

México

AN OVERVIEW OF
THE FURNITURE MARKET

AGENDA

1. Background
2. The Mexican Economy
3. The Mexican Furniture Sector & Demand Drivers
4. Exporting to Mexico: Barriers, Requirements & Regulations
5. Perspectives
6. Conclusion



México

Geography

- 5th largest country in the Americas
- Population of 113 mil (11th largest in the world)
- Main language: Spanish
- Strategic location
- Federation comprising 31 states and a Federal District, the capital city Mexico City
- Climate: 18 – 30 deg
- Mexico is 13 hrs behind Singapore



México

Social Etiquette

- Class Consciousness
- Punctuality
- Meet & Greet
- Professional Titles
- Physical Proximity
- Dining and Tipping
- “No” and “I don’t know”



Business Etiquette

- Business appointments are required and should be made at least 2 weeks in advance. Reconfirm the appointment 1 week before the meeting, and again once you arrive in Mexico.
- It is important that you arrive on time for meetings, although your Mexican business associates may be up to 30 minutes late.
- Do not appear irritated if this occurs as people often run behind schedule.
- Meetings may be postponed with little advance warning.
- Initial meetings are formal.
- Have all written material available in both English and Spanish.
- Agendas are not common. If they are given, they are not always followed.

The Mexican Peso

- Currency code: MXN
- Currency symbol: \$
- Deepest and most liquid emerging market currency after the South Korean Won
- Inflation: 3.5%
- 1.00 USD = 12.77 MXN
- 1.00 SGD = 10.85 MXN
- Frequently used coins: \$1, \$2, \$5, \$10, \$50
- Frequently used banknotes: \$20, \$50, \$100, \$200, \$500, \$1000



México



méxico

Insights

- 11th largest economy in the world by GDP (PPP)
- GDP of US\$1.66t in 2011
- GDP growth: 3.89% (2011) and 5.5% (2010)
- By 2050, Mexico's GDP (PPP) will surpass US\$6.5t to become 7th largest in the world
- Largest exporter in Latin America and 11th in the world
- Exports to USA (80.1%), EU (4.8%), Canada (3.6%), China (1.4%)
- Imports from USA (48.2%), China (15.1%), EU (10.8%), Japan (5%) and South Korea (4.2%)

Insights

- Low level of governmental interference in businesses
- Free trade zone amongst USA, Canada and Mexico for goods, services and investments, with rules created for IP rights, public purchases and dispute settlement
- NAFTA: more than 50 FTAs in force (Mexico is pro-trade & pro-business)
- Since 1994, trade flow has multiplied by 5 and FDI by 16
- Mexico's private-debt-to-GDP ratios is roughly 20%, compared with 50% for Brazil and 80% for Chile

Insights

- Strong macroeconomic fundamentals due to economic reforms
 - Fiscal discipline
 - Controlled inflation
 - Low interest rates
 - Low foreign debt
 - Low net debt
 - High level of international reserves
- Independent Central Bank
- Banking sector reaching 35% of GDP by 2020, implying a potential annual growth rate of 15 – 17%
- Reliable judiciary system
- Relatively low unemployment
- Young labour force

Mexico-Singapore

- In 2011, Singapore's exports to Mexico doubled from S\$3.1b in 2010, with bilateral trade totaling S\$5.36b
- US\$1.25b FDI of Singapore origin in 2011 (construction, manufacturing, real estate, professional services)
- Singapore is the 3rd largest Asian investor in Mexico, after Japan and Korea
- Bilateral Investment Treaty with Singapore which protects Singapore's investments in Mexico (April 2010)
- Cooperation Agreement with Singapore for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Tax on Income (since 1996)
- **Furniture imported from Singapore – only US\$765,000 in 2011**



Local Manufacturers

- Mainly “micro” companies (94%)
- Mainly artisan
- Little investment in design & technology
- Decreasing numbers of manufacturers
- Not competitive in price and quality
- Mostly exported to USA (42%)
- Unable to meet demands of local furniture market, especially middle to high-end demand

The Market for Furniture

- Population of 113 mil, with high demand for housing and furniture
- 14% annual average growth in imports
- Retail
 - Sales rose around 5% year-on-year from 2011 to 2012
 - Job creation of 380,000 jobs in retail sector
- Tourism
 - 9% of the GDP and the sector value is US\$103.9b in 2011. Increase in value of more than 16% from 2003 to 2011
 - Hotel groups (Hoteles City Group; Intercontinental Hotel Group) have plans to build more hotels, fueling opportunities for both interior builders and furniture exporters

The Market for Furniture

- Low income consumers
 - 70% of Mexico's population
 - Households less than 75 sqm, look for simple & basic furniture
 - Living room furniture sees the greatest demand
 - Growth of DIY products
- Middle income consumers
 - 20 – 25% of Mexico's population
 - Household size between 76 – 100 sqm
 - Look for quality and design-oriented furniture
 - Bedroom sets, entertainment centres and computer furniture are the most demanded items
 - Affordable contemporary style that mimics high-end furniture

