

Your Market Is Everywhere

International Market Series

Mexico

How Canadian producers can benefit from looking beyond borders



This report focuses on the state of the television and gaming industries in Mexico.

Also included: genres that are on the rise in Mexico, media consumption habits, major local broadcasters, the regulatory environment, current trade agreements with Canada, recent deals between Canadian producers and Mexican broadcasters as well as advice from experts.

Fast facts:

▶ Mexico's physical proximity to Canada and the U.S. facilitates collaboration and partnerships with Mexican companies, which in turn can be leveraged as gateways to other Latin American media markets.

▶ Mexico's gross domestic product ranks above several European and Asian countries and is firmly established as an important emerging market for media producers.

▶ There are a number of industry associations and government initiatives that support innovation and entrepreneurialism in Mexico's creative and technological industries, and such programs have led to a number of notable collaborations between Canadian and Mexican firms. ↓

▶ Mexican gamers have been found to be more similar with respect to tastes and habits to U.S. and Canadian gamers than those in other Latin American markets. ↓

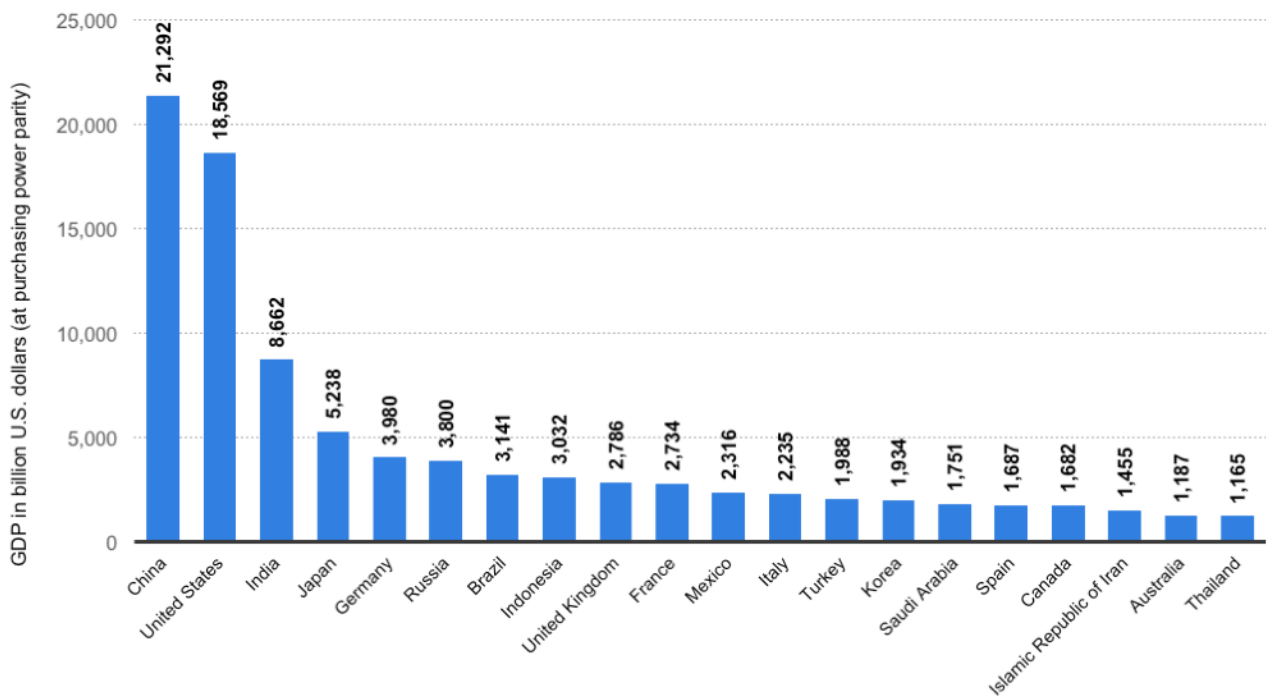
▶ Mexico has one of the world's highest YouTube consumption rates. ↓

