



Mexico: Telecommunications

Internet & Broadband 2009

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Summary

Broadband Internet access is today's "bread and butter" for any and all communications companies. Fixed operators, wireless carriers, Pay-TV companies, broadcasters, and Internet Service Providers (ISP) are now competing to have an increased and reliable Internet network. As previously considered, voice services were the commodity of the past. Today, broadband is becoming the new commodity. High speed Internet is no longer the star product; it is the necessary service in order to offer value added to communications users. The corporate, business, personal and government applications are now based on broadband, web, and wireless. These are the 3 factors of business success today. Broadband enables companies to offer Triple Play Services. Web applications enable businesses to have one single "store front". Users can access their information through wireless devices. US firms will find in Mexico good business opportunities, however, they will also find strong competition. We seek to offer our clients clear and concise market information, as well as tailored business and facilitation services in order to reduce time to enter the market.

Macroeconomics

Today Mexico is one of the most globalized countries in the world with various Free Trade Agreements with over 40 countries and regional economic blocks, from the European Union to Central & South America, and Asia. The most important of these FTAs is NAFTA with the U.S. and Canada. In fact, bilateral trade between Mexico and the U.S. reaches, more than US\$1 bn a day. In 2008 all tariffs within NAFTA countries were eliminated giving the three countries an important advantage in regional trade.

The close trade, political, security, border and cultural relationship between Mexico and its northern neighbors has lined the country's economic cycle intimately with the economy of North America, while moving away from that of Latin America. Mexico continues to be the 3rd trade partner for the U.S., which has over half of all Foreign Direct Investment (FDI) in the country, and 68% of Mexican trade is with the U.S. Definitely, the economic trends in one country directly affects the other.

2007 was a reasonably good and stable economic year for Mexico. GDP grew at 3.3%, inflation stayed at 4.0%, 750,000 new formal jobs were created, a new Fiscal Reform Law was passed, and both exports and imports grew by 8.8% and 10.1% respectively.

Although the financial system in Mexico continues to be solid and stable, and has not been strongly affected by the financial downturn in the U.S., the country is feeling the negative impacts of the trade and demand of key Mexican products and services abroad, mainly in the U.S. Also, investment funds for public and private projects have decreased dramatically.

Today, Mexico's economy has been affected in key areas of its economy due to world financial hardships as well as the Swine Flu epidemic. Exports to the U.S. and the rest of the world have shrunk and are expected to decrease in 15% in 2009. Oil, which is one of the main sources of revenues for the State, was at one point at over US\$100 per barrel. Today (6/01/09, www.elfinanciero.com.mx) the price is just above US\$62. The other main source of income, tourism also fell dramatically after news that Mexico was the epicenter of Swine Flu. In 2008, Mexico received 27 million foreign visitors, a 6% increase from 2007. Today, main beach resorts are practically deserted with hotel occupation under 10%.

According to the Ministry of Economy, Mexico has an accumulated Foreign Direct Investment (FDI) from 1999 to the 1Q09 of US\$218.6 bn. The United States leads FDI in the country with 54.5% of the total or US\$119.2 bn in the same period. As a comparison, the European Union has 34.1% or US\$74.627.2 bn. More info: www.economia.gob.mx/pics/pages/1175_base/MarE09.pdf. The Ministry of Economy also estimates that total FDI in Mexico will fall 16.67% to about US\$15 bn in 2009.

Remittances are the second source of revenue for Mexico, just after oil export sales. In 2008, remittances reached over US\$25 bn and it was the first year they had negative growth of -3.57% compared to 2007. As the financial turbulence in the U.S. continues to affect various industries, remittances by Mexican workers to Mexico continue to fall. The negative trend continues through the first four months of 2009, when remittances fell 8.6% with respect the same period of 2008. However, the President of Mexico's federal bank, Banco de México, also pointed out that the depreciation of the peso of about 30% has compensated the negative impact of fewer remittances.

The 2009 Outlook for Mexico considers different government initiatives. President Calderón announced in January 2009 efforts to stabilize the peso, freezing prices of gasoline, and electricity for industry, among others. Additionally, there will be an offer of credit lines for pensions. The public-private partnerships in infrastructure programs are at full swing countrywide. However, the government is postponing some large infrastructure projects until access to international financing returns. GDP for 2009 is expected to be anywhere around -1.8% and -0.8%, and inflation target is 4.0%. Additionally, there's a federal program, Vive México, aimed at improving Mexico's image globally after the Swine Flu deeply harmed the Mexican tourist industry.

