Mexico: Pay-TV in Mexico 2008

Summary

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The Pay-TV industry in Mexico is experiencing strong growth with large untapped potential. Over 90% of Mexican households have at least one TV set, and Pay-TV penetration of TV households is only about 18.5% with a total of 11 million of homes passed by cable; clearly a good opportunity for industry players. The market has 3 technologies: Direct To Home (DTH) with Sky as the only operator, MMDS with MVS Multivision as its only service provider, and Cable which a large number of operators. A total of 802 operational networks exist in the country with 15 companies offering Triple Play services in 2008.

Background

Cable television (CATV) in Mexico came about as a direct result of the limitations in the reach, sound and picture quality provided through basic television services. CATV was first introduced in the northern state of Sonora and provided the entrance point for the cable industry to launch itself into its development at the national level. Most major cities in Mexico did not develop cable television due to government censorship. By 1989 the industry had had a major impulse with the founding of Multivisión-MMDS system that started to develop its own channels in Spanish and the later development of companies such as Cablemás and Megacable. Over the past few years, many US networks have started to develop content for the Mexican market, such as CNN in Español, MTV, Cartoon Network, Disney channel, among others. This gives rise to the potential export of US-created programs in Spanish for the Mexican market. As the development of the cable industry in Mexico continues, the competition between US-exported Spanish content programming and local Spanish content programming may potentially affect US exports in that field. Another major service provided by cable companies in Mexico is broadband cable Internet services. In 2002 cable Internet accesses accounted for roughly 7% of the total accounts in service in Mexico and that figure is expected to grow through 2008. A growing customer base is the main engine behind Internet serves growth. Broadband service revenues are expected to grow to 56% of the total revenues generated by broadband connections by 2008. Cable modem providers will face stiff competition in markets out side of Mexico City, Monterrey, and Guadalajara, as Telmex becomes a new broadband alternative.

Market Overview

Telecommunications Market in Mexico

IT & Telecom Services in Mexico, 2006 - 2007

	2006* (USD millions)	2007* (USD millions)	YoY Growth 2006*	YoY Growth 2007*
Equipment	$ 6,379	$ 7,234	24.4%	13.4%
Software	$ 910	$ 975	12.7%	7.1%
IT Services	$ 2,617	$ 2,979	13.2%	13.8%
Telecom Services	$ 23,693	$ 26,044	11.5%	9.9%
Supplies	$ 1,107	$ 1,273	27.5%	15.0%
Total ICT	$ 34,706	$ 38,505	14.3%	10.9%

ICT Information and Communication Technologies
source: Select, 11/16/06
** estimated*

Total ICT Market in Mexico is valued at approximately US$38 billion. Most of the growth has come from telecom services (fixed and mobile) with about 68% of the market. Today in Mexico there are close to 20 million fixed lines and 65 million mobile lines. The numbers will continue to grow, but only marginally in fixed lines given that the projected growth of mobile subscriptions will continue to grow, reaching approximately 85 million by the end of 2010. The cannibalization of fixed lines will prevent that sector to go over 21 million in the future.

Traditional voice services have the same commodity value than in any other market. Thus companies with next generation networks that can support voice, data, and video with high demands of bandwidth will offer the value added required by both residential and corporate users. These networks will tend to move into the fiber optic fiber or wireless, such as WiMAX, and Power Line Communications.

The penetration growth of telecom services has demanded a constant need for equipment, maintenance, and outsourced services. Telecom operators are also redefining their business plans and objectives due to the presence of innovative companies that offer valuable products and services. The equipment segment of the industry reached a value of approximate US$7.3 billion. IT Services grew almost 14% from 2006 to 2007, providing also a great opportunity for U.S. firms.

Cable Television Market in Mexico

Mexico’s Pay-TV industry and its ecosystem are similar to many other countries. Today operators are facing the need to not only compete in television services, but in telecommunications through Triple Service offerings. Competition is now sourced not by companies, but rather by technologies. Business models are evolving as convergence moves forward. This inevitably forces operators to redefine their strategy, mainly a niche strategy.