▶ The Mexican government has a number of incentives and programs in place to stimulate production in Mexico by foreign producers: ProvAV, Fidecine, Foprocine, and the Eficine tax credit. As long as foreign producers have a production partner in Mexico, they are eligible to apply for these programs. ↓

As a member country of the North American Free Trade Agreement (NAFTA) since more than 23 years, Mexico has enjoyed a preferred partner trading relationship with Canada that has facilitated a multitude of cross-border commercial, cultural and employment opportunities. Mexico's physical proximity to Canada and the U.S. also facilitates collaboration and partnerships with Mexican companies, which in turn can be leveraged as gateways to other Latin American media markets such as Argentina, Brazil, Chile and Colombia.

As of 2016, Mexico's gross domestic product (GDP) ranked 11th in the world, as estimated in terms of purchasing power parity. As such, Mexico ranks above several European and Asian countries and is firmly established as an important emerging market for media producers.

Ranking of the 20 countries with the largest gross domestic product (GDP) at purchasing power parity in 2016 (in billion U.S. dollars)



Note: Worldwide

Source: IMF [ID 264575](#)

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TRACK RECORD WITH CANADA

A number of Canadian production companies have been successful in forging partnerships with their Mexican counterparts and in making sales to Mexican broadcasters. These sales have largely been included in deals that cover all of Latin America, as opposed to as a single country arrangement with Mexico.

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Recent partnerships and deals include:

- ▶ Siete Media of Mexico City opening a satellite office in Montreal's Mile End technology hub. The collaboration has yielded over one hundred 360-degree touch screen digital tours of Mexican landmarks such as archaeological sites, natural reserves and tourist destinations¹;
- ▶ Squeeze Studio's 3D animated series *Cracké* and its 52-episode broadcast deal in Latin America, including Mexico, on Cartoon Network and Boomerang²;
- ▶ Proper Television's multi-region sale of 12 episodes of *Last Stop Garage* as part of the deal with Discovery Networks for Latin America³;
- ▶ 9 Story Media's sale of 80 episodes of animated short form children's series *Nature Cat* to Discovery Kids Latin America⁴;
- ▶ Rhino Content's sale of seasons 1 and 2 of *Masters of Flip* to Discovery Home & Health Latin America⁵.

INSIDER TIPS

On Quebec as international hotbed for animation talent

“Montreal and Quebec City are international platforms for the [animation] sector... with access to international clients... [and] to technology that we do not have available yet in Mexico.”

