



Mexico's Manufacturing Supply Chain Summit

Conference - B2B - Plant Visits

EL Paso, Texas
March 27-28, 2014



D.R. 2014, Tsolco S. de R.L. de C.V., Álvaro Obregón No. 257-PB, Col. Roma,
C.P. 06700, México, D.F.



That's right, technology
enables and empowers
business to do things that
were previously not possible
and create products in
hours and minutes.

Tsol 
Logistics Solutions



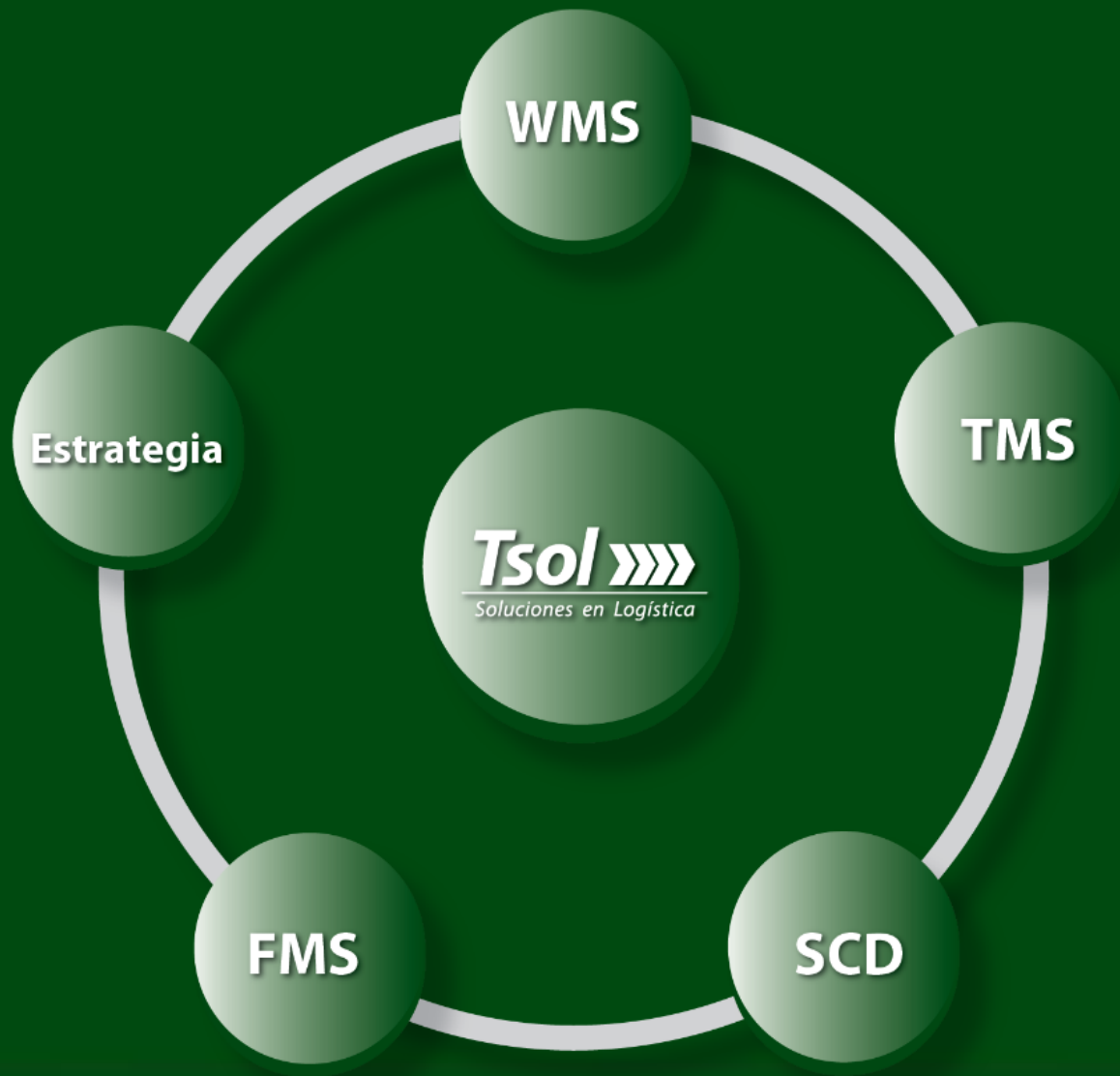
What is Mexico...?



Council of Supply Chain
Management Professionals
Round Table México

Áreas de Actividades





“Tsol offers technology solutions and consulting services in the supply chain management field for shippers and service providers in Mexico and Latin America.”



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What is Mexico...?

Yes, violent crime is an issue . . .



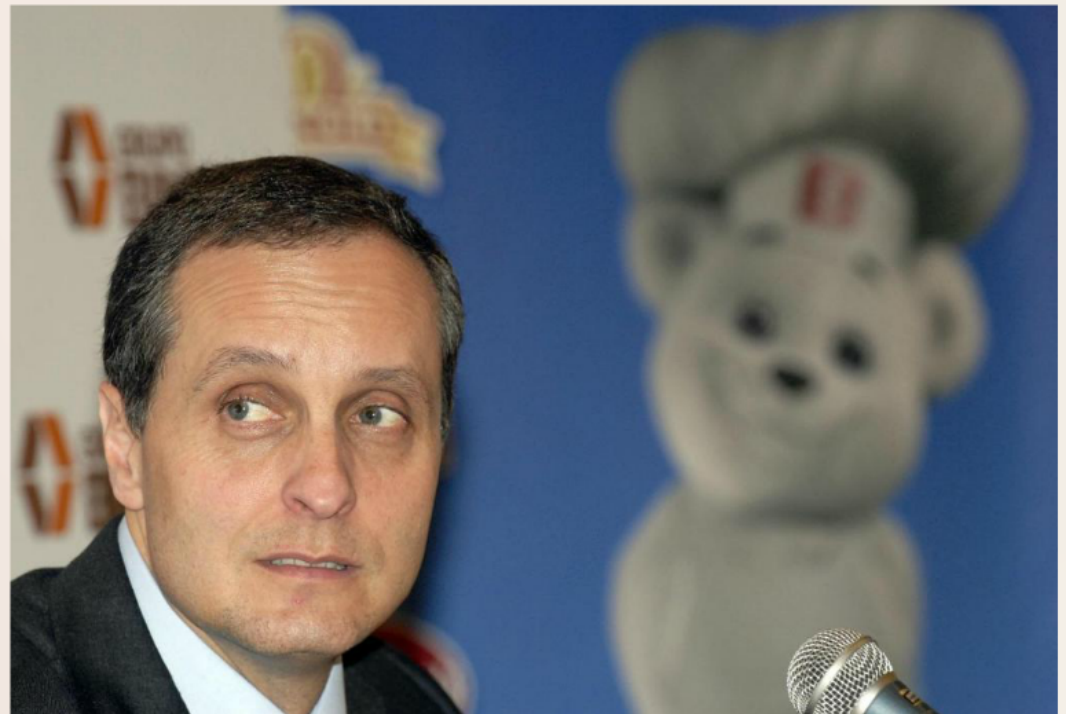
AFP/Getty Images

Forb

*And there
are
powerful
criminals,*



It is also about entrepreneurs and success



Mexico It's not only labor...



... but first tier industrial operations



It's an important gate
to the biggest market
in the world and an
strategic location.



Why Now?

The Economist

NOVEMBER 24TH - 30TH 2012

Economist.com

Old battles, new Middle East
Tech firms' radical economists
Will Spain come apart?
How lawsuits hobble the art market
China's young mandarins

The rise of Mexico



A 14-PAGE SPECIAL REPORT

CSCMP Introduces Its General Session Speakers

Monday, October 21 - Keynote Speaker

Expansion, Innovation, and Transformation: What It Takes to Lead

The supply chain profession has become critical to organizations around the world, as well as to countries and their economies. Managing trade between Mexico and the United States is critical to the success of all. Hear the former president of Mexico, President Felipe Calderón (2006-2012), share his perspective on how to ensure countries continue to open economic ties and to face the challenges which may exist.

President Felipe Calderón helped launch Mexico into the 21st century and improved its competitiveness in the global sphere. He established himself as a powerful leader who could get things done. Named one of TIME magazine's "100 Most Influential People in the World," he confronted issues head on in order to elevate Mexico to a global powerhouse. In this insightful presentation, President Calderón will offer key insights into strategic policymaking and implementing long-term solutions in this interdependent world.



October 23 - Wednesday's Closing Session

What If and Why Not?

We hear it all the time, "We need to think outside the box," right? So... how exactly does one do that? In his hilarious, musically amazing, motivational session, Mike Rayburn does what no other presenter can do. Not only is he a world-class guitarist and stand-up comedian, he is an authority on personal development and human potential. In this energetic presentation, he uses his guitar and comedy to teach three simple, powerful tools attendees can use immediately and forever to access their unrealized potential, to look at old things in a new way, and to leap beyond their perceived limitations. These are the tools which took Mike from playing for seven people in a bar in Virginia to standing ovations at Carnegie Hall. They work for anyone and everyone, always.



Enrique Peña Nieto- Mexico 's President

“Mexico has favorable conditions and in order to optimize them we must develop our productivity by accelerating our capacity to build infrastructure. The international lesson is clear: economic welfare and growth is given by better infrastructure and increased competitiveness. “

“Our objective as an administrative organization is to transform Mexico into a high value added global logistics center. Next to better infrastructure, technological and innovational investments and increased productive chains we will make use of our geographical location to generate profit for all Mexicans.”

This strategy will take into consideration four factors: regional development, demographic tendency, economic vocations and international connectivity requirements.

Road industry will be modernized by enlarged highways going through the national territory.

Besides building the Mexico-Queretaro, Mexico-Toluca, Yucatán-Quintana Roo railways, short ways and rail relocation will also be considered to connect nodes from the national system logistic platforms.

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Expansion, Innovation, and Transformation: What It Takes to Lead

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Managing trade between Mexico and the United States is critical to the success of all. Hear

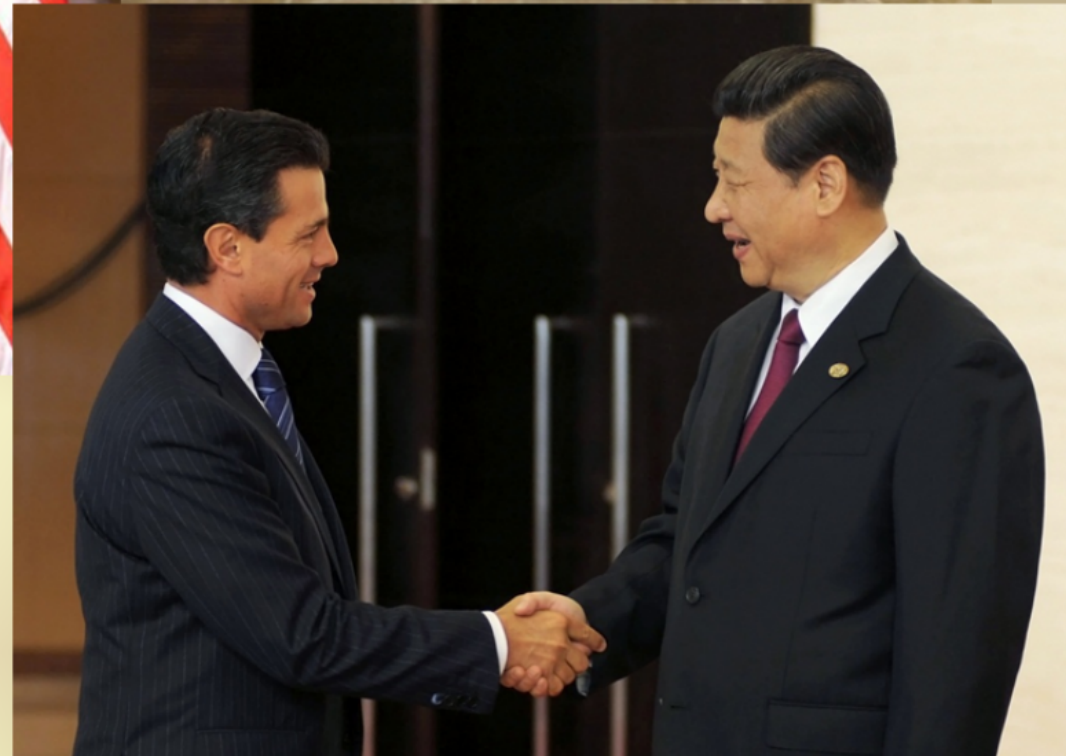
President Felipe Calderón (2006-2012), share his perspective on how to ensure countries can

face the challenges which may exist.



