



# OVERVIEW OF BRAZILIAN E-COMMERCE

- Brazil is the world's ninth-largest retail e-commerce market and the only Latin American country in the global top 10, with 80 million digital shoppers in 2015.
- E-commerce retail sales are estimated to hit \$22.5 billion this year and are expected to grow at an 11% CAGR from 2014 to 2019.
- More than half of Brazilians have Internet access and more than 60% of that group connects via smartphone.
- Brazil saw an 87% expansion in median household income from 2003 to 2013, leading to a near doubling of the middle class and spurring regional and global retailers to enter the market.

**DEBORAH WEINSWIG**

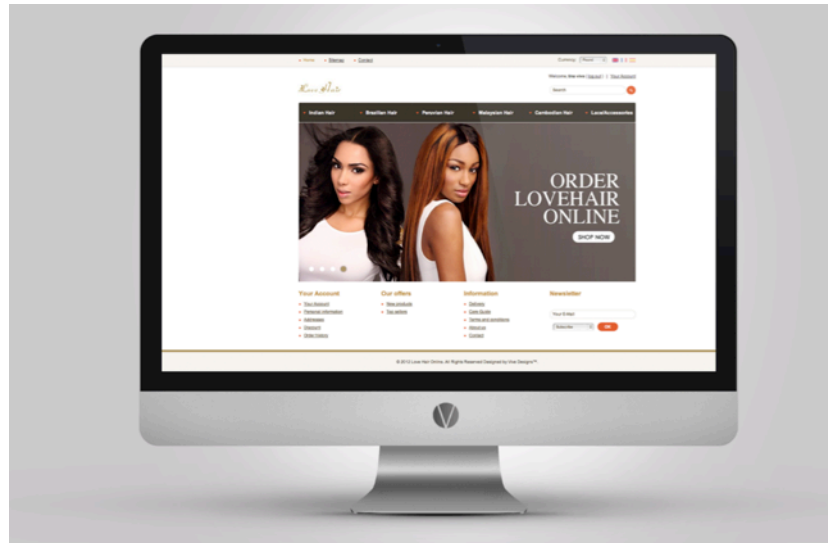
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# OVERVIEW OF BRAZILIAN E-COM

## EXECUTIVE SUMMARY

Brazil has seen explosive growth in e-commerce as middle-class incomes have grown. Demand for commodities has increased in Brazil and contributed to the global commodity boom.

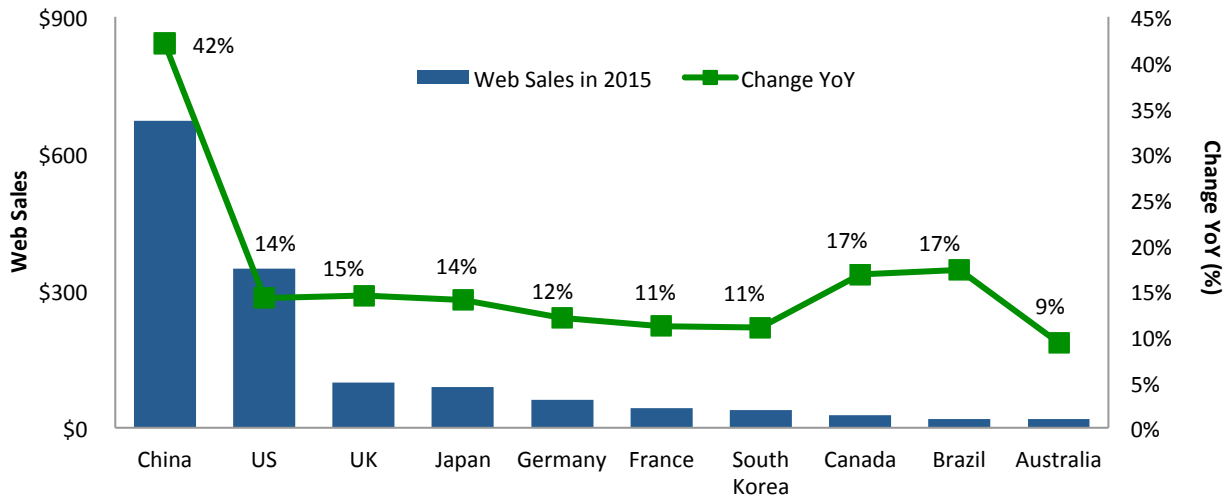
Brazil has seen explosive growth in e-commerce as middle-class incomes have grown. Demand for commodities has increased in Brazil and contributed to the global commodity boom. According to eMarketer, Brazilians' online spending is expected to almost double in the span of only five years, to US\$30.1 billion in 2019 from US\$16.9 billion in 2014, a compound annual growth rate of 12%. Despite the macroeconomic challenges Brazil is facing, e-commerce in the country is not likely to suffer as much as other industries because Brazilians are becoming increasingly Internet-connected and are seeking lower prices abroad. This trend of shopping abroad is expected to continue, and strengthen, particularly through social media. In order to take advantage of the opportunity presented by the country's large, young middle class, many foreign e-commerce sites have expanded into Brazil.



