

Sporting Goods



THE OPPORTUNITY

Mexico's deeply-rooted love of sports, combined with a growing enthusiasm for non-traditional games and leisure activities, is creating an expanding market for sporting goods.

- Baseball and basketball now have strong followings, especially in the north.
- In-line skating is increasingly popular.
- Golf and tennis are attracting wealthier Mexicans.
- There is a growing interest in personal fitness.
- Poor air quality is driving a strong demand for indoor exercise equipment and sports such as racquetball and squash.

Long-run market opportunities in this sector are further supported by a young and rapidly-growing population.

SPORTS AND THE MEXICAN CULTURE

Sports are deeply rooted in Latin American culture. Pre-Columbian Meso-American societies, including the Aztecs who founded Mexico City, played a ball game known in the Nahuatl language as *ollama*. This game provided ritual, entertainment and gambling, and sometimes

served as a form of warfare. *Ollama* was played with a rubber ball and had characteristics in common with modern soccer and basketball. The game was extremely violent and the losing team sometimes lost their lives in a ritual sacrifice following the game. European explorers observed this game and brought the rubber balls back to Europe, where they replaced the wooden balls in use at that time. This led to the development of modern ball games.

Modern Mexico continues to be known for dramatic and violent spectator sports. Bullfighting, professional wrestling (*lucha libre*) and boxing are all popular. Julio César Chávez, the professional boxer, is a national hero. In spite of their popularity, these sports are dwarfed by soccer, or *fútbol*, as it is known in Mexico. This is a participatory as well as a professional sport. Mexicans of all ages and socio-economic groups play the game, and soccer fields can be found in even the smallest and poorest villages.

A number of less traditional sports have begun to challenge the pre-eminence of soccer, and this is driving an expanding market for

SUMMARY REPORT

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sports equipment. This is especially true in the north where American cultural influences are the strongest. Baseball and basketball now have substantial followings, especially in Monterrey, where a new indoor sports arena was recently completed. Professional leagues exist for both sports, and there are also a growing number of amateur players. Several other individual and team sports have begun to attract young middle-class Mexicans, including volleyball, in-line skating, running, American football and cycling.

Golf and tennis have become very popular among wealthier Mexicans. Since there are virtually no public facilities for these sports, participants must be members of a private sports club or country club. This exclusivity creates a degree of status that is now attracting upwardly-mobile middle-class players, who have a preference for prestigious brand-name gear. The exclusivity of golf has been the source of some controversy. For example, when officials of the town of Tepotzlán approved the construction of a golf course designed by Jack Nicklaus, they were confronted with vocal protests from local residents. The project, which would have been built in an area of historic and cultural significance, has been indefinitely postponed.

A trend towards personal fitness and exercise among younger Mexicans is driving a growing market for exercise equipment. High rates of air pollution in Mexico City and other urban areas has forced fitness-minded Mexicans indoors. This has created a strong market for all types of fitness equipment both for use at home and at private fitness clubs and gymnasiums. This market is augmented by demand from Mexico's huge tourist sector. The most popular tourist destinations are the coastal resorts. Equipment for use in water and beach sports, as well as general fitness activities, is in continuing demand.

THE MEXICAN SPORTING GOODS MARKET

The growth of the middle class has been the most important force behind the growing Mexican market for sporting goods. Over the past few years, greater leisure time, combined with higher purchasing power, has increased interest in both spectator and participatory sports as well as other recreational activities. An increased concern about physical fitness has reinforced this trend. Sales of imported sporting goods rose by 70 percent in 1994 alone.

The sporting goods market involves goods for individual and group recreational and fitness activities. This includes activities such as golf, tennis, gymnastics, physical fitness, team sports, watersports and watercraft. This market summary does not cover athletic apparel or footwear, firearms or camping equipment. Defined on this basis, the Mexican market for sporting goods has been estimated at about US \$350 million, about two-thirds of which is imported.