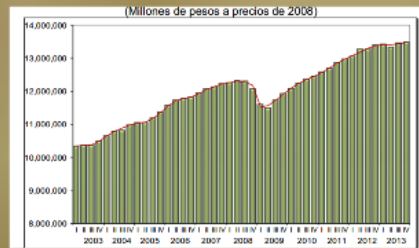
Leadership and agreement





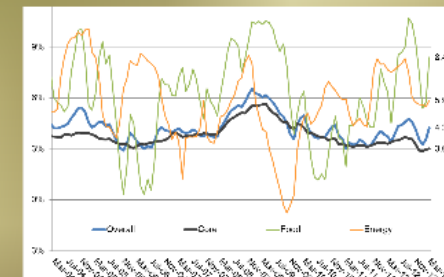
Economic indicators

Sustained GDP Growth



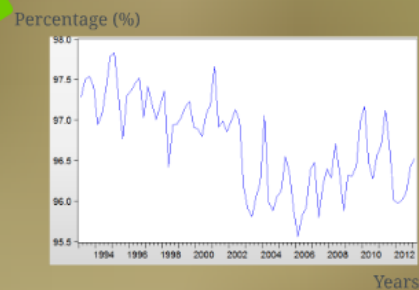
*Source INEGI 2013

Stability (inflation)



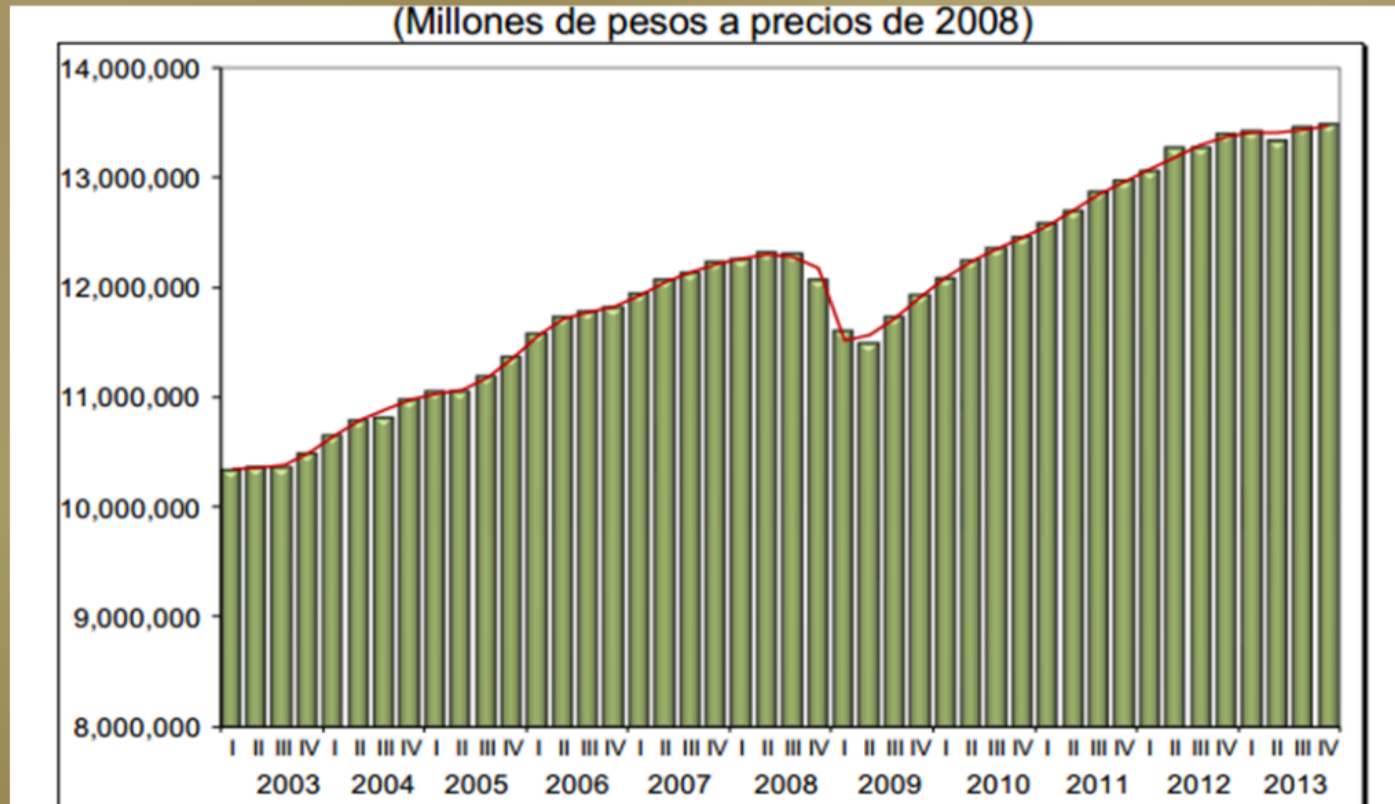
*Source INEGI 2013

Economically Active Population



*Source INEGI 2013

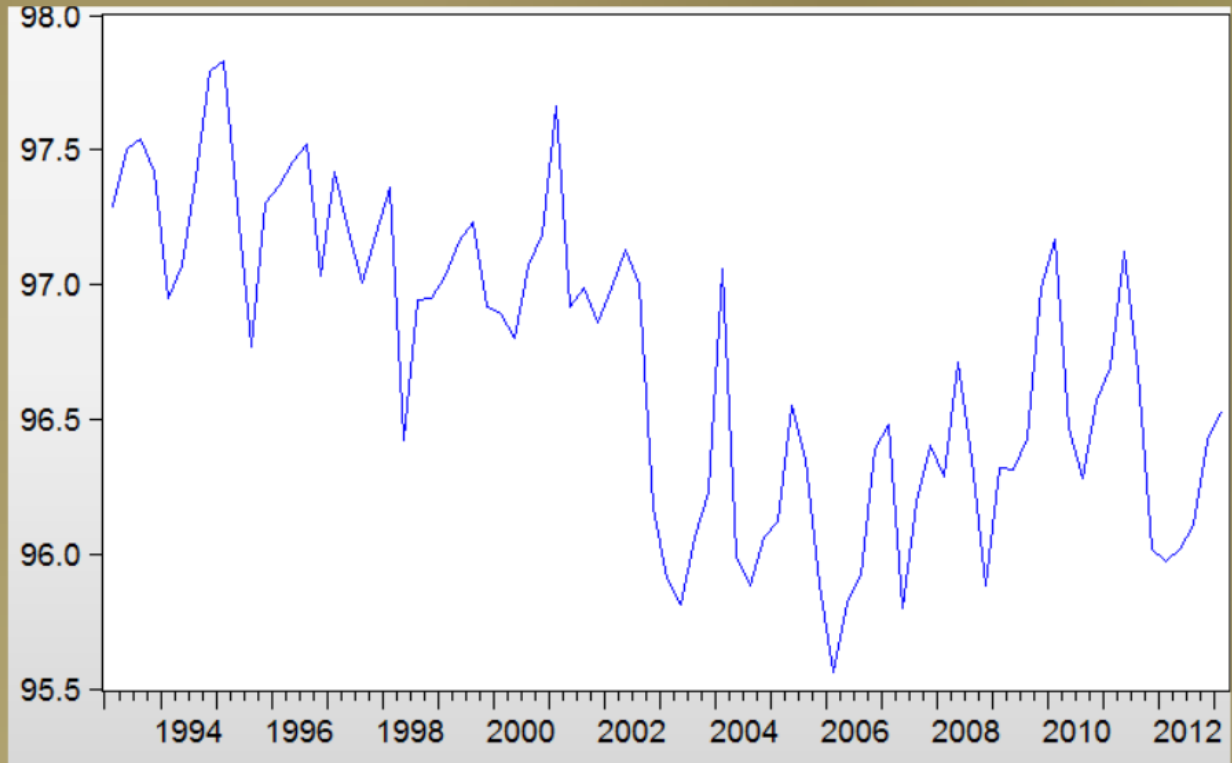
Sustained GDP Growth



**Source INEGI 2013*

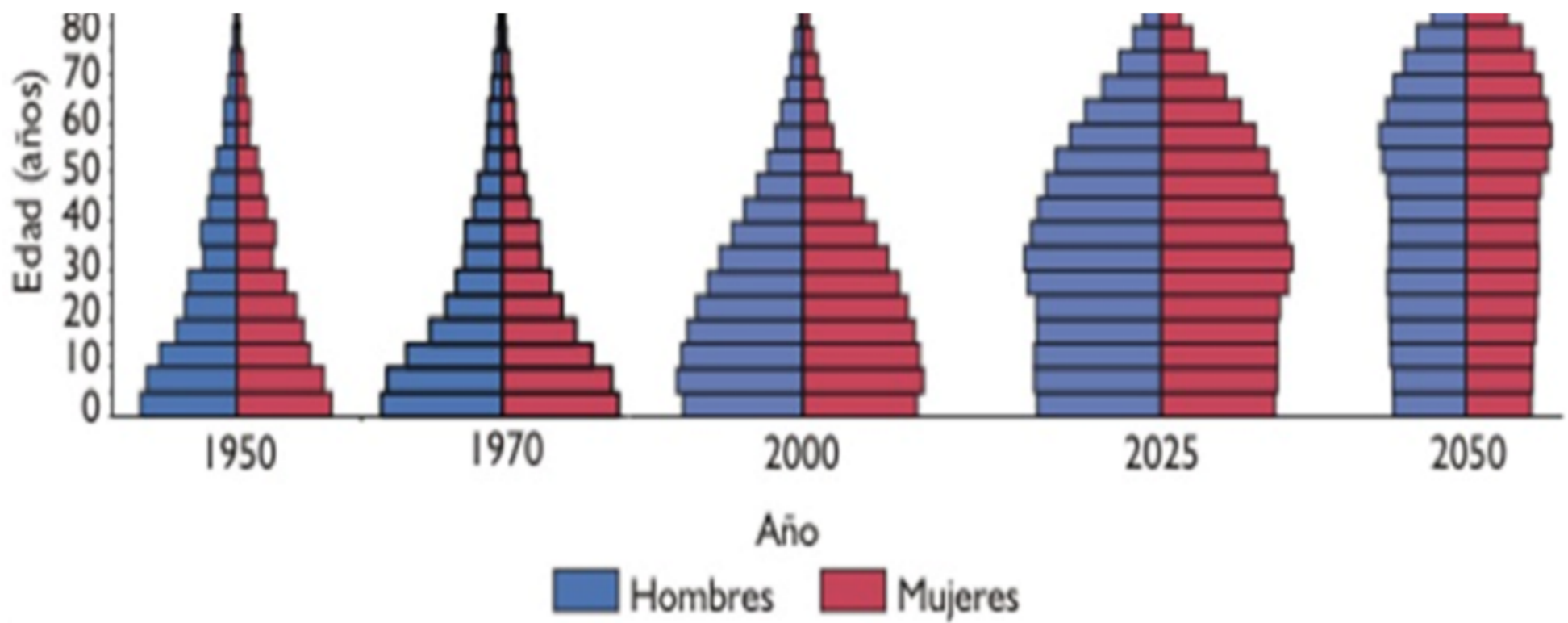
Economically Active Population

Percentage (%)

