

E-commerce 2018: business. technology. society.

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CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

LEARNING TRACK 1.3 GLOBAL E-COMMERCE 2018: LATIN AMERICA

Growth in the number of Internet users in Latin America remains strong, increasing in 2017 by about 4.5% to over 360 million users, second in terms of total number of users behind Asia-Pacific. Broadband penetration, however, still lags below the world average. Insufficient competition and inadequate bandwidth have kept broadband prices beyond the means of much of the population, which faces persistent poverty. What's more, many inhabitants of rural and mountainous regions have yet to experience passable fixed-line connectivity.

Fully cognizant of the socio-economic importance of widespread broadband access, governments and telecommunications companies throughout Latin America have been launching various initiatives aimed at expanding service. Across the region, set-top box subsidy programs now support the analog to digital switchover, and refurbished computers are distributed for free through Broadband for Schools projects. Nations that have committed to some type of broadband expansion plan include Brazil, Chile, Argentina, Colombia, Costa Rica, Ecuador, and Uruguay. The plans vary in scope and implementation, many going so far as to target universal access.

As the fundamental infrastructure needed to support e-commerce continues to take shape, countries across the region have reached varying stages of e-commerce market development. Brazil and Argentina are leading the way. South American countries are ahead of their Central American neighbors by double digits. Two factors driving growth across the region are mobile broadband and the widespread popularity of social network sites. According to marketing research firm eMarketer, over 80% of Latin American Internet users frequent social networks, with Facebook topping the list. Comparatively, this proportion around the globe is about 70%.

LinkedIn, Twitter, and Pinterest are also popular. Brazil has the highest number of social network users in Latin America, and the fourth-highest number of social network users worldwide, behind China, India, and the United States, and it is third worldwide in terms of the number of Facebook users, behind the United States and India (Facebook does not operate in China).

Brazilians use social media to research products, discover new merchandise, and seek discounts. Social media in Brazil is therefore a key driver of B2C e-commerce. Social network sites are important sources of product information for nearly one-third of Brazilians, who value product endorse-

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ments from friends and family over experts' recommendations by a ratio of 4:1. Around 30% of Brazilian Internet users like and follow retailers to find sales, promotions, and special offers, while for example, only 12% of Britons do so. Facebook has thus become a key tool for developing brand loyalty by uniting smaller advocacy units.

Online video content is also extremely popular, driving potential consumers online. Thus, between government and telecom initiatives and the popularity of social networks and video content, future prospects for B2C ecommerce in Latin America are bright.

According to eMarketer, retail e-commerce sales in Latin America reached over \$44 billion in 2017, growing by over 20%, and are expected to reach over \$80 billion by 2021.

Brazil, with the largest number of Internet users, had the highest online sales, accounting for over 40% of the region's purchases (about \$18 billion). Over 30% of Latin America's digital buyers are from Brazil. These 48 million consumers represent over 47% of Brazil's Internet users and almost 30% of the population of Brazil. An emerging middle class with more disposable income and continued growth in the number of users are expected to propel continued Brazilian retail e-commerce gains, though Brazil's e-commerce growth is expected to drop to about 8% in 2018. Digital marketplace MercadoLibre (available in both Spanish and Portuguese) is the most popular retail ecommerce platform in Brazil, with apparel and accessories the most popular products purchased.

Argentina has superior infrastructure and high Internet penetration, and logged around \$7.4 billion in sales in 2017, about 16% of the region's total. Retail e-commerce sales are expected to more than double by 2021, to about \$18.6 billion, driven in part by improvements in distribution and delivery. Argentinians engage in both webrooming (browsing online and then buying offline) and showrooming (browsing offline and then buying online). Showrooming is particularly popular for clothing purchases. Consumers can try on different styles and sizes in bricks-and-mortar fitting rooms and then purchase online at the lowest priced competitor.

Around 14 million Argentineans (over 55% of Internet users in Argentina and about 40% of Argentina's population) were digital buyers in 2017, and this number is expected to remain relatively flat through 2021, growing only to around 15 million. However, high Internet penetration, lots of room for expansion in converting current and new users to online consumers, and increasing credit card adoption fuel predictions that Argentina will lead the region in B2C e-commerce sales growth through 2021.

Internet penetration has rapidly expanded in Argentina, to almost 70% of the population by 2017. Moreover, online buyers cross socio-economic boundaries in Argentina more so than in any other Latin American country. Almost half of low-income adults with Internet access have made an online purchase. Although digital marketplace MercadoLibre is the leading retail ecommerce platform in Argentina, followed by eBay, more Argentinian retailers are entering the marketplace. Over 35%

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of small and medium-sized enterprises (SMEs) now sell online. Travel purchases such as airline and train tickets and hotel reservations top the products bought by Argentinians online. Consumer electronics are the second most frequently purchased followed by home products and appliances.

Mexico is the third major market for e-commerce in Latin America, generating about \$6.4 billion in retail e-commerce sales in 2017, logging a 25% increase from the previous year. There are over 77 million Internet users in Mexico, second only to Brazil in Latin America, and constituting almost two-thirds of the population. Internet usage is expected to grow by over 6% in 2018, with increasing smartphone adoption rates and expanding 4G cell service a significant factor. There are about 24 million digital buyers in Mexico, representing just over 25% of the population. The move toward retail e-commerce has been slower in Mexico compared to other Latin American markets such as Brazil and Argentina, but is now on the upswing. With so much untapped capacity, Mexico is expected to lead the region in digital buyer growth rates through 2021, followed by Brazil. Mecalibre, a regional online marketplace is the top retail e-commerce site, followed by Amazon and Walmart.

However, the growth of e-commerce in Mexico still faces significant challenges, including an under-developed logistics infrastructure, low credit card adoption rates, and rampant income inequality, as a large percentage of the population still languishes below the poverty line, with little disposable income to spare, stalling technology adoption.

While Latin America has significant hurdles to overcome before its e-commerce sector can fully blossom, government support, telecommunication company investment, mobile growth, and increased consumer demand for online content are combining to position the region for substantial growth in the next five years. As logistics infrastructure and online payment systems develop and mature to meet a growing middle class in some nations, engagement with e-commerce, electronic payments, and mobile broadband will flourish. Breakout countries such as Colombia, where a public-private partnership, Plan Vive Digital, is well on its way to extending optical fiber access across 96% of the country, will drive regional numbers as sales growth slows to single digits in established markets like Brazil. Medellin, Colombia has emerged as a global technology hub, attracting tech companies, training centers, and new innovative startups. It is developments such as this that are expected to make e-commerce in Latin America one of the success stories of the next five years.

SOURCES: "Global Ecommerce Platforms 2017: A Country-by-Country Review of the Top Retail Ecommerce Sites," by Jasmine Enberg, eMarketer, Inc., July 2017; "Worldwide Social Network Users: eMarketer's Estimates and Forecast for 2016-2020," by Corey McNair, July 2017; "Worldwide Internet and Mobile Users: eMarketer's Estimates and Forecast for 2016-2021," by Corey McNair, April 2017.