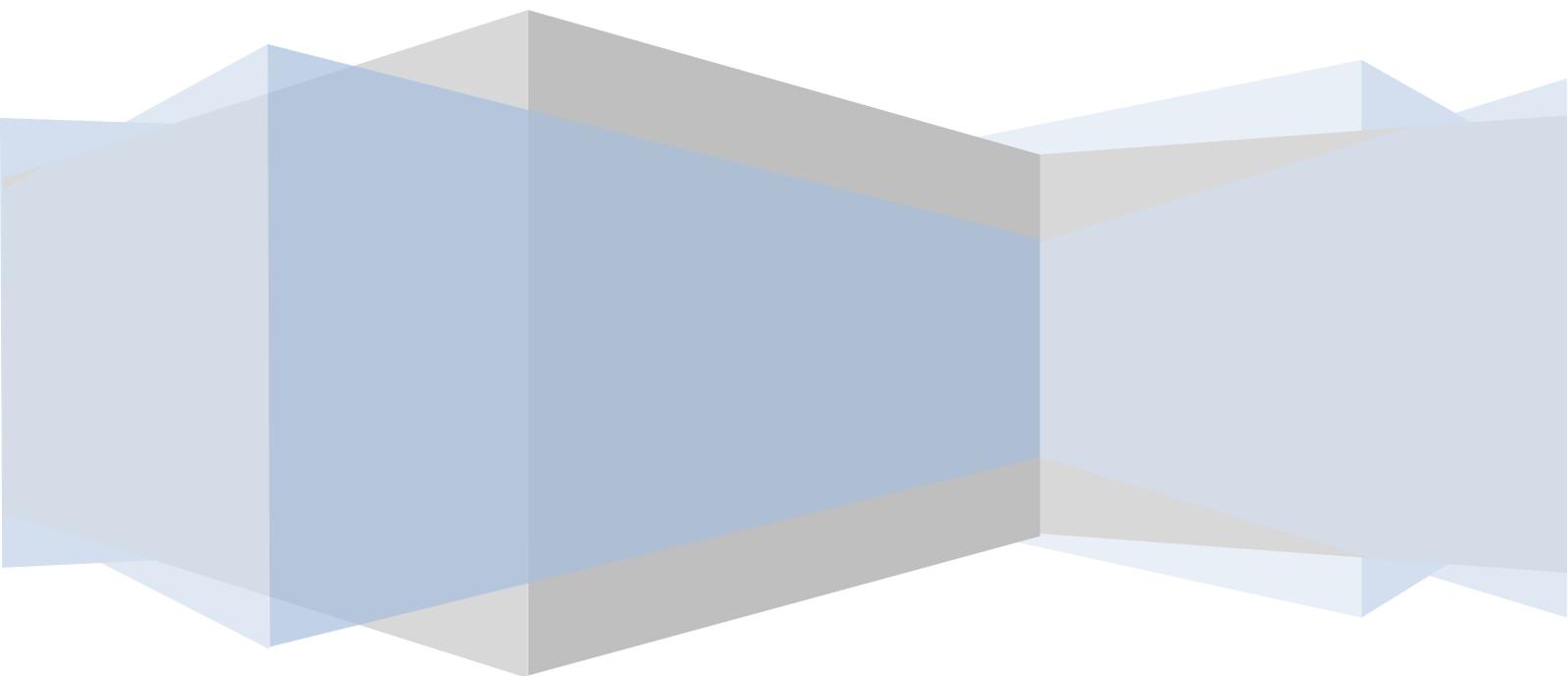


# TOSHIBA

## The entry to the smart phone Mexican market

Martin Sentis



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# The attractiveness of the Mexican market for Toshiba

## 1. The company: Toshiba

### 1.1. Presentation of the company

Toshiba is a Japanese corporation headquartered in Tokyo. The activity of the company is based on four sectors: infrastructure, consumer products, electronic devices and components. In 2009, Toshiba was ranked 5<sup>th</sup> largest personal computer vendor, after HP, Dell, Acer and Lenovo (*Wikipedia.org*). Toshiba is a much diversified company providing laptops to household appliances. Toshiba was founded in 1939 as a merger of two companies. They benefit from the experience they have for the marketing tasks, the relationships for distribution channels etc... but also to be always ahead in the technological innovations such as the 3D TV for example. Another important characteristic of Toshiba is their involvement in multiples environmental actions to avoid the e-waste. They have factories all around the world from China, Japan, to Brazil, but not yet in Mexico. In 2009, Toshiba launched its new line of smart phones TG in Europe. Until now, they've launched only the TGO1, and announced that the TG02 presented in 2010 will be soon commercialized. Like many others computer manufacturer, Toshiba is trying to use the smart phone wave created by apple and HTC and benefit from this new trend.