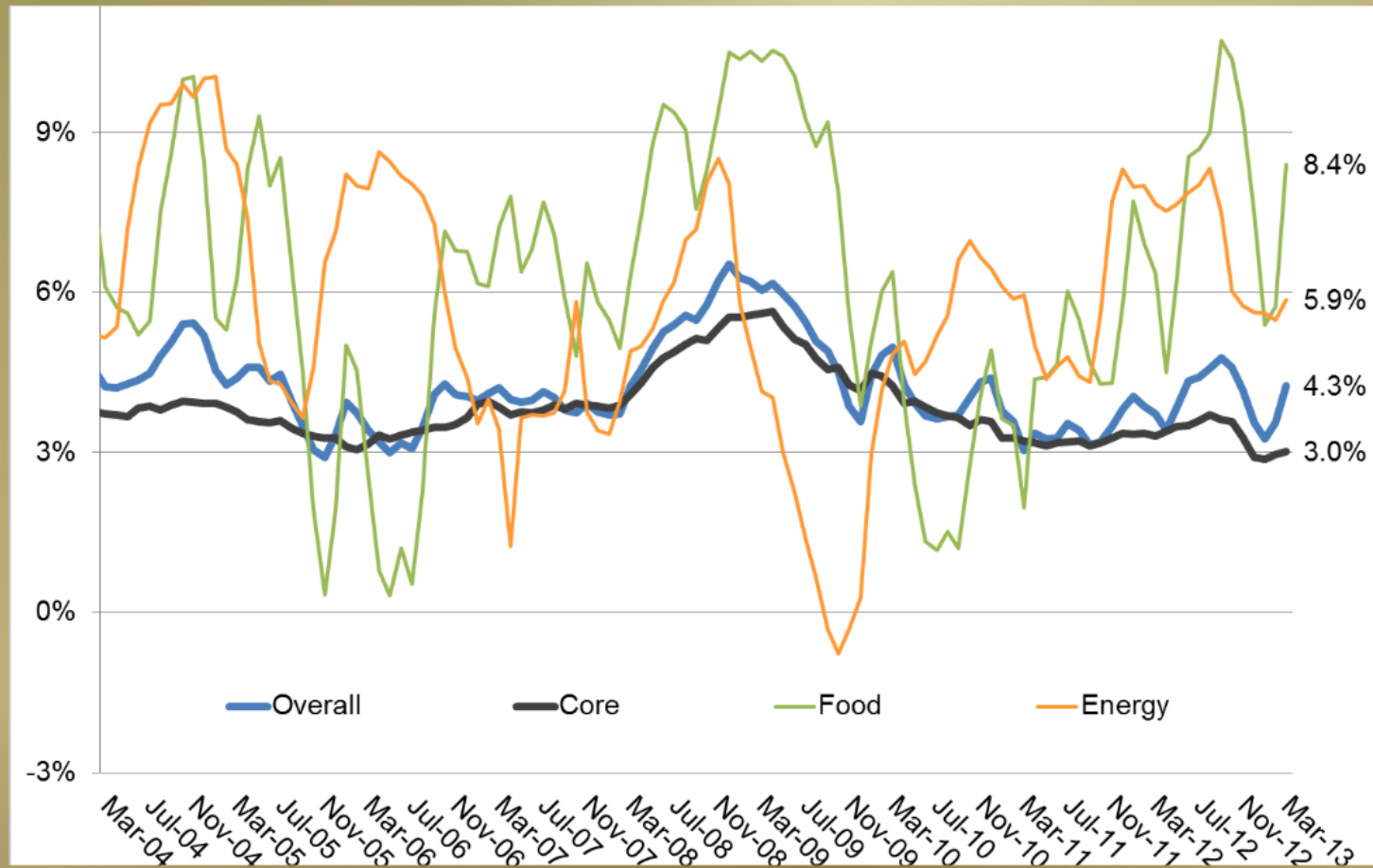


Years

**Source INEGI 2013*



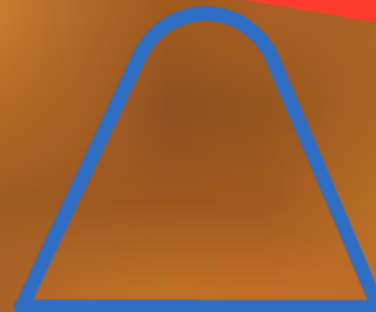
Stability (inflation)