– Roberto Lopez, Siete Media (Mexico City) on setting up offices in Quebec¹⁰

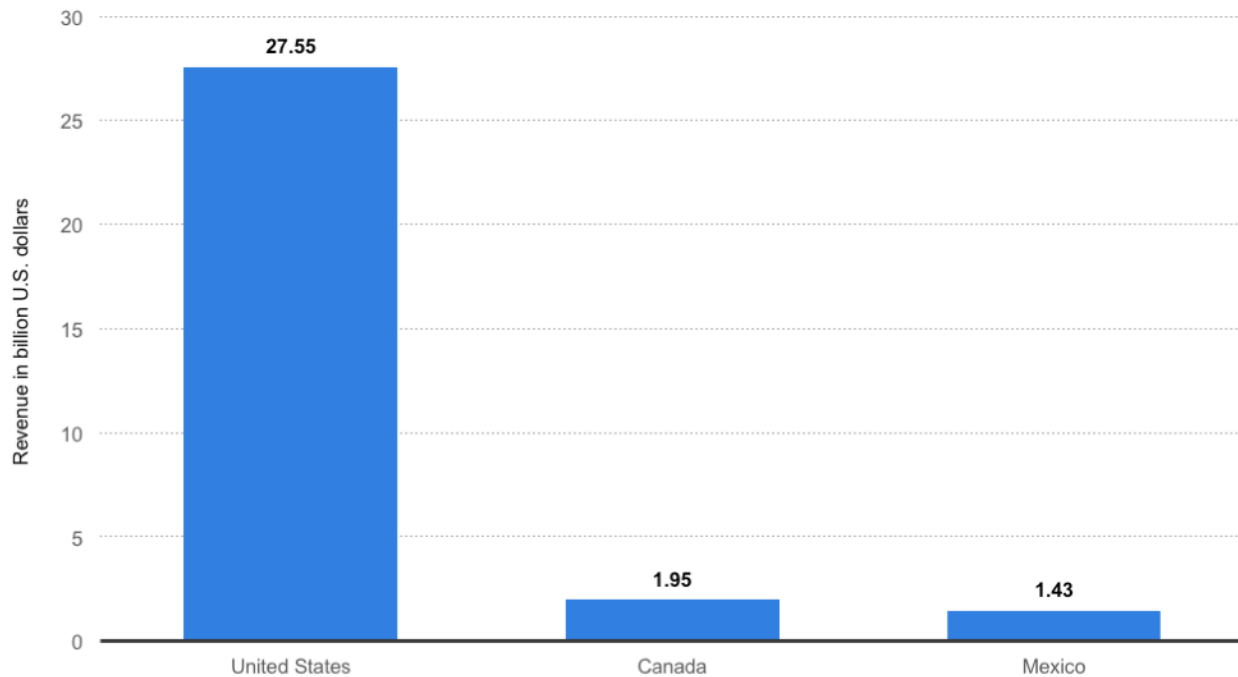
SUCCESSFUL GENRES

Telenovelas and Gaming

The first television genre that comes to mind when many think of Mexico is the telenovela. These serialized programs ooze with romance, intrigue, and high drama. This type of programming is nothing short of addictive, and not only within Mexico's borders, but in Spanish-speaking markets all over the world. Also, in the past few years, global markets have become acquainted with the delights of the telenovela, with programs such as *La Reina del Sur*, *Las Aparicio* and *Una Familia de Diez* have been made available on Netflix and have become binge-viewing favourites.

While slightly smaller than Canada's gaming market—and representing just a fraction of that of the U.S.—Mexico's gaming market is the largest in Latin America, valued at just over US\$1.4 billion as of spring 2017. Just under half of this revenue, or approximately US\$600 million, is generated from mobile gaming⁶.

Leading gaming markets in North America as of April 2017, by revenue (in billion U.S. dollars)



Note: Canada; Mexico; United States; April 2017; figures are estimates

Source: Newzoo

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Games focused on sports (e.g., *FIFA*), racing (e.g., *Need for Speed*), action/adventure (e.g., *Call of Duty*) and music and dance (e.g., *Rock Band*) are the most popular with Mexican gamers. By comparison, the most popular gaming genres in Canada are Facebook's casual games, followed by action/adventure games such as *Call of Duty* and *Super Mario Galaxy*, puzzle-based games, and life simulation and role-playing games⁷. Despite such differences in genre preferences, Mexican gamers have been found to be more similar with respect to tastes and habits to U.S. and Canadian gamers than those in other Latin American markets⁸.

While mobile device penetration has been a key driver of gaming growth in Mexico, it is worth noting that 84% of the country's mobile users subscribe to prepaid mobile plans that come with data restrictions. Although considerable penalties are levied when mobile data allotments are exceeded, about one quarter of Mexican mobile users are reported to regularly exceed their data quotas⁹.

MAJOR BROADCASTERS

Mexico's television landscape has long been dominated by the duopoly of Azteca and Televisa, owners of the country's top free-to-air (FTA) channels. Both companies also have large media holdings. In the case of Televisa, it owns cable company and VOD provider Izzi as well as satellite company Sky Mexico¹¹, whereas Azteca, part of the Grupo Salinas conglomerate, also operates television channels in the U.S., Guatemala, and Honduras. The other popular FTA channels in Mexico are Canal 5 and Gala TV¹².

In recent years, the Azteca–Televisa duopoly has felt the combined sting of the online migration of viewing habits and the emergence of new digital channels and OTT providers taking over a large part of the market. However, as the world's largest Spanish-language broadcaster and a more technologically nimble company, Televisa finds itself in a more favourable position than its rival Azteca. For example, Azteca's pay TV offering, which was admittedly late to the game, has attracted only 45,000 paying subscribers, while Televisa's has drawn 10 million¹³.