In December 1994, a large current-account deficit, combined with major capital outflows, brought about a sharp devaluation of the peso and precipitated an acute economic crisis. Because they are luxury items, sporting goods were highly vulnerable to the subsequent drop in disposable income. During 1995, consumer demand contracted and imports fell. As of early 1996, a gradual economic recovery had taken hold. Pent-up consumer demand is expected to resurface during 1996, leading to significant growth beginning in 1997.

The Mexican market presents substantial opportunities for Canadian sporting goods companies that are willing to adopt a medium- to long-term strategy. Companies that enter the market during the current period of recovery will be well-positioned

when high growth rates return. The North American Free Trade Agreement (NAFTA), which went into effect in 1994, gives Canadian and American sporting goods a distinct advantage in Mexico, since the treaty eliminated or reduced tariffs on most sporting goods that originate in North America.

THE ROLE OF FOREIGN TRADE

The Mexican market for imported sporting goods equipment has grown strongly over the past five years, even though the overall market is relatively small. Imports rose by 70 percent in 1994 to reach US \$217 million. Canada's exports increased by 20 percent in 1994, to US \$5.1 million, for an import market share of just over 2 percent. Watercraft other than sailboards and similar small equipment are not included in this total because they are classified as transportation equipment in the trade data. In 1994, Mexico imported US \$22.6 million worth of pleasure vessels, of which US \$1.2 million came from Canada. Including pleasure vessels, Canada's market share was 2.6 percent in 1994.

The most rapidly-growing imported product categories have been game machines (including pin-setters for bowling), exercise equipment and roller skates. Golf equipment has been a consistently strong product line. Canada has been most successful in the market for exercise equipment. Sales increased by 70 percent in 1994 to reach US \$3.9 million, which is about 11 percent of the import market. This was about the same share as a year earlier, but is a dramatic increase from previous years.

The United States supplied 58 percent of the 1994 import market. Other important competitors are Italy, Germany, Pakistan and Hong Kong.

Imports of consumer goods declined in response to the devaluation of the peso. Imports of consumer goods fell 44 percent during 1995. On the other hand, there are few domestic sporting goods producers, and import penetration is likely to remain high. The import market for sporting goods is expected to begin to recover in 1996.

CUSTOMERS

There are three major categories of buyers of sporting goods and exercise equipment in Mexico. These are gymnasiums, tourist facilities and retailers of sporting goods. In addition, government entities are estimated to account for between 8 and 10 percent of total demand.

GYMNASIUMS

Private gyms have become increasingly prevalent in Mexico during the last ten years. They are particularly visible in the country's three largest cities — Mexico City, Monterrey and Guadalajara. In urban areas, air pollution and the lack of open space discourage people from exercising outdoors. Private gyms have become especially popular among young professionals, a group of buyers with a relatively large amount of disposable income.

Mexican gyms have gradually evolved away from their traditional function as facilities for men to lift weights. Today, they are more likely to be broadly-based fitness centres serving a diverse clientele, including women. In addition, a growing number of specialized facilities cater to niche markets. This transformation has entailed the addition of new workout areas for activities like aerobic dance as well as new equipment, such as treadmills, stair climbers and mechanical equipment with electronic controls.

There is also a market for versatile gym equipment for home use. The most popular machines in this segment are stair climbers, ski simulators and multi-function exercise systems.

TOURIST FACILITIES

Spas, hotels and resorts catering to tourists are another important market for sporting equipment. International tourism is the second largest source of hard currency in Mexico, second only to petroleum. The December 1994 devaluation of the peso increased the importance of tourism by making Mexico a more affordable destination for foreign tourists.

Mexican Sporting Goods Imports from the World*

US \$ millions



*Does not include watercraft (other than such small equipment as sailboards).

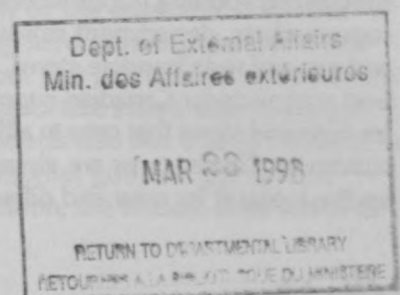
Source: *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development.