*Source INEGI 2013

Comparing economies

VS



MEXICO



*Billions USD

TURKEY



GDP: \$ 783

X: \$ 154

I: \$ 226

FDI: \$ 5

***Billions USD**

Korea and Canada



*Billions USD



CHINA

GDP: \$8,250

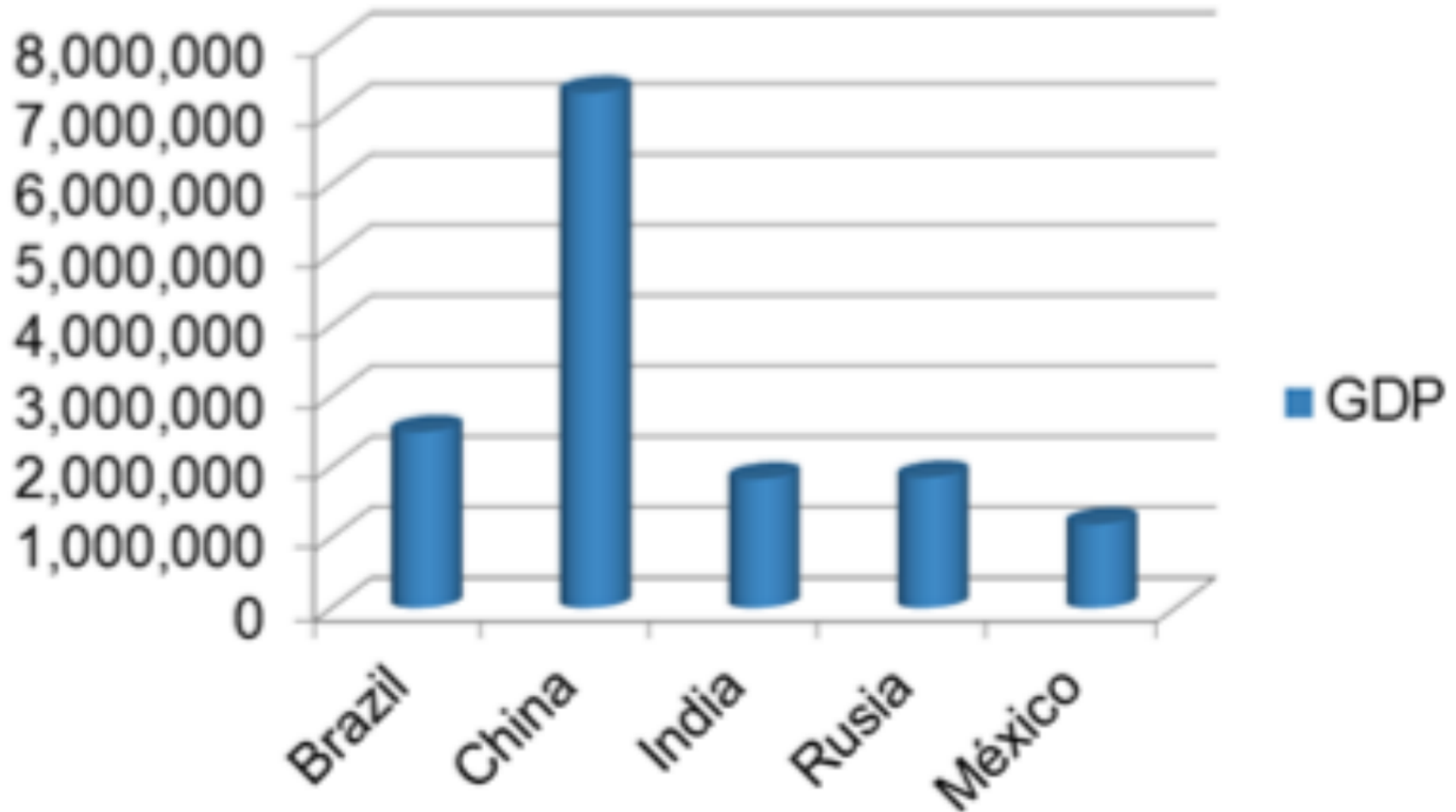
X: \$2,021

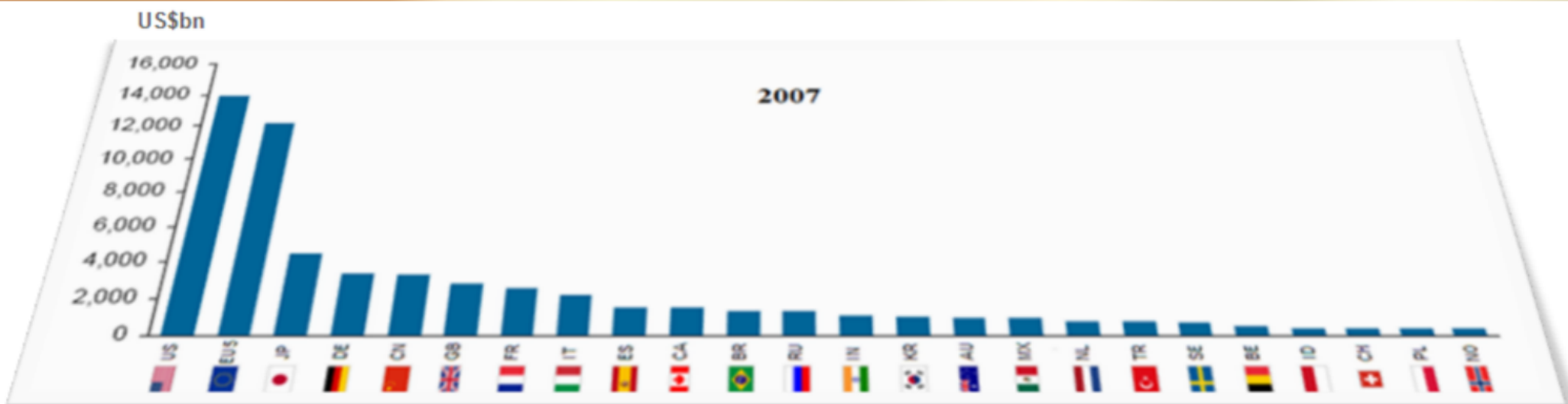
I: \$1,780

FDI 2011: 107

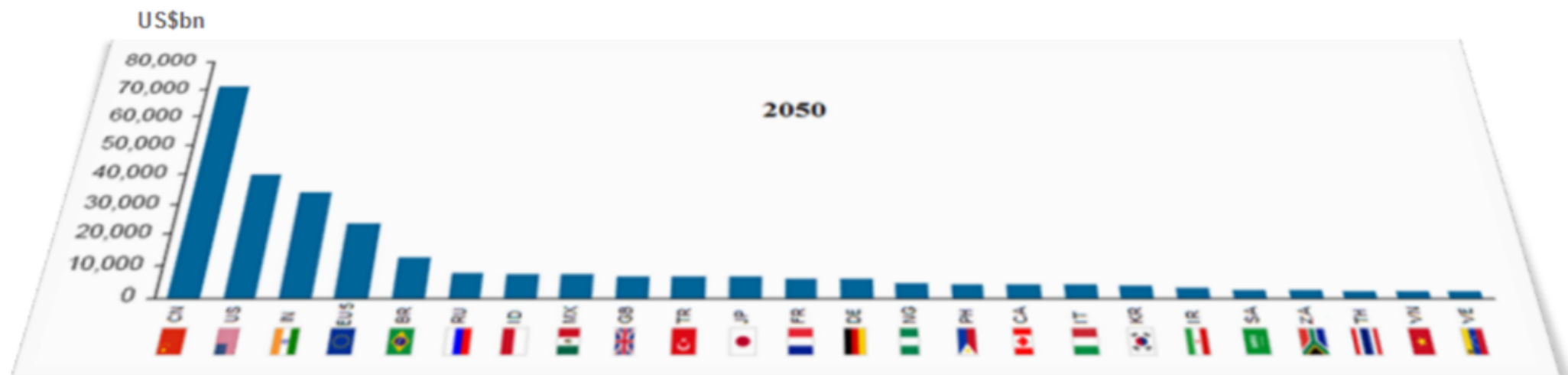
***Billions USD**

GDP BRIC/México



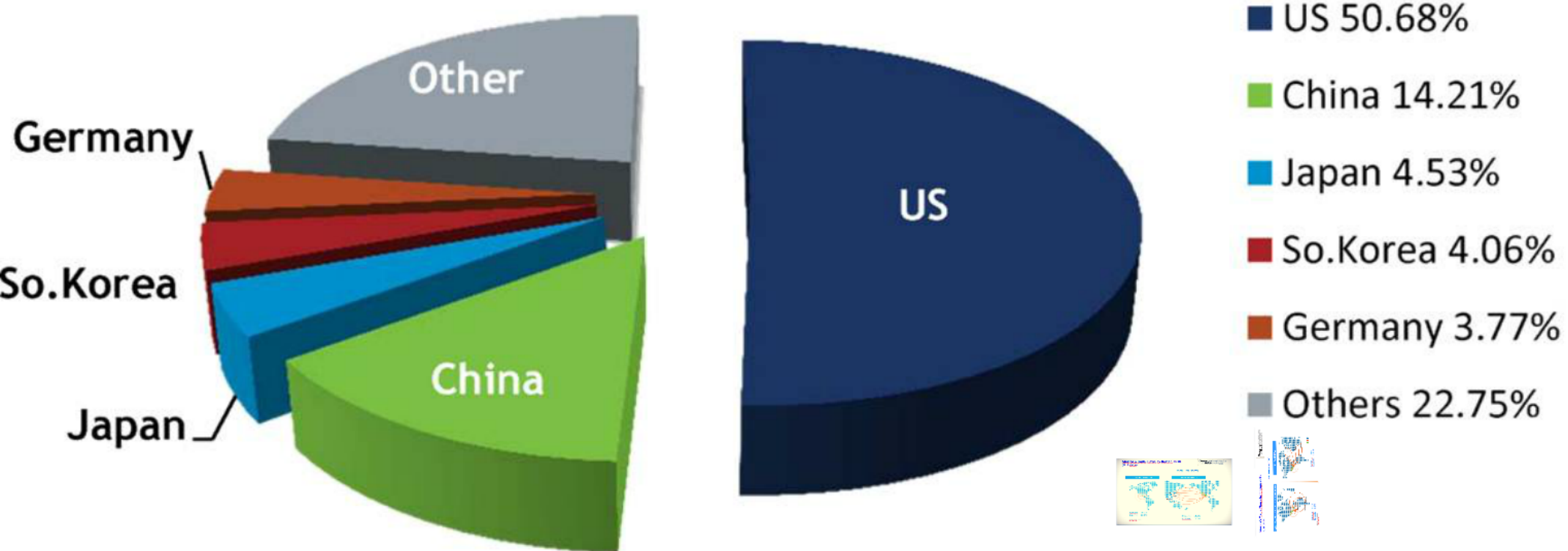


International GDP and forecast



MEXICO'S TOP SOURCES FOR IMPORTS

*BASED ON DATAMYNE MEXICAN DATA
JANUARY-MAY 2011/FOB US\$ VALUE*



Mexico's Trade Flows by Region 2010 (% of Value)

MARITIME FLOWS

USA & CANADA



Imports 66.7%
Exports 83.1%

Source: IMT

ASIA-MEXICO



Imports 11.9%
Exports 7.7%

Mexico's Trade Flows by Region 2010 (% of Value)

CENTRAL AMERICA & THE CARIBBEAN



Imports 0.1%
Exports 1.0%

Source: IMT

MARITIME FLOWS

EU & AFRICA

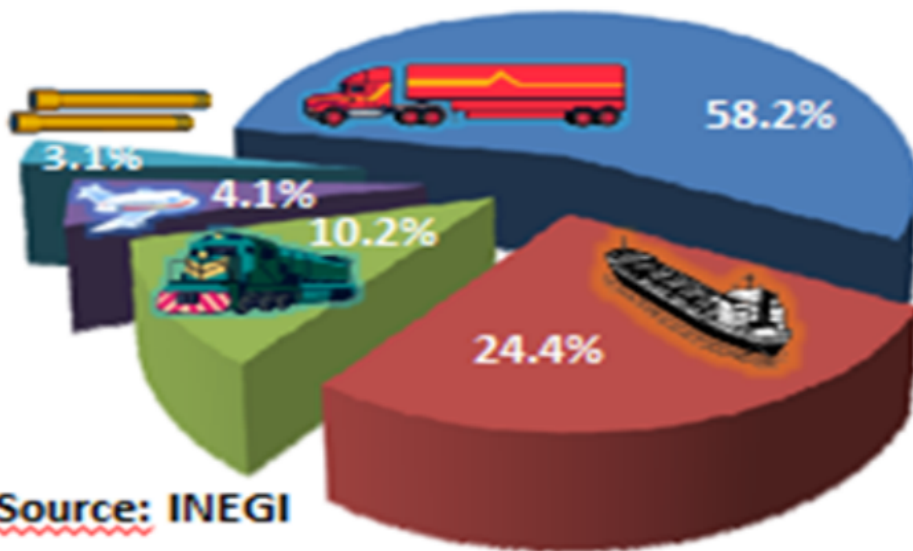


Imports 9.0%
Exports 11.0%



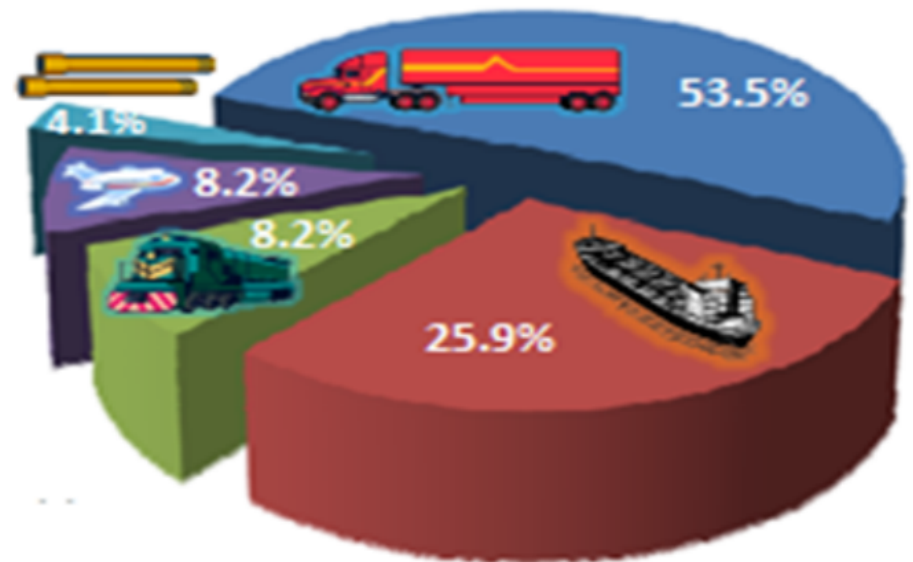
Mexico's Foreign Trade Flows by Transportation mode 2010 (By Value)

Exports



Source: INEGI

Imports

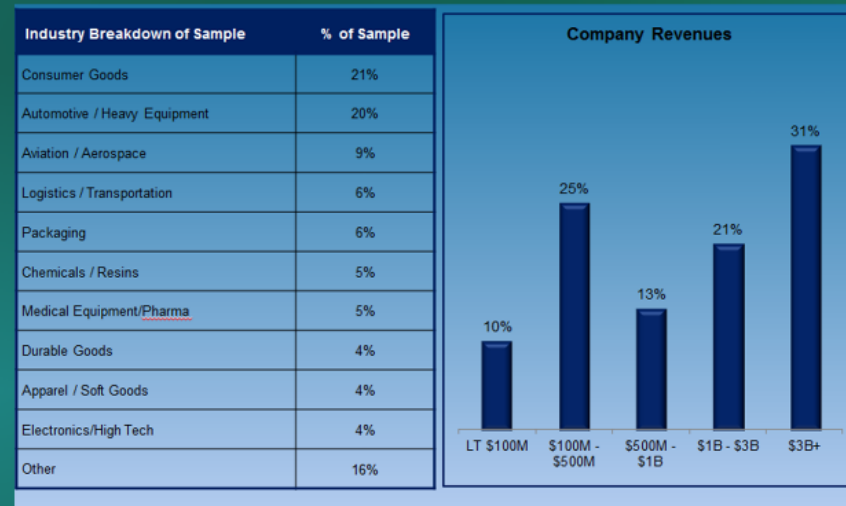


- Mexico has a free market economy in the trillion dollar class.
- It contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector.
- Recent administrations have expanded competition in seaports, railroads, highways, telecommunications, electricity generation, natural gas distribution, and airports.

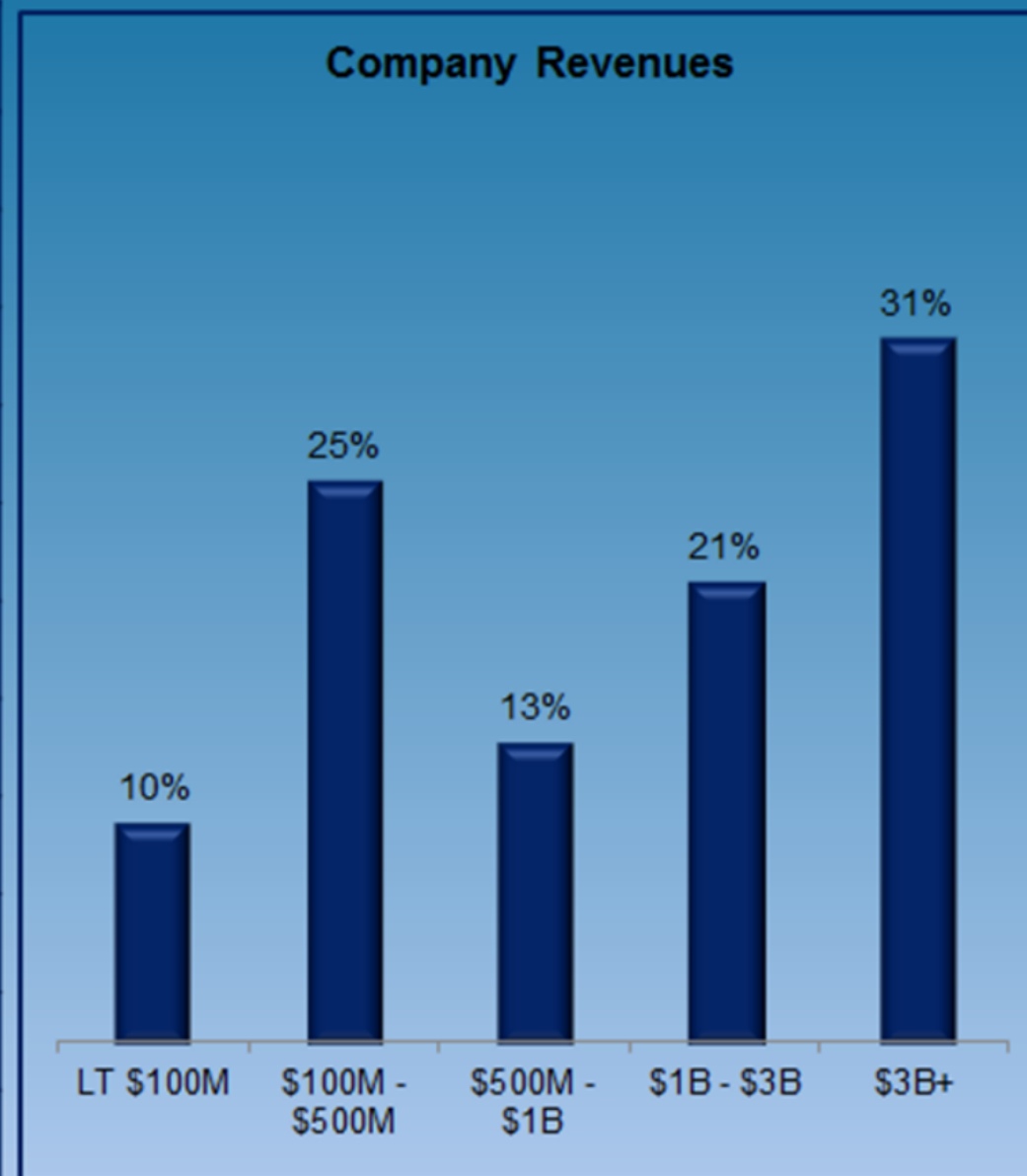
Nearshoring Survey

*By Alix Partners, September 19,
2013*

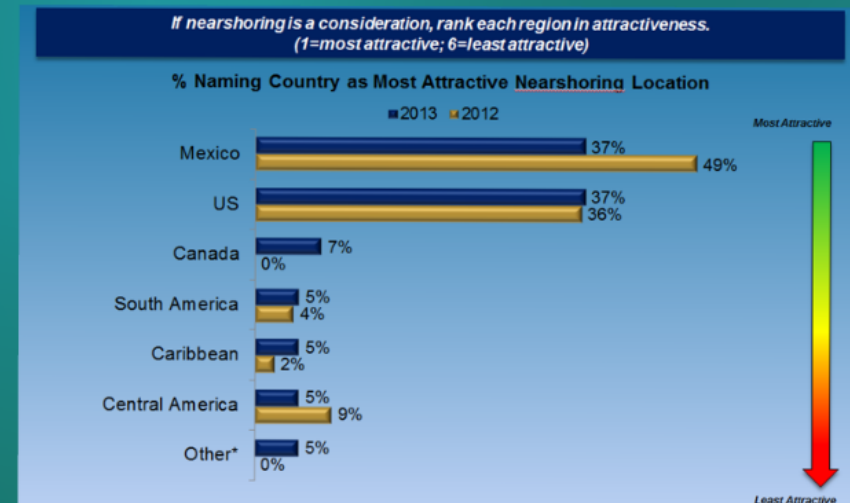
Survey demographics: Over 10 different industries, a broad range of company sizes