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**BRAZIL'S E-COMMERCE MARKET**

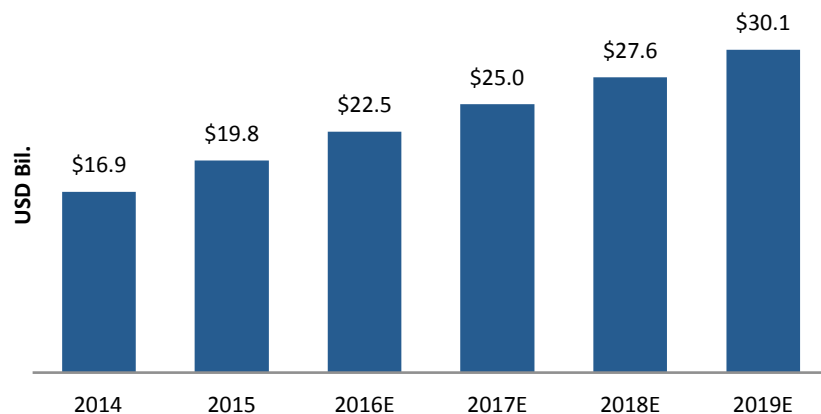
Brazil is the world's 9th largest retail e-commerce market and the only Latin American country in the top 10 globally. eMarketer estimates that the country had 80 million digital shoppers in 2015—up 8 million from the previous year.

**Figure 1. Top 10 Countries by Expected 2015 Web Sales (\$Bil.)**

Source: Internet Retailer

eMarketer estimated that total e-commerce retail sales in Brazil totaled US\$19.8 billion in 2015; the firm estimates they will reach US\$30.1 billion by 2019, a compound annual growth rate of 11%.

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**Figure 2. Total E-Commerce Retail Sales in Brazil (2014–2019E)**

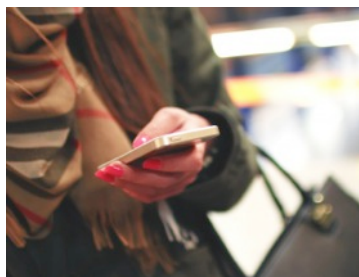
Source: eMarketer, July 2015

eMarketer predicts that the number of digital shoppers in Brazil will increase to 50 million by 2019 from 37 million in 2015. The firm expects that e-commerce's share of total retail sales in the country will rise continuously through the next three years, to 3.5% by 2019. Total net retail sales in Brazil were US\$885.3 billion in 2015 and Deloitte estimates that they will surpass US\$1.1 trillion by 2019.

**Figure 3. Retail E-Commerce as % of Total Retail Sales (2014–2019E)**

	2014	2015	2016E	2017E	2018E	2019E
<b>Brazil</b>	2.6%	2.8%	3.0%	3.2%	3.3%	3.5%
<b>Argentina</b>	1.6%	1.9%	2.3%	2.7%	2.9%	3.2%
<b>Mexico</b>	1.2%	1.5%	1.8%	2.1%	2.5%	2.9%
<b>Other</b>	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%
<b>Latin America</b>	2.0%	2.3%	2.5%	2.8%	3.0%	3.2%

Source: eMarketer



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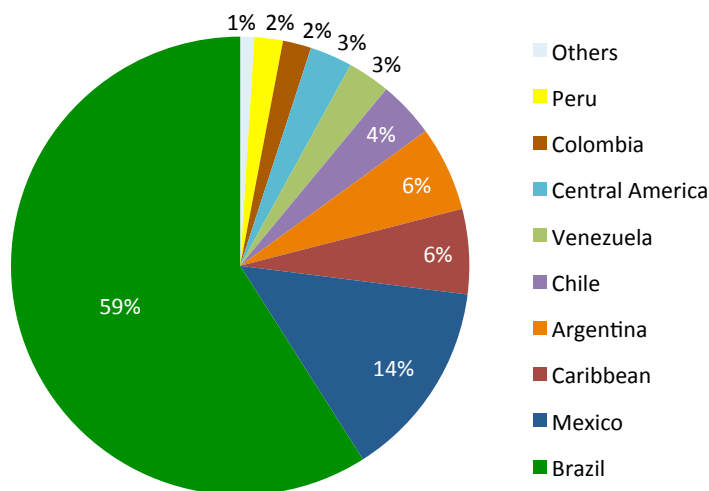
eMarketer predicts that Brazil will continue its double-digit growth in retail e-commerce through 2018, despite its shrinking economy and high inflation. E-commerce in Brazil grew by 24% in 2014, to US\$16.9 billion, and by 17% in 2015, to US\$19.8 billion.

