

Navigator 2020 Mexico



Together we thrive

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Introduction

The first wave of COVID-19 in the spring hit Mexico's economy hard. The suspension of all non-essential production in April and May affected most sectors. And while the gradual re-opening of the economy created an initial bounce, inflation remains stubbornly high and recovery looks uneven across sectors. Unless exports recover faster than predicted, we expect this to translate into weaker consumption and investment. In this context, the government's 2021 Economic Program, announced days before our 2020 Navigator survey went live, currently seems optimistic.

1. Overview

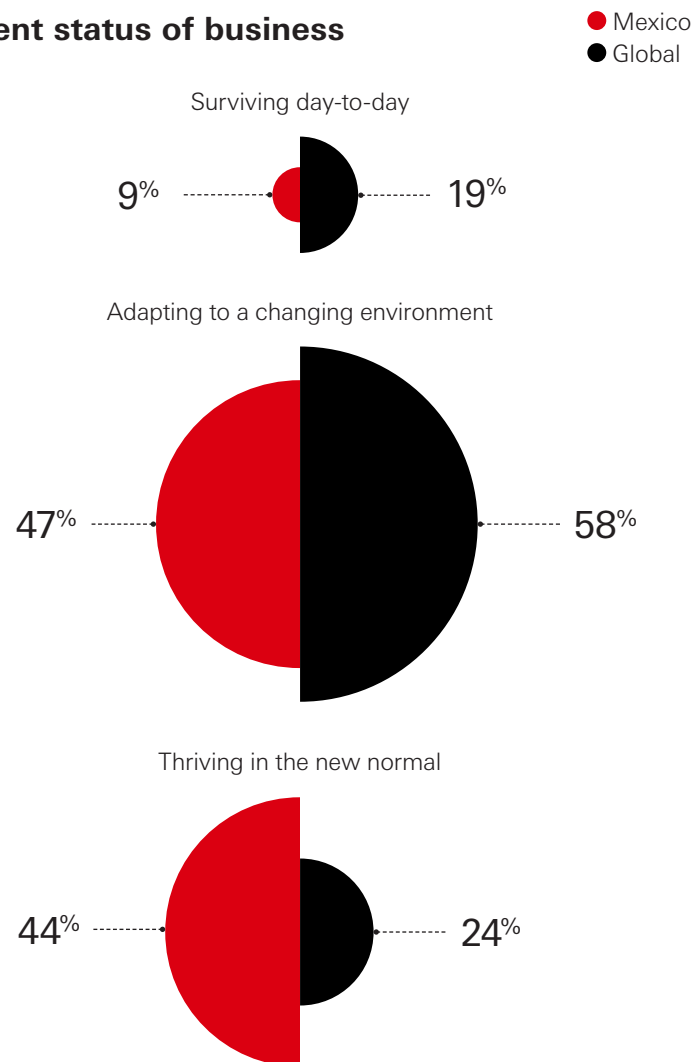
Our 2020 Navigator survey results show a **bright outlook** for Mexican businesses

Companies in Mexico have reacted well to the difficult conditions this year. More than nine in ten are either adapting or thriving in the new normal, as evidenced by the 98% that have made changes to their supply chain. And almost twice as many are thriving compared with less than a quarter seen globally or across North America.

Nonetheless, their expectations of growth have lowered since last year. And while Mexican companies remain more positive on international trade, the majority feel that it has become more difficult and will continue to be so in 2021.

To meet their challenges, Mexican companies are investing in growth drivers such as new products and services, digital platforms and channels and the customer experience.

Current status of business



2. Business outlook

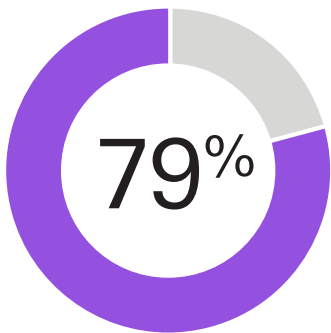


Mexican companies are **wary but positive** on recovery and growth

Companies in Mexico have become more conservative in their business outlook since 2019. But while the proportion reporting that they feel more optimistic has dropped, it's still close to half (47% compared with 59% last year). And more than four-fifths expect their business outlook to stay the same or become more optimistic, higher than the two-thirds seen globally.