Mexican Imports from Canada and the World, 1994

US \$ '000s	World	Canada
Game machines	69,011	232
Snow skis, bindings, parts, accessories	88	—
Water-skis, surf boards, sailboards and other watersport equipment	2,207	19
Golf equipment, including balls	49,664	—
Table tennis equipment	130	—
Lawn tennis, badminton and similar equipment, including balls	4,126	1
Inflatable balls	17,343	—
Balls, other than inflatable, golf, tennis and table tennis	2,355	1
Skates	14,259	664
Exercise equipment	35,959	3,940
Other equipment for outdoor games	17,602	217
Fishing equipment	4,606	14
Grand total	217,350	5,088

Note: does not include watercraft (other than such small equipment as sailboards).

Source: *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, and Statistics Canada World Trade Database.



Sports and fitness activities are very popular at Mexican tourist facilities. The most important coastal tourist regions and the major destinations within these regions are:

- Yucatán peninsula: Cancún, Cozumel
- Pacific coast: Mazatlán, Puerto Vallarta, Ixtapa, Acapulco, Huatulco
- Baja California: Cabo San Lucas

Cancún alone receives more than 1.5 million visitors per year. Baja California has become a popular destination for both retirees and young people from California, creating a market for tennis, golf, adventure sports and watersports.

Activities at resorts include tennis, golf, swimming, scuba, snorkeling, beach games and volleyball. Eco-tourism is becoming more popular, and several companies offer tours of ecological parks. Many resorts also maintain gyms and exercise equipment for their guests. Although overall sales of sporting goods have fallen since the devaluation of the peso, industry experts say that sales of sporting goods in tourist areas have remained relatively stable.

Resorts are also the principal customers for watercraft and watersport equipment with most end-users being foreign tourists. Watercraft are needed to pull skiers and inflatable tubes, as well as for deep-sea fishing, sailing, kayaking and sightseeing. Other watersports include snorkeling, scuba, water-skiing, sailing, parasailing and surfing.

RETAIL STORES

End-users obtain sporting goods from specialized sporting goods stores, supermarkets, department stores and general merchandise stores. The best prospects for Canadian suppliers are high-end stores that cater to affluent customers. These stores are always on the lookout for new and different

products. Lower-priced stores are more likely to have locked-in sources of supply for well-defined product lines.

Sporting goods stores cater to a young, middle-class mostly-male clientele. Female buyers are interested mainly in equipment for non-contact individual sports, such as tennis. Lower middle-class buyers are even more likely to be male, and they tend to restrict themselves to essential equipment.

Deportes Martí is Mexico's largest, oldest and best-known retailer of sporting goods. In 1994, this company operated 24 stores, 17 of which were located in the Mexico City area. Store sizes range from 4,000 square-foot, freestanding locations to 25,000 square-foot destination superstores. The latter allow the customer to try out products before they are purchased.

Like so many other Mexican companies, *Deportes Martí* has been adversely affected by the economic crisis. In March 1996, following 11 months of restructuring negotiations with five creditor banks, the chain

announced that it would seek protection under Mexico's Suspension of Payments Law for debts totalling \$180 million pesos. According to press accounts, the company's debt has reached 13 times annual sales; but it is working to obtain new sources of working capital.

A few foreign sporting goods retailers have opened stores in Mexico. Some of these are freestanding, while others are part of shopping malls or commercial centres. Two notable American companies with stores in Mexico are Play It Again Sports and Sportmart. It is anticipated that more foreign companies will open retail sporting goods stores in Mexico in the near future.

Supermarkets, department stores and general merchandise retail chains also sell sporting goods, usually catering to the lower end of the market. Several Mexican retailers have recently partnered with American, French and other foreign retailers to expand their operations. Most of them carry sporting goods, although only a few carry specialized or big-ticket items. Imports make up at least half of the merchandise in most of these stores.

