

*High Speed Internet: Trend or Necessity?
Telecom and IT Trends Mexico 2004*

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Highlights:

- DSL technology is predominant
- The enterprise sector is exploding
- Integration and alliances are two key factors for successful service

Enterprise Sector Leads Market Growth

High-speed Internet services in Mexico have rapidly become an important growth area for the data transmission service industry. Select, an ITC consulting firm in Mexico, estimates that by the end of 2004, the high-speed Internet industry market in Mexico will be more than US\$150 million, representing 19 percent of the value of the Internet access market, including dial up and dedicated access. This growth represents a 73-percent increase over 2002. 2002 growth was an incredible 222 percent over 2001. Select expects growth to slow in 2004, but the estimated 33-percent increase will still put the sector at double-digit growth.

“For Mexico, broadband access alternatives are becoming increasingly important to intensive users of dial-up service. In addition, broadband service is stimulating the acquisition of equipment by medium-sized firms due to broadband’s ability to support a LAN connection,” says Gabriel Moreno, Senior Internet Analyst at Select. The use of high-speed Internet service enables the user to use more resource-demanding multimedia and higher-interaction applications, both of which require a higher connection speed.

In the short term, there are two inhibitors that are preventing even more rapid growth of broadband in Mexico: low availability and high cost. Nevertheless, due to the

increasingly popularity of broadband service, providers are being forced to adjust to the new market realities by providing differentiated value-added services or risk migration of their users to the competition.

Select believes that the development of applications for administration, collaboration, videoconferencing/telephony, and integrating LANs to high-speed connections will drive the adoption of broadband services in the SOHO (SmallOfficeHomeOffice) segment.

At the end of 2003, Select predicts that DSL will become the most popular alternative for Internet access in Mexico and account for 50 percent of broadband clients. The small business sector accounts for 52 percent of the DSL subscribers.

While cable companies continue to participate in broadband service provision, the challenges that they face include increasing the availability of bi-directional services on their coaxial infrastructure, the development of unique value-added services beyond just broadband access, and creating alliances with operators in order to orient their business models to telecommunications service provision. There is an enormous amount of business potential for cable companies, especially when one considers that there are approximately 2.5 million cable TV subscribers in Mexico.

Although the participation of wireless providers in the market is still relatively small, it is a sub-sector with that has tremendous growth potential over the coming years. The surge of new competitors into the market will continue as will the increase in coverage of current competitors. Select considers wireless as a complementary technology that serves as an alternative when DSL and cable are not available.

Expectations 2003

The main challenge for broadband service providers in 2003 will be dealing with the low availability and relatively high cost of service, which are the two primary barriers to adoption by consumers. Additionally, providers will have to maintain existing service accounts, deal with challenges associated with application development and packaging, and differentiate their content. New content development and applications will attract new clients. Broadband service providers, especially cable providers, will need to be flexible enough to structure unique value-added services and enterprise solutions, including access, integration, and security features that contribute to a reliable network.

To take advantage of the opportunities that the broadband market presents, Select recommends the following:

- Develop a firm portfolio focusing on the establishment of a synergy between all business applications, the LAN network, and WAN connectivity.
- For the enterprise sector, Record success stories of broadband integration in order to reduce resistance by the customer to technology adoption.
- Tailor the services to accommodate the needs of the client according to geographic location, sector, and company size.

- Demonstrate the utility and tangible benefits for the user.
- Search for strategic alliances with other business models, such as integrators, software developers, and ISPs to strengthen the delivery of the service.
- Understand that the enterprise broadband Internet access service sector is only one link in the value chain and that a business needs to include other professional IT services in its offerings (ERP, CRM, SCM, BI, eCommerce, Security, etc.). This requires the experience of the other players.

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