### 1.2. Overall evaluation of Toshiba through the SWOT Analysis

In order to assess and identify the weaknesses, and the threats using the strengths and the opportunities, the SWOT Analysis of the Toshiba conglomerate in the Mexican environment will help to elaborate the strategy to enter in the market.

#### **Strength:**

The main strength of Toshiba is its experience. Indeed, they've entered many markets such as Brazil or USA and know how to deal with new environment. Thanks to this experience Toshiba will also benefit from the name they have and the popularity they have in the computer market. Indeed, if they are just starting in the smart phone market, they've been operating successfully in a similar industry for more than 60 years.

The size of the company will facilitate the access to the capital required to implement this new line of supply chain, from de production to the sales. Indeed, they will have access to loans and can use their own capital.

The proximity to the US where they have factories and offices can also be a strength since they are entering in a market that is close geographically, that means that if they have to react quickly to a situation, they can use the knowledge and the help of the people working for Toshiba in USA.

Regarding the product itself, the TG01 offer a huge screen and present the characteristics for the game applications. ([reviews.cnet.co.uk/mobile-phones](http://reviews.cnet.co.uk/mobile-phones))

### **Weaknesses:**

As I said earlier, Toshiba is not famous and not known in this industry. They are not as friendly as Apple, RIM or HTC to deal with phone interfaces or specific smart phone knowledge. But the technological gap isn't the major weakness but the name of Toshiba in the mobile phone market. The lack of popularity of the Brand in this very competitive market is the major opportunity to face.

The product itself (TG01) presents also several weaknesses such as the weight and the poor interface. ([reviews.cnet.co.uk/mobile-phones](http://reviews.cnet.co.uk/mobile-phones))

### **Opportunities:**

The mobile phone market is significantly growing in Mexico and the potential remains very high since in 2009, there were only 250 000 3G subscribers in Mexico. (Of course, one can have a smart phone without 3G but still, this fact shows us the opportunity for Toshiba)

The government declared that they will concentrate their effort in establishing a better competition in the telecommunication industry, so that mobile phones prices could be lower than it is now (the 6<sup>th</sup> in the OECD countries) because of the monopoly of the network providers (see below on the analyze of the phone industry), and Toshiba can benefit from this "democratization" of the mobile phones since we know that the income level are relatively poor in Mexico for most of the population.

They can also benefit from future environmental restrictions since Toshiba is a first-mover in terms of the avoidance of e-waste.

Finally, since the objective of Toshiba "is to have a 20% share of the Latin American laptop market by the end of 2011, fighting for second place after HP", according to Toshiba's Latin American commercial director for the computing systems division, Agustín Corona. One foot in Mexico could help the company to reach this objective.

### **Threats:**

Besides all the competitors such as Apple, HTC or Samsung, Toshiba is facing also the challenge of entering in a new market. This includes the implementation of a new factory, find the distribution channels, the warehouses etc... and in an emerging country, this comes always with some risks and uncertainty. Corruption and political issues shouldn't be forgotten by Toshiba if they want to reduce the future risks of their business.

For the product itself, I would say that an important risk is the success of the Android and the iOS. Indeed, Toshiba is using the Windows Mobile software and Windows is still competing in the market but the trend observed is that Android and iOS will gain market share and, de facto, WM will lose popularity. Toshiba should keep in mind the option of switching the software in case WM declines.