OTHER DELIVERY PLATFORMS

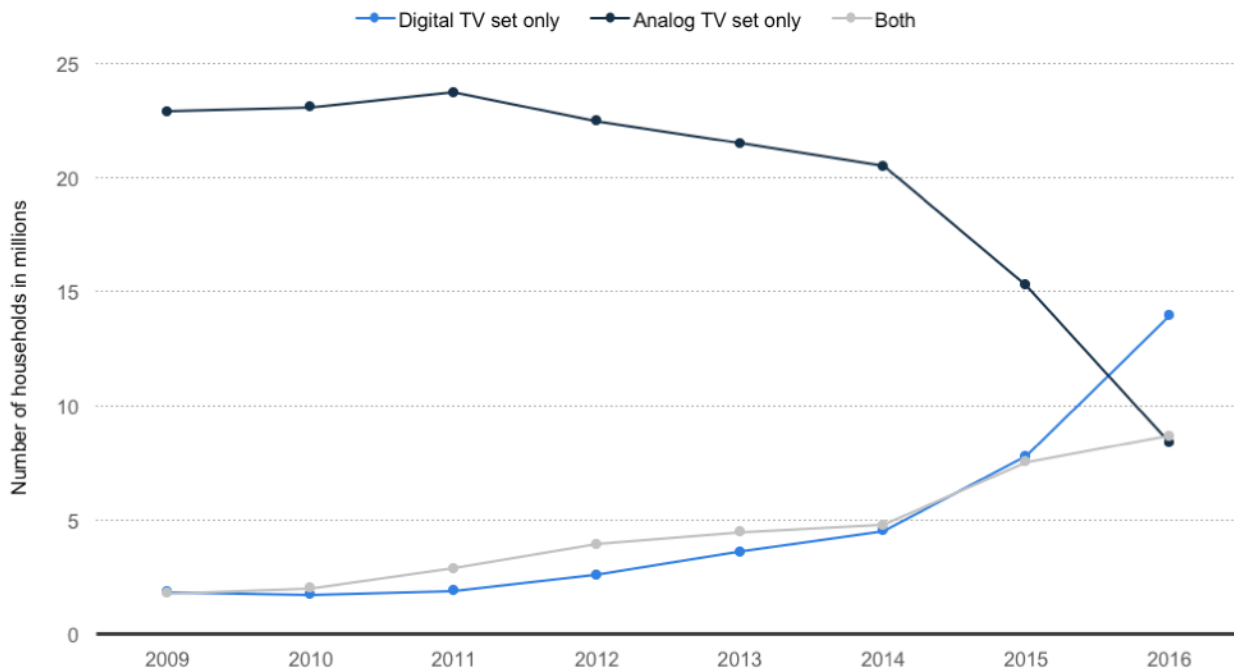
Mexico has been slower than many countries in achieving a high level of broadband penetration, largely due to many years of unchecked market dominance by a single player and the resulting lack of competitive pricing. Until governmental reform was passed in 2013, broadband Internet was only made available to those who also purchased a package from the provider that also included a landline. However, the package was offered at a price point that was out of reach of many of the country's inhabitants¹⁴.

Since 2013, new broadband providers such as Megacable and Izzi have entered the market with more consumer-friendly offerings. Now just over

half of the Mexican population, or about 70 million people, are online. This places the country in tenth rank in the world for the highest number of Internet users. As part of the Mexican government's 2013–2018 national infrastructure program, designed to improve large-scale public works projects, free broadband access is now available in over 100,000 public facilities such as schools, libraries, and community centres¹⁵.

As is the case in many countries with newly acquired alternatives to analogue television, conventional viewing has declined dramatically in recent years in Mexico, eclipsed by digital TV viewing and/or the option of viewing both short-form and long-form content on a variety of screen-based devices and on-demand viewing models.