Major Mexican Retail Chains

Company	Type of Store	Foreign Partner
Cifra	supermarkets discount superstores department stores	Wal-Mart Dillards
Comercial Mexicana	supermarkets discount superstores hypermarkets	Price Club Auchan
Gigante	supermarkets hypermarkets	Carrefour
El Puerto de Liverpool	department stores discount superstores	K-Mart
Soriana	supermarkets (northern)	
Casa Ley	supermarkets (northwest)	
Sears Roebuck de México	department stores	
Hermanos Sanborns	specialty stores	
Woolworth	general merchandise	
El Palacio de Hierro	department stores	

Source: Various market reports and news articles.

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

be younger and more active than the upper class. One expert has estimated the pre-devaluation middle class as 12.5 percent of the population, with more than US \$42,000 in annual buying power per household. This represents a market of more than 12 million consumers.

TRENDS IN SPECIFIC SPORTS

Soccer remains the leading sport in Mexico. Almost every school, town and neighborhood has at least one team, and indoor soccer is popular at universities. There are an estimated 20 million soccer players in Mexico, including those on school, amateur and professional teams. Notwithstanding the dominance of soccer, a number of other sports have become popular in the past few years. They include bowling, squash, racquetball, baseball and basketball.

Bowling

Mexicans have come to regard bowling as a sport as opposed to a recreational activity. This change has come about mainly because of the growth in competitive bowling associations. The number of bowling alleys has grown, almost entirely in urban areas. Increasingly, bowling is seen as a family sport. Ten-pin bowling is standard, although a few alleys maintain five-pin lanes for international competitions. Bowling is expensive in Mexico because most of the equipment is imported. The leading supplier is *AMF Voit*.

Racquetball and Squash

The popularity of tennis is beginning to create interest in other racquet sports. Racquetball is very popular, followed by squash. Courts are operated by racquet clubs found mainly in urban areas and the major weekend vacation resorts surrounding Mexico City. It is increasingly common for wealthy Mexicans to have "informal" courts in their homes. The severe pollution in the valley of

Mexico is driving some of the growth in these games, because they are played indoors.

Baseball and Basketball

Baseball has grown increasingly popular, but for the most part it is limited to professional clubs. In the north, especially Monterrey, American influences have led to some amateur leagues. The cost of baseball is often prohibitive for amateurs, because most schools do not have room for baseball diamonds. Facilities must be rented from baseball clubs. Basketball is now growing faster than baseball, because the courts are easier to build and are more accessible for informal play. The *Secretaría de Educación Pública (SEP)*, Secretariat of Public Education, has recently begun to include basketball courts in construction plans for new schools. This will reinforce the development of school leagues, and promote the overall popularity of the game.

THE REGULATORY ENVIRONMENT

The process of trade liberalization has greatly expanded opportunities in Mexico. According to US Department of Commerce estimates, Mexican imports of sporting goods from the United States grew by roughly 31 percent per year after the Mexican government unilaterally lowered tariffs on most products in 1987. Under the North American Free Trade Agreement (NAFTA), the remaining tariffs were eliminated on exercise equipment and many sporting goods, giving Canadian and American producers a distinct advantage. Tariffs for other sporting goods are being eliminated according to the NAFTA tariff schedule.

Product labelling in Mexico is governed, in part, by the *Ley de Protección al Consumidor*, Consumer Protection

Act. Article 34 of that law requires that all information contained on a product or its labels, containers and packages must be in Spanish. This applies only to products ordinarily sold to the public, and capital and intermediate goods are excluded. In the past, many exporters have met this requirement by providing Spanish-language stickers with the product. But since 1994, this law has been enforced at the border, and Spanish labels must, therefore, be affixed by the manufacturer.

In addition to these generic requirements, many products have long been subject to specific quality standards, known as *Normas Oficiales Mexicanas (NOMs)*. Some *NOMs* include additional labelling requirements. The rules governing these standards are subject to frequent change: the Canadian exporter should obtain current information from the importer and/or from a customs broker before the goods leave Canada. If a particular product is deemed to fall into a regulated category, it must be tested in Mexico and a certificate of compliance must accompany the shipment. In some cases, a special *NOM* logo and the certification number must appear on a label affixed to the product.