## **2. The potential of the Mexican market:**

*"In 2001, Mexico became Latin America's largest economy. It enjoys a level of stability and commercial opportunity unparalleled within the region's major economies. Having discarded its more inward-looking economic past, Mexico has made considerable efforts to reform its economy and open it to the world", Mark Vaile, Minister for Trade of Australia, 2002.*

Today we are in 2011, and even if Mexico is now the second largest economy and that the crisis really affected the country and the market, the Mexican market remains a source of opportunities to do business. In the first part, I'll describe briefly the Mexican market in general, whereas in the second part, I'll focus more on the specific sector of technologies and phones, emphasizing on the attractiveness of Mexico for a company like Toshiba.

### **2.1. The opportunities of doing business in Mexico:**

With a population of 109 millions in 2010, Mexico is, after Brazil, the second largest Latin American market in terms of people. Besides, the population is still very young. In 2009, the Mexican consumer's market represented a value of US\$578 billion (Euromonitor). In 2010, the GDP grew of 2,89% which indicates that even if the country suffered a lot from the crisis, the economy is already starting to recover quickly. (Report by Sheraton, 2009). Actually, the GDP of Mexico is ranked 16<sup>th</sup> in the world and ranked as the 2<sup>nd</sup> in Latin America, with USD \$1,143 billion. (Report by Sheraton, 2009). According to the survey realized by, the capital expenditure per capita represented a value of 72,322 Mexican pesos, which is roughly (US\$5,326), with a growth and annual average growth of 4.3% from 2004 to 2008, which demonstrates that the market is very dynamic. To understand more the potential of the Mexican market, a focus on the demographic situation of the country can tell that despite the fact that the crisis slowed down the economic activity, Mexico remains a very attractive

market. Indeed, the survey made by Euromonitor explains that Mexico entered in 2010 in a demographic window that will last around 25 years, with a significant positive effect on consumption. As the population starts to become older, there's more people working, and those people at this age have a "higher propensity to consume than population in the other age segments". Overall, the consumer expenditure represented 67% of the GDP in 2009, which is higher than the Latin American average of 58, 5%. Of course, the wealth distribution in Mexico isn't known to be the fairest one in Latin America, with 9% of the population representing almost 80% of the wealth but still, *"Mexico has a sizable and sophisticated middle class with a taste for consumer goods, lifestyle products and better education."* (Frank Unger and Roger Frankel, 2002)

If we look on the World Bank's Ease of Doing Business 2010 report, Mexico is ranked 51<sup>st</sup> out of 183 countries which indicates that Mexico can be regarded as a favourable place to do business, since the country is also well-ranked in the Heritage Foundation's Index of Economic Freedom ( 41<sup>st</sup> out of 179). Those ranks are proof that even if some progress is to be made, the Mexican market has a good structure to open and do business in, with economic openness, developing infrastructures, relatively educated people, a government support for the foreign investors, etc. Besides, the relationship Mexico has with the US market through the NAFTA agreement makes the Mexican market even more attractive, since it can represent an entry to the American or Canadian market. *"Manufacturing has been the outstanding performer in Mexico's economy", underline the authors Frank Unger and Roger Frankel, in 2002.* If we add to this aspect of the economy the fact that sectors that showed the more dynamism between 2003 and 2009 was the communications and transport ( Euromonitor), it is clear that the Mexican market seems to be appropriate for Toshiba to enter in the phone market.

## **2.2. The Phone industry attractiveness:**

The crisis that affected seriously the country had impacts on the expenditure and the habits of most Mexican consumer. The movement describes as a "back to basics" did not apply to all the sectors since "the emergent nature of the industry of communication has allowed the category to show a healthy performance" (Euromonitor).

