Entrada Group

WHITE PAPER

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Finding the Right Fit: Evaluating Your Path to Mexico Manufacturing

When Honda chose Guanajuato for its new operations, the state made its case with determination. Land. Tax incentives. Training partnerships with local universities. Infrastructure to connect suppliers and talent. It was a strong start, and the collaboration brought real benefits for both sides. Thousands of jobs were created, and new suppliers emerged to serve Honda's needs. Today, Celaya is one of Honda's largest and most significant facilities in Mexico and a major economic engine for the state.

But not every company is Honda. And, chances are, if you're reading this paper you aren't either. Most manufacturers don't arrive with the scale, capital or brand recognition of a global OEM. That doesn't mean Mexico is out of reach.

Take Eastek International, a mid-market, US-owned contract electronics manufacturer, that had production in the US, China and Malaysia. Mexico was attractive for cost-competitiveness and proximity. But Eastek didn't have the resources to build a standalone facility or acquire a competitor in Mexico, as larger players like Jabil or Flextronics have done.

Instead, Eastek entered Mexico through a shelter partnership with Entrada Group. They began modestly, launching operations at Entrada's Zacatecas campus with a small team. Today, they've grown to more than 350 employees, with most of their customer production and quoting activity now centered on Mexico rather than Asia.

Eastek's success wasn't driven by scale, it was driven by strategy. By leveraging Entrada's shelter model, Eastek is able to maintain control over production and quality while offloading the complexities of compliance, HR and infrastructure. This allowed Eastek's leadership to focus on growth, customer responsiveness

Executive Summary

Mexico offers a strategic advantage for manufacturers seeking lower costs, skilled labor and proximity to the US. Companies can choose from three main models to expand, Standalone, Contract Manufacturing or Shelter.

The Standalone Model offers complete control but requires major investment and long setup timelines. Contract Manufacturing allows quick entry with minimal investment but carries risks around quality and intellectual property. The Shelter Model, particularly Entrada Group's enhanced platform, provides a balance of control and protection, giving companies operational ownership while offloading administrative and compliance burdens.

Entrada serves as the legal entity of record in Mexico and is responsible for non-production support so clients can focus on building product. With more than 20 years of experience, Entrada gives manufacturers speed, flexibility and economies of scale they could not achieve alone.

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and acquisition, rather than navigating Mexico's regulatory landscape. Their story illustrates how smaller manufacturers can thrive in Mexico, even when competing with global giants. It all depends on how you get there, which this paper will explore in more detail. Choosing the right path at the beginning is essential, because it will ultimately determine the success or failure of your Mexico operation.

Mexico continues to offer compelling advantages: cost-effective operations, skilled labor and proximity to North American markets. Whether you're a multinational with deep resources or a mid-sized manufacturer, there are practical, proven ways to enter and succeed in Mexico. This paper explores those options: **Standalone**, **Contract Manufacturing** and **Shelter**, helping you identify the right path based on your company's size, structure and ambitions.

The Shelter Model, Control with Reduced Risk

Summary: The middle ground. You run production and protect IP while the shelter partner manages compliance, HR and infrastructure.

Shelter is a legal and operational framework unique to Mexico that allows foreign manufacturers to operate without forming a brand-new Mexico entity. You operate under the shelter provider's structure, which is recognized by programs that govern manufacturing for export.

- **Control:** You run production, quality and schedules
- **Risk:** The shelter partner is accountable for in-country compliance and administration
- **Flexibility:** You can scale headcount and space as demand grows
- **Tax and VAT advantages:** Under recognized programs and certifications, manufacturers producing for export can access income-tax relief in early years and VAT relief where certifications are in place

Not all shelter providers are the same. Some handle initial setup, then transition ongoing administration back to the manufacturer. Some are real-estate first with services as a secondary offer. Others, like Entrada Group, offer full-platform models, providing ongoing compliance, infrastructure and scalable services. The right fit depends on your goals, product and expected scale.

