LATIN AMERICA LOGISTICS

KEEPING UP WITH THE LATIN BEAT

The region's improving infrastructure and trade policies offer companies supply chain expansion opportunities.

As Europe deals with a lingering credit crisis, Asia feels a corollary pinch amid shifting demographics, and the U.S. economy sputters along, Latin America at large is following the beat of its own parade. From Nuevo Laredo to Tierra de Fuego — and all points in between — the percussions are growing louder and faster as businesses explore new opportunities to expand their supply chains.

The rumors and realities of re-shoring favor development in countries such as Mexico and Brazil. But that potential extends beyond the "expected" into the interior of South America, as well as the Caribbean and Central America. And it's no longer a supply-driven paradigm. Growing middle-class consumption is shifting trade balances as companies look to Latin America not only as a place to manufacture and source from, but also as an export destination. Proximity to U.S. markets, more conciliatory trade policies, improving transportation infrastructure, and rising standards and expectations are combining to feed interest and investment in the region.

To get a better perspective of what this new direction means for U.S. businesses, join *Inbound Logistics* as we go on the ground in Mexico, Argentina, and South Florida to provide three different takes on how the Latin American market is heating up, and the opportunities and challenges confronting growth-minded enterprises.

Mexico on the Move

While much attention and publicity naturally gravitates to U.S.-Mexico border dramas — whether it's NAFTA trucking reciprocity or Customs and security concerns — a more telling story is unfolding farther south.

One of the challenges companies have often encountered operating in Mexico is the noticeable deterioration of infrastructure, services, and expectations as they move away from the border. That reality, however, is fast fading.

Miami-based Ryder Supply Chain Solutions has a firsthand perspective. The service provider maintains a cross-border presence at the three main U.S.-Mexico gateways — Nuevo Laredo and Laredo, Tijuana and San Diego, Ciudad Juárez and El Paso — as well as an inter-Mexico footprint in Mexico City, Monterrey, and Guadalajara, where more than 75 percent of the country's economic activity is concentrated.

Ryder operates a mix of mostly multi-client facilities and campuses that are all certified by the Customs-Trade Partnership Against Terrorism, and feature state-of-the-art security infrastructure — a requisite given recurring theft and violence. Because freight volumes are considerably lighter than in the United States, the 3PL is less inclined to invest in and develop dedicated facilities unless customer demand can support that investment, explains Ryder Director of Business Development Ricardo Alvarez, who is based in Nuevo Leon, Mexico.

But the multi-client DC model offers a telling indication of how Mexico's fortunes are changing.

"Over the past decade, we have tried to drive the multi-client environment by establishing standards in terms of processes, technology, and security," Alvarez says. "Facilities are generally centered on like customers, whether they are consumer packaged goods (CPG), high-tech, automotive, or industrial companies. This helps reduce costs."

Volume is the key factor. It is hard to find a customer that

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requires a 250,000-square-foot facility — the average size of a state-of-the-art DC in Mexico. Most dedicated facilities are much smaller because of the costs involved in setting them up. Investments are generally targeted at facilities where fixed costs are more easily absorbed by multiple tenants. That's where customers find the most value.

AUTOMOTIVE ACUMEN

Ryder initially gained traction in Mexico by operating a dedicated facility for the world's largest automotive original equipment manufacturer (OEM). The automotive industry is a gateway to economic development, given the tendency of Tier 1 and Tier 2 suppliers to locate near production plants.

This type of complex supply chain also provides 3PLs such as Ryder with more opportunities to cross-sell capabilities and develop deeper partnerships. While much of its automotive work in Mexico deals with supporting the aftermarket — delivering service parts to dealers across the country through a dedicated transportation network — that dynamic is changing, too.

"We want to go deeper," says Alvarez. "But it's complicated. Under Mexico's rules regarding common carriers, a foreign investment company can't directly operate a dedicated fleet."

Instead, Ryder relies on partnerships with local trucking companies to deliver product. As part of its full-service lease program, the 3PL provides the equipment, and helps recruit and train drivers. In turn, local carriers take care of hiring labor and purchasing fuel.

GATEWAY TO GROWTH

For a logistics provider cutting its teeth in a new market, automotive sets a high standard from the start because of the complexity and sophistication OEMs require. This makes trying to attract other types of industries and customers an easier sell.

Ryder has found similar success in the high-tech and CPG sectors, but emerging opportunities in the retail space portend a far greater transformation: an expanding middle-class population.

This revolution began when U.S. retailers followed department stores into Mexico — a means of penetrating the market without incurring too much risk. Now they are coming to set up their own operations.