Today’s next generation networks are the technologies that enable companies to offer value added services to their clients, whether corporate or residential. Broadband now is of key importance in a market where services and applications require large amounts of bandwidth, and cost must be dropped significantly in order for providers to offer IPTV, real broadband, voice, on-demand video, among others. These networks can be fixed through fiber or wireless through WiMAX or satellite and even wireless telephone operators, for example.

Additionally, the competition becomes more intense with Power Line Communications networks available for utility companies.
Today's telecom business is a mix of multiple players, from fixed telephone service providers to wireless operators to cable companies to broadcasters to utility companies. These companies seek integration in the value chain of telecommunications and all are now competing in capacity and coverage through bundled services.

Telecommunications operators are now also driven to update their technologies and to consolidate. Additionally they need to continue pushing and marketing the benefits of consolidated or bundled services, plus they need to focus on increased and continuous customer service and tailored offerings.

Table 1

Mexico's Cable Telecommunications Industry

Annual Gross Income (million)	**US987**
Total Concessions Granted	**1,100**
Concessionaries associated to Canitec	**700**
Operators	**220**
Penetration	**19%**
Pay-TV Market Share	**63%**
Average Annual Growth	**11.5%**
Operational networks	**802**
Subscribers (millions)	
*** Television**	**4.1 M**
*** Telephone**	**210,000**
*** Broadband Internet Users**	**1.2**
Telephony Users	**210,000**
Cities Covered	**1,800**
Homes Passed (millions, from a total of 25.5)	**11 M**
Network Extension (miles)	**90,000 miles**
Localities where telephony service is being offered (since 2006)	**40+**
Total companies with telephone service by the end of 2008	**35**

* April 2008
* Source: Canitec

In Mexico the Pay-TV industry has approximately 7 million users, from which about 4.1 million come from the CATV industry, and about 1.5 million from SKY with Direct-To-Home (DTH) services and 1.5 million from MVS Multivision with MMDS technology.

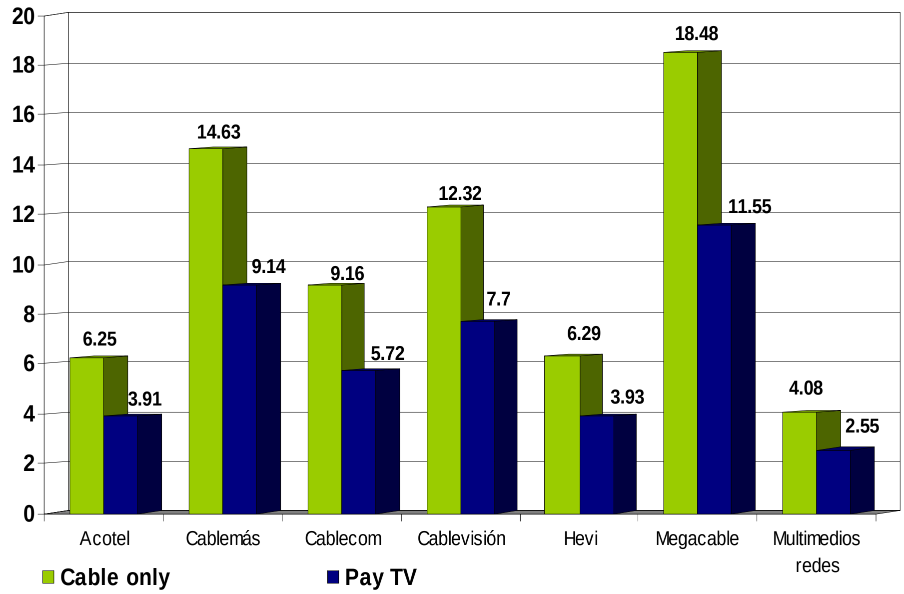
The CATV industry in Mexico is robust and well dispersed throughout the country. Despite its large footprint, the industry is broken down in 220 operators and generates close to a US$987 million annual gross income with 63% market share of the Pay-TV industry worth over US$1.57 billion.