This confidence is reflected in the three-quarters (76%) of companies that are projecting growth, though that figure is down from nearly nine in ten (87%) in 2019. It could also explain why six in ten Mexican companies expect to return to pre-COVID profitability levels by the end of 2021.

The resurgence of COVID-19 is the biggest threat for more than half of Mexican companies. Defensive cost-cutting and pro-active expansion into new markets are the main strategies to aid recovery and enable growth.



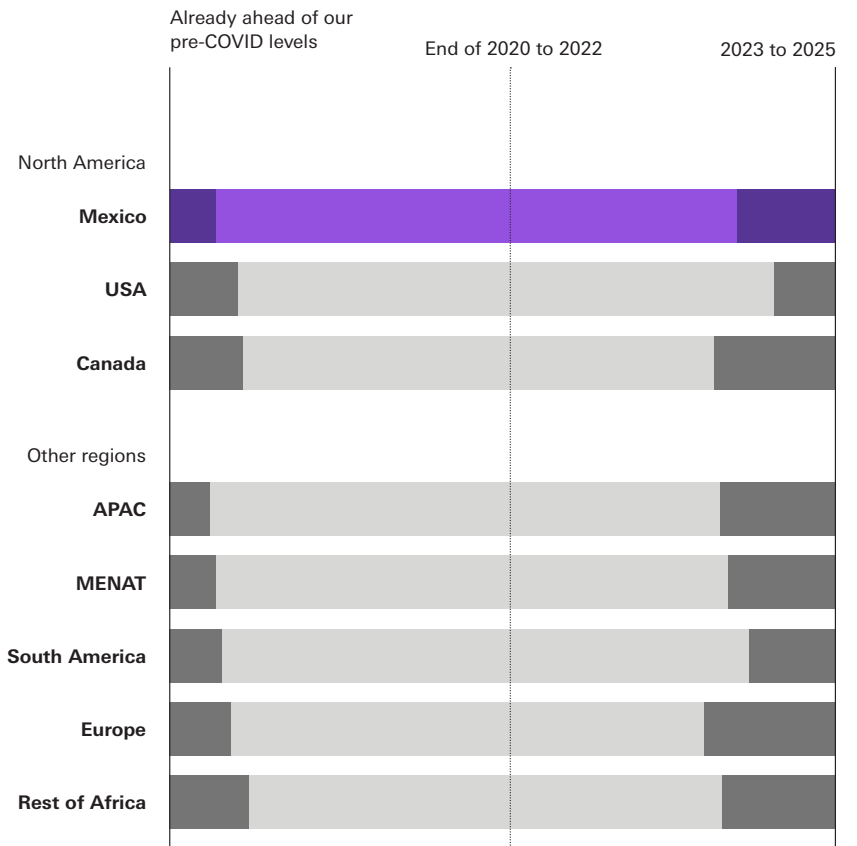
of businesses expect to return to pre-COVID profitability levels by the end of 2022

