

BEYOND THE REFRIGERATOR DOOR

Success of the Electric Home Appliance Industry in Mexico

Thanks to its skilled workforce, strategic location, large suppliers and supply chains, transnational companies that manufacture refrigerators, washers and heaters have found a good solution in Mexico to being competitive in the market.

BY: ITZIAR GÓMEZ JIMÉNEZ

At the start of Gabriel García Márquez's novel, "One Hundred Years of Solitude", Colonel Aureliano Buendía remembers the day his father introduced him to ice. Macondo, where Aureliano lived, was an extremely hot place where refrigerators were not known about and ice was another amazing thing brought by the circus. Today, it is astounding to meet someone who is unfamiliar with ice, since we can get as many ice cubes as we need simply by opening the freezer door. Also ridiculous is the idea of spending

hours hand washing clothes. Today home appliances -such as refrigerators, washers and heaters- are essential instruments that save time, improve the quality of our activities and make housework easier.

According to data supplied by INEGI (The Statistics, Geography and Data Processing Institute), an average of 68 hours per week are devoted to housework in every Mexican home. And a study by home appliance manufacturer Easy found that Mexicans spend 22,800 hours of their lives washing clothes. This means that home appliance manufacturing companies have a

potentially lucrative market in Mexico. But that all depends on their appliances performing well and consumers being willing to pay for quality products. Mexico's real estate boom has also opened the door for this market's development, said Edgar R. Jiménez, Sunbeam Mexicana Director.

"There is an opportunity for growth in the effort to create housing because the more houses that are built, the more kitchen appliances that will be needed," he said.

The fact is that total home appliance sales in Mexico amounted to over 252 million usd during 2007.

MEXICO IS ONE,
of its seven most
important suppliers.

“For a country to be able to compete with Mexico in our continent, it would have to be established here since a refrigerator brought from China costs more due to transportation costs”

The inconvenience for many of these companies in the worldwide market has been to maintain being competitive and that is mainly due to constant price increases in raw materials and transportation costs. However, directors of transnational companies have found a good solution in Mexico, thanks to its skilled workforce, strategic location, large suppliers and supply chains, and logistics easiness. These factors significantly reduce their production costs, Friedrich Air Conditioning Company President and CEO Charles M. Mari-

no said after announcing the opening of his company's air conditioning and heater manufacturing plant in Mexico.

“The city of Monterrey was selected because of its skilled, stable workforce, strong supplier base and strategic location near the San Antonio headquarters,” he said.

ANFAD (The National Association of Home Appliance Manufacturers) has 23 members from the electric home appliance industry. They may seem like only a few companies, but they represent about 80% of the segment's production and sales. Most of them

are part of international companies that have established themselves in Mexico.

ANFAD's general manager, Pablo Moreno Cadena, believes transnational companies have come to Mexico for several reasons.

“One of them is our skilled work-

force. Companies look for a workforce with the ability to manufacture equipment under the required standards, mainly because most of it is subject to safety and energy efficiency standards,” he said. “The other aspect is our geographic location in relation to the United States and Latin America. Besides, (home appliance) clusters in the states of Nuevo León, Coahuila, Querétaro and San Luis Potosí are very important elements of competition that have benefited companies.”

Clusters: Competitive Centers

Home appliance clusters have provided companies with advantages that make them very competitive. First, companies are located in the same geographic center, allowing them to group as a sector and cooperate amongst themselves. These same sites also incorporate suppliers, auxiliary industries, recycling and training institutions and many other services, substantially improving their competitiveness.

For example, Nuevo León is the leading state in home appliance production in the country. Within Mexico, Nuevo León has 20.9% of the industry's employment and





TODAY HOME APPLIANCES,
are essential instruments that
improve the quality of our lifes.

32.2% of its gross internal product (GIP). The state employs more than 15,000 people in this sector, which makes up 4.6% of the manufacturing personnel in Nuevo León.

Nuevo León's government established a home appliance cluster in 2006, made up of companies such as Whirlpool, Hussmann, Carrier, Criotec, IMPCO, York, Mabe and LG Electronics. It also has educational institutions such as ITESM, Universidad Autónoma de Nuevo León, Universidad de Monterrey, UNITEC, Universidad Regiomontana and Universidad Tecnológica de Santa Catarina.

The appliance cluster partners with the educational institutions on such things as a human resources program that connects the sector with students. The cluster also works to integrate and strengthen the suppliers' network, stimulate the creation of enterprise development systems and help with financing needs. Moreover, a council was established to improve logistics and circulate merchandise faster and more efficiently.