Industry Breakdown of Sample	% of Sample
Consumer Goods	21%
Automotive / Heavy Equipment	20%
Aviation / Aerospace	9%
Logistics / Transportation	6%
Packaging	6%
Chemicals / Resins	5%
Medical Equipment/ <u>Pharma</u>	5%
Durable Goods	4%
Apparel / Soft Goods	4%
Electronics/High Tech	4%
Other	16%

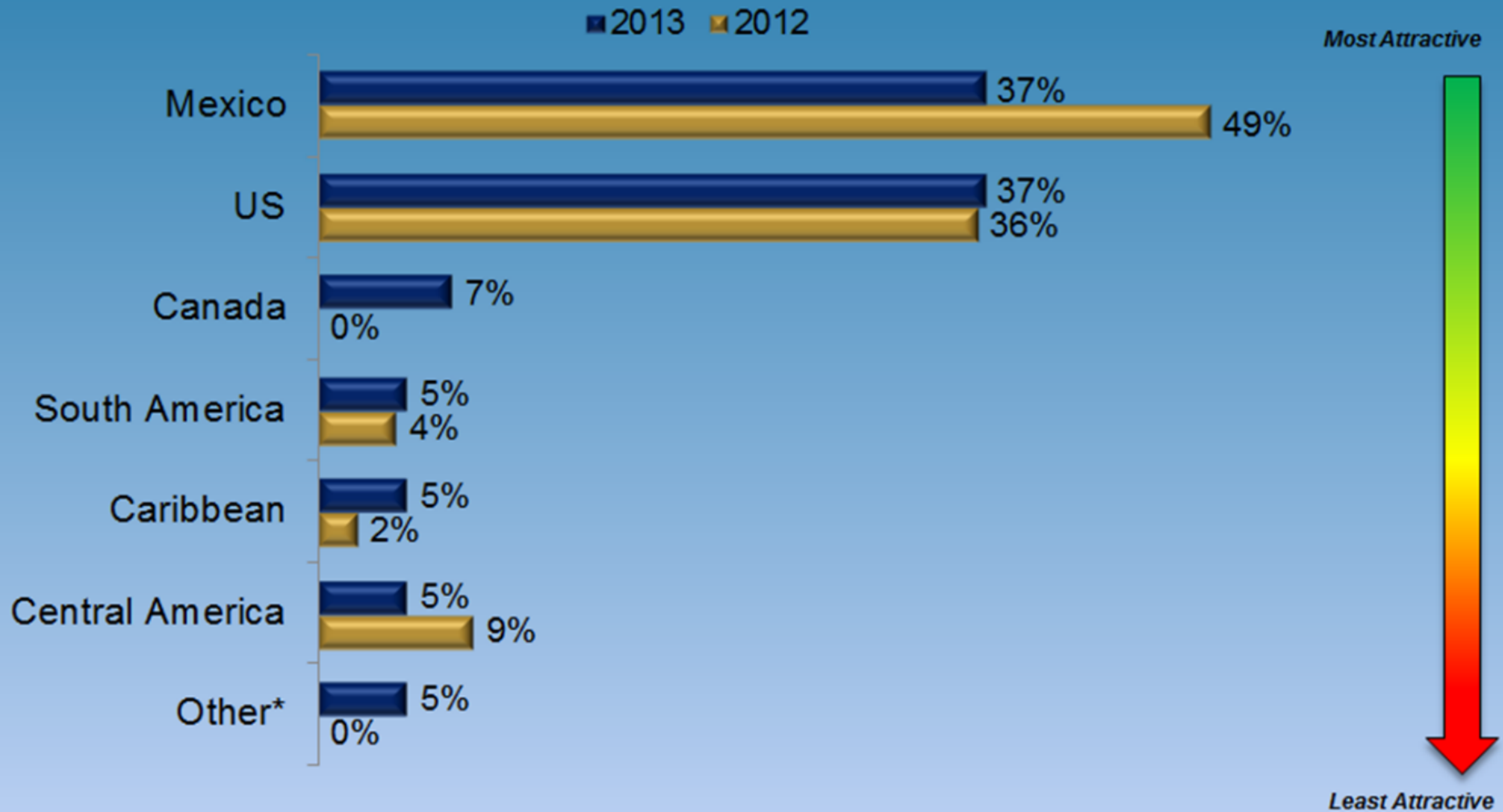


Among the respondents for whom nearshoring is a consideration, Mexico and the U.S. are the most attractive locations

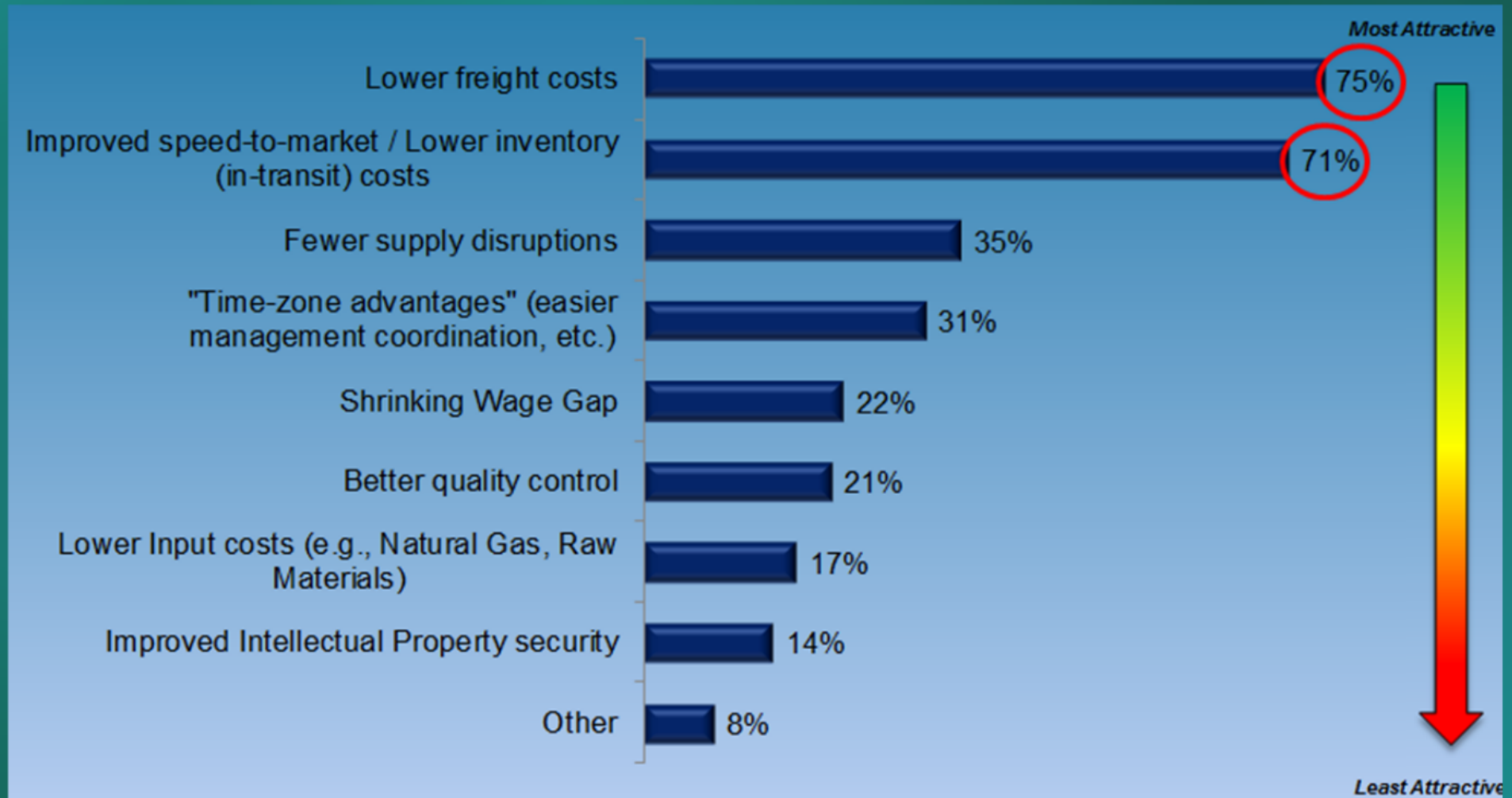


*If nearshoring is a consideration, rank each region in attractiveness.
(1=most attractive; 6=least attractive)*

% Naming Country as Most Attractive Nearshoring Location



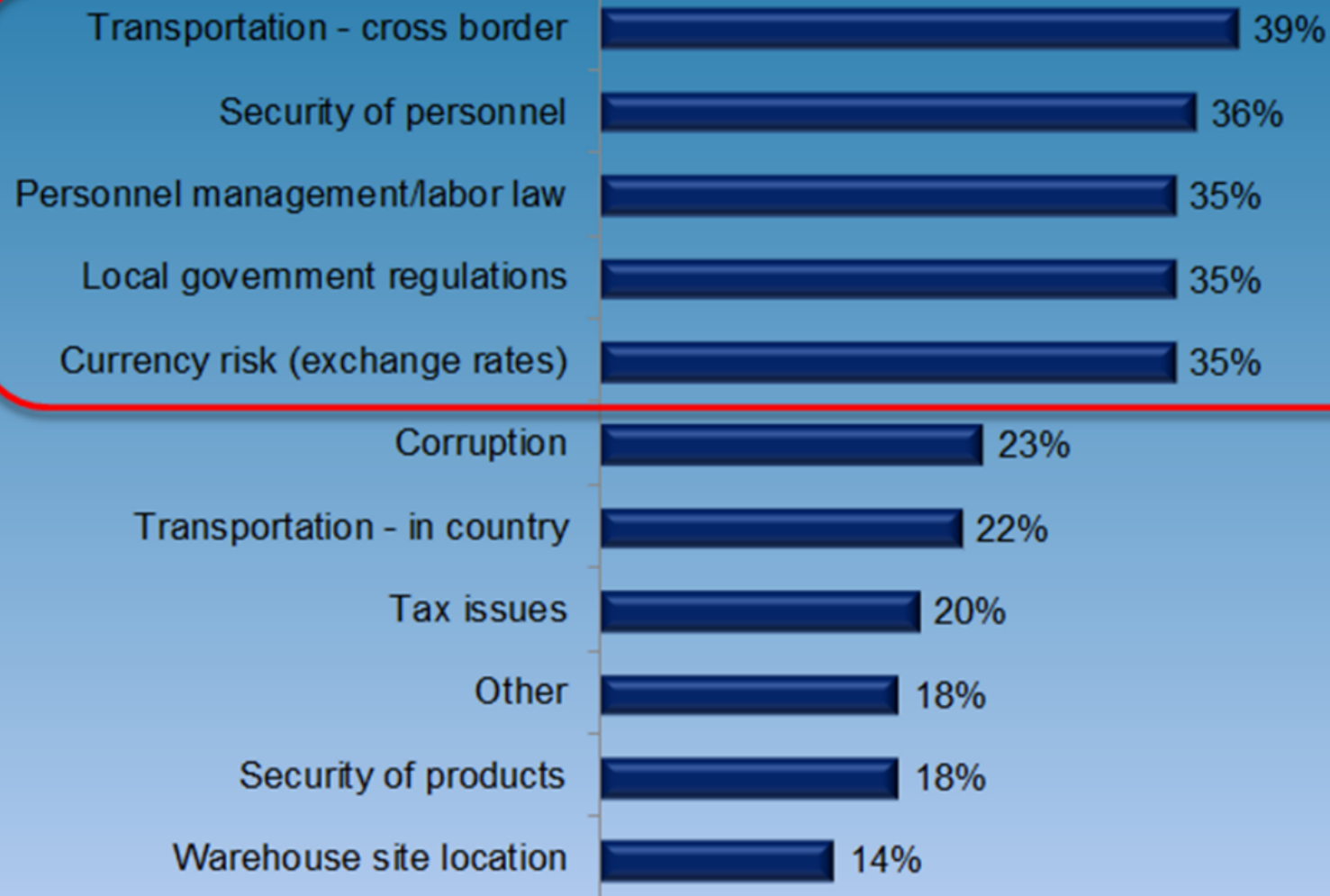
Lower freight costs and improved speed to market remain the most attractive advantages expected from nearshoring