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Entrada Group's Manufacturing Platform

Summary: Entrada Group offers a modern shelter approach that combines legal accountability, operating scale and continuous improvement so you can keep control of production while reducing risk. It's like a traditional shelter on steroids.

What Entrada handles

Entrada acts as your legal entity of record in Mexico and assumes responsibility for non-production activities. This includes governance and compliance, HR and payroll, workforce and labor relations, import and export, customs and trade programs, all Mexico taxation, facilities and site services, finance and accounting, and community and government relations. Clients plug into a ready corporate structure rather than building all of this from the ground up, which would take years.

What you keep

You own how the product is built. You keep control of production, quality, scheduling and materials, along with your processes, standards and intellectual property.

Why it is faster and safer

- **Speed to market:** Legal structure, back-office teams and vetted processes are in place, which shortens the path from decision to first shipment
- **Scalability:** Headcount, footprint and service levels can ramp with demand without rebuilding administrative teams
- **Economies of scale:** Shared services and campus-wide purchasing reduce friction and operating cost that individual sites cannot match alone (think less-than-load trucking and combined buying power)
- **Governance and transparency:** Structured controls and reporting across HR, payroll, customs and finance improve visibility for CFOs and auditors
- **Certification and compliance depth:** Entrada holds specialized and hard-to-obtain certifications, such as AAA VAT certification, which enables clients to qualify for immediate VAT exemption where eligible, and manages consolidated customs filings to reduce cycle time and error risk. These and others would take manufacturers years to obtain on their own, as well as a track record of "getting it right."

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A culture of accountability and anticipation

Entrada's model emphasizes aligned incentives and clear accountability. Teams are set up to anticipate needs, not just react, which helps prevent small issues from becoming operational risks. This is useful for companies new to Mexico that want a predictable operating rhythm and clear escalation paths.

For instance, we setup Mexico invoicing for a client so they could accept payment from local customers.

When Entrada is a strong fit

- You want to control production and leverage cost-competitive operations in Mexico, but prefer not to build a full Mexico back office on day one
- You expect to scale headcount or space in the first two to three years
- You want audit-ready processes and consistent reporting across HR, customs and finance

When Entrada may not be a fit

- You require ownership of every corporate function in country from the start
- You have the capital, time and Mexico expertise to build a standalone entity immediately

CASE STUDY

Eastek International

Eastek International is a US-owned contract manufacturer that already operated in China and Malaysia. In 2021, Eastek partnered with Entrada to open in Mexico to be closer to North American customers and to reduce reliance on China. “We expanded into Mexico with the intention of being close to our customers,” Eastek's CEO said at the time. Eastek started with fewer than 10 employees at Entrada's Zacatecas campus and grew to over 350. The team kept proprietary processes intact, improved responsiveness through proximity and shifted administrative and compliance work to Entrada so leadership could focus on customers and production.

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The Standalone Model: Full Control, Full Responsibility

Summary: Maximum control with high cost, complexity and long timelines. Best for large multinationals with scale and in-house expertise.

The Standalone Model is designed for companies that require complete independence. You establish a wholly owned subsidiary in Mexico and are responsible for site selection, permits, labor force, taxes, compliance and ongoing operations.

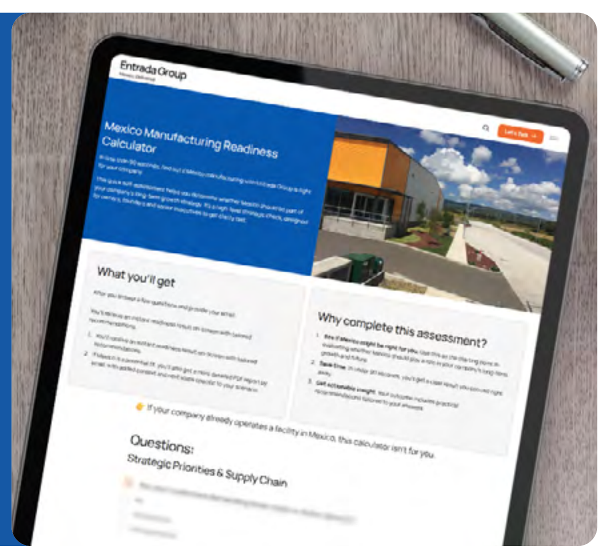
What makes standalone complex is the breadth of work that begins before any product ships. For example, you must secure federal, state and municipal permits for construction and utilities, then establish HR and payroll that comply with Mexican labor law, union rules and reporting. You also manage customs registrations, duty programs and environmental, health and safety from day one. Large OEMs such as Volkswagen or BMW can meet these requirements because they already have scale, internal talent and capital to absorb risks.