On this respect, Pablo Moreno asserts: "Having home appliance clusters in several

states also leads to the development not only of manufacturing plants to produce the appliances but also of plants that supply the 'just in time' needed materials. A series of established agreements have significantly increased suppliers' infrastructure around manufacturing plants, allowing them to be better supplied with materials on time."

For example, Brazilian-based Embraco, a producer of hermetic compressors, has opened a commercial office and warehouse in Monterrey, Mexico, the company's sixth overseas business unit. The company says its presence in Mexico was a strategic decision based on trends in the competitive cooling appliances market. Large refrigerator manufacturers have chosen the country as a production base for exports to the US -Embraco's main market.

Mexico: A home appliance manufacturer's paradise

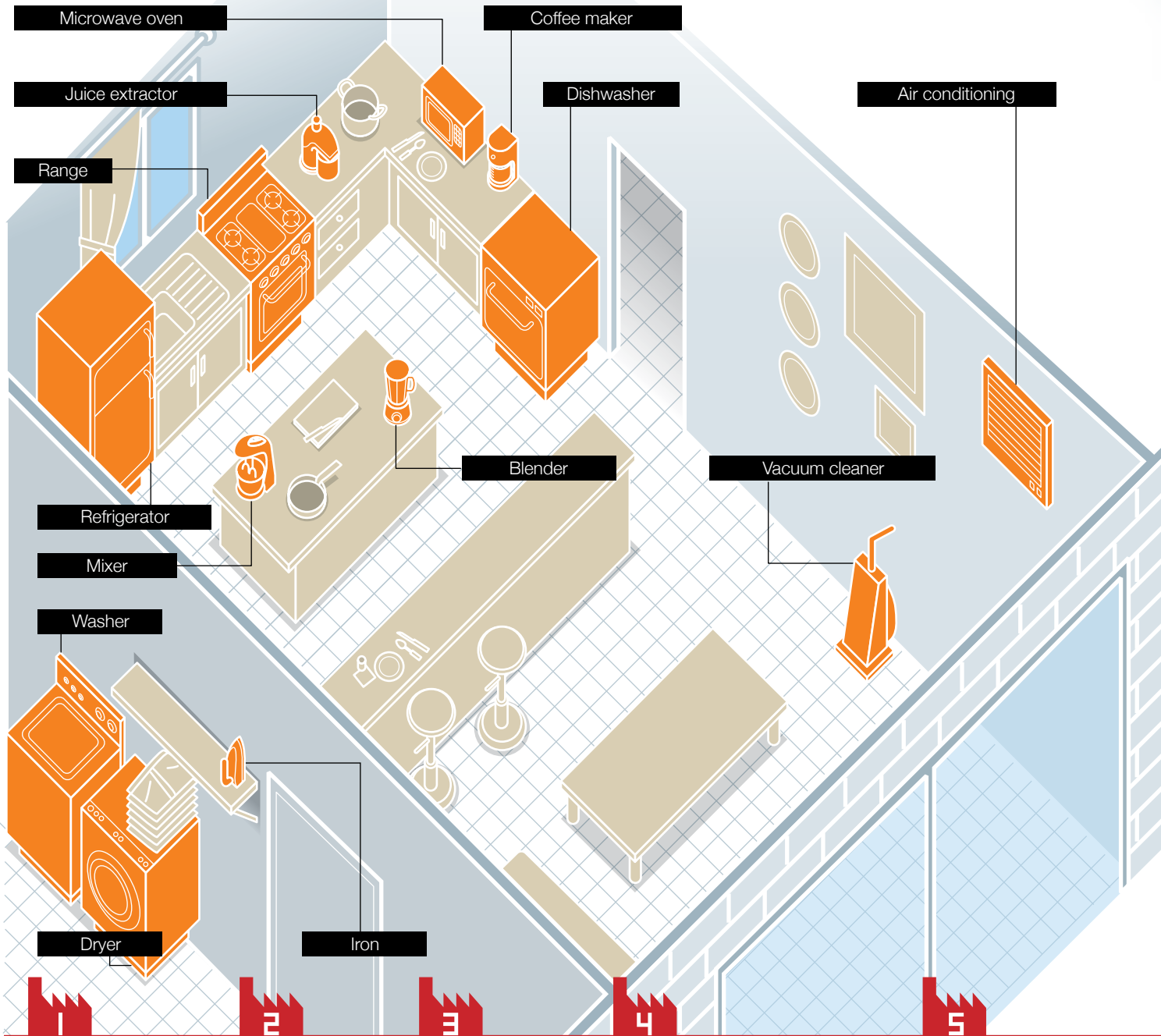
In Pablo Moreno's opinion, all these production advantages make it difficult within the continent to compete with Mexico in the large home appliances sector. ANFAD's general manager explains that this

industrial sector has two branches: large home appliances such as refrigerators and ranges; and small home appliances, such as blenders and mixers. "For a country to be able to compete with Mexico in our continent, it would have to be established here since a refrigerator brought from China costs more due to transportation costs," Moreno stated. From his perspective, the only countries that could compete are Brazil and the US. However, businessmen from the US prefer Mexico and are moving their plants to our clusters.