Biggest Challenges: Transportation, security, personnel, local government and currency risk

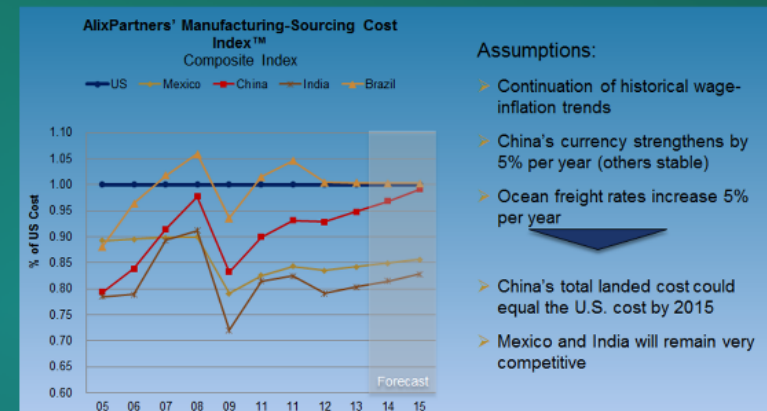


What are the biggest challenges you have had or expect to have with nearshoring operations?



Respondents were asked to select top three choices; totals will add to more than 100%

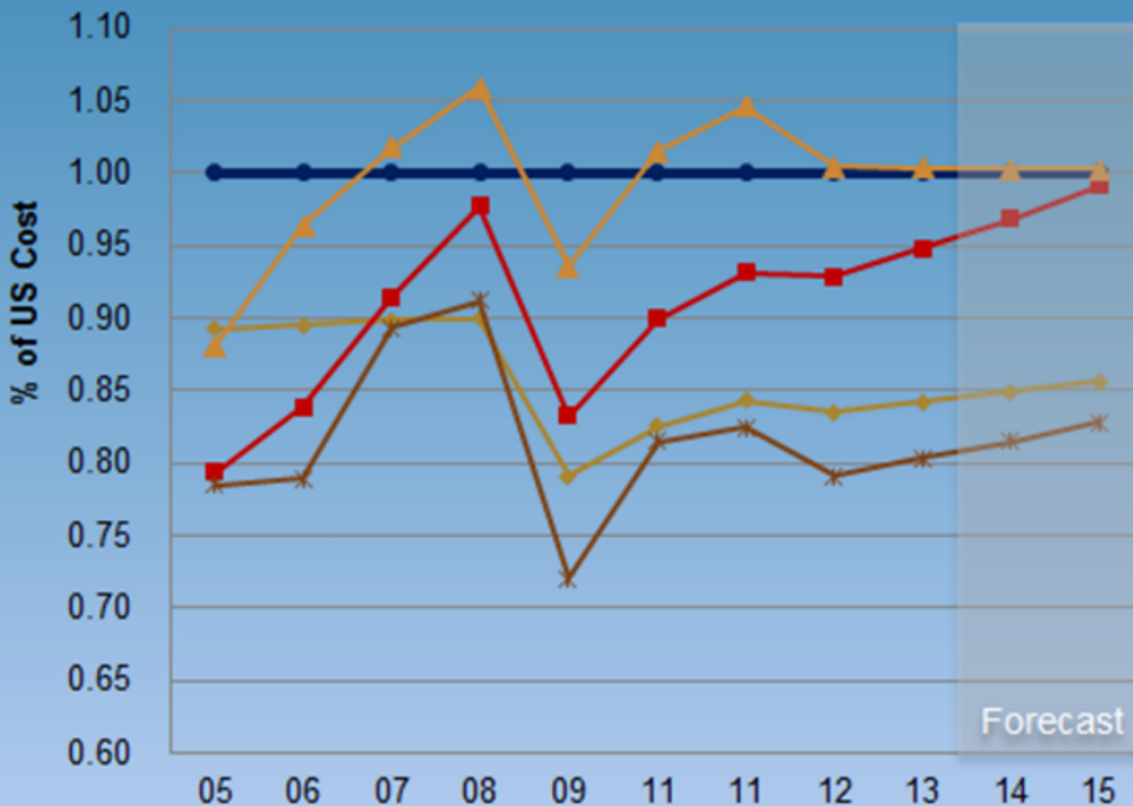
The Alix Partners Manufacturing Outsourcing Cost Index shows support for Mexico's recent approval ratings in the executive survey...



AlixPartners' Manufacturing-Sourcing Cost Index™

Composite Index

US Mexico China India Brazil



Assumptions:

- Continuation of historical wage-inflation trends
- China's currency strengthens by 5% per year (others stable)
- Ocean freight rates increase 5% per year
- China's total landed cost could equal the U.S. cost by 2015
- Mexico and India will remain very competitive



Transitioning to low cost countries will not likely happen overnight...

Considerations against rapid production relocation

- Capital hurdles (tooling, transition costs)
- Contract commitments o economies of scale
- Savings sensitivity (e.g. exchange rate outlook)
- Regulatory approval (FDA, FAA, ISO9000, etc.)
- Costumer control and approvals

Current source countries like China will not give up easily

- Maintains a labor capacity and scale that is unique
- Reinstated Value Added Tax (VAT) rebate programs for many exported products that were being phased out in 2008
- Aggressive monetary policy to control the strength of the local currency
- Taking actions to keep domestic material costs relatively low

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There may be profound implications of these trends on transportation and logistics providers in the near-term and beyond

Potential Winners

- Ground Transportation (TL and LTL): The carriers that adapt to new (or returning) repatriated manufacturing clients are positioned for growth
- Brokers: With an increase of Mexican manufactured goods destined for the US market, the north/south corridors service providers and cross-border are expected to benefit
- Select Rail Providers: Operators of north/south rail networks will benefit from increases in Mexico manufacturing

Potential Losers

- Ocean Carriers: Ocean freight providers are suffering record levels of distress and over-capacity. Any repatriation from Asia to the Americas further exacerbates the problem for West Coast lines
- West Coast Ports: Repatriation of production means a direct elimination of port volume
- Freight Forwarders and Airlines will lose air cargo volumes

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INFRASTRUCTURE

Logistics improvements in Mexico

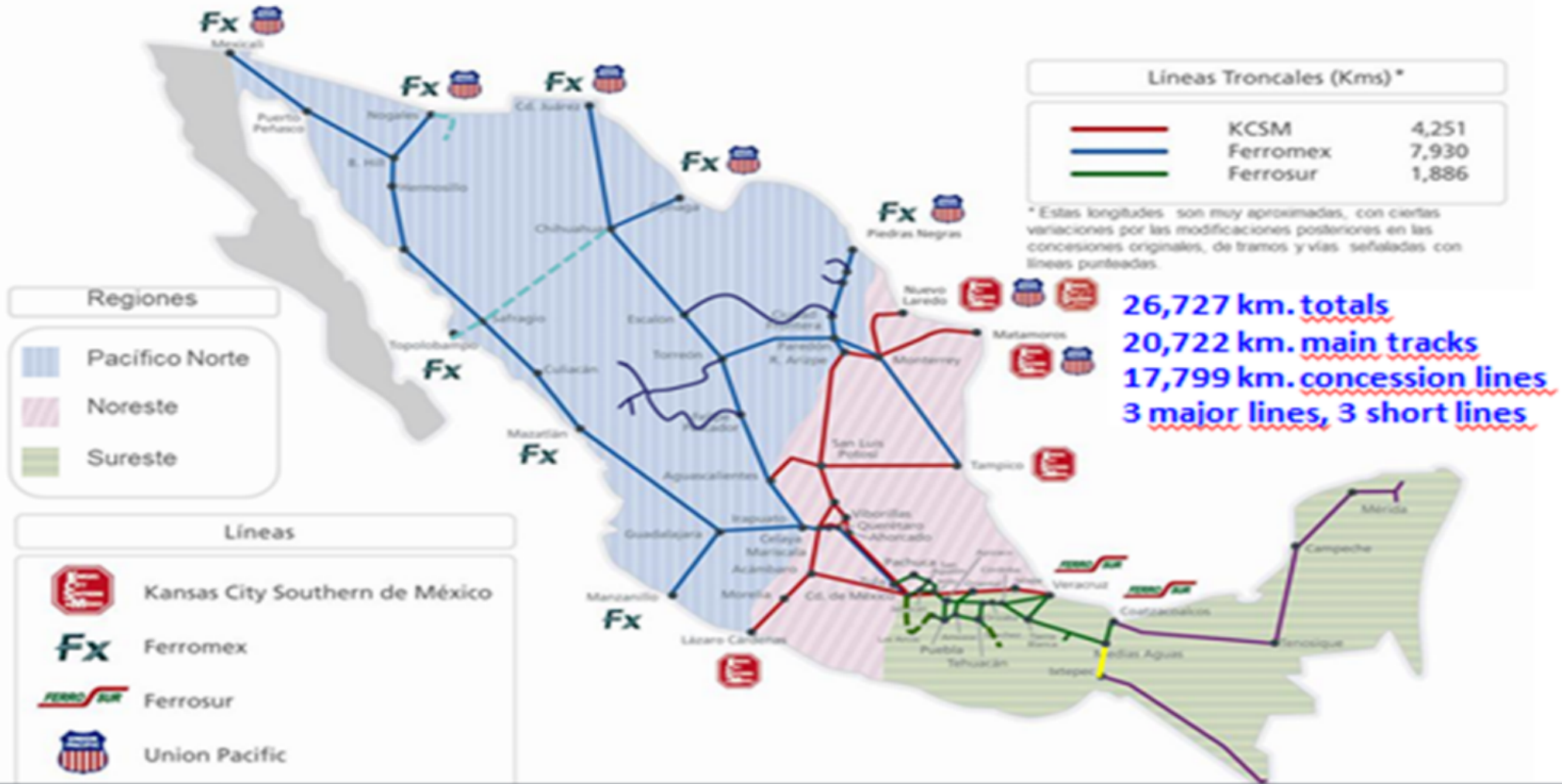


In 5 years Mexico:

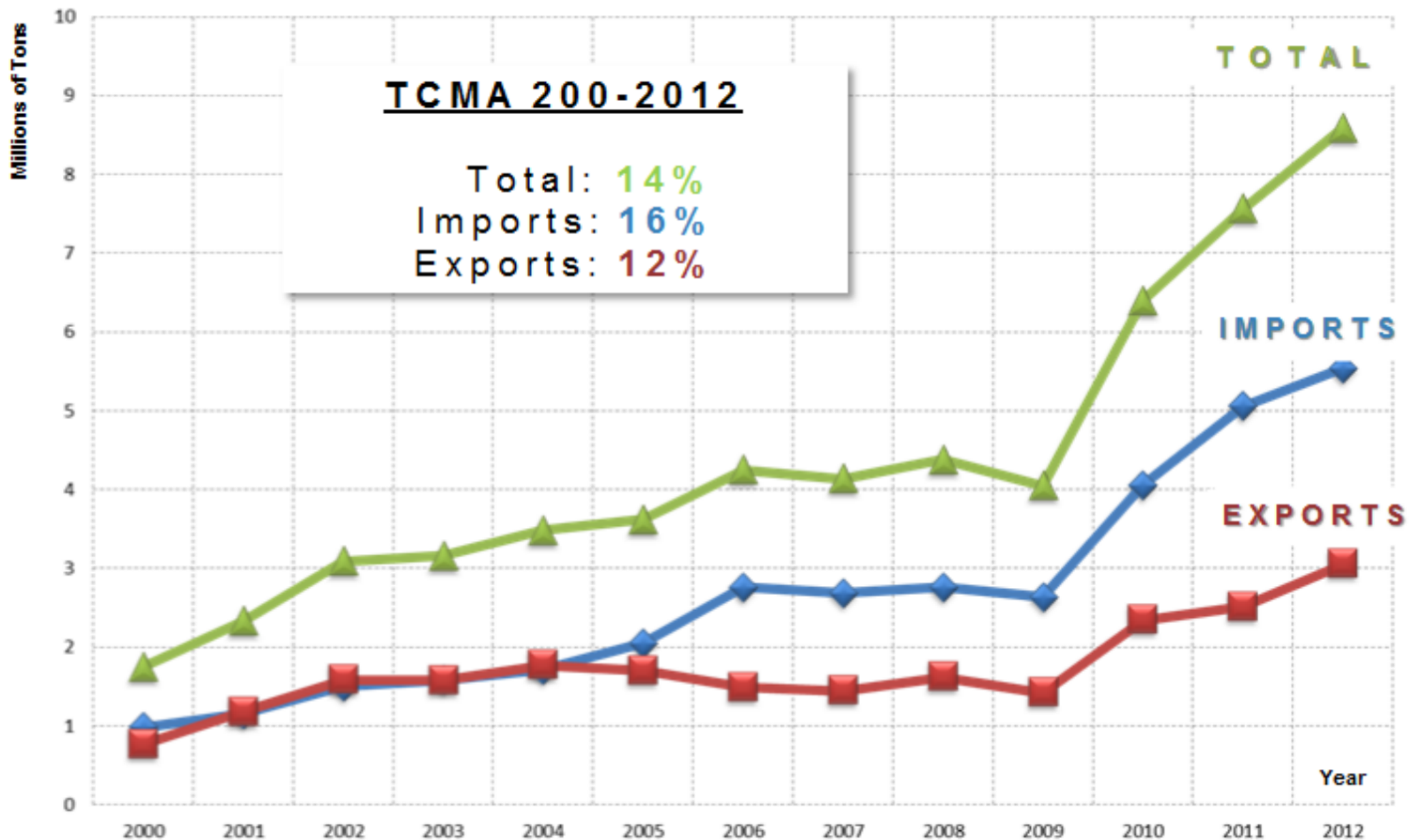
- Improved 9 places
- Improved 0.19 points

Major logistics corridors and service providers in the Country

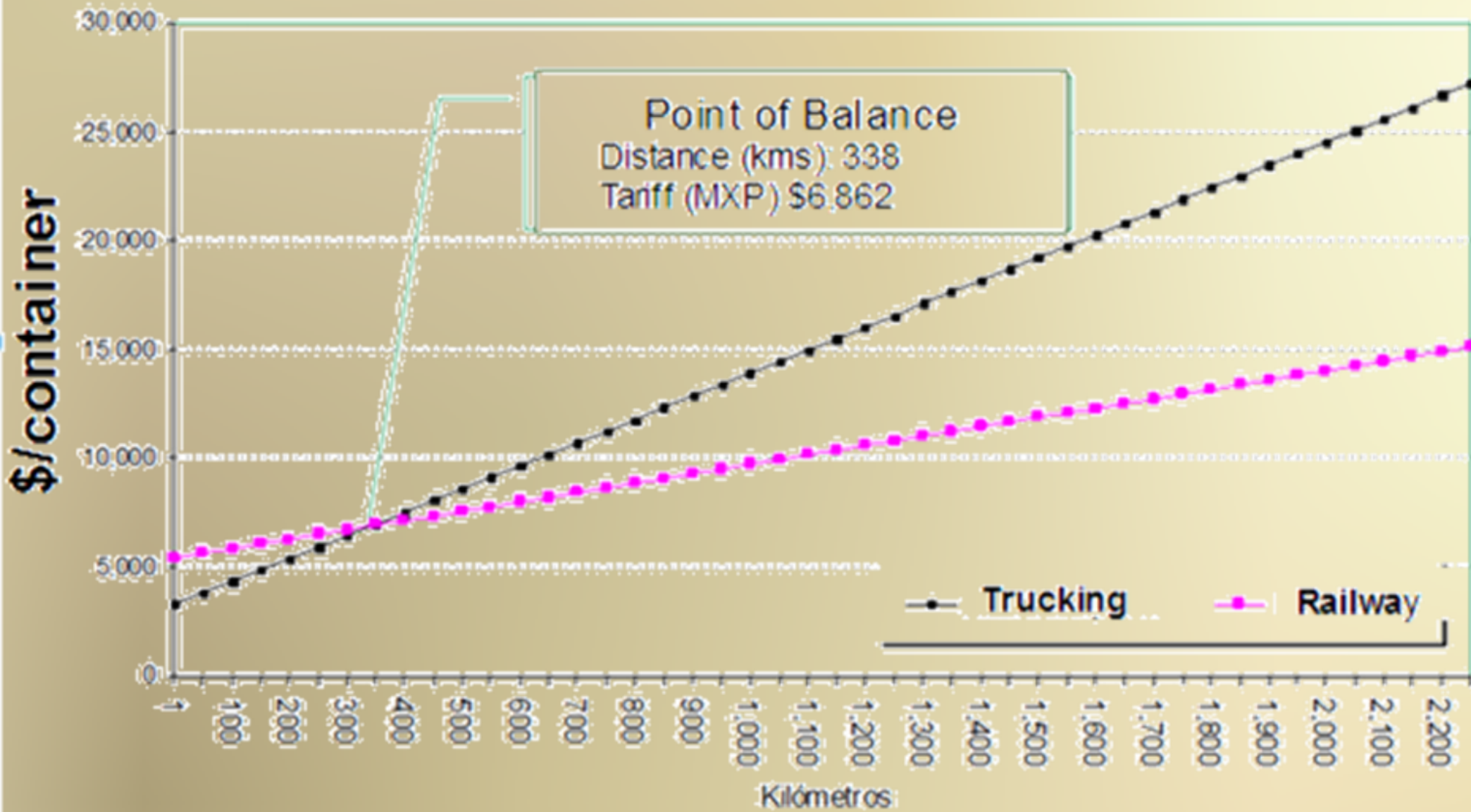
(Railroad System and North-American Gateway)



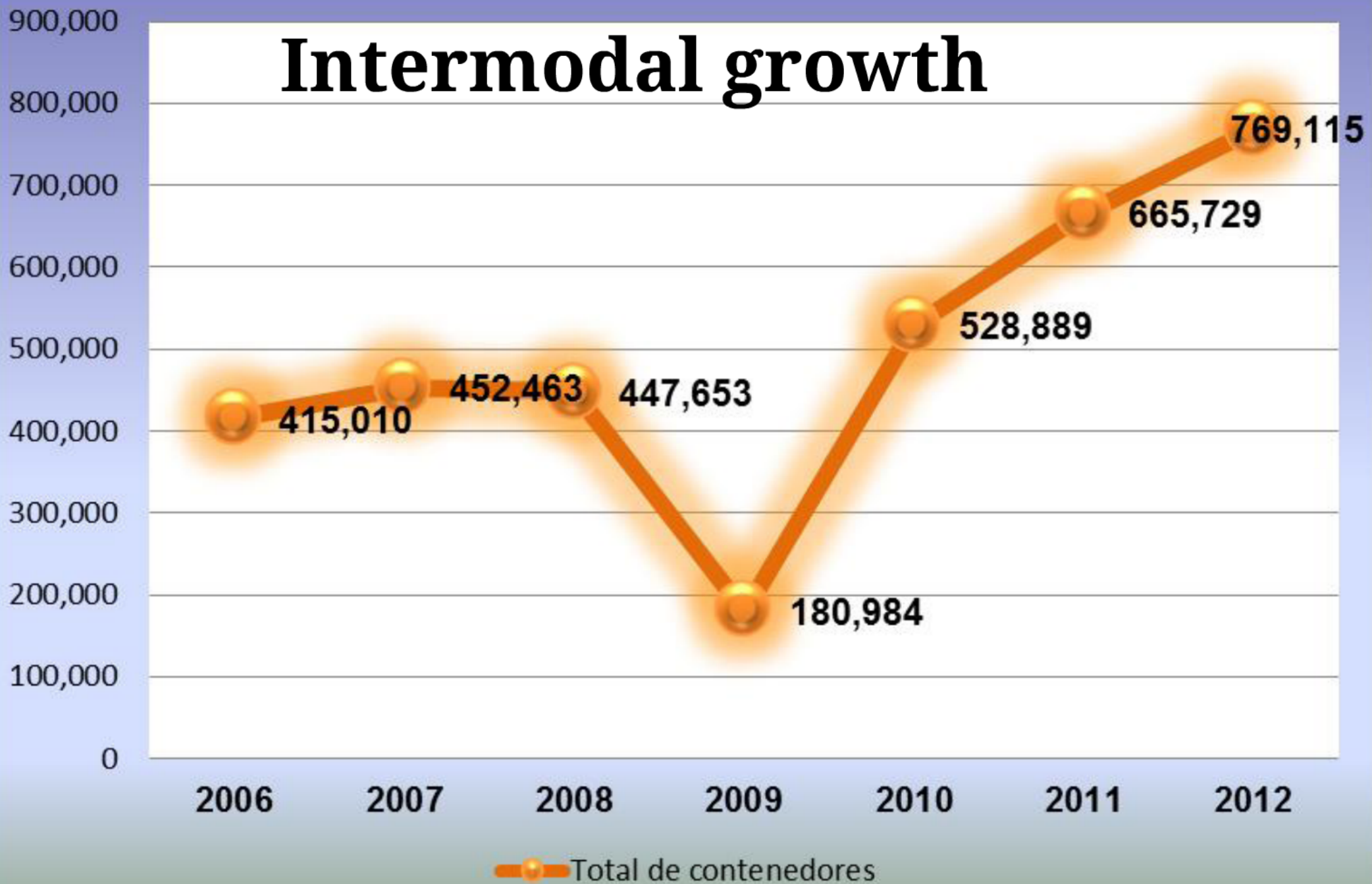
Mexico railway cargo growth



Trucking and railway tariffs for containers transportation



Intermodal growth



HIGHWAYS:NATIONAL COVERAGE



Puente Baluarte

Es el puente atirantado más alto del mundo.

La inversión fue de
2 139.2
Millones de pesos

Cuenta con 152 tirantes,
dividido en abanicos
de 19 cada uno.

Su ancho es
de 16 metros,
con 4 carriles
de circulación.

A Durango

Cuenta con
12 apoyos
de concreto.

Pilón 5
Tiene una altura
de 158.5 metros.

Pilón 6
Mide 169 metros.

1,124 metros

520 mts

403 mts

Río Baluarte

Reducirá el tiempo de recorrido de
6 a 2.5 horas en autos
y de 12 a 6 horas
en transporte de carga.

