

Going backwards: Would a Mexican company relocate to the U.S. and even export to China?

Introduction

In this paper, I present findings about the benefits that a Pork Pellet and Pork Rind Mexican manufacturing company could achieve by relocating part of their production facilities to the U.S. and starting a *Maquiladora* in the U.S.-Mexican border. This paper is a compilation of information learned after visiting three different universities: The University of Texas San Antonio (UTSA), The University of Texas-Pan American (UTPA) and *Escuela de Graduados en Administracion y Direccion de Empresas* (EGADE) in four different cities: San Antonio and McAllen, TX; Reynosa and Monterrey, Mexico.

Brief History of Pork Rinds

During the race for the presidential election in November of 1988, George Bush was addressed with a question about how the real George differed from his aristocratic image. He answered, "I like pork rinds" (Carlson, 1998, p.1) *Chicharrones*, the Spanish translation of pork rinds, have been part of America since the tradition to raise pork was brought to America by African slaves during the Spanish colonization (América Andina Business Group, n.d.). It was until the 1800's in England where pork rinds, as we know the product today, started. At the beginning, pork rinds were the food of the working class in England (Openshaw, n.d.), and in the U.S. it was mostly the same until the late 1990's. Dr. Robert C. Atkins published a very popular book in 1992, promoting a low carb diet (CNN Health, n.d.). In that diet, pork rinds were described as a supplement of bread, croutons, and tortillas. With the popularity of that diet, plus other factors including the increase of promotions by the industry leader Frito Lay, U.S. sales of

pork rinds grew from \$163.4 million in 1987 to \$420 million in 1999. (Gale Encyclopedia of American Industries, n.d.)

Pork Pellets

Pork rinds and pork cracklings are basically pork skin cooked and fried (or baked). The process of transformation from skin to pork pellet involves two steps: first drying (and in some cases smoking) the raw skin and second: rendering out the fat from the pork skin. The final product of this step is known as pork pellets. (Rudolph Foods, n.d.) After the pork pellets are produced, those can be stored at room temperature, and the shelf life is up to nine months. Since no refrigeration is required, it is better for a company to cook all the inventories instead of having those at the cold storage, in order to save energy. Pork pellets are also very efficient to store and transport. The next step in the process is to deep fry the pork pellets, having pork rinds as the result of that process. (Palacios-Correa, 1999)

Study Case

The study company for this research is Deli Abasto S.A. de C.V., a Mexican company founded in 1988 and devoted to the manufacturing of pork pellets, pork rinds and pork cracklings. The company started as a trader of pork skin, and after the North American Free Trade Agreement (NAFTA) started, the company diversified into a manufacturing company. The reason to open a production facility at that time was to add value to their product in order to face a larger amount of competitors. The company headquarters are located in Guadalupe, Nuevo Leon, Mexico and their plant is located at *Parque Industrial El Carmen*, El Carmen, Nuevo Leon Mexico. The company imports all the pork skins from the U.S.

Sustainable Competitive Advantage (SCA)

On the first day of class, we learned from Dr. John McCray about Sustainable Competitive Advantage concept. According to Barney (1991)

A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. (p.102).

In the case of the pork pellet business, it is easy to understand the strategies of current competitors because the number is limited. In the case of pork rinds, the industry has a large number of small producers and some large producers, e.g., Frito Lay in the U.S. In Mexico, the *Sistema de Informacion Empresarial Mexicano (SIEM)*, the official database of companies lists over 200 producers of Pork Rinds (Secretaria de Economia, n.d.), but in reality, there are several small companies that pack and distribute pork rinds (Palacios-Correa, 1999).

The company could achieve a Sustainable Competitive Advantage by producing the pork pellet in the U.S. and packing the pork rinds in Mexico. The primary reason will be that the company could afford to produce small highly customized batches for the small Mexican and American companies that the industry leaders cannot afford to market. i.e., private label, different flavors, and different sizes. The result will be rare, and costly to imitate, which Dr. McCray described as some of the characteristics of SCA (McCray, 2008).