Whether it's Hugo Boss, Best Buy, The Home Depot, or Forever 21, retailers recognize the growth potential that a relatively un-tapped market such as Mexico offers — and it feeds the multi-client DC network that Ryder has built and continues to expand.

And more retailers are coming. Home improvement chain Lowe's has begun executing a strategy to grow its presence in northern Mexico, specifically targeting consumers that would travel to its U.S. stores once or twice a year to buy product. Attracting like-minded retailers creates competition, which reduces the cost to consumers. It creates a cascading effect that carries over to other retailers.

"Companies are managing costs, which allows them to deliver the same prices you might find north of the border," says Alvarez. "In the past, consumers would go to the United States to buy goods that cost twice as much in Mexico. Now they are getting the same products at the same prices without having to travel."

Shifting Trade Balance

Thirty miles north of Miami, ideally situated in the middle of the six-million-strong South Florida market, is one of the state's best-kept secrets: Port Everglades. Well-known as a top U.S. cruise thoroughfare, the Broward County-operated facility is also the 12th-largest container port in the country — and tops in the state.

The promise of increasing trade growth with Latin America has the port on high alert as it ramps up development to meet future demand. Port Everglades is currently in the process of executing three capital investment projects to help grow capacity and expedite freight flows on and off port:

- The Intermodal Container Transfer Facility, which broke ground in January 2013 and is set to open in mid-2014, is a port intermodal yard with both domestic and international gates that connects directly with Southport.
- The Southport Turning Notch extension will grow an existing 900-foot berth to 2,400 feet, adding capacity for five additional cargo ships; it is expected to be complete by 2017.
- Widening and deepening the channel to 50 feet is expected to coincide with the Southport Turning Notch project.

These developments are cast against the backdrop of the Panama Canal expansion, which is set to be complete in 2015. Given Port Everglades' reputation as a Latin American gateway, officials expect to siphon some of this anticipated growth.

"We are largely a north-south port; 75 percent of total volume is with Latin America," says Michael Vanderbeek, director of business development, Port Everglades. "Central America is our largest trade partner — especially Honduras and

Guatemala — followed by the Caribbean and South America."

The port already holds a dominant position in Central America and the Caribbean, so the real potential is with South America, given the size of its population and diversity of economies on both the East and West Coasts.

"There will be healthy trade growth in Colombia because of the U.S. Free Trade Agreement," Vanderbeek says. "Port Everglades has strong connectivity to its north coast via Cartagena and Barranquilla. Colombia has overcome the security and safety stigma that used to exist, and is a more stable and productive economy.

"Peru is another viable future customer," he continues. "It's a leader in South American GDP growth, expanding year to year, with diverse production and consumption. And Chile has a very mature trade industry. We do a healthy export trade, but there is room to grow the import side in South Florida with perishables, wine and spirits, and wood products."

What makes Port Everglades unique is that it is a net export port. Its $4-billion export surplus is notable in the context of its business with key markets such as Chile, Colombia, Peru, and Brazil. The port moves a lot of manufactured high-end goods from the United States to those countries now, and expects even more robust returns on the import side.

"The more balance we have in trade with any given market, the better it is for our customers, because they want to be carrying as many full boxes in both directions as possible," says Vanderbeek. "Carriers want cargo that pays both ways."

UNIQUE EXPORTS

Much of what the port exports to Latin America is unique to individual countries. In Honduras and Guatemala, for example, it sends a variety of materials for apparel that come back as finished goods. In Peru and Chile, the port moves a lot of high-end machinery to support the region's mining industry.

There are commonalities across the region as well. On the export side, automobiles and electronics have mainstream demand. Seasonal fruits and vegetables dominate U.S. imports.

The one notable exception to the rule is Brazil, which Vanderbeek believes could be more robust given the country's large consumer population and vast amount of resources. As a result, Brazil is still an area where the port sees opportunities to gain greater export traction.

Located 30 miles north of Miami, Port Everglades, the 12th-largest container port in the country, plans three capital investment projects to help grow capacity and expedite freight flows. Seventy-five percent of the port's total volume is with Latin America.

THE POWER OF CONNECTIVITY.

Cargo moves through Port Everglades like a well-oiled machine. Global connections – by land or sea – assure big trade advantages. We're just one green light away from the Interstate and have direct access to FEC's rail hub to connect your cargo to Atlanta, Los Angeles and all points in-between. Our team is standing by 24/7 to maximize your transport success. Just think of us as your personal cargo concierge – connecting ship to shore and beyond. Discover how Port Everglades connects your cargo in, out and to the world. Visit us at **porteverglades.net** or call 800-421-0188.