According to a July 2014 study by A.T. Kearney, 64% of connected Brazilians surveyed said they prefer to shop online. The figure is 10% higher than the global average of 54%, and second only to the rate in China, where 84% of connected consumers surveyed said they prefer to shop online. According to eMarketer, Brazilians also tend to be more satisfied with online shopping experiences versus in-store shopping experiences, with 81% of respondents describing a satisfactory experience online versus 62% for in-store.

eMarketer predicts that Brazil will continue its double-digit growth in retail e-commerce through 2018, despite its shrinking economy and high inflation. E-commerce in Brazil is expected to grow by 14% this year, to US\$22.5 billion. The macroeconomic conditions in Brazil are hardly ideal: inflation is high, at 10.6%; unemployment, at 7.6% in January, is rising; and consumer confidence is falling.

#### BRAZILIAN E-COMMERCE COMPARED TO OTHER LATIN AND CENTRAL AMERICAN COUNTRIES

According to PagBrasil, Brazil accounts for 59% of all e-commerce in Latin America, well ahead of second-place Mexico, which accounts for only 14%. According to eMarketer, in 2015, retail e-commerce sales in Mexico totaled US\$6.0 billion, and they totaled US\$4.9 billion in Argentina. Total retail e-commerce sales in Latin America reached US\$47.4 billion in 2015.

**Figure 4. Share of E-Commerce Market, by Latin American Country/ Region, 2015**


Source: PagBrasil

Although the Brazilian retail e-commerce market is more than double the size of all the other Latin American e-commerce markets put together, its growth is slowing. In 2016, eMarketer expects retail e-commerce sales in Brazil to grow by 13.5%, versus 27% in Mexico and 38% in Argentina.

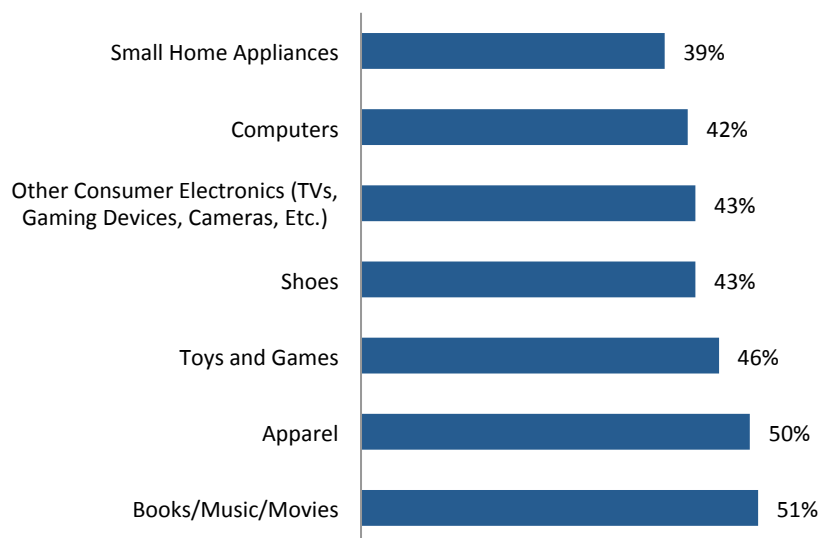
**Figure 5. Retail E-Commerce Sales Growth: YoY % Change (2014–2019E)**

	2014	2015	2016E	2017E	2018E	2019E
<b>Argentina</b>	64%	40%	38%	29%	20%	17%
<b>Mexico</b>	32%	30%	27%	25%	22%	20%
<b>Brazil</b>	24%	17%	14%	12%	10%	9%
<b>Other</b>	30%	26%	21%	16%	11%	11%
<b>Latin America</b>	30%	24%	20%	17%	13%	13%

Source: eMarketer

According to eMarketer, Brazilians who shop online tend to buy media (books, music and movies), apparel, shoes and consumer electronics most often. The firm says that 51% of Brazilian online shoppers have bought media, while 50% have bought apparel, 43% shoes and 43% consumer electronics.

**Figure 6. Brazilian E-Commerce Sales, by Category (as of August 2014)**



Source: eMarketer

According to the 2014 A.T. Kearney survey of Brazilian consumers, of those respondents who said they had made a purchase online in the past three months, 86% said they had bought electronics, 84% fashion and apparel, 79% tickets and 75% books.

