

Source: 2015 19th Annual Third-Party Logistics Study.

A lack of quality infrastructure, limited use of technology and certain regulatory aspects continue to be a challenge for Mexico's logistics industry. However, this also can create opportunities for 3PLs that have expertise in these areas.

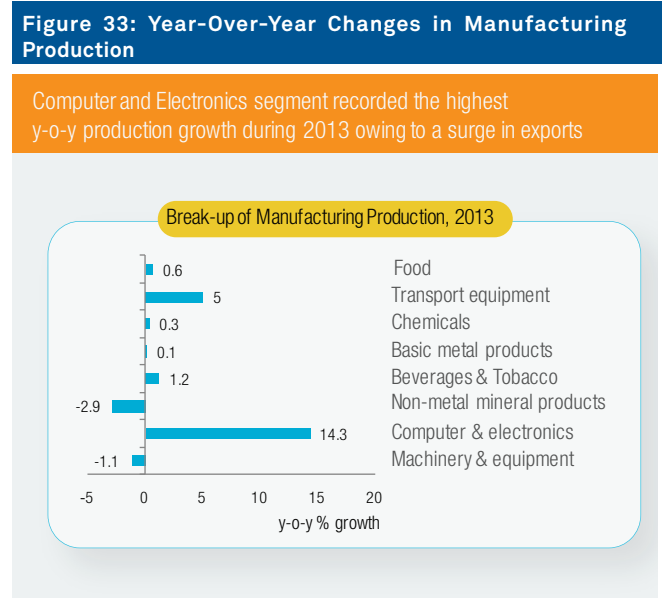
Of the logistics service offerings in Mexico, 68% of respondents said they are currently buying or providing domestic transportation, international transportation and warehousing, and 12% said they plan to invest in those areas in the next 12 to 18 months (Figure 35). Nearly half—47%—of respondents said they are purchasing or providing customs brokerage, but 25% said it needs improvement and 6% plan to make an investment in it in the next 12-18 months. There are limited licenses for customs brokers on the Mexico side, which can create challenges and also provide opportunities for those that provide the services. Just over 40% are purchasing or providing freight forwarding,

The area that shows the most potential for growth is within information technology services that logistics providers offer. Currently, there is little use of information technology

by small and medium-sized companies, and most of them see the technology as an expense, instead of as a tool or investment. While 27% of respondents said they are currently buying or providing technology services, 14% said they plan to invest in technology over the next 12 to 18 months.

Respondents said technologies, such as warehouse management equipment and software and asset and vehicle-tracking solutions need to be increasingly adopted to ensure cost effectiveness. This may create an advantage for 3PLs that are already using and have expertise in these technologies, and 3PLs said they are seeing increased demand from companies looking to leverage technology. In addition, 3PLs typically use software with global platforms and can integrate systems easily with their customers' enterprise resource planning software and any existing warehouse management systems.

Technology can also help assuage concerns about security, crime and corruption. Mexico ranks 106th in the world on the Corruption Perceptions Index, and the country is faced



Source: BBVA Research, "Mexico's Auto Industry Outlook": MexicoNow

with a shortage of institutions to keep organized crime and corruption in-check. To improve security and visibility, a number of companies utilize track and trace technology, and 3PLs have the opportunity to differentiate themselves by providing such updates to their customers. Shippers and logistics providers are also encouraging the county to keep the border open 24 hours a day, seven days a week. Expanded border hours would help fight or minimize cargo theft as freight on trucks would not sit idle. Currently, the border has limited hours on Sunday and closes to truck traffic from midnight to 6 a.m. daily.

Figure 34: Top Concerns of Challenges About Doing Business in Mexico

Top concerns or challenges about doing business in Mexico: (Rate 1 to 10)

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 35: Trends in Logistics Service Offerings in Mexico

Services	Currently buying or providing	Need Improvement	Planned Investment (12-18mos)
Domestic transportation	68%	61%	12%
International transportation	68%	33%	12%
Customs brokerage	47%	25%	6%
Information technology (IT) services	27%	22%	14%
Order management and fulfillment	32%	21%	6%
Customer service	32%	21%	6%
Warehousing	68%	20%	12%
Transportation planning and management	33%	19%	7%
Freight bill auditing and payment	19%	14%	4%
Inventory management	29%	13%	5%
Freight forwarding	41%	10%	5%
Reverse logistics (defective, repair, return)	32%	10%	3%
Service parts logistics	20%	10%	2%
Cross-docking	38%	10%	4%
Sustainability/green supply chain related services	13%	9%	2%
Fleet management	7%	8%	3%
Product labeling, packaging, assembly, kitting	36%	7%	4%
LLP (Lead Logistics Provider) / 4PL services	21%	7%	4%
Supply chain consultancy services provided by 3PLs	20%	7%	4%

Source: 2015 19th Annual Third-Party Logistics Study.

Issues with Infrastructure

Mexico’s economy has grown faster than its road system, and respondents cited a lack of transportation infrastructure as one of the top challenges they face in moving freight by truck. The majority of freight traveling within Mexico moves by truck or rail and intermodal trucking is integral to freight movement. However, trucking costs are expensive as a result of highway fees and the structure of the trucking industry.

What’s more, the lack of a border-crossing agreement for trucks between the U.S. and Mexico causes delays and inefficiency in import and export processes. Although foreign carriers can haul goods into limited zones surrounding the border, freight has to be handed off to either a Mexican carrier in Mexico or a U.S. carrier within the United States to travel farther into the countries by truck.

In addition, there is limited connectivity between maritime ports and railroads and truck transportation systems. Air transport of

cargo is almost nonexistent in Mexico although it is greatly used in other countries, including the U.S., Canada, France and China. The air transportation that does exist only offers connections with trucking companies but not with railroads.

Recent growth in certain manufacturing industries within Mexico, such as aerospace and automotive parts, has encouraged investment in multi-modal transport corridors. The country has focused on infrastructure development through building and modernizing an 82,500-plus-mile network of highways, 76 airports, about 17,000 miles of railroads and 117 maritime ports (Figure 36).

Political, Regulatory and Workforce Concerns

Export dependence and political accountability are among the challenges for doing business in Mexico. During the 2008 financial crisis, Mexico was the most-affected Latin American economy because of its export dependence. Going forward, export growth from other economies

such as China and Brazil can affect the growth of Mexican business.

Furthermore, dealing with the Public Registry of Property of the Federal District can be particularly time consuming, and paying of taxes consumes around 337 hours of business time per year. For example, filing a corporate income tax payment at a rate of 30% takes an average of 155 hours to complete. Registering property in Mexico can be a long and arduous task, requiring 74 days in total compared with the 26-day norm for OECD countries—a group of 34 countries that have joined forces to foster global development. However, many 3PLs often lease space, so they aren’t faced with the challenges that come with buying and building a facility.

While respondents also had concerns over workforce readiness, 3PLs said they have been able to tap into an increasingly well-educated, younger workforce with experience and expertise in supply chain management. Workforce readiness can depend on where a

Figure 36: Opportunities from the Rise of Infrastructural Development and the Increasing Role of the Private Sector