In the business environment, there is a significant reduction of capital spending by Mexican companies in the short term. Also, many companies are postponing expansion plans, and there is a strong search for financing options for purchases. Many companies are also reducing their labor forces and shortening working hours, thus increasing unemployment, which reached 5.25% in April 2009.

Considering the above challenges, consumer spending has been decreasing in all industries, including telecommunications and pay-TV services.

We need to remember, however, that the Mexican telecom and IT industries have continually outperformed the economy as a whole, year after year. For 2009 and 2010 there will be a reduction of in the growth of the overall ICT industry, but it will continue to move forward, particularly IT services, and as a result the industry is expected to register single digit growth.

Market Developments

The IT and telecom sector in Mexico has been growing steadily at double digits for the past years. In the current world economic conditions, the sector will lose force and reduce the strong rates of growth. Experts estimate that the sector will still grow at positive rates but at single digits, perhaps not over 5% or 6%.

Consulting firm Select in its 1Q09 ICT Business Performance report has estimated that the ICT sector in Mexico will be worth almost US\$37 Bn by the end of 2009. Telecom services provide much of the market value with US\$25 Bn, followed by equipment at almost US\$7 Bn. IT services dropped slightly and is expected to reach just over US\$3.2 Bn by the end of 2009.

In the same report, Select, estimated on December 2008 that the PC market for desktops and laptops will drop by 8% and reach a market value of US\$4 Bn by the end of this year. Contrastingly, the number of PCs shipped for this year is expected to grow by 14%. We can make one of several conclusions from this information; the Mexican market is becoming more competitive with more participants and with more shipments, which are driving down the prices of PCs.

Select continues to mention that IT services in Mexico will be spearheaded by outsourcing and SaaS services, the most competitive niche. Maintenance and implementation services will also make up a large proportion of the service offering.

The ICT in Mexico was foreseeing since the end of 2007 the potential demand for mobile technologies, particularly those devices with high speed wireless connectivity. A diverse group of companies (fixed, wireless, broadcasters, pay-TV, ISPs, etc.) are seeking ways to bundle mobile connectivity with additional applications, having broadband as the backbone to offer additional services.

Broadband access infrastructure, specifically, is now a vital component for the different competitors in the communications market. Fixed operators, wireless carriers, broadcaster and pay-TV companies are seeking to expand their service offers based on broadband Internet connectivity. Triple and Quadruple Play services (voice, internet, video, and wireless) are becoming the standard package, which vary by quantity of content and pricing. The increased competition is obligating companies to become more innovative, to seek additional market segments, and to create differentiation through pricing and increase customer service.

Telmex has teamed up with MVS Comunicaciones in the recent launch of Dish (www.dish.com.mx), focused primarily on low-income households. Today, Dish offers its standard package for MX\$149 per month (about US\$11.50) that includes 31 channels without open air TV (neither Televisa nor TV Azteca channels). Their “All Access” package has a cost of MX\$424 (approximately US\$33) per month.

Telmex continues and will remain the main high speed ISP in Mexico through its Prodigy brand. Currently, Prodigy has over 70% of the broadband market. Telcel, the wireless sister company also has over 75% of wireless subscribers and the wireless Internet market in Mexico.

Despite the high concentration in the communications industry, there are however, strong players with a focus on particular niches that are becoming a good option for corporate, government and individual consumers. Fixed operator Maxcom, offers Quadruple Play services (fixed, wireless –through Movistar, pay-TV, and Internet access). Maxcom became the first operator to offer all services under one brand, and also became the first MVNO in Mexico by reselling wireless minutes from Telefónica.

Axtel is also offering a variety of services based on their digitized network in order to offer integrated services and high quality broadband connectivity. Alestra is also focusing its investment to continue to be a well recognized company within the corporate market.

Pay-TV companies are moving quickly in order to offer bundled packages of services. Today, there are a wide variety of options to choose Triple Plays services from. The main companies in the pay-TV market with strong offerings are: Cablevisión in Mexico City, Cablevisión in Monterrey, Cablemás, and Megacable. Other strong pay-TV companies are SKY and Multivision. The Pay-TV market is quickly concentrating and Televisa is the main player. It has ownership in Cablevisión Mexico City, DTH operator, SKY, Cablemás and Television Internacional (TVI).

Market Data Trends

The Mexican Internet Association updated their yearly report on Internet use in Mexico. Below we present the major findings. To better understand the penetration and use of Internet in the country, following are Mexico's demographics.