Strategy

As we learned on our visit to International Bank of Commerce several Mexicans consider the U.S. banking industry safer than the Mexican, even though now most of the banks in Mexico

are subsidiaries of multinational companies, e.g. Citibank, BBV. In the the case of a U.S. manufacturing company, as we learned in Dr. Martinez's presentation at EGADE, the origin of effect is expected to be greater in Mexico and other countries when they import Deli Abasto's pork pellets.

Logistics

Logistics play a very important role in this project. As we learned at HEB Distribution center in San Antonio, the process of exporting to Mexico can become a hassle. Changes in regulations from one day to another cause delays . Having the pork pellet manufacturing company near the border will help lower that risk because the load can be returned and import documents re-worked but, more importantly, because the company will be exporting basically two items: pork pellets and pork rinds.

Marketing

Marketing is crucial for any business expansion, as we reviewed at UT San Antonio. The company knows well the Mexican market. Having a facility in the U.S. will allow the company to export to several regions that demand pork pellets, Latin America, Europe and Asia, especially China. At Dr. Jones' lecture, in addition to the visits to LG and Nokia plants in Reynosa, we learned that communication between different cultures is a challenge. In order to achieve expansion the company's international sales representatives should be trained in the different ways to do international business. Another option will be to have distributors in the other countries. A good example of a successful distribution strategy is the case of Coors Light in Mexico, by *Cerveceria Cuahutemoc Moctezuma*.

Manufacturing Facility is the U.S.

At the presentation of Casa San Antonio we learned that one of Monterrey's largest meat distributors was interested in relocating their warehouse facility (cold-storage) to San Antonio, Texas. The difference in electrical rates, which are much lower in the U.S. than Mexico and the fact that most warehouses require low labor were the reasons. In the case of pork pellet, energy is the largest cost of production after raw materials, i.e., pork skin. Relocating the production facility of Pork Pellets to the Rio Grande Valley in Texas would have several benefits including reduction of energy cost; pork pellet and pork rind production utilize large amounts of energy, and the process is capital intensive (Palacios-Correa, 1999). A large amount of labor is not required in the process. Dealing with pork skins could be really complicated if the company does not use a state of the art frying system. The right temperature and movement of the raw material is required in order to produce a good quality product. It could be comparable to cooking an over-easy egg; it is simple to cook one, but it will be complicated to cook a large amount and expect that every one have the same specifications. (Palacios-Correa, 1999) The packing process could still be capital intensive but in this case the company could afford to have a labor intensive packing process, in order to supply small businesses on both sides of the border. Another large benefit to produce in the U.S. will be to be *closer* to the suppliers, since all raw materials come from the U.S. The U.S. is the largest pork producer in the world (U.S. Department of Agriculture, 2008) The 2008 pork production forecast is 97 million tons; China's production is expected to be at 44.7 million tons. China's challenges in disease outbreaks are a challenge for that country, especially for their backyard production. The European Union is the third largest producer, with a forecast of 22.5 million tons (U.S. Department of Agriculture, 2008).

Cultural differences should be lower because of the similarities between the Rio Grande Valley and Mexico. The company managers will still need to be trained about the cultural differences in doing business in the U.S. Immigration may be another issue because the Mexican company may relocate some of their staff to work at the U.S. plant. A good resource for the company to address all the uncertainties associated with the plant relocation will be to approach The McAllen Economic Development Corporation.

Maquiladora in Reynosa

We have learned in the Management and the Borderlands class that *Maquiladoras* in Reynosa have remained competitive versus the fierce competition that China represents. At Nokia we learned that customization is one of their competitive priorities; at LG we learned that proximity to market (speed to market) was one of the benefits of being in Reynosa. Bob's Candy's presentation was particularly interesting to me because I learned that they also produce a good variety of edible products in Reynosa, using lower cost labor. To open a facility in Reynosa may be the most challenging part of the project. Some of the reasons are that the Mexican law requires a *Tipo Inspeccion Federal* (TIF) plant in order to be able to sell the product in all Mexican states and the plant needs to be USDA approved in order to export pork to the U.S. That is a challenge when the company is small because of the fixed costs that it implies e.g., TIF plants are required to have a *Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion* (SAGARPA) certified veterinary doctor working full time, plus the specific regulations that a *Maquiladora* have, e.g. tax. We also learned that labor is not really available; land and services are generally more expensive than in the U.S. After visiting the plants in Reynosa and learning about production practices, my recommendation is to establish operations in the Mexican side of the border in order to achieve high customization at lower cost.