Number of TV households in Mexico from 2009 to 2016, by TV set type (in millions)



Note: Mexico; 2009 to 2016

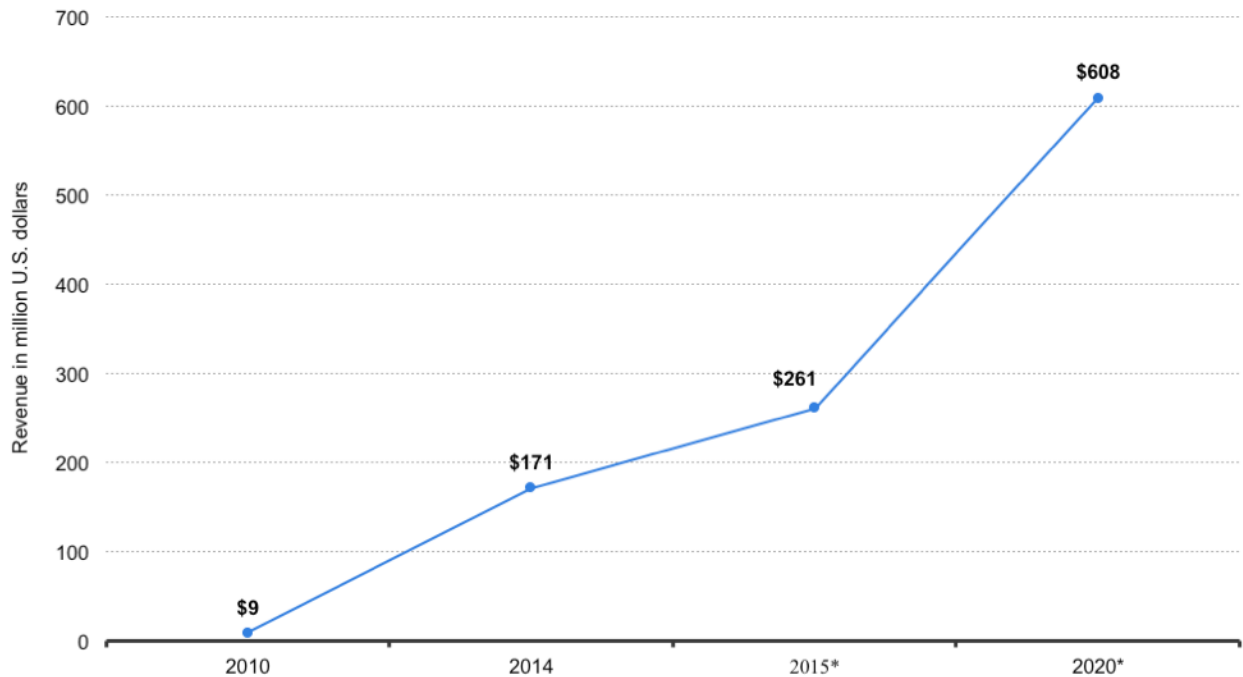
Source: INEGI

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OTT

Mexico's OTT market comprises a combination of international and local platforms. American-owned Netflix, HBO Go, and Amazon Prime have all launched in the Mexican market, while newer local players on the local scene include Blim (owned by Televisa) and ClaroVideo (a division of Carlos Slim's telco America Movil¹⁶). Growth in the Mexican OTT sector has been rapid, with revenue surging from US\$9 million in 2010 to over US\$260 million at present and forecasted to reach over US\$600 million by 2020. Mexico also has one of the world's highest YouTube consumption rates, at 4 billion video views per month¹⁷.

Over the top (OTT) TV and video revenue in Mexico from 2010 to 2020 (in million U.S. dollars)