If we looked into an American, Mexican or Canadian home, we would find that most of its appliances -washer, dryer, range, refrigerator, vacuum cleaner and microwave oven- are made in Mexico. For most companies, North America represents an attractive share of the electro-domestic market. Mexico, the US and Canada represent 27% of over 47.4 billion USD that LG sold in 2007. The company's three plants in Mexico supply 90% of LG products sold in Mexico and 80% of those sold in the US. LG also manufactures for Latin America, which represents 10% of the company's total sales worldwide. Antonio Hidalgo, LG's mar-



Main products
Made in Mexico
 and sold in US



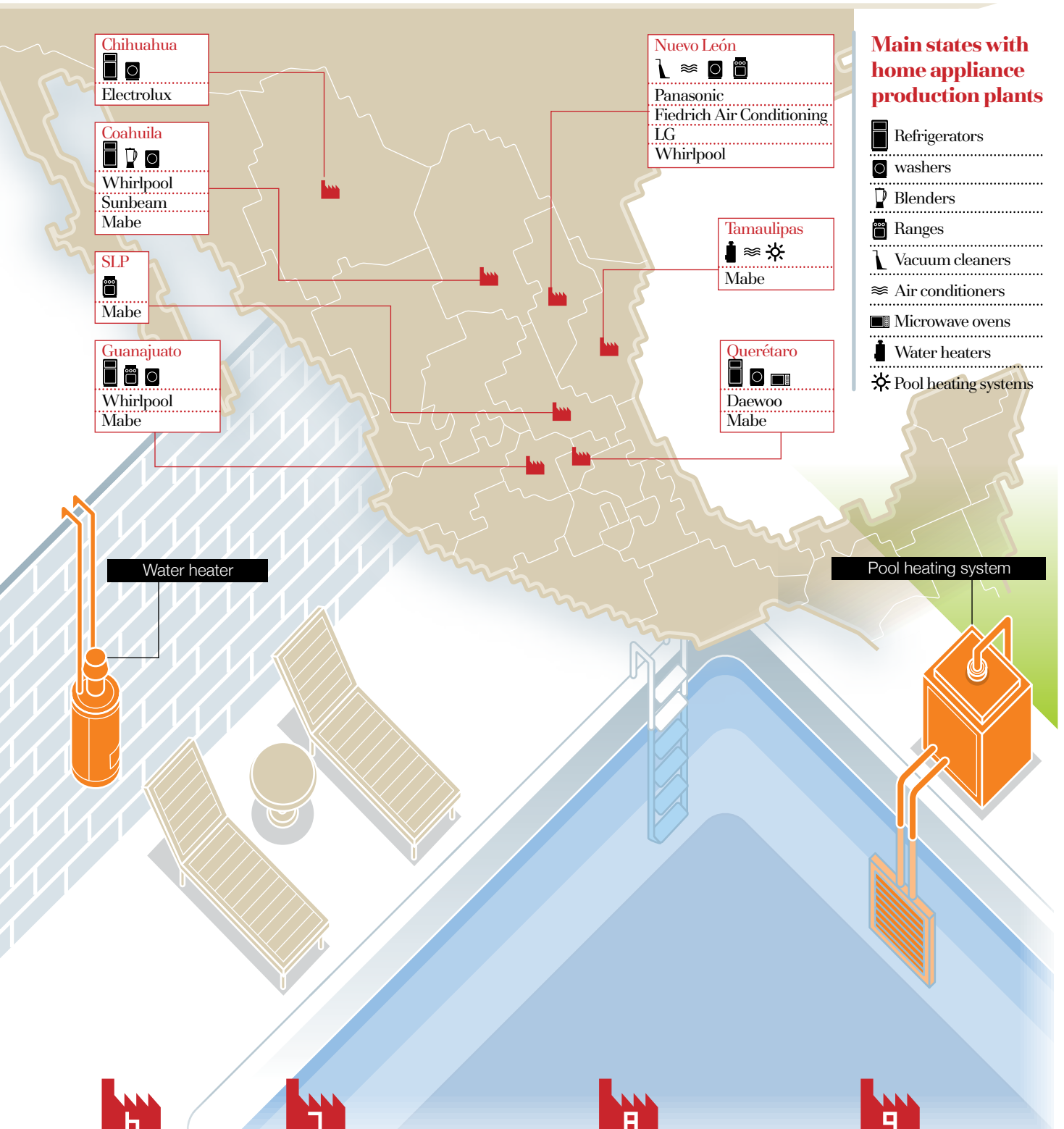
1
 From the production sold abroad, 80% goes to the US, less than 20% to Latin America and a very small percentage to the European Union. Source: ANFAD

