

COMPETITORS

Domestic Producers

Only a small proportion of the sporting goods sold in Mexico are manufactured domestically. Local production is mostly limited to products that take advantage of particular Mexican inputs or that are highly labour-intensive. One example is the production of gloves for baseball and other sports. Domestic production of exercise equipment is limited to mechanical weight training equipment. Foreign companies that manufacture sporting goods in Mexico include *AMF Voit* and *Mizuno*.

Foreign Competitors

Most major international sporting goods companies distribute their products in Mexico. With some exceptions, the market leaders in the United States and Canada are also predominant in Mexico. For example, the top brands of imported exercise equipment include Life-fitness, Paramount, Universal, Wieder, Weslo, Nautilus, Vectra, Ivanko, Flex, Proform, Tunturi, Continental Systems and Star Trac.

TRENDS AND OPPORTUNITIES

ECONOMIC AND MARKET TRENDS

As a result of the December 1994 peso devaluation, 1995 was a turbulent year for the Mexican economy, especially the retail sector. New competitors were entering the market just as the volume of sales was falling sharply. According to most estimates, retail sales fell by about 20 percent during 1995, and department store sales dropped by 30 percent. Consumers delayed major purchases, and switched to domestic products in the face of nearly doubled import prices. Overall imports of consumer goods fell by 44 percent in 1995.

In spite of the peso devaluation and the economic crisis that followed, the long-term prospects for growth are good. The Mexican economy bottomed-out in the second quarter of 1995, and GDP is forecast to grow by 2 or 3 percent in 1996, after declining by 7 percent in 1995. The inflation rate, which averaged 52 percent during 1995, is expected to fall to less than 30 percent in 1996. Inflation is expected to continue to decline as the shock of the devaluation works its way through the cost structures of Mexican producers. Continued domestic inflation will eventually restore the competitive position of imported goods, which absorbed the entire shock in the first months of 1995. The recovery has been driven entirely by exports so far — and retail sales remain sluggish. However, industry analysts anticipate that this downturn will be temporary.

The economic crisis has had one positive outcome from the Canadian exporter's perspective. In the past, the retail sector has been characterized by a complex, multi-layered distribution system. A considerable amount of business has been traditionally based upon personal and family connections rather than genuine competitiveness. In the past, this has driven up the cost of imported goods and made it difficult for unknown companies to break into the market. The crisis has forced many retailers to re-examine their operating practices and has broken up many traditional lines of supply. A large number of wholesale agents and distributors which had previously specialized in imported goods went out of business during 1995. As a result, Canadian companies willing to adopt a medium- to long-term strategy will find new doors open to them as the recovery progresses.

DEMOGRAPHICS

According to one estimate, Mexico City includes 27 percent of Mexico's households and 45 percent of the country's buying power. Mexico is a very young nation: the average age is roughly ten years lower than in Canada. This means that a large proportion of Mexico's population of nearly 100 million are in the prime age group for sporting goods consumption.

Mexican society is characterized by large income disparities. According to Organization for Economic Cooperation and Development (OECD) estimates, the ratio of the income of the highest quintile of the population to the lowest quintile is 13.6 percent in Mexico. The comparable figures for Canada and the United States are 7.1 and 8.9 respectively.

The upper class has not been severely harmed by the crisis and continues to command large discretionary spending. Prior to the devaluation, the top 10 percent received 38 percent of all household income. On the other hand, these consumers tend to travel, and often buy their high-end retail goods in other countries, especially the United States. This is partly because retail prices in Mexico have traditionally been about one-third higher than those in the United States. This situation may change as distribution channels are streamlined as a result of the economic crisis, and high-end retailers from the US establish outlets in Mexico.

In general, the middle class is considered a better market for sporting goods. Although the burgeoning middle class was set back substantially by the economic crisis, the long-term growth potential is still good. This segment of society tends to associate status with imported products and has a large demand for consumer goods in general. In addition, the middle class tends to