Note: Mexico; 2010 and 2014

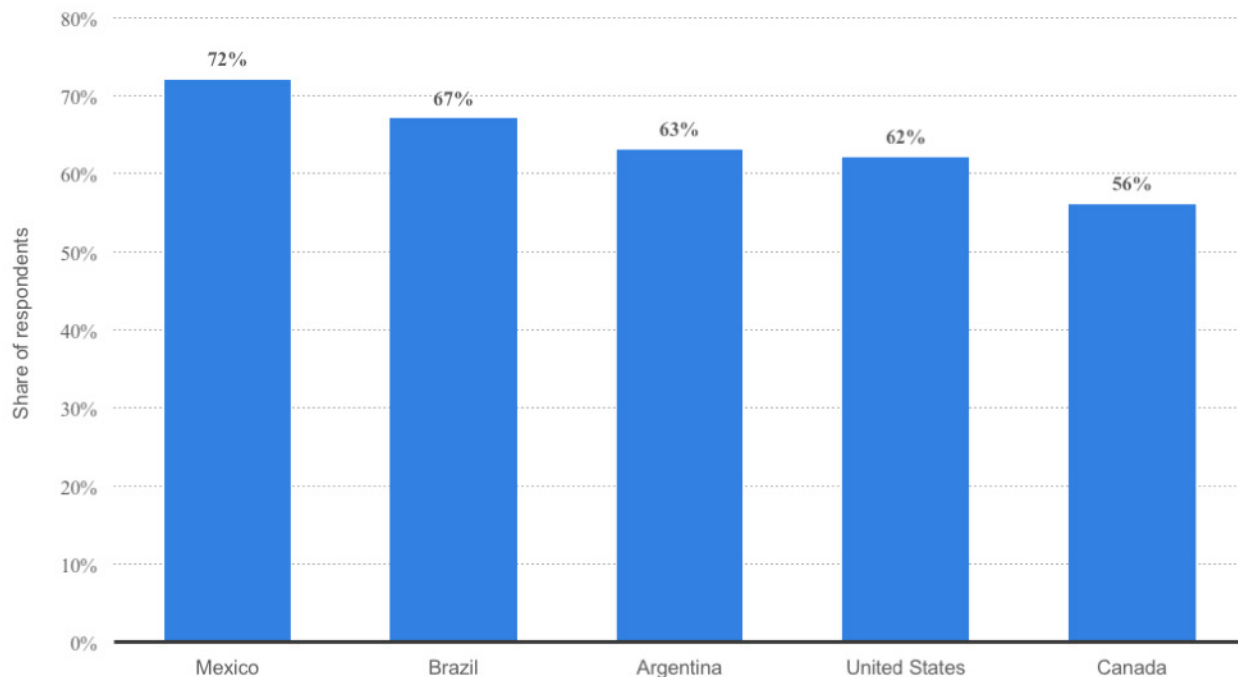
Source: Digital TV Research

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Netflix is particularly strong in the Mexican market, with a reported penetration rate of 72% in 2017 which ranks the country first ahead of Brazil, Argentina, the U.S. and Canada when it comes to support of the 'all-can-you-eat' streaming provider^{18,19}.

With about 110 million mobile device users, Mexico's mobile penetration rate sits at approximately 90%, making it the only Latin American country with a mobile connection rate below 100%. Note that, in the definition being used here, mobile connections include non-voice devices such as tablets and notebook computers. Of the 110 million mobile connections in Mexico, just over 50 million are smartphone users.²⁰

Leading Netflix markets worldwide in 2nd quarter 2017



Note: Worldwide; Q2 2017; 16-64 years; 34,078 Respondents; among internet users / used last month

Source: GlobalWebIndex

statista

TRADE AGREEMENTS

Since NAFTA came into effect in January 1994, trade barriers imposed on the commerce of goods and services between member countries Canada, the U.S. and Mexico have been eliminated, and provisions were made for workers in about four dozen job categories to facilitate cross-border employment without the usual cumbersome visa application processes.

In addition to the cross-border trade made possible by NAFTA, Canada and Mexico share a [co-production treaty](#), administered by Telefilm Canada, which facilitates audiovisual production partnerships between both countries.

The Mexican government also has a number of incentives and programs in place to stimulate production in Mexico by foreign producers. One such incentive is ProvAV, which came into effect in 2010 and provides a cash rebate on eligible expenses as well as the refund of the VAT (value-added tax) on project-related expenditures made within the country. Other incentives include Fidicine, Foprocine, and the Eficine tax credit. As long as foreign producers have a production partner in Mexico, they are eligible to apply for these [programs](#)²¹.

