

interest rates with real dollar interest rates. You have to adjust the peso rate to a dollar rate. Looking at the cost of domestic credit in dollar terms, Mexican companies' cost of money on the local market is two and a half to three times more than in the U.S. market. At the same time, financing is scarce, especially in certain segments of the economy. Under these circumstances access to financial resources becomes a significant factor in the decision by a Mexican to enter into an arrangement with a foreign company or investor.

In Mexico, there was an opening up of the economy which was not consistent across sectors; some sectors opened up faster than others. Few banks in Mexico have a track record in agribusiness. Although the Mexican financial sector is being opened up and banks are coming in, few banks are coming in with agribusiness expertise.

There is also a political cost for Mexico in direct foreign investment. The decision to allow direct foreign investment is a political decision with political costs. There is also a cultural cost.

## THE ALLIANCE PROCESS

*David Heilig*

In two years of studying business in Mexico and trying to identify new opportunities, I have gone through "the alliance process." It starts with examining previous alliances - people known to be doing business in Mexico. I give them a call and tell them I am coming down, and seek advice. That leads to another phone call and another meeting, and so on. It is no different than doing business in your own country. It is all about relationships; that is nothing new. People buy from people. During this development time, there should be a dedicated period of discovery and relationship building. These relationships and investigations should be done face to face.

The next step is education. Companies are often ill informed about other countries. My approach is to return to the United States and inform a company about what is available in Mexico, what was observed there, how forward thinking the contacts were, and how technically advanced, the businesses were. For example, many of the packing houses are more technologically advanced in terms of food hygiene and food safety than those of the United States.

The "alliance process" continues with achieving a thorough understanding of what goals are to be achieved. Business ventures must be guided by clearly defined objectives. If the objective is to make money, then the firm must have a strategy.

An open mind to the methodology used to achieve goals is needed. Quite often, an American firm wants to come down to Mexico and do it their way, as long as goals are identified, be footloose; as long as we are going to get there, let's not be too concerned about how we get there. To be successful, one must recognize geographical and cultural strengths and differences. Also, companies must discover opportunities or advantages in Mexico versus the United States. This seems obvious, these factors must be analyzed and incorporated in the strategy.

Next comes the negotiation of opportunities and logistics. The actual negotiations, rather than being the most difficult part of the alliance process, may be the easiest. The individuals I worked with in Mexico are highly educated. In the United States, there is a saying, "Grandpa started the company, dad built the company and the kids trashed the company." As a generation rolls over, we have an innate fear of this outcome. In every company visited in Mexico, Grandpa made the son go to school in an area selected so that he brought back special skills to the company. The grandsons also went to school with the same outcome. In some instances you may sit across from someone who has an MBA from Cambridge.

In the beginning aspects of any project it is always imperative that you do the proper amount of "due diligence". A partnership in a foreign country does not change this requirement. A firm must emphasize the completion of all financial and legal pre-work before proceeding. It must be remembered that the cultural differences may seem trite to a large corporation but they must not be overlooked. A proper amount of time and research must accompany any ventures into another culture. It will not only increase the chances of success, but make the transactions all that more enjoyable.

### **Operational Aspects of Alliances**

The companies I have worked with have looked at alliances as long term arrangements. Consequently, exchange rate opportunities and problems have been seen in a longer term context. If you have the mind set of riding out exchange rate fluctuations long enough, you can negate the volatility. If you are really worried about the fluctuations, you are just a speculator - trying to pick the low and sell at the high. This is one of the goals which must be established prior to any work being done on the project. In my opinion it is best for everyone involved to make long term investments in this situation.

The legal structures encountered in Mexico were quite varied for existing entity stock purchase and new entity formation. There is definitely a need for transnational legal structures. We ended up with several structures and some aspects of our alliance were just done with a handshake. Lawyers to write up a contract are always available. But, if you cannot trust the person you are going into business with, the legalities of the deal are not going to matter. Remember that the people in the other country may not trust you any more than you trust them.

Information discovery in Mexico was somewhat difficult. Most of the public data were very dated. My approach is to go at things backwards, and call all of the

people I knew who were doing business in Mexico. Private sector information seems to be more current, focused and specific. Information is available in Mexico, but it may require extensive relationships or it may have to be purchased. Several universities have done broad work in Mexico and this can be a basis for your research start.

Because of the young age of Mexican consumers and businessmen and the fact that the control of companies is rolling over, data must be current. The rapidly changing face of industry and marketing in Mexico requires very up to date numbers, with accurate sources.

Our biggest concern in our alliance was technical knowledge transference – the loss of proprietary information. We worked with a lot of swine building equipment companies. These companies would bring a group from Mexico to the United States to show them a new building design. I toured buildings in Mexico that were not built by U.S. companies, but were exact duplicates. The Mexicans walked through and remembered exactly how they were built. I would ask them, “Oh, ABC company built this.” The Mexican’s would answer, “No, we built it, but it was ABC’s plan.” In those terms and in the new terms of biotechnology, maintaining proprietary information is very important. So, when you go into a foreign country, you are going to have to take some risks – how much am I going to put on the table and how much am I going to lose?

### **Conclusion: Things to Remember**

- Government “approval” does not necessarily mean it can or will happen.
- “Open” trade requires an agreed upon quality standard and specification policy.
- Free trade is complicated by protection clauses and “but if, except when, only then, etc.”
- NAFTA health standards must be adopted by all.
- Transportation logistics or “bumps in the road” can be overcome.
- Economic stability is the goal.
- Cultural understanding and relationships are the key to success.
- Recognize that competition is healthy for everyone *IF* the playing field is level.