



**The Road Ahead**

In order to achieve our ultimate goal of enhancing bilateral trade between SMEs in the Maricopa region of Arizona and the state of Sonora in Mexico, MAG and its various state partners must adhere to a strategically focused and chronological road map.

## Recommendations

### INITIAL PRIORITIES: (END OF 2013)

- Create an implementation team to take accountability and drive initiatives
- Agree on an brand for this region, incorporating Mexican influence on AZ
- Design an “awareness” campaign to educate the Arizona business community
- Focus on engaging family-owned businesses in Arizona and Sonora via trade shows

### MID-TERM PRIORITIES: (1-3 YEARS)

- Continue building on the initial priorities
- Continue developing the Sun Corridor as a professional Center of Excellence
  - Expand existing technology to enhance communication between companies
  - Encourage dialogue about assets native to the geographical region

### LONG-TERM PRIORITIES: (3-5 YEARS)

- Promote the brand of the Sun Corridor at professional functions locally, regionally, nationally and globally
- Expand success achieved from strategies in Sonora to the rest of Mexico

MAG EDC Meeting December 4, 2012



Thunderbird School of Global Management  
 Consulting Practicum  
 Arizona –Mexico Small and Medium Sized Business Connections  
 September 5 – December 4, 2012

MAG EDC MEETING  
 DECEMBER 4, 2012

# ARIZONA – MEXICO Small and Medium Sized Business Connections

## Small and Medium-sized Enterprises (SME) in Maricopa County

**Number of Employees**  
 Small = 1 - 50  
 Medium = 51 – 500

242,595 active SMEs in Maricopa County

- Top SME industries:
- Wholesale and retail trade
  - Services
  - Hotels, restaurants
  - Professional, technical
  - Construction

## Pequeñas y Medianas Empresas (PyME) in Sonora, Mexico

**Number of Employees:**  
 Micro = 1 - 10  
 Small = 11 – 50  
 Medium = 51 – 250

76,000 active PyMEs in Sonora

- Top PyME Industries:
- Wholesale and retail trade
  - Primary sector
  - Construction
  - Hotels, restaurants



### This issue:

- The Current Business Landscape
- SMEs and PyMEs
- The Mexican Business Environment
- Sonora, Under the Microscope
- Building Relationships
- Opportunities and Challenges
- Recommendations

## The Current Business Landscape

Over the past several years, announcements about the resurgence of positive attention on Mexico have subtly echoed throughout the North American business community. Authors have inked sumptuous news headlines such as “Mexico is the new China for manufacturing,” “Mexico is the new India for global consumption,” and “Mexico is the new Brazil for economic power in Latin America.” As the echoes grow louder, eager business owners and economic development agencies have begun to cast their gaze southward, fashioning plans for ways to reap benefit from their rapidly developing neighbor. Many organizations, in both the public and private sectors, will not get very far, however; as they are applying strategies that were successfully used to engage counterparts in the aforementioned countries during trendy global movements of decades past. Most organizations are not conducting their due diligence in order to fully understand the delicate intricacies of the Mexican business community. The Maricopa Association of Governments

(MAG) is not one of these assuming organizations, however. Through its diligent exploration and planning processes, MAG is gaining an understanding of what it will take to succeed in Mexico. Additionally, within these complexities, lies yet another quandary: how to successfully engage the PyMEs (small and medium-sized enterprises or SMEs) that account for 99.5% of all registered businesses. The Thunderbird Consultants are pleased to have been selected as the body to shed light upon the business environment in Mexico. This document includes graphical representations to help further illustrate key findings as well as technical classifications.



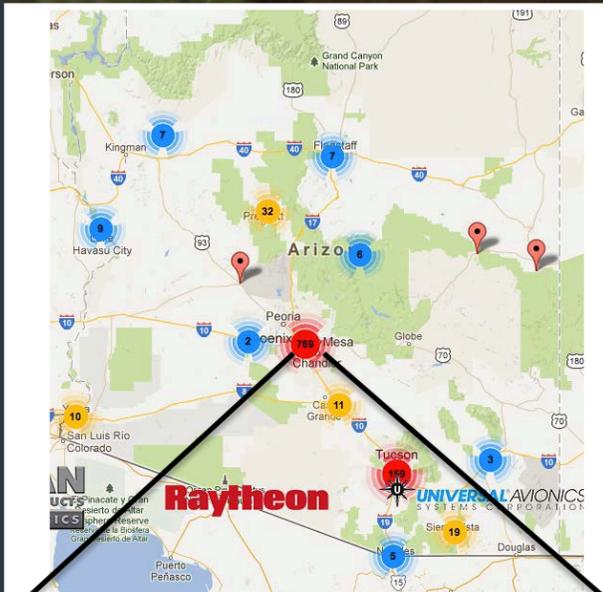
## Sonora, Mexico under the microscope

While the state of Sonora only accounts for 2.6% of Mexican GDP (nearly \$30 billion USD).<sup>1</sup>The percentage breakdown of companies per size category is nearly identical to that of the rest of the country. Per the 2008 national census, there are approximately 76,000 companies in Sonora. Their size classification is listed below:

- Micro: 52,330 (69%)
- Small: 20,698 (27%)
- Medium: 2,833 (4%)

The state is home to a population of 2.7 million people and the average per capita income is approximately \$11,200 per year. Additionally, formal employment growth rate of 5.4% is outpacing the national average of 4.3%. The state capital, Hermosillo accounts for 1/3 of Sonora's GDP and population; and its business demographics mirror those of the rest of the state.