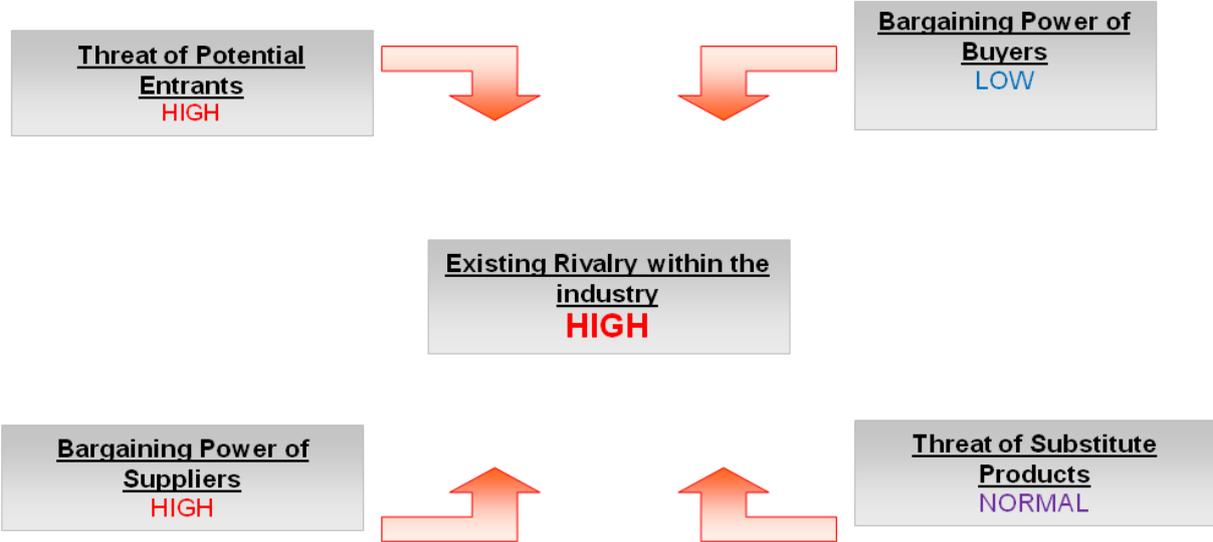
The rate of mobile ownership increased significantly from 42% in 2005 to 75% in 2009. (Euromonitor). It is expected that the number of people owning a telephone will increase by 27% to reach 95% in 2020. Similar growth is expected in the number of calls, as carriers reduce the price of their phone services and continue to offer unlimited free calls among their users. Since the lifespan of a mobile phone is 18 months in Mexico, the growth of the sector will be ensured by all the Mexican replacing their old phones with new phones.

Another interesting point is that a new tax of telecommunications of 3% has been voted and consequently, a survey shows that lots of people are willing to use alternative methods of communication through their phones to reduce costs, for example with chats, Skype, facebook etc... In other word, there will be a high demand for smart phones in the year to come. The 3G network, which is required for the use of smart phones is expanding in terms of coverage and reached at least 60% of the country in April 2009. At this same time, the number of 3G subscribers was only 250 000. Even if people are buying smart phones without a 3G contract thanks to the Wifi connection for examples, this fact demonstrates the potentiality of the 3G market in Mexico, represented by smart phones owners.

**The challenges to face:**

On entering in the Mexican market, Toshiba will face several challenges such as the competitiveness of the mobile phone sector and the particularities of the Mexican Environment to implement the set up of the production.

**1. Porter’s five forces analysis for the smart phone industry:**



*See in the appendix 1 the explanation of the graph.*

## 2. PESTLE analysis for the Mexican Market

### Political factors:

Mexico isn't the most stable country in terms of politics, but it seems stable enough to start and launch a production without being concerned too much. The concerns to have are not about the general stability of the government such as in the Middle East countries (even if last elections lead to severe strikes and riots), but about the corruption and insecurity. As the former VP operations of Gemplus explains (See below in the appendix 2): "the corruption issues are not operating at all the levels, and personally, I never had to deal with it for our production plant in Cuernavaca, but it is something to be aware of." A survey made by the Index of economic freedom for 2011 shows that the tax policy are providing a relatively free environment to do business in, better than France or even USA (Mexico has one of the lowest tax income-to-GDP ratios among OECD countries, as you can see below in the appendix 3). If the environmental regulations are not restraining severely the businesses, the rigidity of the employment laws, with strong rights for the employees thanks to the Unions forces etc is something to be taken into account for Toshiba to implement its new factory. Finally, the trade restriction and the tariffs are attractive as well since the country is open to the FDI and set up structures to attract them, and since according to this same website (economics index of freedom), the score of Mexico for the Trade freedom is close to the UK and USA. For Toshiba, the option of exporting some of the production to the USA or in Latam could be taken into account in the years to come if they succeed to produce smart phones for less costs than production in China + shipping costs thanks to the NAFTA agreements between Mexico and USA, or Canada.