MARKET ENTRY STRATEGIES

Canadian sporting goods companies entering the Mexican market will have to find creative ways of reaching consumers. Establishing some form of local presence is essential. This is especially true if the product is new to the Mexican market. Finding an efficient distribution channel that can keep prices down is a prerequisite. It is also important to build long-term relationships with Mexican retailers. In general, they expect a much higher level of service than Canadian retailers. Among other services, they usually

expect separate deliveries to each store, in-store promotion at the expense of the manufacturer, and the return of unsold goods.

Supermarkets and department stores often carry a range of sporting goods. The larger companies, especially those with foreign partners, tend to buy direct from manufacturers. Smaller firms work through distributors or agents. Mexican distributors rarely represent a single brand exclusively, and some carry a diverse line of sporting goods and other products.

Opportunities for advertising in the media are good, because of the high propensity for Mexicans to follow sports events. One recent survey found that more than 80 percent of Mexicans like to watch sports on television. Sports-theme bars and restaurants are found throughout the country. The direct sale of exercise equipment and sporting goods through television and catalogues is becoming increasingly popular and should continue to grow.

Products should meet Mexican needs but they should be presented to the market as imports. There is a perception among Mexican consumers that imports are of better quality than domestic products. Imported products also convey status, especially for upwardly-mobile, middle-class buyers.

Financing can be a vital factor in retail distribution. The retail sector accounted for one-quarter of all overdue debt payable to banks as of June 1995. Most banks are reluctant to extend new loans, and the cost of capital is very high. Retailers that are facing liquidity constraints are likely to weigh financing terms very heavily in their selection of suppliers.

KEY CONTACTS

Canadian Government

Department of Foreign Affairs and International Trade (DFAIT)

DFAIT is the Canadian federal government department most directly responsible for trade development. The **InfoCentre** should be the first contact point for advice on how to start exporting. It provides information on export-related programs and services, acts as an entry point to DFAIT's trade information network, and can provide copies of specialized export publications and market information to interested companies.

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The Trade and Economic Division of the Embassy of Canada in Mexico

can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well-informed about the market and will respond in whatever measures possible to support a Canadian firm's presence in Mexico.

Note: to telephone Mexico City, dial: 011-52-5 before the number shown. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes.

Trade and Economic Division

The Embassy of Canada in Mexico
Schiller No. 529
Col. Polanco
Apartado Postal 105-05
11560 México, D.F.
México
Tel.: 724-7900
Fax: 724-7982

Canadian Consulate Edificio Kalos, Piso C-1 Local 108-A

Zaragoza y Constitución
64000 Monterrey, Nuevo León
México
Tel.: 344-3200
Fax: 344-3048

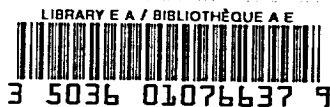
Canadian Consulate Hotel Fiesta Americana Local 30-A

Aurelio Aceves No. 225
Col. Vallarta Poniente
44110 Guadalajara, Jalisco
México
Tel.: 616-6215
Fax: 615-8665

International Trade Centres have been established across the country as a convenient point of contact to support the exporting efforts of Canadian firms. The centres operate under the guidance of DFAIT and all have resident trade commissioners. They help companies determine whether or not they are ready to export, assist firms with market research and planning, provide access to government programs designed to promote exports, and arrange for assistance from the trade commissioners in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you.

World Information Network for Exports (WIN Exports) is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 23,000 Canadian exporters. To register on WIN Exports, call (613) 996-5701, or fax 1-800-667-3802 or (613) 944-1078.

International financing institutions, including the World Bank and the Inter-American Development Bank, provide funds to Mexico for a wide variety of specific



projects. DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities that are financed by international financing institutions. For further information, call (613) 995-7251, or fax (613) 943-1100.