Pork rinds are sold in several different forms that range from the typical snack bag (i.e., plastic) to trays and vases. The different sizes range from 10 grams to one kilogram; the flavors added are also several: smoke, lime-chili, natural, soy sauce, among others. And the fact that a natural market is the snack industry and the need to pack with the customer private label (brand) makes pork rinds an ideal product for a high customization manufacturing facility in Reynosa. More benefits of the USDA Approved Maquiladora could be: able to pack small batches, deploy a lean manufacturing system, and work with just-in-time inventory. According to Schoenherr, T., et al. (2008):

Offshoring one's own production can create a more complex supply network with heightened risks, most notably supply chain risks. These risks, which can include poor quality, higher transportation costs, lower reliability, supply disruptions, logistical failures, natural disasters and increased communication difficulties, must be recognized and traded off against the advantages of moving one's operations overseas. (p.1)

There are some risks associated to offshoring a company production. In the case of Deli Abasto, opening a plant in the U.S. could be considered less risky than operating their existing facility in El Carmen, Nuevo Leon. The reason is the Rio Grande Valley Safety and the overall business certainty that the U.S. provides.

Conclusion

After visiting the three universities, *maquidoras*, service and manufacturing companies, retailers, warehouses, and even a mill, we have developed a broader knowledge about the San Antonio, Rio Grande Valley/Reynosa, and Monterrey corridor. The opportunities to create more development for this region are waiting for smart investors to act. The intense cultural-business

relationship that these cities have fostered create a special incentive to invest. Projects such as the pork pellets and pork rinds production are just an example of how the region could help a company become more competitive using the resources that this region provides.

References

- América Andina Business Group. (n.d.). Historia del chicharrón. Retrieved 2008, from Gastronomía Peru: <http://www.gastronomiaperu.com/articulos/detalles.php?d=25>
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management* 17, 99-120.
- Carlson, P. (1998, September 18). And if elected, I will serve...pork rinds. *The Washington Post* .
- CNN Health. (n.d.). *Diet guru Dr. Robert Atkins dead at 72*. Retrieved April 19, 2008, from CNN.com / Health: <http://www.cnn.com/2003/HEALTH/04/17/obit.atkins/>
- Gale Encyclopedia of American Industries. (n.d.). *Potato chips, corn chips, and similar snacks (SIC 2096)*. Retrieved April 16, 2008, from Answers.com: <http://www.answers.com/topic/potato-chips-corn-chips-and-similar-snacks>
- McCray, J. (2008, January 26). Corridors (Presentation).
- Openshaw, J. (n.d.). The history of pork scatchings. Retrieved 2008, from Freshers Foods: <http://www.freshersfoods.co.uk/history.htm>
- Palacios-Correa, S. (1999, May 1). CEO, Deli Abasto, S.A. de C.V. (S. Palacios-Wulschner, Interviewer)
- Rudolph Foods. (n.d.). Pellets. Retrieved April 20, 2008, from Rhudolf Foods: <http://www.rudolphfoods.com/pellet.htm>
- Secretaría de Economía. (n.d.). Productos. Retrieved April 21, 2008, from Sistema de Información Empresarial Mexicano: <http://www.siem.gob.mx/siem2008/portal/consultas/respuesta.asp>
- U.S. Department of Agriculture. (2008, April). Livestock and poultry: world markets and trade. Retrieved April 21, 2008, from Circular Series: http://www.fas.usda.gov/dlp/circular/2008/livestock_poultry_04-2008.pdf