### Economic factors:

In terms of the economical environment, I explained before that the economic indexes were good for Mexico and showed a real dynamic and attraction. But, nevertheless, some issues are important to be known when it comes to launch a product in the mass consumer market. Inflation has been moderately high and if the low wages are very attractive when it comes to produce, it reduces as well the purchasing power for the Mexican. But, as I explained in the first part, the Mexican consumer market worth \$ 578 billion and the communication expenditure represents \$11, 56 billion. The company will have to target the specific profitable targets. An analysis of the labor market can also helps to approach adequately the country: the level of wages in the lowest one in the OECD country but the productivity isn't optimized and the low level of education reduces the overall skills of the population.

### **Socio-cultural factors:**

The sociological environment facts aren't very significant for the smart phones industry but still, some facts are important to notice. A list of do & don'ts in Mexico could be relevant here but for me the notion of time is the more important one, for the deliveries, business meetings etc... Mexican are always late (it can be more than 24h for some deliveries). For the consumer market to analyze, the first thing to notice is the influence of the US trends in the Mexican market. For one of the most famous high-tech company, the opportunity is huge to operate in Mexico. The consumer lifestyle of the Mexican can be related to the American one where the new technologies represent an important part of the mass-consumption, especially for the young segment, but with less expenditure. It seems also relevant to underline that lots of purchasing behavior are related to their strong patriotic attachment. The example of the "mexicanising" of the iPad can demonstrates this trend (apps and purchases country-related mainly).

### **Technological factors:**

The technological domain is the one to be observed for Toshiba to enter in the Mexican market. If I already explained in the first part that Internet and mobile devices industry is exploding, and that the new tax of 3% will lead to more use of alternative methods of communication such as MSN, facebook etc, provided by the Internet and the smart phones, information about the communication sector can be relevant to implement the Toshiba strategy. The example of the Internet can tell how technology of communication has become important in the society. According to the report made by Datamonitor, "The Mexican internet access market has been showing strong double-digit growth in recent years", whereas we've seen that the mobile penetration is significantly growing, despite the fact that Mexico is ranked as the sixth most expensive provider of mobile phone in the OECD countries, due to the Monopoly of Telcel. Toshiba will have to find a way to reduce the costs for the mobile purchase, but also negotiating with Telcel to reduce the postpaid contracts and access to the 3G.

### **Legal factors:**

The rigidity of the labor market is the most significant aspect of the legal environment in Mexico, since the taxation and fiscal measures are not slowing down the business process. Indeed, In the Doing Business 2010 report, Mexico scored 41.0 in the rigidity of employment (higher than the Latam average), mainly due to the importance of the Unions and the firing costs than are extremely high (it takes 52 weeks of salary to fire someone).

- ➔ Toshiba will have to hire smartly, maybe through a specific local entity that knows the skills and can evaluate the quality of the workers since firing people is extremely costly.

### **Environmental factors**

Finally, no environmental aspects of the Mexican market would have significant impact on the future activity of Toshiba in Mexico. However since Toshiba is known to be an eco-

friendly company. I would recommend Toshiba to undertake charity actions in Mexico to establish good relationships with the local authority and government (since we know that corruption is part of the landscape) but also with the local population, since patriotism is an important aspect in their purchasing behavior.

## **The strategy to enter in the Mexican market:**

Before talking about the specific strategy for Toshiba to enter in the smart phones market in Mexico, it seems important to set properly the objective of Toshiba.

### **1. The objective:**

Here, the objective is to manufacture and sell the new line of smart phones designed by Toshiba, the smart phones TGO1/02 in Mexico. But the objective isn't only about "growing" geographically, but also to enter and compete in this market. Now that I have raised the main issues that the company will face in the Mexican market in this particular industry, I'll give Toshiba the strategy to follow to enter adequately in this market, from what I noticed observing the specificity of this market.

### **2. The strategy to implement:**

#### **2.1. The production:**

We've seen that the place is very important and some places are either too dangerous, or suffering from a lack of skilled people or even with rigidity problem of the labour. A Greenfield strategy appears to be a good strategy since we've seen that Mexico is convenient to open a business: taxes, bureaucracy etc. But, obviously, Toshiba will need help of some cabinet or local consultants to deal with the recruitment, to find the right companies of transport, to help handling the relationship with the corrupted administration and the government.