Top 3 drivers of business growth



When businesses expect to return to pre-COVID levels of profitability

%

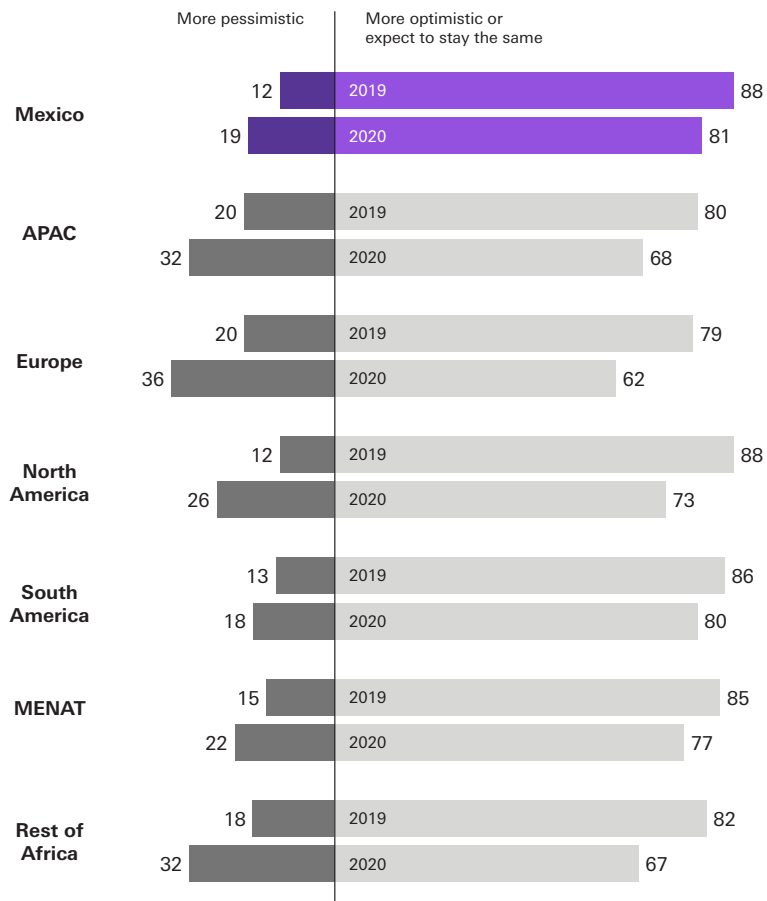


2. Business outlook (continued)



How business outlook has changed in the last 12 months*

%



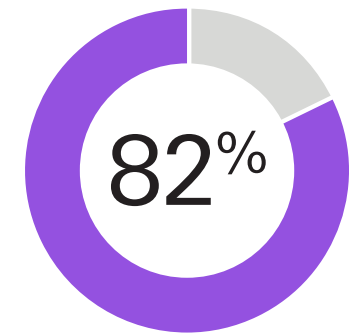
*Excludes businesses answering 'Don't know'

Companies are keen to invest

Over four-fifths of Mexican companies, compared with two-thirds of businesses globally, plan to increase investment in their business in the next year. And only 8% intend to reduce investment, compared with 14% globally.

Around two-thirds of businesses are focusing on the customer experience, employee wellbeing and marketing as immediate priorities for investment in 2021. And more than nine in ten Mexican companies plan to increase or maintain investments in key technologies.

Top of the list are technologies that enable product and service innovation, enhance the customer experience and target new customers.



of Mexican businesses intend to increase investment in their business in the next year, despite the challenging environment

Strategies of Mexican businesses to benefit from growth drivers and address threats



3. Future strategy



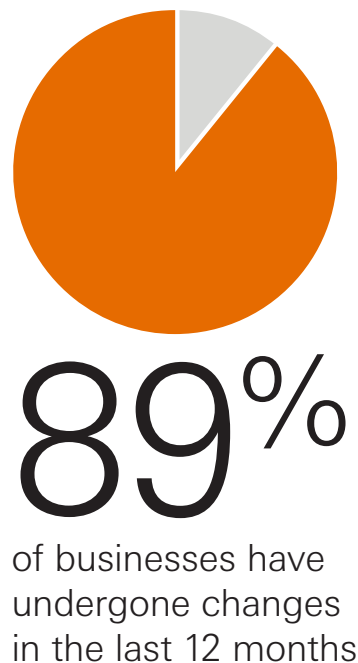
All change as Mexican businesses focus on digitisation, working practices and sustainability

More Mexican companies implemented changes over the last 12 months than globally or regionally (Mexico 89%, global 74%, North America 67%). However, three-fifths expect these to be short-term, compared with half globally. And almost one in three Mexican companies (29%) have undergone long-term/transformational changes compared with a quarter (24%) globally.