2
 The sector's main goods produced are, in order of importance, steel, aluminum, copper and plastic. Source: ANFAD

3
 The ANFAD groups companies such as Mabe, Whirlpool and Sunbeam, which together represent 80% of the domestic market.

4
 Accumulated growth from January to August of the home appliance sector in Spain is -17.47%. Mexico has had an approximate 0% growth in the same period, which gives us a very high advantage in relation to other countries. Source: ANFAD - ANFEL

5
 The home appliance industry generates about 35 thousand direct jobs and 110 thousand indirect jobs. Source: ANFAD



Total home appliance sales in Mexico exceeded 194 million USD during 2007.
Source: ANFAD



Production value of home appliances manufactured during June 2008 was 129 million USD and the sale value of products manufactured during the same period 127 million USD.
Source: INEGI



US is the country with the highest direct investment in Mexico in this sector during 2007 and 2008, (120 MD), followed by Corea (172 MD) and Japan (3 MD).
Source: Ministry of Economy, Foreign Investment Office



Refrigerators, followed by washers and heaters are the home appliances that attract the highest foreign investment to the country.
Source: Ministry of Economy, Foreign Investment Office



THERE IS AN OPPORTUNITY,

for growth in the effort to create housing because the more houses are built, the more appliances that will be needed.

keting director in Mexico, said “the company supplies from Mexico to two of its seven most important countries”, which means that for LG Mexico is a strategic partner in the development of its electric home appliance branch.

Strong, even under crisis

In spite of the economic problems affecting some pockets of home appliance consumers worldwide, Jose Luis Berrondo Avalos, Mabe technology and projects vice president, said that the company had more than a 10% increase in sales during 2007, compared to the previous year. “And that is how we want to grow, between 11 and 14% at macro level,” he added.

On the other hand, ANFAD’s Pablo Moreno said that “in recent years the sector has grown moderately, but there has been growth nonetheless. We have had only one digit increases, either 1 or 2%. During the first quarter of 2008, we managed no growth. But this encourages us because we have had no losses.” However, he added that these figures might go up by the end of 2008, since the buying trends of this industry are based on two big sale seasons: May and December. “The latter is the most important, because even when growth is small for the first quarter, we can have an increase during the second quarter,” Moreno said.

The US is Mexico’s main customer for the home appliance manufactured here. However, Mexico seeks to strengthen commercial relationships with Central and South America. Washer exports from our country totaled 125 million usd, an increase of 8%, during the first quarter of this year, according to information supplied by Banco de México. This was boosted by exports to Central and South America. From January to June 2008, washer exports to the US were 54 million usd, a 3.6% drop from the same period last year. In contrast, sales of those appliances to Central and South America totaled 63.3 million usd, an increase of 17.7%.

Pablo Moreno said refrigerator manufacturers will have considerable sales increases thanks to PFAEE (the Financing Program for Electric Energy Saving), which plans to replace 1.8 million obsolete appliances with energy saving ones. In order to carry out the program, it received governmental support of 2 hundred million usd.

“The idea is to replace inefficient refrigerators with new ones that save up to 70% more electric energy,” Moreno added.

Additionally, Moreno said that compliance with quality and environmental standards are other advantages for manufacturers in Mexico. For example, the Air-Conditioning and

Refrigeration Institute (ARI), which develops technical standards for manufacturers of air-conditioning and commercial refrigeration equipment sold in North America, and the Asociación de Normalización y Certificación (ANCE), the electrical standards development agency in Mexico, signed a memorandum of understanding (MOU) in 2006, in Mexico City. The MOU will help bring together ARI and Mexican HVACR technical standards. It will also promote collaboration on standard development to advance international trade as well as strengthen the industry’s efforts to improve energy efficiency and reduce refrigerant emissions.

Finally, the main distribution channels have contributed to the success of the electric home appliance industry in Mexico. Appliances are now sold in supermarkets, department stores and wholesale furniture shops which have transformed their showrooms. There are also many financing and credit programs that allow consumers to buy home appliances at fixed prices or at reasonable interest rates.

Thanks to the prosperous electric home appliance industry in Mexico, if Colonel Aureliano Buendía had been born in Mexico, and not in Macondo, he would have known the pleasure of ice cubes from his own refrigerator made in our country. ■