For many mid-sized manufacturers, the Standalone Model is often cost-prohibitive and slower than business needs allow.

PRO: 100% control over operations

CON: High investment, long timelines, significant legal and compliance exposure

BEST FOR: Global OEMs and Tier One suppliers with resources and expertise to run an independent Mexico entity



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The Contract Manufacturing Model, A Hands-Off Approach

Summary: Quick and low-cost entry with limited control and higher risk to quality and IP. Useful in narrow cases where speed outweighs control.

Contract manufacturing lets companies begin production quickly by outsourcing to an established Mexico-based manufacturer. Once the contract is signed, the contractor produces on your behalf with minimal upfront investment required.

The trade-off is control. The contractor makes staffing, quality and operational decisions. Quality issues often surface late, after customers are affected. Margins compress because you support the contractor's overhead and profit. For technology-driven firms, IP can be exposed, especially when contractors serve multiple clients in the same category.

A cautionary example involves a US renewable energy technology provider and a large turbine maker in China. Proprietary control software was misappropriated and used in production, resulting in large losses and a US court conviction for trade secret theft. Although this occurred outside Mexico, it illustrates the core vulnerability of ceding manufacturing to external producers when IP is critical.

Mexico's contract base is growing, yet historically many subcontractors have operated under a **capture model**, investing per customer rather than building systems that scale across clients. That can create variability in cost, quality and delivery.

When it fits

Short-term capacity, pilot volumes or products with low IP sensitivity where speed matters most.

PRO: Fast entry with minimal capital investment

CON: Higher risk to quality and IP, reduced operational oversight and margin

BEST FOR: Companies needing short-term Mexico capacity without long-term commitment

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Tax and Compliance Considerations

The tax and compliance landscape in Mexico is complex and changes over time. Obligations differ by entry model. Standalone companies carry corporate income tax responsibilities from the start under applicable regimes and need certification to secure VAT relief.

In contract manufacturing, the seller carries the Mexico tax burden, which can reduce visibility into compliance quality. With a shelter, you operate under the provider's structure and can access program benefits when producing for export. Duties depend on country of origin, trade treaties such as USMCA and any sectoral programs in force.

For example, Entrada's **AAA VAT certification** enables qualified clients to obtain immediate VAT exemption rather than waiting through a lengthy certification process. Entrada also manages consolidated customs filings and interfaces with government agencies and customs on the client's behalf, which reduces cycle time and error risk.

NOTE: For more detail on tax and compliance, see our Mexico Trade Compliance White Paper

The Right Option for You

Mexico offers manufacturers a strategic location, competitive labor costs and strong access to North American markets. Choosing the right entry model is a strategic decision. Standalone provides full control with high cost and long timelines. Contract manufacturing is fast and light but increases exposure to quality and IP risk. For many mid-sized manufacturers, shelter delivers the best mix of speed, control and protection.

Entrada has operated this model in Mexico for more than 20 years in a framework that has existed for about 60 years. As the legal entity of record, Entrada takes responsibility for compliance and government relations, runs the HR and administrative backbone, and provides shared services and scale that are difficult to build alone. Clients keep what matters most, production, quality and competitive edge, while Entrada handles the rest. This is how manufacturers enter Mexico quickly, operate confidently and grow on a solid foundation.