The Market for Furniture

- High income consumers
 - 5 – 10% of Mexico's population
 - Represents 12 mil consumers
 - Look for high quality furniture with exclusive and trendy designs
- Mid + High = 40 mil consumers with high consumption power
- Popular furniture materials: wood (pine), steel, plastic & PVC and brown & maple colours
- Increased demand for “exotic” Asian furniture

Low End Furniture Market

- Mainly supermarkets and three wholesalers



- Contemporary furniture in plain colours (black, beige, and brown)
- Woods are Mexican with Mexican and Peruvian finishes
- 85% local, 15% China/ Malaysia
- Living room sets US\$379-911; Dining room sets US\$759-1,594; Bedroom sets US\$455-1,366
- Most common type of payment – credit (weekly/monthly); high interest rates

Low End Furniture Market



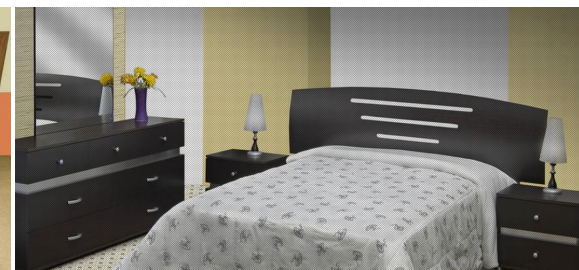
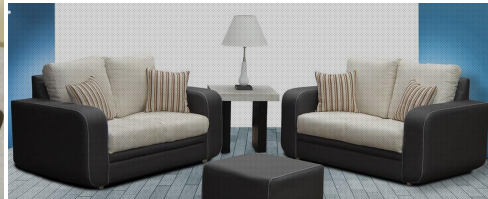
Mid-Low Furniture Market

- Mid-low range stores sell contemporary and vanguardist furniture in plain colours (black, brown and beige)
- Representative examples of them are:



- Their woods are Mexican with Mexican, Peruvian and Chilean finishes
- 75% local, 25% China/ Malaysia
- Living room sets US\$645-1,746; Dining room sets US\$835-1,670; Bedroom sets US\$531-1,366

Mid-Low Furniture Market



Mid-High Furniture Market

- Mid-high stores offer contemporary, vanguardist, modern/ lounge furniture in plain colours (white, black, brown and beige)
- Representative and popular stores of this category are:



- Their woods are American, Mexican, Italian and Indonesian with Mexican, Chilean, Peruvian, Italian and Brazilian finishes
- 50% local, 50% Italy, USA and Indonesia
- Living room sets US\$2,277-9,111; Dining room sets US\$911-7,213; Bedroom sets US\$2,657-4,935

Mid-High Furniture Market



High-End Furniture Market

- Exclusive and specialised; sell prestigious and recognised brands and offer designs by order
- Designer furniture of contemporary, vanguardist, modern/ lounge and classic styles. The most common colours are white, black, brown and beige.
- Located in high income areas; representative and popular stores of this category are:



- Their woods are American, Mexican, Italian and Indonesian with Mexican, Chilean, Peruvian, Italian and Brazilian finishes
- 25% local; 75% from USA, Italy, Spain and Indonesia



High-End Furniture Market



EXPORTING TO MEXICO

méxico

Taxes and Technical Standards

- Mexico applies import tariffs and Value Added Tax (VAT) to imports
- Custom agents charge import fees
- Antidumping and countervailing duties from specific countries
- For Singapore products classified under Chapter 94 Furniture, the tariff ranges from 5% to 15%, while the VAT are mainly about 16%
- Technical standards
 - **Official Mexican Norms (NOM's):** compulsory standards that apply to production processes and services to avoid any risk to humans, animals or the environment.
 - **Mexican Norms (NMX's):** industry standards; voluntary.
 - **Reference Standards:** required by public administration institutions in order to acquire the goods and services they need.

Steps To Export To Mexico

1. To have an importer legally constituted under Mexican law and registered in the National Registry of Importers and in the Federal Taxpayers' Registry.
2. To hire an authorised Customs Agent to initiate the official procedures to import (for this he will need a letter with the request of the importer).
3. A catalogue or sample has to be sent to the Customs Agent so he can correctly classify the product in Mexico's General Import Tariff for Import and Export.



Steps To Export To Mexico

4. Once the product is classified, the Agent will request the commercial invoice from the exporter to ascertain that the documents complies with Mexican law.
5. With this document the Agent performs the import motion and estimates the expenditure in taxes, storage fees and other port charges.
6. Proceed to send goods, and once arrival is confirmed, the company has to cover freight cost.
7. Agent inspects goods to confirm that they have the correct classification and are fully consistent with the documents present.