As it can be seen in table 1, the CATV industry has 11 million of homes passed by cable, over 90,000 miles of network and a large number of companies offering Triple Play services.

Market Trends

As mentioned above, the market is becoming a telecommunications market where a variety of companies, once focused on different segments of the industry are now competing with each other. This competition has brought and increasing benefit for users. Now users have more options to have telecommunications services delivered to them, and not only by the provider but also by the device. Any given user can have a variety of providers, such as cable operator, a fixed telephone company, and a wireless telephone company, among others. Their device can also vary from a TV, a mobile phone, or a game console.

In Mexico there are 220 cable operators, but only seven are demonstrating an understanding of the converged industry and show continuous growth. The seven companies are: Cablemás (with Televisa capital), Cablevisión (with Televisa capital), Megacable, Grupo HEVI, Multimedios Redes, Acotel, and Cablecom. The other two strong players in the Pay-TV industry that use other technologies are: MVS (MMDS) and SKY (DTH with Televisa capital).



The main trends in the Pay-TV in Mexico are in two areas: industry and customers. In the industry segment we will continue to see increased competition by different players. These companies will seek strategic partnerships to complement their current service and integrate themselves to be more efficient and productive.

Cable operators are seeking to concentrate the industry in order to have fewer companies with a larger network and a stronger presence. This concentration will enable this segment to compete with more ubiquitous networks such as the one owned by the incumbent telephone operator, Telmex.

Telmex is seeking to gain a concession or license to offer video or TV services and compete with cable operators that offer telephone services. Currently there is a strong debate if the incumbent operator should be obligated to pay for the modification of its concession, and the general review of the Anti-Trust Commission (Cofeco) is that the company may request the modification without any payment. Nevertheless, the regulator, Cofetel, has not yet decided given that it is receiving extreme pressure from the cable industry to delay the entrance of Telmex into their market. Also the company is focusing on acquiring cable operators in the region, it has done so in Colombia, Bolivia and Peru. In Mexico, the regulator has not authorized such acquisitions, and as a consequence, Telmex continually seeks partners in the broadcasting area such as Televisa.

Televisa is investing heavily in the distribution of content through various means. Televisa is the largest media company and content developer in the Americas. Currently it is in the Pay-TV business through investments in SKY, Cablevisión and Cablemás. In the customer segment, operators need to focus on reducing rates, bundling services, increasing bandwidth, improving customer service, and continuously offering innovative services.

Import Market

As shown above, the ICT market continues to have double-digit growth year after year. Technology-intensive corporations, and federal and state government agencies triggered growth during the past five years. New growth is coming from IT Services to large and medium size users. Small and medium-size companies are now adopting technology much quicker and will be also a trigger for growth in the industries.

Fortunately for U.S. equipment vendors and service/solution providers, Mexican firms recognize the ease to do business with U.S. companies and also see U.S. products as innovative and state-of-the-art. This does provide certain advantage, but it is important to be aware that competition is fierce in Mexico. Companies from Canada, Europe and Asia are increasingly present in the country competing for end users and systems integrators.

The market for IT and telecom equipment and solutions is becoming more focused on solution integrators and moving away from direct end users. It is recommended that channel partners be developed as well as offering marketing & sales support to approach the end user.

It is important to remember that doing business in Mexico requires time to develop a relationship with end users and business partners. At the beginning, negotiations develop rather slow until a certain level of trust has been reached. This is the reason we recommend local knowledge through a business development partner that understands the market and has a contact network. Business and technical support to partners translates into customer service.

End Users

There is a demand for Pay-TV services in Mexico for all technologies, being Direct To Home (DTH), MMDS and Cable, are residential users. Mexico has a population of over 105 million people, broken down in to approximately 25.5 million households, for which there is over 90% TV penetration. Leaving Mexico with ample room to grow its Pay-TV industry.

Currently, there are approximately over 7 million Pay-TV subscribers in Mexico, which translates into about 28% of Pay-TV penetration.