Population:	107 million
GDP (PPP Method):	\$1.25 trillion in 2007. Ranked 13 in the world
GDP Per Capita:	\$8,135
Under 20:	20%
Urban:	74%
Wealthy:	8%
Upper Middle:	22%
Middle Class:	30%
Poor:	40%
Households:	24.7 M
Top 5 States (Pop.)	Estado de Mexico, DF, Veracruz, Jalisco and Puebla
Top Metro areas:	DF, Guadalajara, Monterrey, Puebla-Tlaxcala, and Toluca
Gender distribution:	Male: 48.7%. Female: 51.3%

source: INEGI (www.inegi.org.mx)

In Mexico there were a total of 28 million Internet users at the end 2008. 23 million of these users are 6 years of age and older, and live in urban areas. This mainly has to do with availability of infrastructure, income and competition. The trend of Internet adoption in the last 3 years has been growing. Internet users increased by 16.4% compared to the end of 2007. Many of the users connect in public places, homes, offices, and schools. The market niche that operators are today focusing on is wireless broadband connectivity through various types of wireless devices, such as smartphones and Netbooks. In this sense, Mexico will see operators making new investments to increase coverage in their 3G networks, and in the short term some might consider leapfrogging into LTE (Long Term Evolution) networks.

It is estimated that there are over 18 million PCs in Mexico, with over 11 million having Internet access. Thus, 61% of the PCs in Mexico have connectivity, most of which is broadband. This number pales in comparison with the almost 80 million wireless subscribers. Consulting Everis recently commented that in Mexico there is a large potential market of 30 million additional subscribers in rural areas, currently not widely covered by operators. This is the reason that Ometel requested and was granted a wireless re-seller license. Ometel is currently in negotiations with wireless companies in order to buy large number of minutes, which Ometel will re-sell to lower-income segments in different regions of the country under its own label.

Over half of connected PCs are installed in the home. The other half is presumably installed in private businesses and government. As noted, there was an 18% growth from 2007 to 2008 in the number of PCs. However, the number of PCs with Internet access grew by 11.3% in the same period.

The PC market in general has been very variable in the last 3 years with many low and high peaks in the last 18 months. In 2008 there were approximately 5 million shipped PCs, and in our opinion notebooks and laptops are 30% to 40% above desktops. In 2009 we estimate that the market, both in revenues will remain as in the end of 2008 at approximately US\$4Bn.

Today wireless and fixed operators (telecom and cable-TV companies) have been seeking to package a connectivity device with their service offering. Fixed and CATV operators include a wireless modem at no charge. Telmex goes further by giving away the wireless modem and financing a PC or laptop to their Infinitum service, all paid directly in your phone bill.

Wireless operators such as Telcel or Iusacell package Netbooks with integrated 3G wireless cards and SIMs in order to sell broadband connectivity as an add-on to voice and SMS packages.

Internet use is equally distributed by gender with 56% male, and 44% female users. These users have more places to access Internet. Despite the fact that urban areas are the main centers where people access the web, today there are more urban areas than ever before. This trend in migration from rural areas brings more people of all income levels to urban areas. Thus, more people have access to Internet connectivity. For example, access to the D+ segment of the population grew 29% from 2007 to 2008. D/E segment showed an increase of 15%. The ABC+ segment has 63% of penetration, while the C has 43%. There is quite an opportunity to increase Internet use penetration in the top income segments of the population. However, one of the obstacles for this increase might be age.

AGE GROUP	% of total Pop	INTERNET USE
0 – 14	31.5	63%
15 – 29	27.0	55%
30 – 44	21.0	24%
45 – 59	12.2	19%
60 – 74	6.0	10%
75 +	2.3	N/A

In Mexico the younger generations from 6 to 44 years of age are the main users and promoters of Internet. However, the most intense users are between the ages of 6 and 29. Given this demography, social and entertainment activities reflect on how people use the Internet. From the universe of users, 6% use their mobile phone to connect to the Internet. As of the 2Q09, we estimate this number has increased to at least 10%. Connection site is predominately at the home with 50%, followed by public places such as Internet Café at 34%, and then the office with 19%.