After some researches and thanks to the experience shared by Jean-Luc Sentis (See in the appendix 2), I found out that the Guadalajara area corresponds to all the criteria I've underlined when analyzing the Mexican environment. Indeed, Guadalajara is in the North, but not far from Mexico City, with a good infrastructures linking Guadalajara to Mexico (Good and safe roads)? Guadalajara is also close to an airport which is important as well. And, as the VP of Operations of America of Gemplus says, Guadalajara is a kind of cluster for technology manufacturing, with skilled subcontractors around. Besides, there are 10 universities in Guadalajara (3 publics and 7 privates) which guarantee skilled people to hire since the hiring part is crucial there.

## 2.2. The commercialization:

The idea is to target the young and the business people. Indeed, the young are the one concerned by the American trends and the trends in general.

For the "young segment" (15 to 27 years old) :

Of course, the level of income is generally very low but still, we noticed that for this segment, mobile phones and the importance of trends is significant. The positioning in this segment will be easier since from many comparisons, the assets of the TG01 are the quality of the games and the size of the screen. As the report titled "Strategic Use of Mobile Telephony at the Bottom of the Pyramid: The Case of Mexico" says, most people that are using smart phones with low incomes are mainly using the SMS, and the competitive advantage of the games could be helpful to position Toshiba as a smart phone (to feel "in", having this kind of devices) with specific quality on the games rather than on the business use or specific characteristics. If the monopoly ends with Telcel and the prices go down and be more accessible, the TG01 has the capacity as well to compete with the others in terms of Internet use etc and still, Toshiba could have time to implement their smart phones. Since the advertising through Internet has not yet have impact on the purchasing behavior (Euromonitor), I would recommend Toshiba to promote their new smart phones on TV (during the adverts between two telenovelas for teenagers like Rebelde), or in Malls or in the Cinema adverts.

For the "business people" segment, Toshiba will have to communicate on its experience they have in laptops because those people are looking for a little and practical device to use whenever the laptop is too big or not convenient to use. The communication and advertising will be facilitate since those people are business man and can be reached by adverts in meetings, working area (such as the neighborhood of Polanco in the Mexico DF). Here Toshiba is not targeting the mass consumer market, and to develop an alternative phone, like TG01b, more expensive but very competitive for the practical use could be a good solution to enter in this market.

For the price, I recommend to set prices close to their "direct competitors" that are all the actors of the smart phones market (Samsung, Ericson, Asus, Acer, Nokia, LG, Alcatel) except Apple and Blackberry that are, for now, untouchable in terms of experience, popularity of the Brand and quality. Having a local site of production will definitely cut the costs and will permit Toshiba to set low prices and compete successfully.

Finally, I'll recommend Toshiba to use the traditional channels to sell their device: the operator centers (Telcel, Movistar etc...) and the local mobile phone shops. Customize the phones with the possibility to have the Mexican Flag behind could be an opportunity to attract the most patriotic ones (and this represents a large market).

## **Conclusion**

Toshiba has the capacity to break in the smart phone Mexican market, which has a lot of potential if the company pays attention to the challenges of the Mexican Business environment. I would organize the entering strategy through two different projects; the production (The manufacturing and all the supply Chain), and the commercialization project that will have to deal with the Mexican demand (ex of the flag) and adapt the marketing.

## **Appendix:**

### **Appendix 1: Porter's five forces explanation**

#### **Threat of substitutes:**

Due to the price of smart phones, and that are mainly use for SMS or for short calls (according to the report: strategy etc...) and not necessarily for internet because of the prices, the main substitutes are the simple phones. Laptops and computers are also substitutes, but the low level of income reduces the threats of those expensive substitutes. But since the prices to use Internet on a smart phone is also very high, the threat remains important.

#### **The buyer Power:**

Like for most consumer products, the power of the buyer is weak because there are many buyers. The weakness of the buyer power can also be explained because of the relatively high switching costs from a smart phone to a substitute.

### **The supplier power:**

This is probably the specificity of the Mexican phone market. With 72,5% of the market share, Telmex (that operates in the phone industry via Telcel) has almost monopoly of the market, providing contract and access to network coverage and 3G. The second largest actor is Movistar, with more than 20% of the market share. The rest is divided between 2 or 3 insignificant suppliers.