REGULATORY ENVIRONMENT

Despite being a NAFTA partner since the early 1990s, Mexico's media landscape has a political economy that is decidedly different from the one that prevails in Canada and the U.S. Media ownership has traditionally been extremely concentrated and competition has therefore been limited. There has been some positive movement in these areas in recent years, such as the above-mentioned 2013 government reform that uncoupled broadband access from landline service.

The extent to which the broadcast market is not a level playing field can be seen by way of such controversial decisions as one made by the Instituto Federal de Telecomunicaciones (IFT, the federal telecommunications institute) in 2015. It ruled that Televisa, the largest media company not only in Mexico but also in the entire Spanish-speaking world, was 'not dominant,' despite occupying approximately two thirds of both the pay TV and broadcast TV markets²³.

As is the case in a number of emerging markets, intellectual property right and protection issues in Mexico are not what they are in more developed markets. Producers are therefore advised to enter such markets with their eyes open and a general knowledge of the issues at hand.

Mexico is similar to other countries in that online piracy has taken over from illegal duplication of hard formats such as CDs and DVDs as producers of content use digital channels as their medium. For a sense of the scope of the problem, it has been estimated that 90% of movie and television program DVDs are pirated, distributed through such massive physical markets as Tepito in Mexico City and San Juan de Dios in Guadalajara. Furthermore, after decades of illegal copies of albums, books, movies, software, and games flooding the marketplace, only recently has the government cracked down on such activities, but this crackdown has reportedly come at the expense of policing the more urgent problem of digital piracy.

For example, the government's draft amendments on digital copyright infringement do not address third-party liability (i.e., Internet service providers). Other issues hampering the financial health of the country's digital ecosystem include inadequate deterrents in the form of fines and sentences and a lack of resources and know-how to address the severity of the problem²⁴.

INSIDER TIPS

On co-production budgets that go further

“Production costs are a bonus, as it's much cheaper [to do media production] in Mexico than in Canada. This opens up interesting business opportunities for small- and medium-sized Canadian companies.”

– Ivan Acebo-Choy, Cultural Affairs Officer, Embassy of Canada in Mexico City²²

INSIDER TIPS

On Canada as an attractive partner in the animation sector

“One of the key reasons there is so much co-production between Canadian and Mexican companies is that Canada, and Quebec in particular, has been extremely active in getting out to the marketplace events, with delegations, and establishing itself as an important player in animation. This has also opened doors to other Latin American markets in Europe, Central America, and South America.”

– Athena Georgaklis, Head of Development for Nelvana²⁶

MAJOR INDUSTRY ASSOCIATIONS AND INITIATIVES

- ▶ COMEFilm (Comisión Mexicana de Filmaciones [Mexican film commission]);
- ▶ INADEM (Instituto Nacional del Emprendedor [National entrepreneur institute]), which recently hosted an exchange between Mexican start-ups and start-ups in the Toronto–Waterloo corridor²⁵;
- ▶ TechBA, a business incubator program created by Mexico’s Secretary of the Economy to support innovative small- to medium-sized business with the potential for internationalization. TechBA has several locations in the U.S. and Europe as well as Canadian offices in Vancouver and Montreal, through which the opening of a Montreal office for Mexico City’s Siete Media was facilitated.

MARKETPLACES/TRADE EVENTS

Annual trade and market events in Mexico covering the television, animation, and gaming sectors include:

- ▶ MIPCancun: Key Latin American TV marketplace for producers, distributors, and buyers;
- ▶ Pixelal: International festival for producers of animation, video games, and comics, with global attendees and participation from industry-leading companies such as Pixar, Disney, Cartoon Network, Nickelodeon, Amazon, and Netflix;
- ▶ El Festival de Animación, Videojuegos y Comics: Animation, video game and comics conference focused largely on Mexican production companies;
- ▶ Electronic Game Show: Largest annual video game trade show, held in Mexico City;
- ▶ Ideatoon: Conference for audiovisual producers interested in accessing international markets;
- ▶ BajaWebFest: Festival focused on digital content produced for the web, covering drama, comedy, action and adventure, science fiction, fantasy, and documentary.

OFFICES/PERSONNEL IN CANADA

Mexican Business Association of Canada
Canada-Mexico Chamber of Business

FOOTNOTES

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