The most important uses of Internet today are:

- 1) E-mail
- 2) Instant Messaging
- 3) Chat
- 4) Social Networks (Hi5, Facebook, Youtube, etc.)
- 5) Download music
- 6) On-line video gaming
- 7) Newspapers
- 8) Radio

In Mexico, users are of younger generations and have access in the home and public places. The use is mainly for communication, social networking, and entertainment. They spend, on average, 3 hours a day on line for these activities. The Mexican Internet Association claims that, on average, people are mostly online from 4:00 pm to 6:00 pm. The period from 6:00 pm to 8:00 pm is also important, and use begins to decrease from 10:00 pm.

We consider that the broadband and Internet industry has plenty of potential for various services:

- 1) Increase coverage of broadband services throughout the country.
- 2) Fixed and wireless connectivity device penetration
- 3) Web, Internet and wireless applications
- 4) Security applications
- 5) On-line business, retails and personal applications
- 6) On-line advertising (prime time: 4pm – 8pm)
- 7) Services equally focused to men as to women

Key Suppliers

In the communications industry in Mexico, technological convergence is setting the pace in new developments in the sector. Companies of different sub-sectors are today competitors fighting to gain and maintain users of voice, data and video. Triple Play and Value Added Services are pushing the industry to retain current clients and gain new ones. Most of the investment that carriers are assigning is focused to either reduce costs, to make companies more productive, or to target services that provide new options to their users.

Large equipment manufacturers, such as Ericsson, Cisco, Avaya, Nortel, Lucent, and Huawei, have a substantial piece of the network build outs for all types of communications companies. Despite the dominance of multinational telecom equipment companies, there is room for the more innovative, flexible, and service-oriented medium size companies.

Broadband services offered by the large variety of ISPs in Mexico are currently focusing on increasing broadband Internet penetration through either fixed or wireless devices. As broadband penetration has larger coverage, carriers will be able to offer a multitude of additional value added services. Today wireless and broadband applications range from banking to social networking to education to entertainment services. Thus, key suppliers will be those companies that offer innovative platforms and services to local ISPs. The United States has a strong position in Mexico as the nation with strong and constant innovation. Technology maintains upgrades and offers additional value. Those companies that are capable of adapting and staying updated in the quickly evolving communications and Internet markets will have clear business opportunities fixed, wireless, CATV and broadcasting companies.

Mexico's communications industry continues to show growth with different segments yet unattended. Operators, software/application developers, OEMs, and investors will continue to develop new markets by offering different solutions. Given the relatively low penetration of services, there is a clear potential for further growth. The specific areas of opportunity will come from convergent services that offer mobility and coverage. In the coming years Mexico will see the increase of services offered around mobile content and advertising, mobile Internet access (both on handsets and data cards), package variety of Pay-TV programming, and increased capacity of fixed broadband access.

Market Entry

For U.S. firms there are various ways to enter the Mexican market. Depending on the amount of market knowledge, financial resources and human capital, market entry can range from establishing a Mexican subsidiary to establishing an agreement with a local partner. Some firms prefer to sell directly and provide service from their U.S. headquarters.

Operators will be primarily interested in learning about products and services that can be part of their added value service portfolio. Additionally, they will be interested in systems, equipment, and software that would lower costs and increase data protection and security.

There is no standard procurement procedure used by all communication operators. Each has its own way of determining when a supplier becomes a partner. For example, some companies evaluate proposals first from the marketing perspective, then from the operational perspective, and finally from the financial perspective. On the other hand, there are companies that are straightforward; a team of specific area managers and procurement office staff make joint purchasing decisions.

It is important to know where your product or service stands in the value chain of the communications provider. There are products or services that are targeted with specific applications for a certain type of company. When products or services are very detail focused, for example to the 4 wireless companies, it is recommended to approach the clients directly and become involved in the sales cycle personally.

When your product or service has multiple applications in a variety of industries or vertical markets, it is easier to enter through any of the entities that form the market, such as distributors, resellers, integrators, wholesalers, or fulfillment and logistics companies. One or a mix of the above can offer your product or service introduction to the market, sales, service and tech support. In this case, you will be required to support your partners in the distribution channel by offering tech and sales training, provision of marketing materials, sales leads, and a representative to follow up and service their needs. It is important to make an effort to maintain a good market and commercial image with company presence. This is why local representation is key; it shows your prospective clients and partners that you have committed interest in the local market.

The U.S. Commercial Service offers customized services to help U.S. firms promote their exports and enter local markets worldwide. These include matchmaking services, Single Company Promotions, Customized Market Research Reports, Business Facilitation Services, and International Partner Search, among others. CS Mexico has 4 offices in the main cities in the country: Mexico City, Guadalajara, Monterrey and Tijuana. For additional information, please visit: www.buyusa.gov/mexico/en. CS Mexico City can support U.S. firms by coordinating promotion in other Latin American markets through its Trade Americas Regional Program www.buyusa.gov/tradeamericas.

