

LESSONS LEARNED

Selling Consumer Packaged Goods in Mexico

A conversation with Kevin Palans, CEO, VayaSur.

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SELLING CONSUMER PACKAGED GOODS IN MEXICO

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Kevin Palans, CEO of VAYA SUR, recently returned from spending 4 years in Guadalajara, Mexico where he built a Mexican subsidiary for Orange Glo International; a Denver-based consumer goods company known for their cleaning products OxiClean and Orange Glo. During that time Kevin helped Orange Glo achieve multi-category market leadership in Mexico, launch 21 different SKUs and grow to a \$10Million USD run-rate. Kevin has directed business development efforts throughout Latin America, incorporated a Brazilian subsidiary and negotiated distribution agreements in Central America and the Andean Bloc - Colombia, Venezuela, Ecuador and Peru.

Some key considerations when conducting business in Mexico?

Don't discount the need for careful strategic planning, adequate resources and complete dedication to the endeavor. Though Mexico is smaller than the USA— and depending on the product, about 1/10 the market size — competition is no less intense. The Mexican consumer is fastidious about brand selection and brand loyalty can at times exceed that encountered in the USA.

You see many familiar retail names in Mexico—Wal-Mart, Costco, Home Depot, Sam's Club, HEB, etc. Their local subsidiaries have been very successful. In fact, Wal-Mart de Mexico is Wal-Mart's most profitable operating company.

As a result these subsidiaries are given wide-ranging autonomy in how they run their businesses. So, you can't assume that you'll encounter the same processes in Mexico as you might when dealing with their US counterpart.

Do the retail relationships in the USA connect over to Mexico?

In Mexico, the initial sales cycles can be longer and it's critical to take the time to develop trust and build relationships.

If you're already selling successfully in these chains in the USA, those relationships and product performance can be very valuable in influencing buyer's consideration of your product for the Mexican market.

However, it's important to understand the Mexican consumers' category expectations, preferences and buying habits, and how your product(s) stacks up versus local competitive products' performance and pricing.

In a general sense, there is widespread respect for American companies, products and business practices in Mexico. Yet it's important that Americans don't expect Mexicans to adapt to our rules - that would be counterintuitive and disrespectful.

About in-store services such as Merchandising

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in-store service provision for consumer packaged goods companies is very important in Mexico and throughout Latin America.

For high-rotation items, retailers expect the manufacturer (or their representatives) to stock the shelves - NOT their own store employees. This is very different from how things are done in the USA or Great Britain for example.

In Mexico, if merchandisers of the manufacturer don't visit stores with regularity it is possible their product will not make it from the store warehouse to the shelf. The cost of merchandisers should be considered a variable cost of selling consumer packaged goods in Mexico/Latin America, the consolation being that the costs thereof are generally less than similar service would cost in the USA, thanks to the wage differential between our countries.

In-Store Demos . . .

When you walk through the aisles of a Mexican supermarket or mass-market store you often see lots of uniformed product spokespeople, explaining product benefits and giving samples or demos.

In Mexico, demo services are critical for building brand awareness, consumer education and converting brand-loyal consumers to new products during launch - and throughout a product's lifecycle.

Such services are generally available at a lower cost than in the USA. Effective training, creative demonstrations and rigid systems of control are critical to ensure an effective return on investment of such activities.

IP Protection in Mexico

If your company is contemplating doing business in Mexico, or other Latin countries, consider intellectual property protection sooner rather than later.

US IP law doesn't necessarily provide protection under Mexican law. If you don't have proper protection, you can run into costly problems if a local company - or sometimes even a multinational - registers your company or your brand name - and launches copy products into the market before you get there.

Biggest Surprises?

What surprised me is the degree of centralization and the authoritarian business culture in Mexican companies, specifically with respect to decision-making and the dissemination of information.

Major decisions often require the signatures from multiple superiors which underscores the importance of relationship development—not only with the buyers but with their managers - up to the purchasing directors - and above if possible.

This tendency toward centralization partially explains why lower-level and mid-level Mexican employees don't excel working in teams and don't often exhibit superior out-of-the-box thinking, assertiveness or large appetites for risk.

Differences between Mexican and American workers

I don't like to stereotype, but in general Americans are more active while Mexicans are more passive by nature.

I find Americans more individualistic and independent and Mexicans more dependent and affiliative. Americans seem firmer and Mexicans more flexible. Americans have a great need for achievement, while Mexicans can be more inhibited.

An easy trap to fall into for Americans who are new to doing business in Mexico - is to separate true capability from optimism and opportunism. I've seen this problem most frequently in the context of selecting services for sale.

I recommend that it's best to "assume nothing" and do thorough due diligence. And when starting a new business or forming a new relationship - be as hands-on as possible.

On the front-end insist on multiple recommendations and proof of a relevant, successful track record before entering into any form of partnership or working relationship. And finally, make sure you have competent local, legal representation.

Is it important to know Spanish?

Among the middle-middle upper socio-economic class English is spoken in varying

degrees. In the business world, generally the higher up the corporate ladder, the better the grasp of English. That said, in Mexican national companies it's still common to find executive level employees whose English is poor.

A strong grasp of conversational Spanish and cultural awareness go pretty far in demonstrating a genuine interest in Mexico and Mexican culture. And that's the first step toward building long-lasting relationships in Mexico.

If you manage a business with Mexican employees, you will be at a significant disadvantage if you don't have conversational fluency in Spanish and fairly advanced knowledge of the cultural differences between Mexicans and Americans.

What foreign Languages do you speak?

Spanish, Portuguese and Japanese

What does VAYA SUR do?

VAYA SUR was formed to aggregate and provide profitable turnkey Latin America business development for the most innovative and/or best-of-breed American and European CPG products in select categories. Headquartered in Denver, Colorado, VAYA SUR's unique business model is backed by an unparalleled network of local service partners

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