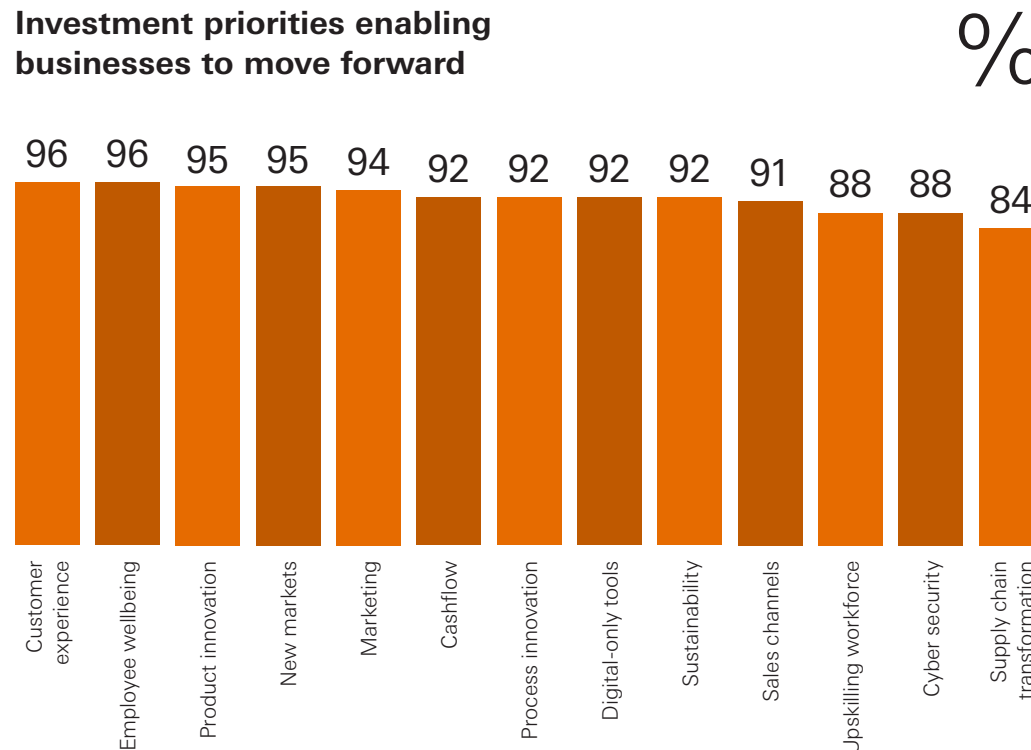
Advances in digitisation, changes in ways of working, enhancing sustainability and addressing changes in domestic demand were the key reasons behind the changes.

When identifying what will make businesses successful in the future, Mexican companies pick innovation, leadership and social and environmental responsibility as the top characteristics. All are at a higher level than seen globally.

Companies also believe that becoming more entrepreneurial will attract more investment and increase market share.



Investment priorities enabling businesses to move forward



Top 5 facets of a successful entrepreneurial business



4. International trade

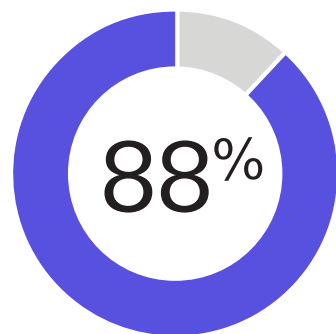


Businesses are **buoyant** over international trade, but choppy waters could lie ahead

Almost nine in ten Mexican companies remain positive about their prospects for international trade over the next 1-2 years, compared with around seven in ten globally. This is despite most businesses saying international trade has become more difficult and expecting further challenges in 2021.

However, a downturn could be on the cards. Increasing numbers of companies report stopping or reducing international trade, while protectionism continues to be strongly felt. Mexican companies are using various strategies to combat this, including focusing on selling through digital channels and platforms and competing on price.