Market Issues & Obstacles

NAFTA has been a key tool for increased trade between Mexico and the United States. As of 2005, U.S. firms can export IT and telecom equipment tariff free, as long as the product complies with NAFTA Certificate of Origin, this means that the product must have at least 51% North American content. Software and hardware with 51% U.S. content can enter Mexico duty and tariff free. Countries that do not have a similar trade agreement will be subject to significant import duties depending on the product and country of origin.

The company importing a U.S. product into Mexico will be required to be incorporated in Mexico and have a valid Tax ID number and the necessary import license, and will need to pay a 15% Value Added Tax (VAT) or Impuesto al Valor Agregado (IVA) for all imported products.

The participation of a customs broker is not obligatory for import procedures if all legal and technical requirements are met. However, a customs broker will be helpful to navigate the customs procedures, inform about standards and certification requirements, deal with paperwork, liberate merchandise from customs, and provide support in logistics and transportation. A customs broker is particularly helpful for novice importers, especially when the U.S. firm has recently incorporated a Mexican subsidiary.

Usually, a U.S. firm will provide delivery of products to the border, leaving all customs processing to the Mexican client importing the product.

The documents required for importing software are:

- Certificate of Origin
- Electronic Sector Register
- Sectorial Importing License (for import company in Mexico)

The documents required to import hardware are:

- Certificate of Origin
- NOM Certification (Norma Oficial Mexicana - Mexican Law)
- Electronic Sector Register

The requirements and regulations for importing are evolving under NAFTA. It is the responsibility of the importer to determine what certificates are required and from whom to obtain them. The Mexican government strictly enforces all customs regulations, particularly when it comes to potentially undervalued goods from Asia.

NOM Certification is required for all hardware, and must be tested in an accredited laboratory in Mexico prior to import. A certificate and labels of compliance must be obtained from the Ministry of Economy (www.economia.gob.mx) and NYCE (www.nyce.com.mx).

New equipment can be tested and certified with the large network of testing labs throughout the country. NYCE is the organization in charge of granting certifications. CANIETI, the National Chamber of the Telecom Industry (www.canieti.org), has its own labs and has signed Mutual Recognition Agreements with U.S. labs for testing in the US.

For refurbished or used equipment, the certification process is the same with the exception of one modification; this type of equipment can only be certified per lot. Each shipment must be certified prior to delivery. This implies a random sampling of 5% to 10% of the total units in the lot.

Trade Events in Mexico

Expo Comm México 2010

www.expocomm.com.mx

February 23 – 25, 2010

Centro Banamex, Mexico City

Expo Canitec 2010

www.canitec.org/expos.php

March 25 – 27, 2010

Centro Banamex, Mexico City

Convergent Communications Congress

www.mundo-contact.com/congresoip/mx08

June 24 – 25, 2010

WTC, Mexico City

Trade Events in United States

Supercomm

www.supercomm2009.com

October 21 – 23, 2009

McCormick Place, Chicago, IL

NOTE: original dates were June 8 – 11, 2009. The show has changed management (EJ Krause)

International Consumer Electronics Show (CES)

www.cesweb.org

January 7 – 10, 2010

Las Vegas Convention Center

CTIA Wireless

www.ctiawireless.com

March 23 – 25, 2010

Las Vegas Convention Center

NAB

www.nabshow.com

April 12 – 15, 2010

Las Vegas Convention Center

The Cable Show

www.thecablesow.com

May 11 – 13, 2010

Los Angeles, CA

Resources & Contacts

Market and Research

Telecom Think Tank
Telecom Consultancy Firm
Telecom Consultancy Firm

Telecom CIDE
the Competitive Intelligence Unit
SELECT

www.telecom.cide.edu
www.the-ciu.net
www.select.com.mx

Regulation and Government

Regulator
Ministry of Communications
Certification and Standards
Testing and Certification
Testing and Certification

COFETEL
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www.cofetel.gob.mx
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Chambers and Associations

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For More Information

The U.S. Commercial Service in Mexico City can be contacted via e-mail at: JuanCarlos.Prieto@mail.doc.gov; Phone: +52 55 5140 2600; Fax: +52 55 5566 1111; or visit our website: www.buyusa.gov/mexico

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