

MARKET ENTRY CHALLENGES FOR EUROPEAN SMEs IN MEXICO: LESSONS LEARNED

Executive Summary

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Study Background and Approach

*Study based on
critical incident
methodology,
analyzing 12
crucial situations
along the four
phases of a
market entry
process: market
evaluation, entry
planning, entry
implementation,
local operations
(see illustration).*

*“The meaning of
time is in Mexico
completely
different in
comparison with
Germany”*

*Hans-Peter Holst
CEO, ROYALE
Group Mexico*

Mexico has lately been offering a favourable environment for exporting businesses. Especially the good approachability of the US market, as well as other numerous free trade agreements, qualify Mexico as profitable production site for foreign companies.

However, recent headings of The Economist suggest fundamental challenges to a smooth market entry: “Road safety in Mexico: The lawless roads” (October 2011), “Mexico’s do-nothing legislature: The siesta Congress” (January 2012), and “Mexico’s Drug War: Working together” (January 2012).

A team of researchers at EBS University of Business & Law and the University of St.Gallen not only analyzed fundamental challenges imposed by a Mexican surrounding but also which incidents along the market entry are a) most important for the business success and b) most complex to address by executives.

Take-Aways

- Major concern of the study participants was the legal environment in Mexico
- Many cultural factors challenged the success of businesses in Mexico
- Participants judged the conduct of market operations as the most important phase, while the market evaluation was perceived as most complex.

Specifically, participants identified the following incidents as **most important** for overall market entry success:

“Personal relations in Mexico are important and may be decisive for a success or failure”

Hans-Peter Holst
CEO, ROYALE
Group Mexico

- The identification of growth opportunities
- Right adaptation of the style of management to the cultural differences faced in Mexico
- Choice of a suitable product portfolio in terms of the price-performance ratio

Executives perceive the following incidents as **most complex** to address:

“It is always difficult to start a new venture with a partner signaling that if the JV is successful, then you want to go ahead on your own”

“Make use of a local advisory board or create a board that includes experienced bi-cultural persons as independent directors... it certainly makes for easier interaction”

Hans Joachim Kohlsdorf, CEO
Efficient Ideas

- The evaluation of the potential of an respective market
 - Protecting technologies, patents, and brands
 - Developing the right inspiration for entering the Mexican market
- German executives chose different most favorable entry modes and locations to set up businesses compared to their Mexican peers
 - Our analysis suggests that the most complex challenges along the market entry process to Mexico can be efficiently addressed by the following guidelines:
 - Accurately plan the time frame of the entry process, but react flexibly to unforeseen obstacles causing changes
 - Anticipate the occurrence of any legal issue by seeking early and in depth legal advice for every involved field of law
 - Move to Mexico and familiarize with cultural differences and the cultural backgrounds of the Mexican society before establishing a business



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|--|---|---|--|
| <ol style="list-style-type: none"> 1. Access CEO expectations 2. Evaluating market potential 3. Adapting product for the Mexican market | <ol style="list-style-type: none"> 1. Choosing the right location 2. Financial planning 3. Entry mode choice | <ol style="list-style-type: none"> 1. Managing Mexican partners 2. Developing a inter-cultural leadership team 3. Land acquisition | <ol style="list-style-type: none"> 1. Managing the workforce 2. Technology protection 3. Quality management |
|--|---|---|--|

When entering Mexico, executives should ...

“Through patience, persistence and politeness you will succeed in Mexico without involving in corruption.”

Mathias Reichenbacher,
CEO, Global Flock Group

“Also Mexicans are very price-sensitive, offering a ‘new’ or latest technology is always welcome. I would recommend searching for a perfect mix in the portfolio.”

Alexander Rieck,
Senior Executive,
Fuel4 Marketing

“Products ‘Made in Germany’ are easier to sell than Chinese products. But you have to comply with the image of German quality”

Andreas Jaschek,
CEO, Traumaservice International

Market evaluation phase:

- Show strong personal interest and spend field time in Mexico
- Cautiously identify their target group, based on a sound knowledge of the Mexican society
- Invest time into investigating the right choice of entry mode: even though partnering with a Mexican firm provides many advantages, a separation later on bears a high risks of negative effects onto business

Market entry planning phase:

- It is advisable to set up your industrial business wherever the conglomerate of businesses in your industry is located within Mexico, in the service sector it is advisable to link the location choice to an individualized location analysis.
- Obtaining financing in Mexico is challenging. Invest time in a financial contingency planning and back up you investment with foreign sources.

Market entry implementation:

- Develop a leadership team with multinational origins in order to enable the business to handle challenges appropriately
- Seek advice from a labor lawyer before establishing a workforce
- Spend time recruiting specialists for your fields of activity, before entering the market.
- Ensure not to involve in corruption. Seek advice from local partners if necessary.

Local operations phase:

- Managing the work force: Invest in good relationships with labor union representatives. Set up a suitable integrated wage system, emphasizing non-monetary rewards.
- Establish good relations with local authorities and duty officers
- Aim at offering prime quality through a Mexican way of distribution

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