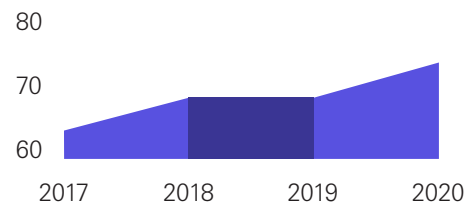
Intra-regional trade is increasingly dominant. Three-quarters of Mexican companies trade within North America while almost half trade with Central and South America. And for now at least, the US is still the biggest market.



of companies expect their international trade prospects over the next 1-2 years to be positive

Protectionism

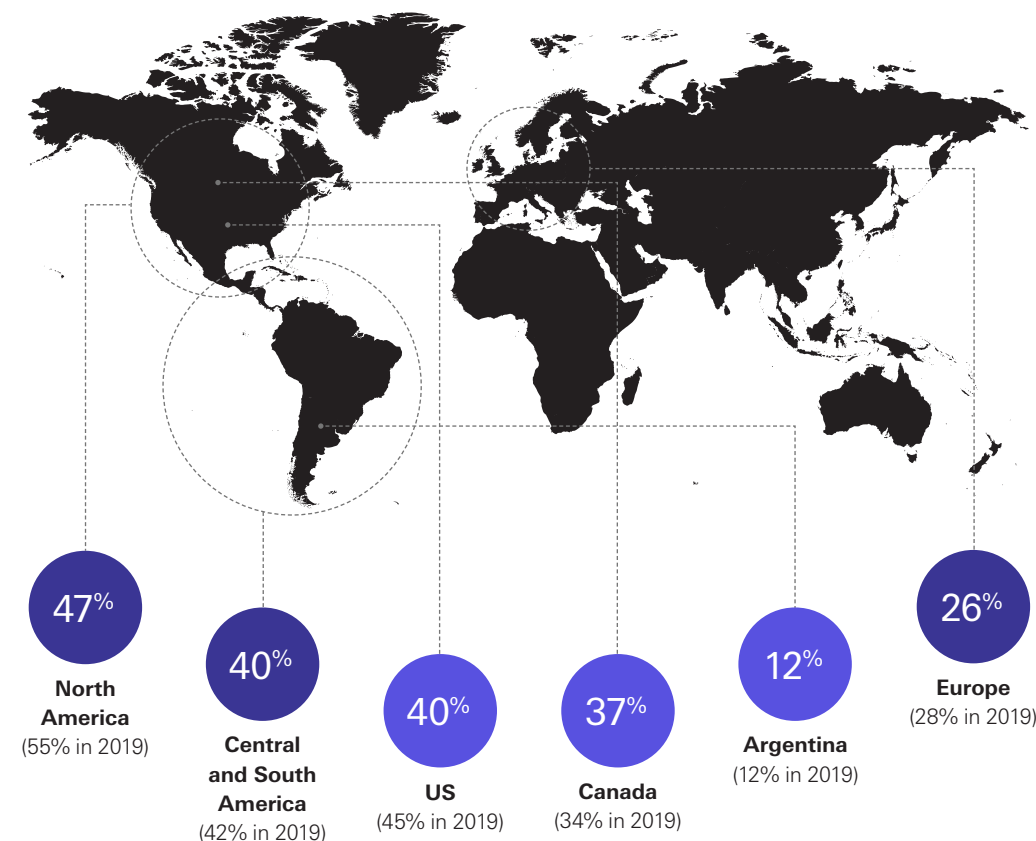
Percentage of businesses that think that countries/territories/governments are becoming more protective of their domestic businesses



Priorities for expansion in the next 3-5 years

Markets, territories and regions in which Mexican businesses are looking to expand

● Markets & territories ● Regions



5. Reshaping supply chains



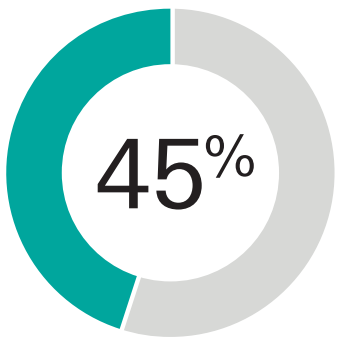
Businesses are **changing** their supply chains to improve cost, compliance and security outcomes

Nearly all Mexican companies (96%) have concerns about their supply chain. The main issues are increasing cost, suppliers being too distant from customers/their business, and supply chain instability.

In response to these worries, 98% of Mexican businesses have made changes to their supply chain, most notably by using more digital/technology and selecting suppliers based on their government’s control of COVID-19.

The focus on digital will continue, with seven in ten Mexican companies making it their immediate priority for investment in 2021. More than half will focus on suppliers in their home region, select suppliers based on their ability to deliver quickly, and target suppliers closer to their customers.