Market Intelligence Service (MIS) provides Canadian businesses with detailed market information on a product-specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer and new manufacturing investment opportunities. MIS is offered free of charge by fax, letter or telephone. For more information, call (613) 954-5031, or fax (613) 954-2340.

Department of Industry

**Fashion, Leisure and Household Products
Department of Industry**
235 Queen Street
Tenth Floor, East Tower
Ottawa, ON K1P 0H5
Tel.: (613) 954-3109
Fax: (613) 954-3107

Canadian International Development Agency (CIDA)

CIDA is an important possible source of financing for Canadian ventures in Mexico. A special fund is available through the CIDA under the Industrial Cooperation Program (CIDA/INC). This program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. For more information, call (819) 997-7905/7906, or fax (819) 953-5024.

Export Development Corporation (EDC)

EDC is a customer-driven, financial services corporation dedicated to helping Canadian businesses succeed in the global marketplace. EDC provides a wide range of risk manage-

ment services, including insurance, financing and guarantees to Canadian exporters and their customers around the world.

EDC has established relationships with leading commercial and public sector institutions in Mexico and Latin America. Exporters can call (613) 598-2860 for more information. Smaller exporters, with annual export sales under C\$1 million, should call the Emerging Exporter Team at 1-800-850-9626. Exporters in the information technology industry can call EDC's Information Technologies Team at (613) 598-6891. For information on the full range of EDC services, call (613) 598-2500, or fax (613) 237-2690.

Revenue Canada

Revenue Canada, Customs Program Branch provides a NAFTA Help Desk telephone line with service available in Spanish. For information, call (613) 941-0965.

Sponsoring Organizations

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BCE Place
181 Bay Street
Suite 2100
Toronto, ON M5J 2T3
Tel.: (416) 865-6910/6903
Fax: (416) 863-6275

Business and Professional Associations

Canadian Sporting Goods Association
455 St. Antoine Street West
Suite 510
Montreal, PQ H2Z 1J1
Tel.: (514) 393-1132
Fax: (514) 393-9513

Canadian Council for the Americas
Executive Offices
360 Bay Street
Suite 300
Toronto, ON M5H 2V6
Tel.: (416) 367-4313
Fax: (416) 367-5460

Canadian Exporters' Association
99 Bank Street
Suite 250
Ottawa, ON K1P 6B9
Tel.: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association
75 International Boulevard
Fourth Floor
Etobicoke, ON M9W 6L9
Tel.: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce
55 Metcalfe Street
Suite 1160
Ottawa, ON K1P 6N4
Tel.: (613) 238-4000
Fax: (613) 238-7643

Forum for International Trade and Training Inc.
155 Queen Street
Suite 608
Ottawa, ON K1P 6L1
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Tel.: 1-800-361-4637 or (613) 737-3374

Canadian Standards Association
178 Rexdale Blvd.
Rexdale, ON M9W 1R3
Tel.: (416) 747-4000
Fax: (416) 747-4149

Standards Council of Canada
45 O'Connor Street
Suite 1200
Ottawa, ON K1P 6N7
Tel.: (613) 238-3222
Fax: (613) 995-4564



Mexican Embassy in Canada

Embassy of Mexico

45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-8988
Fax: (613) 235-9123

MEXICO

Government Departments

Secretariat of Commerce and Industrial Development

Secretaría de Comercio y Fomento Industrial

Insurgentes Sur 1940 P.H.
Col. La Florida
01030 México, D.F.
México
Tel.: 229-6100 ext. 3305
Fax.: 229-6529/6530

Secretariat of Public Education

Secretaría de Educación Pública (SEP)

Argentina No. 28, Piso 2
Col. Centro
06029 México, D.F.
México
Tel.: 510-2557, 512-0358,
328-1000/1067
Fax: 518-4350, 521-8293

Manufacturers Located in Mexico

AMF Voit

Poniente 128 No. 579
Col. Industrial Vallejo
02300 México, D.F.
México
Tel.: 567-0779/0137/2443

Mizuno

Calle 3 No. 6
Col. Olivar del Conde
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