A Sinaloa





World's largest suspension bridge

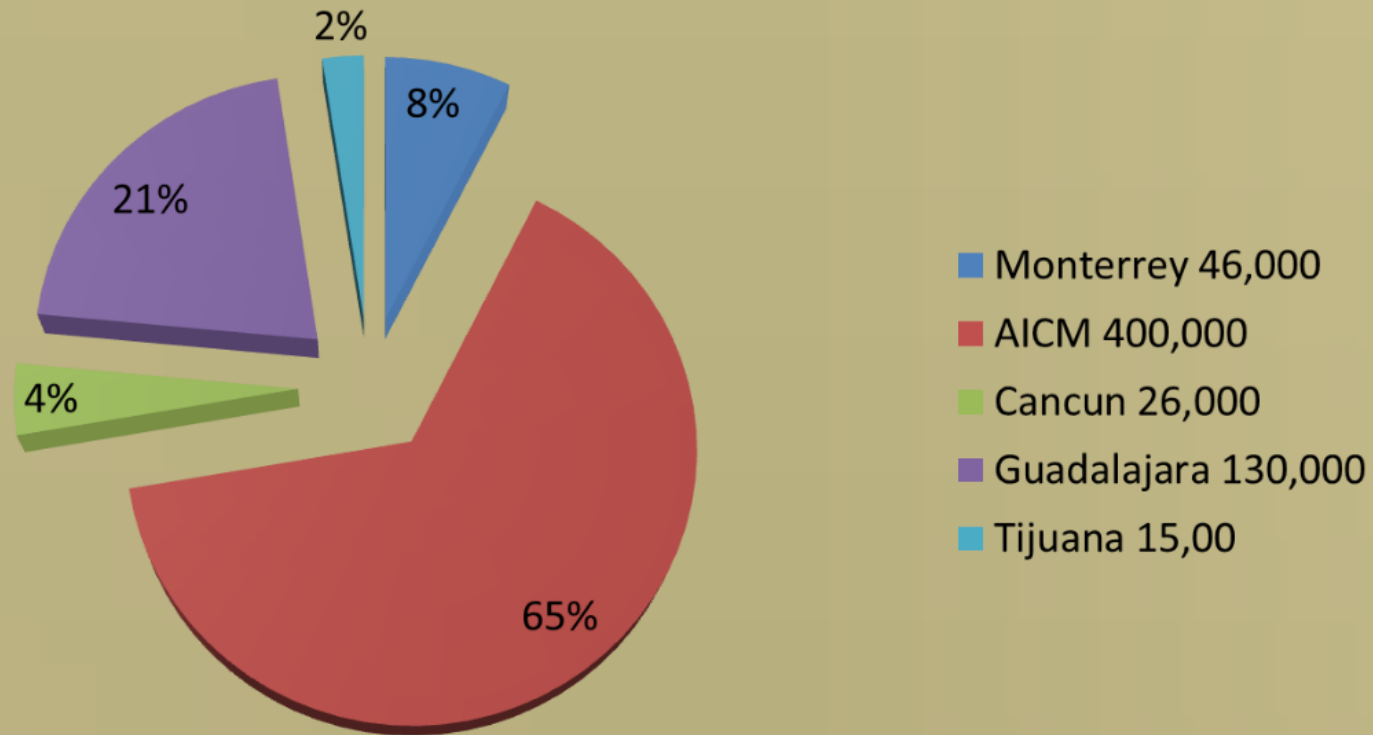
Top 10 trucking companies represent less than 9% of public fleet

Ranking	Company	Tractors
1	Transportistas Unidos Mexicanos	712
2	Castores	630
3	Auto líneas América	529
4	Transportes Cuauhtémoc	526
5	Tres Guerras	490
6	Julián de Obregón	400
7	Auto Líneas Regiomontanas	300
8	TMM	300
9	Frialsa	289
10	Hercel	283

Airports: Mexico City remains the Major Hub

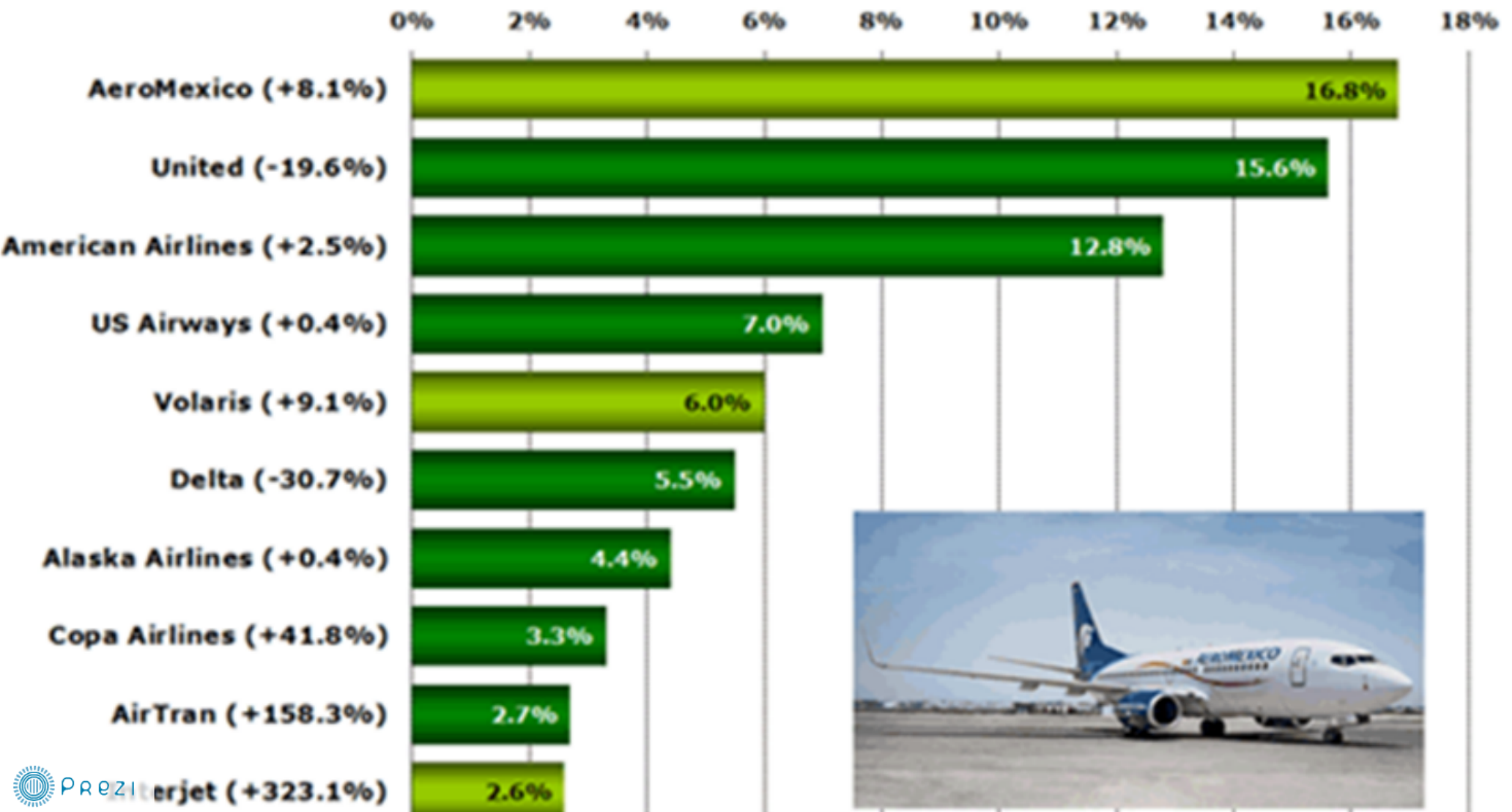


Freight managed in principal mexican airports (ton/year)



Service providers

Mexico's top 10 international airlines
By share of seat capacity
(capacity change August 2012 vs August 2011)



Port Overview



Port Statistics - Containers

Mexican Ports ranked by Volume (,000 TEU)

Ranking	Port	Gross Throughput	Net Throughput	Net Imports	Net Exports	% Imports	% Exports
1	Manzanillo	1,900	1,440	860	580	↑ 60%	↓ 40%
2	Lazaro Cardenas	1,200	850	530	320	↑ 62%	↓ 38%
3	Veracruz	800	610	370	240	↑ 61%	↓ 39%
4	Altamira	580	405	140	265	↓ 35%	↑ 65%
5	Ensenada	140	92	32	60	↓ 35%	↑ 65%
Total		4,620	3,397	1,932	1,465	↑ 57%	↓ 43%

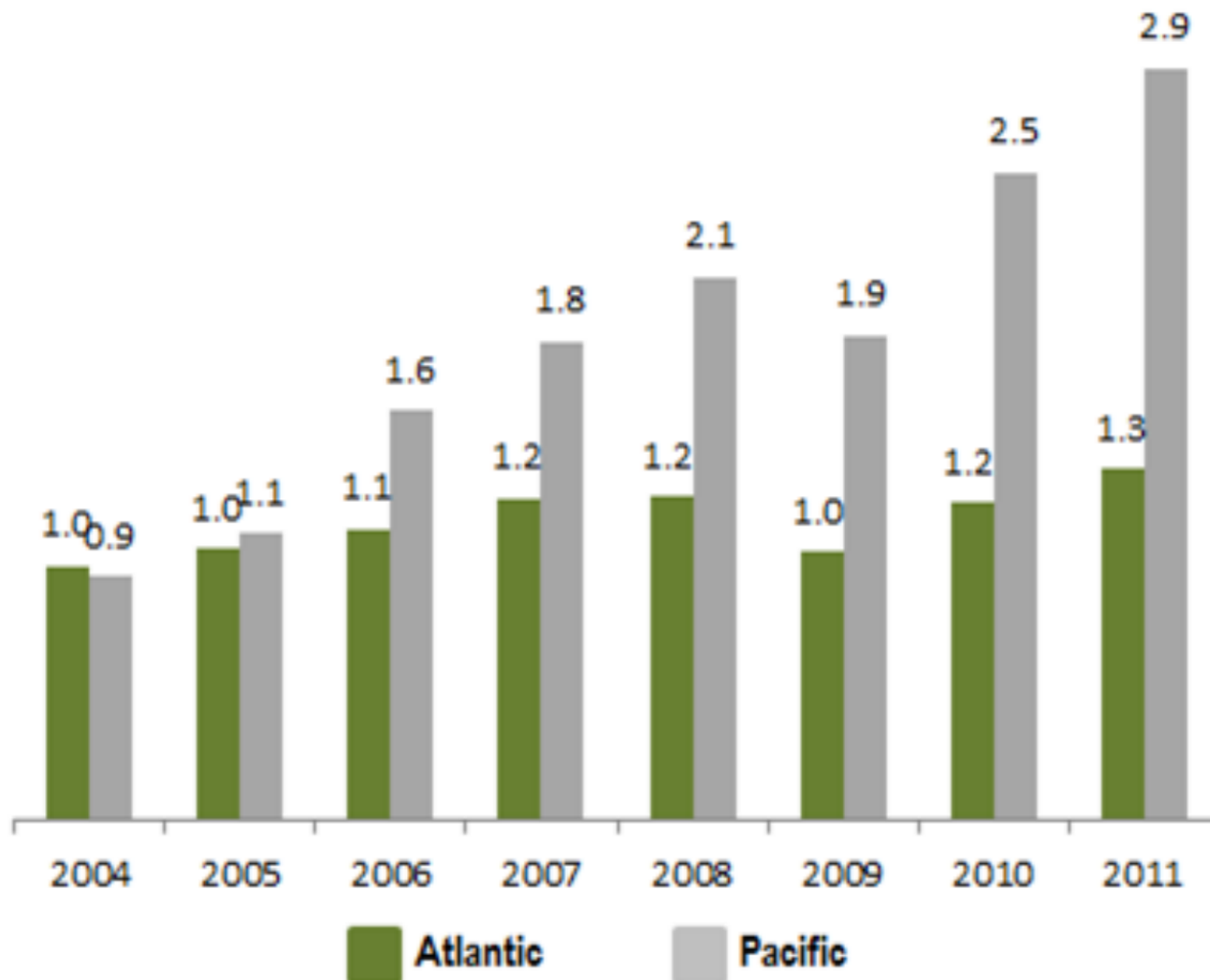
- Top 5 ports handle 95% of containerized cargo
- Pacific ports concentrate over 50% of overall volumes
- Imports are predominant in the three most important ports

Mexico Intermodal Ocean Freight Volumes (teus)

CAGR

15.7%

3.3%



Source: SCT

DOMESTIC:

- ACCEL
- ALMER
- ALSUR
- ARGO
- FRIALSA
- GNK
- GRUPO LOGISTICS
- GRUPO PORTEO
- PONDISA
- GPL
- MyM
- ONEST
- PLANUS
- SPAA
- TMM LOGISTICS
- WTC CONFIANZA
- ZIMAG

And last but not least: Top 3PLs in Mexico

INTERNATIONAL:

- APL/VASCOR
- CELADON
- CEVA
- CH ROBINSON
- EXPEDITORS
- FEDEX LOGISTICS
- HELLMANN
- JB HUNT
- MENLO
- NIPPON EXPRESS
- PANALPINA
- RYDER LOGISTICS
- UPS SCS
- UTI
- YOBEL

Public Sector Initiatives

Ministry of Economy:

- **Logistics Competitiveness Agenda**
- **Supply Chain Performance Evaluation.** Survey of national indicators (3 studies)
- **Management Committee of Logistics Competences**
- **National Logistics Award (with CSCMP and Expologistica)**
- **Reliable Logistics Processes Seal :** Distinction will be awarded to companies that demonstrate that they have capabilities to deliver complete and on time orders, providing better customer service. Evaluates 16 capabilities, one of which is import and export processes.
- **Prologyca Fund (Competitiveness Program in Logistics and Distribution)** for the modernization of supply centers.



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