By making these changes, companies expect to reduce cost, achieve greater compliance and improve security.



of businesses expect that reshaping their supply chain will reduce costs

Top 3 benefits of reshaping the supply chain



Priorities for the supply chain

(Priorities immediately in 2021 and beyond)



6. Sustainability

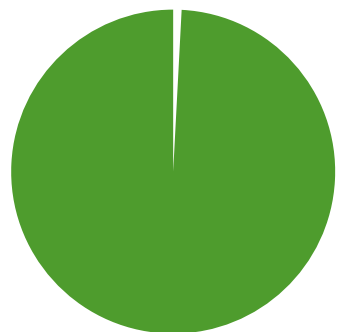


Mexican businesses are **ahead of the game** in setting sustainability targets

Most companies in Mexico have set targets for a broad range of aspects around environmental, social and governance (ESG). And more have measurements in place to monitor their environmental and social performance than in 2019. Between three in ten and six in ten have annual targets in place and a further fifth to a third will have set targets by 2025.

More than half of Mexican companies have annual targets for executive salaries/compensation, recycling of materials, diversity at all levels, energy usage and impact on local communities.

Almost all Mexican companies think that becoming more environmentally and ethically sustainable offers multiple opportunities. The main ones are promoting employee wellbeing, increasing customer demand, encouraging new ways of working and contributing positively to climate change.



99%

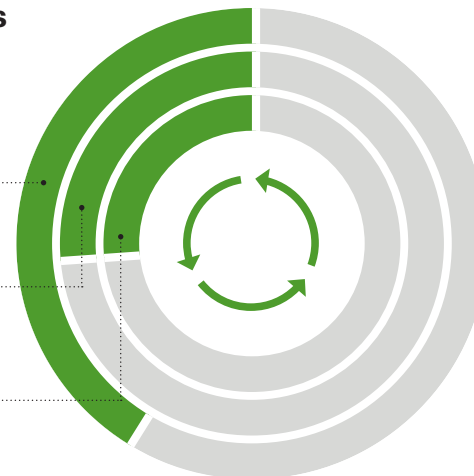
of Mexican companies think there are multiple opportunities for their business from improving their environmental and ethical sustainability

Companies believe a greater focus on sustainability will drive growth

41% expect modest growth of up to 5%

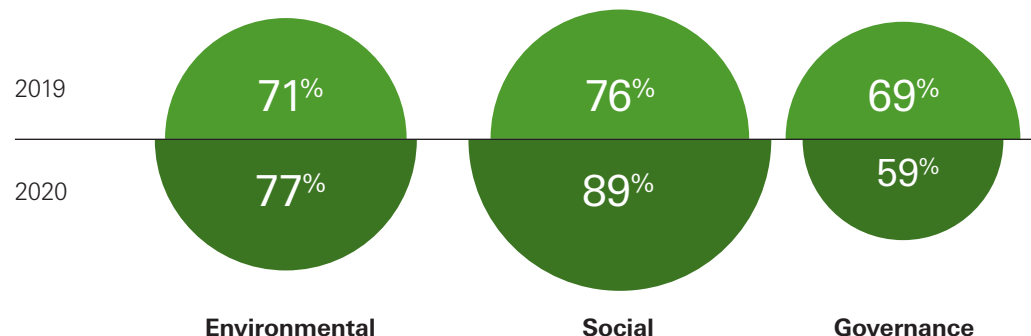
26% expect growth of between 6% and 9%

26% expect growth of 10% or more



Measuring sustainability

More companies have been measuring environmental and social aspects compared with 2019



About HSBC Navigator Mexico

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, future strategy, international trade, supply chains and sustainability. It is compiled from responses by decision-makers at 10,368 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 39 markets.

Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Mexico. Global results are based on an average of the 39 markets (using weights based on each market's share of world trade). The survey was conducted between 11th September and 7th October 2020. Interviewees were polled on a range of questions including how COVID-19 has affected their business and potential for growth. The survey represents a timely source of information on the fast-evolving international business environment.

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Note

There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

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