Competition between different players and different technologies current and will continue. MVS Mutlivision that operates with MMDS has a lower price point, but SKY has aggregated over 170 thousand new users through the buyout of DirecTV a couple of years ago.

Users in Mexico are price sensitive, and Pay-TV is considered a luxury. When users make purchasing decisions they consider not only price, but also technology, programming and variety of shows among key the factors for purchasing the service. This now also includes Internet services, where cable companies have a clear advantage over other competitors. Here, the main CATV companies leading the subscriber base are: Cablevisión, Cablemás y Megacable who will drive the market with broadcasting and data services in the near future.

We continue to monitor the Pay-TV industry and we foresee strong growth in adoption, and continuous consolidation of the industry through operators' organic growth as well as through mergers & acquisitions.

Market Access

NAFTA has been a key tool for increased trade between Mexico and the United States. As of 2005, US 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% US 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 origin.

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

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 on standards and certification requirements, deal with paperwork, liberating merchandise from the customs, and provide support in logistics and transportation. A customs broker is particularly helpful for novice importers, especially when a 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
- Electronic Sector Register

The requirements and regulations for importing are evolving under NAFTA. It is responsibility of the importer to define 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 and NYCE.

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, has its own labs and has signed Mutual Recognition Agreements with US 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 shipment. This implies a random sample of 5% to 10% of the total of units in the lot.

Market Entry

For US 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 working out an agreement with a local partner. Some firms that are very new to selling to Mexico prefer to sell directly and provide service from their U.S. headquarters.

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

There is no standard procurement procedure used by all operators. Each has its own way of determining when a supplier becomes a partner. Telefónica Móviles evaluates any proposal first from the marketing perspective, then from the operational perspective, and finally from the financial perspective. Telcel and the CATV industry is straightforward; a team of specific area managers and procurement office staff make joint purchasing decisions.

The U.S. Commercial Service has different services to help U.S. firms promote their exports worldwide. These include matchmaking services, Single Company Promotions, Customized Market Research Reports, Business Facilitation Services, International Partner Search, among others. CS Mexico has 4 offices in the main cities in the country: Mexico City, Guadalajara, Monterrey and Tijuana. CS Mexico City can support US firms by coordinating promotion in other Latin American markets through the Trade Americas Regional Program.

Key Contacts

Market and Research

Telecom Think Tank	Telecom CIDE	www.telecom.cide.edu
Telecom Consultancy Firm	The Competitive Intelligence Unit	www.the-ciu.net

Regulation and Government

Regulator	COFETEL	www.cofetel.gob.mx
Ministry of Communications	SCT	www.sct.gob.mx
Certification and Standards	NYCE	www.nyce.com.mx
Testing and Certification	UL MEXICO	www.ul-mexico.com
Testing and Certification	CANIETI	www.canieti.org

Chambers and Associations

Telecom Association	ANATEL	www.anatel.org
Electronics and IT Chamber	CANIETI	www.canieti.org
Cable TV Chamber	CANITEC	www.canitec.org
IT Association	AMITI	www.amiti.org.mx
E-Commerce Association	AMECE	www.amece.com.mx

Trade Events

- **Expo CANITEC**

Conference and Exhibition
April 23 – 25, 2008
Centro Banamex, Mexico City
http://www.canitec.org/expo/2007/expo.php?IdEvento=3

- **THE CABLE SHOW**

Conference and Exhibition
May 18 – 20, 2008
Morial Convention Center, New Orleans
http://2008.thecableshow.com

- **CONVERGENT TECHOLOGY CONGRESS**

Conference and Exhibition
June 24 – 25, 2008
World Trade Center (WTC), Mexico City
http://www.mundo-contact.com/congresoip/mx08

- **NXTCOMM**

Conference and Exhibition
June 16 – 19, 2008
Las Vegas Convention Center, Las Vegas
http://www.nxtcommshow.com

For More Information

The U.S. Commercial Service in Mexico City, Mexico 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/en

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