PORT EVERGLADES
BROWARD COUNTY, FLORIDA
South Florida's Powerhouse Port

Port Everglades' capital investment projects put it in good stead to capitalize on future trade prospects throughout Latin America. Notably, the Panama Canal expansion will add bandwidth to the north-south trade lane.

FUTURE TRAJECTORIES AND PROJECTIONS

Vanderbeek expects the port's sweet spot to remain on the import/export side, with product moving between the United States and Latin America. While there has been much speculation about transshipment possibilities, ongoing developments in Caribbean ports such as Freeport, Bahamas, and Kingston, Jamaica, as well as Panama and Cartagena, Colombia, are increasing competition for that business. Ultimately, it will come down to cost.

From a macro perspective, the port has everything to gain from more near-shoring activity that brings production closer to demand. "We're well-positioned to benefit from manufacturing activity coming back from Asia, because we already have connectivity to those markets in terms of service frequency and existing market share," Vanderbeek notes. "As manufactured goods for U.S. consumption ramp up, we fully expect to benefit from those opportunities."

Continent on the Brink

As a global 3PL with strength in ocean and airfreight forwarding and contract logistics, Latin America is a hot prospect for UTi and its customers. The Long Beach, Calif.-based company maintains a presence throughout the region, with offices and facilities in Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay, and agents on the ground elsewhere.

UTi operates largely as a non-asset-based service provider, but manages its own warehouse facilities in select markets such as Brazil and Mexico. In other countries, it works with local transportation and logistics partners to provide customers with supply chain solutions tailored to their needs. Throughout Latin America, UTi helps shippers overcome trade barriers and reduce the complexity of doing business in the region to take advantage of its GDP growth and rapid development.

The 3PL's capabilities include a cross-border brokerage network in Mexico, where it also operates sub-assembly plants for the automotive industry; line feeding to manufacturing plants in Brazil; and control towers to coordinate operations spanning multiple geographies.

"The logistics world is so big in Latin America that it is often difficult to have only one company provide all the necessary services," says Miriam Gagna, regional vice president, Latin America, at UTi Worldwide, based in Buenos Aires, Argentina. "A company such as UTi helps shippers find the right partners wherever needed to provide an end-to-end supply chain solution."

This complexity is a pivotal challenge for U.S. businesses when they begin to look at the continent as an area to grow their business — whether sourcing, manufacturing, or as a place to establish retail or brand presence. Other variables come into play as well: inflation is out of sync with GDP growth; transportation infrastructure is fractured; and customs regulations are tedious, prohibitive, and unique from country to country.

THE CUSTOMS CHALLENGE

The latter constraint is a sticking point for many companies. Trade restrictions make importing into countries such as Brazil and Argentina difficult. By contrast, Chile and Peru are much more accommodating and easier to do business with.

But the regulation environment is changing. And as global companies re-evaluate their sourcing options and consider near-shoring opportunities, Latin America presents a compelling proposition. Not only is it attractive from a low-cost manufacturing perspective, it is also a relatively untapped consumer market of nearly 400 million strong.

"Consumption is increasing as the lower class rises," says Gagna. "Just a few years ago, a laptop was considered a luxury item in Brazil. That has changed. Now people have access to cars, computers, and mobile phones. There are a lot more consumer goods imports into Latin America."

The continent's strength has always been on the export side — particularly agriculture commodities. So much of the infrastructure, services, regulations, and expectations that exist today are tailored to this type of trade. The shift from commodity exports to finished goods imports and exports is forcing change throughout much of the region. And 3PLs such as UTi are helping to facilitate this transformation.

RAISING EXPECTATIONS

Companies often require counsel to meet the needs and expectations of a more sophisticated supply chain. For example, UTi has an established presence in the automotive industry — a vertical with stringent demands.

When automotive manufacturers move, suppliers follow. The cost of stopping a production line because a part can't be sourced is prohibitive. OEMs expect as much from their logistics service providers. UTi works closely with automotive clients and their vendors to drive efficacies in the supply chain.

Gagna cites one example where UTi helped a customer in Brazil reduce export shipment time from five days to two. "Getting more involved in their supply chain and understanding their pain points provides a platform for change," she says.

The challenges that exist for businesses tapping different Latin American markets are manifold. But there are also opportunities for companies to work with logistics services providers that can help orchestrate solutions, and provide support and leverage in a region that is primed for growth.