

*IP Virtual Private Network Market  
to Experience Major Gains in 2003*

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**IP VPN Market in Mexico to Grow 88% in 2003**

- **IP VPN market reached 13 million USD in 2002**
- **Private long-distance and frame relay services will be impacted**
- **Dedicated VPNs are in the lead**

The Mexican IP Virtual Private Network (VPN) market reached USD 13 million in revenues at year-end 2002. According to Gabriel Moreno, Senior Internet Analyst at Select, an ICT market research company in Mexico City, revenue growth will be 88-percent in 2003 over 2002 (resulting in revenues of USD 24 million). The growth forecast for 2003 is particularly robust when compared to other telecommunications services, such as voice and data network services. Select predicts similar growth for broadband services generally.

Moreno points out that VPN services growth will negatively impact the growth of other data transmission services, such as domestic leased lines, frame relays, and ATMs. According to Moreno, "IP VPNs will not replace frame relay and other traditional access methods in the near term, but IP VPNs will increasingly be implemented as a WAN alternative."

Although frame relay and other data services are not being replaced on a large scale with IP VPNs, there are an increasing number of companies that are using IP VPNs, even as their primary WAN strategy. It is also important to note that a company, particularly a large enterprise, may use several technologies in its WAN strategy. IP VPNs may be used to connect some sites, while frame relay or other technologies may be used for others.

According to Moreno, "Regarding IP VPNs, we can say that there is a new way to transport data using public infrastructure, instead of paying for a private backbone at a higher price for transmission purposes. This is why it, along with broadband, will be one of the outstanding telecom services for 2003." In other words, IP-based services offer the possibility of providing significant cost savings compared with traditional methods of providing site-to-site connectivity and offer equivalent levels of service management,

security, bandwidth and quality of service. Cost saving, according to Select, will be the key IP VPN market driver.

## **2002 Results**

2002 market growth was truly outstanding, particularly when one considers the economic slowdown and other market dampening factors. While dial-up VPNs have not grown as much as some analysts expected, Select believes that the next five years will see significant growth for broadband VPN access, especially digital subscriber line (DSL) due to the growth in telecommuting in Mexico.

## **Trends**

Growth expectations for this market are very optimistic. Select believes that the IP VPN market will reach USD 96 million by 2006. This represents a 50-percent CAGR from 2002 to 2006. The main factor that will drive this growth in the short- and medium-term is the migration from domestic private networks, mainly international ports, to VPNs due to the cost savings.

The IP VPN user base and associated revenues will accelerate sharply from 2003/2004 onwards. Bandwidth pricing will decrease rapidly, but will be countered by increased capacity usage and ongoing replacement of broadband by dedicated connections.

Despite the high growth of IP VPN connections and revenues, most large enterprises will restrict IP VPNs to mission-supporting applications over the medium term. Revenues and profit margins from dial access will show the lowest VPN growth to 2004.

Moreno says that voice service will be very important for a large number of companies considering contracting VPNs, particularly when one considers that voice service comprises the highest proportion of the telecommunications budget of companies in Mexico.

As Moreno elaborates, "Adopting this technology will be very beneficial for inter-branch communication, which may be done at a cost lower than the cost of domestic or international long-distance. However, those companies that already have private networks and choose VPN IP will save on investments earmarked toward infrastructure".

## **Pros and cons of VPNs**

What advantages and disadvantages having an IP VPN entail for the Mexican user? Select's Moreno believes that the benefits include the following:

- Savings in ongoing investments in technology. A third party spends money on the infrastructure, whereas the user only pays a monthly rental fee for the service that includes management, monitoring, and connectivity.
- Monthly savings in connectivity consumption, if the user used to have international and domestic private lines. In some cases, savings resulting from the use of VoIP will be a driver as well.
- Savings in training expenses. The supplier maintains and operates the infrastructure. Therefore, the customer does not need to train his systems staff.

Disadvantages include:

- A variable level of security and service quality that depends upon the carrier or ISP (particularly lack of service quality mechanisms of small ISPs).
- As operating the business becomes more complex and solidified, the VPN will also become more complex and solidified. That is precisely where the disadvantage lies, since VPNs are expensive when employed at advanced levels of development and security.
- The user may perceive insecurity when using IP to operate and transmit critical mission data.
- Lack of interoperability of VPN equipment.

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## **TELECOM & IT TRENDS MEXICO 2004**

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