The supplier power is very high and until the government finds a way to end with this monopoly, it will be for a long time.

### **Threats of new entrants:**

Despite the fact that producing smart phones requires capital and technology knowledge, the barriers to entry are relatively low since all the actors of the smart phone industry are entering progressively in the Mexican market (Asus in 2009, Acer in 2009, etc...). Since the government recently declared that they would emphasize on establishing a higher level of competition in telecommunications sector to try to reduce prices, the competition will be high for the smart phone provider, to benefit from those objectives. Generally, the threats of new entrants in the Mexican market is relatively high since the enter costs are low and that the government is trying to limit the barriers of entry in the country.

### **The rivalry:**

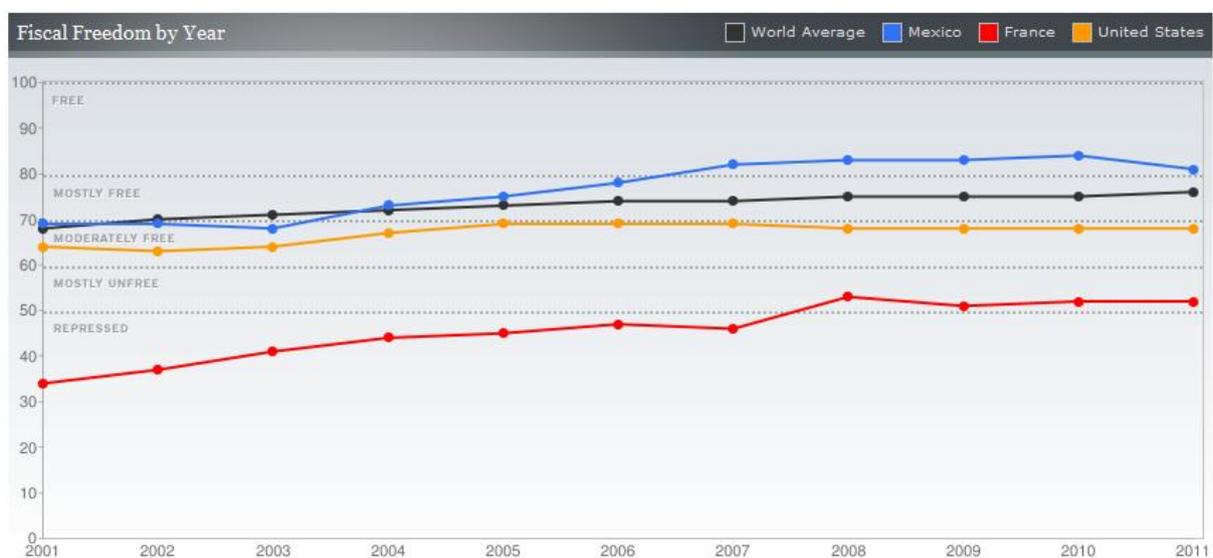
Globally, the rivalry in this specific industry is high because the high threats of new entrants lead to a larger competitors operating in the market. Secondly, except for the Apple devices, the low level of product differentiation increases the rivalry among the actors. On the other hand, the high level of rivalry can be balanced with the fact that there is a high market growth potential and high switching costs.

## **Appendix 2: Interview with the former VP of Operations in America of Gemplus, Jean-Luc Sentis:**

Jean-Luc Sentis accepted to share his experience of managing and implementing factories in Mexico, and here are the key information that seemed relevant for the Toshiba strategy.

The most important thing is to find the right place, with the right labor. Because of the Unions in Cuernavaca Gemplus had to shut down a factory for example. It seems like some places are more "rigid" than others. The skills of people is also an important aspect to take into account, this is why it is better to choose a place near the famous University of the country. The security of the places and the proximity to airports for eventual exports is also very important. Finally, as Gemplus was also in the technological industry, his experience taught him that there were some "clusters" particularly adequate for this kind of activity. There are some areas are full of qualified subcontractors, to take care of the packaging, etc.

### Appendix 3: The fiscal freedom by Year, between France, Mexico and USA



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