The comparative number of PyMEs operating in Sonora today is less than 1/3 of those in Maricopa County. Of the nearly \$5.8 billion of goods exported to Mexico by Arizona, 80% is destined for Sonora. This statistic alone quantifies the importance of trade between these two regions.



### Supply Chain Visibility

A proven strategy to increase economic collaboration is to provide visibility upon the active supplier base in a particular region. An online platform which makes these companies visible in a user-friendly manner, such as that illustrated above, would prove valuable. The technology currently exists for a small amount of industries, but should be expanded across all industries with companies interested in conducting bilateral trade.

## The Mexican Business Environment

### Understanding the PyME landscape in Mexico:

- 2008 total number of enterprises in Mexico: 3,500,000
- 2008 Proportion of PyMEs: 99.5%
- 2008 Total # of PyMEs: 3,482,500

\* The number of PyMEs has changed since 2008, however, this is the last official number; taken from the 2008 national census.

### Understanding the family-owned business landscape in Mexico:

- At least 90% of all PyMEs are family-owned businesses.
- Estimated % of sustenance-focused family businesses: 30%
- Estimated % of growth-focused family businesses: 70%
- # of sustenance-focused family businesses: 940,275
- # of growth-focused family businesses: 2,193,175
- **Total # of PyMEs focused on growth (family and non-family owned businesses): 2,542,225**



## Arizona - Sonora

### 2011 by the numbers

- \$11.9 billion worth of bilateral trade; Arizona exports \$5.74 billion worth of goods to Mexico (48% of total trade)
- Computers and electronics exported to Mexico generate over \$1.2 billion in revenue for Arizona
- 87,800 jobs are a direct result of export related activities
- 23 million northbound visitor border crossings occurred over the Mexico-Arizona border
- Mexicans account 70% of 4.7 million international overnight visitors in Arizona

Source: US Chamber of Commerce

Sonora is the only state in Mexico's Northern border which is currently marked green within the National Crime Rate Traffic Light. This indicates that the overall crime rate in Sonora is below the national average.

### Crime Rate Traffic Light: Total Reds



Sonora is the safest among all border states.

Source: COPRESON

## Fostering Meaningful Business Relationships in Mexico

In Mexico, much more than in other counties, what determines the fate of trade is an organization's ability to initiate and build sound personal relationships, not just commercial relationships. While avoiding generalizations, many Mexican business owners place a higher value on a mutually beneficial, trustworthy, relationship than merely on quick profit focused transactions. This is a fact that SME owners in Arizona must be cognizant of when seeking to establish a partnership in Mexico. Rather than the U.S. norm of establishing business relationships via different forms of technology, such as email, phone or Skype; a face to face meeting is absolutely essential in facilitating a long

term business relationship in Mexico. This face-to-face meeting must be followed by subsequent visits that are focused on establishing trust between parties. Once this initial phase of communication and relationship building is established, an Arizona business owner will be more likely to cultivate a steadfast partner on which they can rely. While this may seem like common sense, this step in partnership building is too often neglected by many business owners, thus impeding their success in Mexico. This cross-cultural education will play a crucial role in the awareness campaign conducted by MAG.

## Opportunities for Growth

### Arizona-Sonora Synergy

### Value-Added Processing

Historically, raw materials and minerals have been extracted from Sonoran soil and exported for further processing in other states or countries. Primary research indicates that there is a significant opportunity for more value-added processing enterprises in the state of Sonora.

### Assembly, Sub-Assembly, Warehousing Opportunities

Per the Supplier Expo 2012 held in Nogales, the Maquila industry along the border is constantly on the lookout for key suppliers of multiple products and services. Arizona SMEs are well positioned to fill this role. Additionally, NAFTA has significantly increased the volume of commercial trucks crossing the border in Nogales. This increased commercial activity has created an opportunity for more warehousing and distribution companies on the US side in Nogales, AZ.

### Near Shoring Opportunities

MAG area SMEs should examine their supply chains to see if they stand to benefit from near-shoring to Mexico. Doing so often allows companies to have more control over their upstream partners, reduce costs, offers protection from IP theft, and other benefits.

