

# Whitepaper: Low Labor Costs in Mexico: Ways Manufacturing Profits

Low labor costs in Mexico provide many benefits than just a lower bottom line; see how your business can profit from utilizing the low-cost labor pool in Mexico.



## Low Labor Costs in Mexico Mean More Innovation

Without the burden of high labor costs, companies can plow the savings from manufacturing in Mexico into innovations and features for their

customers and products. US auto manufacturers are using the low labor costs in Mexico to add expensive fuel-saving features to meet stricter U.S. government gas mileage requirements without raising car prices.

### Savings in the Labor Pool

Savings in the labor pool helps U.S. companies be more competitive in the global marketplace. It allows them to sell to foreign markets with overseas branches. They keep labor costs low by hiring in emerging markets with lower standards of living. That lowers prices on the goods they ship back to the United States.

### The Hiring of the Workforce in Mexico

The hiring of the workforce in Mexico allows for stability in the region by keeping the people employed; this allows for companies to have less risk investing in the area. Maquiladoras employ over 900,000 people who would otherwise be unemployed.

### Executive Summary

- Lower labor costs mean more innovation
- Global competition for products are driving the savings from the labor pool
- Mexico's workforce is more productive and more cost effective than labor in China

**Productivity in Mexico is generally higher and more affordable:** The average work week in Mexico is 48 hours (without overtime) - compared to 40 in the US - and because of the low labor costs in Mexico, companies can depend on increases in outputs without affecting the costs of their goods. The labor value in Mexico has even higher value because of this output.

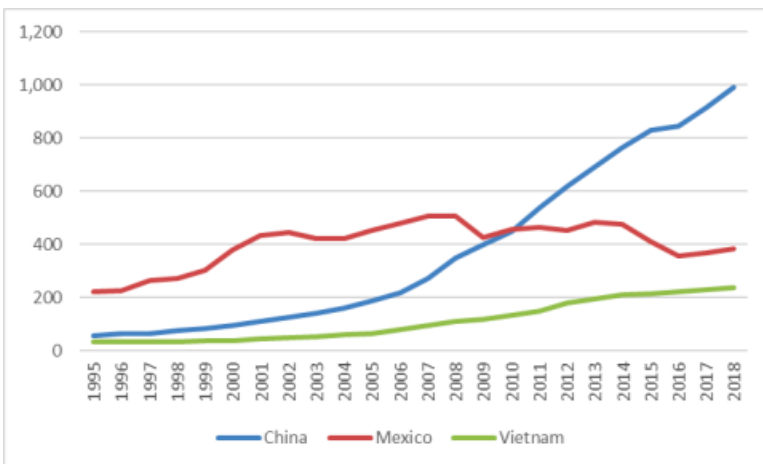
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## Maquiladora in Mexico

Thanks in large part to the Maquiladora in Mexico, the ability to add large groups of staff is not the expensive or politically-charged problem it is in the United States given the traditional relationship the Maquiladora have with unions: although the right to unionize is constitutionally guaranteed unless an area has a strong historical tradition of unionization, employees will probably have little interest in unionizing.

## Low Employee Turnover

Low Employee Turnover allowing companies to depend on a consistent human capital. Much has to do with the work environment, which companies are constantly improving to retain workers. According to the Tijuana EDC: "Global companies are having to work harder and to think "outside the box" to increase employee retention programs. Salary is important, but the culture of the company is the key differentiator."



Source: Economist Intelligence Unit.

## Productivity in China Has Decreased While Wages Have Increased

Since 2007, the opposite has been true for Mexico: wages are lower, and productivity is higher. This dynamic has allowed Mexico to expand their manufacturing into labor-intensive production such as auto and electronics manufacturing; this in turn has given US manufacturing companies a viable option for their outsourcing needs.

US manufacturing wages, coupled with the cost of health insurance for these skilled workers, remain higher than both China and Mexico, resulting in companies looking to outsourcing to help with their bottom line. The annual wages in the US is nearly four times that of Mexico; the proximity to the US makes Mexico a very attractive choice.

## Allows for More Investment in Emerging Markets

According to the Motley Fool: "Like Vietnam, Mexico's capitalizing on China's misfortune through cheap wages. Average wages are higher than in China -- 40% higher as of 2011. Mexico's also thrived in producing higher-quality workers recently, particularly in fields such as engineering. That's created a productivity surge in the country, and the Boston Consulting Group estimates that when productivity is accounted for, Mexico's cheap wages and worker efficiency mean that China's labor costs are actually higher."

## Lower Bottom Line Means a Cheaper Priced Product For Your Customers

Lower bottom line means a cheaper priced product for your customers, allowing you to build a better, and faster, consumer base for your goods. Business Insider reports that goods made in the US are inevitably more expensive than those created in countries where labor is cheaper, such as China, Vietnam, and Mexico. If the production of popular items like iPhones and sneakers were done domestically rather than abroad, their prices would increase considerably.

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## Conclusion

The benefits of a lower labor cost for your manufacturing business are numerous: more innovation, more investment in other markets and products, a better ROI on the final produced product are just a few examples. In addition, having your product manufactured in Mexico will allow you to immediately take advantage of a lower-cost labor pool and enjoy the benefits of a more competitively priced and produced product.

## About NovaLink

In its 30th year of operation, NovaLink is a U.S.-based near shore manufacturing solution with two manufacturing facilities in Mexico and one distribution center in the U.S. As a cost-effective outsourcing extension to a variety of companies, both in size and industry, NovaLink has the expertise to manage the labor force and day-to-day production and distribution for its clients. For more information, please visit <http://www.novalinkmx.com/>