Steps To Export To Mexico

8. Agent proceeds to present to Mexican Customs the commercial invoice and the packing list with the commercial import declaration.
9. When documents are approved, the importer must pay the tariff, the Value Added Tax (VAT), the Custom Process Duty and the Storage Duty.
10. Before releasing the goods, the Customs Office uses a light system, an automated selection mechanism to determine if further customs inspection is necessary. “GREEN”: goods are released. “RED”: Customs official inspects the product (units, size, description, classification, etc) and confirms that everything is consistent with the declaration.
11. If any error is detected, the goods return to the Customs warehouse until the importer corrects them. If any error is found at a later time, the exporter is fully responsible for any mistakes and is liable to the Mexican government for any sanctions or fees that may apply.



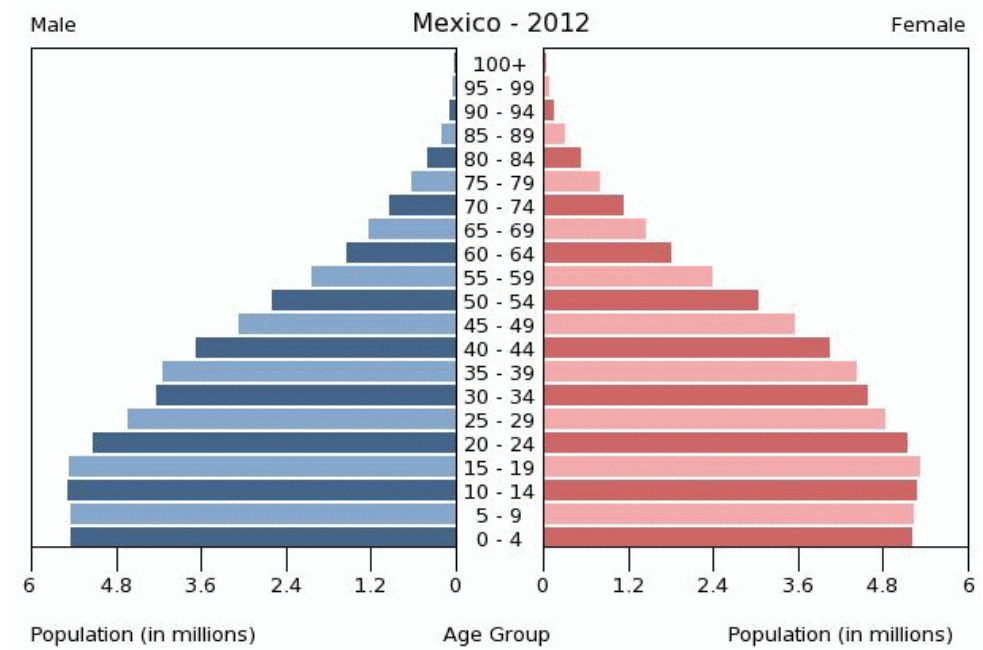


Population Pyramid

“Mexico has a young and growing population,
and that is now entering

**a demographic
sweet spot**

that is expected to last for
at least a couple of decades.”



Growing Middle Class

- Mexico is one of the four countries in Latin America (the others are Argentina, Costa Rica and Uruguay) with a substantial middle class constituting over 60% of its population compared to 33.75% in Brazil.
- The Nomura Equity Research report states that Mexico will likely overtake Brazil as Latin America's biggest economy within the next decade.
- Focus on large cities such as Mexico City, Monterrey and Guadalajara first



Additional Opportunities

- Mexico as place to transfer partial production to.
- Furniture trade is duty free between Mexico, the US and Canada. This preferential treatment is granted only to products originating from the free trade zone.
- Typically, furniture manufacturers based in Mexico and that export to the US keep very little inventory, and almost all goods are shipped within 15 days.
- They look for high turnover rate rather than long-term stock keeping. These are marketing dynamics that Singapore companies may want to bear in mind.



Drug Wars?

- The impact of Mexico's drug wars is overstated by the media.
- The violence is localised and isolated.
- GDP grew 4.1% in 2011 and FDI increased 20% between 2009 – 2011, which coincides with the most violent period in recent times.
- 74% increase in federal security spending.



How Big is the Market?

- Even with the actual distribution of income, Mexican higher income segments, which enjoy a really strong purchasing power, has the size of the total Greek, Portuguese or Czech population.
- Additionally, the Mexican middle class has the size of the total population of Chile and almost the size of Venezuela. Together, middle and high classes offer to Singapore companies a market size similar to the entire Argentinean or Spanish economies.
- Demand for furniture has increased due to the growing purchasing power of consumers and the expansion of service sectors such as tourism and restaurants. This offers Singapore companies an attractive market to increase their sales.

TO CONCLUDE...

México

Why Mexico?

- Population growth and increasing purchasing power
- Market size (especially of higher income segments)
- Strong macroeconomic fundamentals
- Political stability and pro-business government
- Mexico's trade agreements and preferential access to markets
- Expansion of service sectors (tourism and restaurants)



Thank You