these students in exchange for their work at the factory, bringing new knowledge and skills to the industry.

LLC's entrepreneur program will select six individuals every six months through competitive interviews. These individuals will form a special export team and receive specialized training and support to boost entrepreneurship. The program aims to attract more young and talented individuals with a business mindset for product design, development, and various partnerships.

LLC can initially partner with existing universities and colleges to utilize their facilities, eventually growing to become an independent institution. The training provided by LLC could be recognized by the Mexican education system and offered as a two-year full course.

LLC can generate revenue primarily through training, testing, and quality supervision. The youth attending the courses may be charged a small fee or offered free grants to attract more young people to join the leather industry.

While the focus is on leather, LLC will not be limited to genuine leather alone. It will encompass all kinds of fabrics and materials. LLC will encourage craftsmanship, including hand-made techniques, promote artisanal approaches, foster a creative college culture, and encourage entrepreneurship to start their own brands and manufacturing ventures.

To initiate LLC, an initial fund of $1 million is required. Funds can be raised through contributions from industry experts, government grants, non-profit and charity organizations. LLC will seek to involve leading factories in the industry, requesting donations to address the initial funding needs and encourage their participation in quality projects and training programs.

**Chapter 5:**

**Collaborate with the government commerce department to redefine duty-free terms under NAFTA, enabling a competitive cost structure for Made in Mexico products**.

The re-definition of duty-free status for products made in Mexico can be pursued through negotiations led by the government's commerce department. The objective is to remove any barriers that limit competitiveness in the supply chain and cost structure of goods manufactured in Mexico. The goal is to attract investments in the manufacturing sector and establish a complete supply chain within North America.

Here are some proposed re-definition measures:

1) Allow foreign materials to account for up to 60% of the total cost of the products in order to qualify for duty-free status when made in Mexico.

2) Grant duty-free import status to all materials, trims, and machinery used for export purposes in Mexico. Under strict mexico custom regulation and verification

3) Implement a gradual reduction plan for duty-free status, reducing the requirement of import cost max 60% to qualify for duty-free status by 10% every three years. This approach would encourage material and trim suppliers to establish factories in Mexico, thereby completing the supply chain within a close circle for North America.

Promoting the "Made in Mexico" initiative would not only bring the supply chain closer to the United States and Canada but also contribute to economic security as a form of national security. A thriving manufacturing sector in Mexico would generate healthy economic growth and provide well-paying jobs, creating a pull factor for immigrants from Latin America and Asia to stay in Mexico rather than crossing the border. This, in turn, could help reduce illegal immigration at its roots while encouraging a manufacturing boom in Latin America as well.

By implementing these comprehensive measures, Mexico's shoe factories can enhance their competitiveness and gradually increase their market share in the US. To reach target of 25% of total usa shoes market within 20 years or less