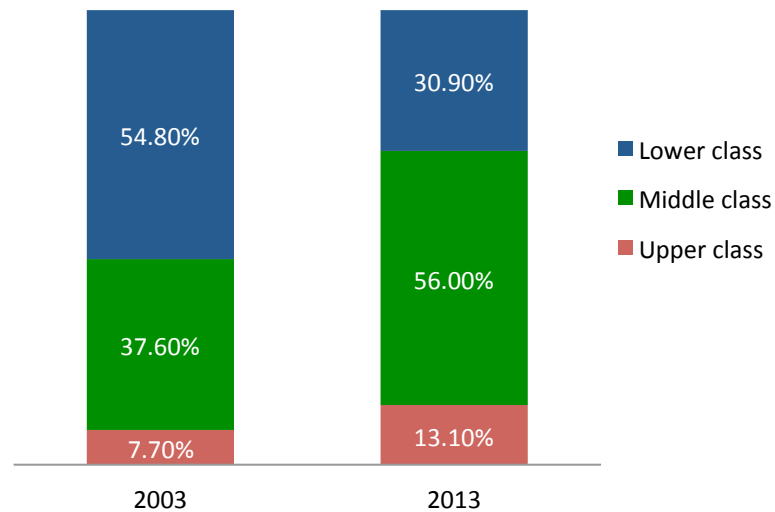
### GROWTH OF THE INTERNET AND E-COMMERCE

According to *The Wall Street Journal*, between 2003 and 2013, the median household income in Brazil grew by 87% in real terms, and the middle class nearly doubled in size during the same period.



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**Figure 7. Brazilians' Economic Class Based on Household Income**



*Middle class' household income is 2,300-9,900 reais (\$600-2,600) a month*

*Source: The Wall Street Journal*

By the end of 2015, Brazil had 113.7 million Internet users according to eMarketer, representing just over half of the population of 204.3 million. eMarketer expects the figure to continue to grow, predicting that 61.1% of the population will be active Internet users by 2019.

In the A.T. Kearney study, 51% of Brazilians surveyed said they spend "all day long" connected to the Internet—that is, they are online almost every waking hour. This figure far surpasses the rate of other countries surveyed, with Nigeria coming in second place, with 37% of respondents saying they spend all day online. An additional 44% of Brazilians said they were connecting between 2 and 10 hours per day. In the third quarter of 2015, the average Brazilian Internet user spent 29 hours online per month; in the same period, the Latin American average was 20 hours per month.

Brazil has a young population (the average age was 31.2 years old in 2015), and smartphones are accessible to almost everyone. According to eMarketer, of the 113.7 million Internet users in the country, 73 million access the Internet through their smartphone. This figure is expected to increase by 25 million in only four years, totaling 98 million smartphone Internet users by 2019. In 2013, only 1.4 million Brazilians connected to 4G LTE, though by December 2014, that figure had increased to 5.3 million.

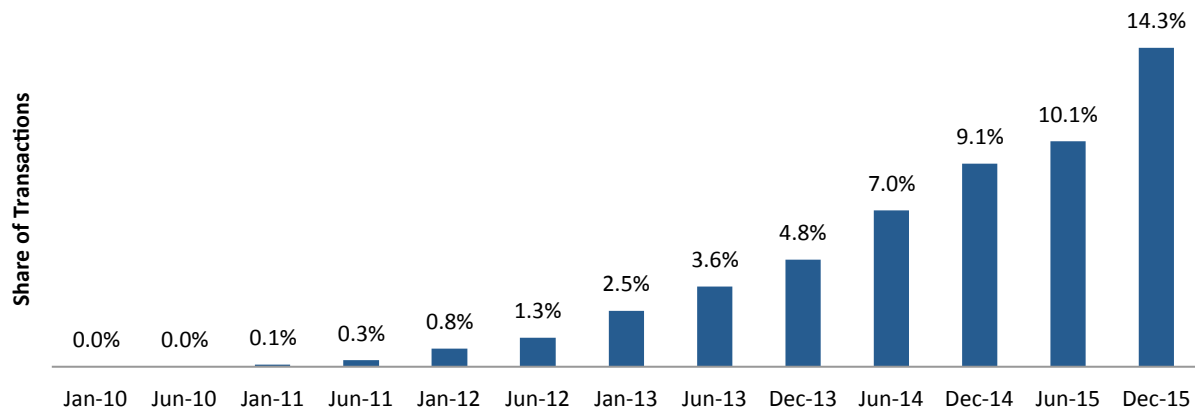
According to e-Bit Empresa, from January 2011, when mobile commerce was first introduced in Brazil, to December 2015, the share of mobile commerce transactions as a portion of all e-commerce in the country increased by 14.2%.



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According to eMarketer, as of 2015, it was estimated that 76% of all Internet users in Brazil used social media regularly, which is an important statistic, as retail is becoming increasingly popular on social media. According to e-Bit Empresa, from January 2011, when mobile commerce was first introduced in Brazil, to December 2015, the share of mobile commerce transactions as a portion of all e-commerce in the country increased by 14.2%.

**Figure 8. Share of Mobile Commerce Transaction Volume in Brazil (2010–2015)**

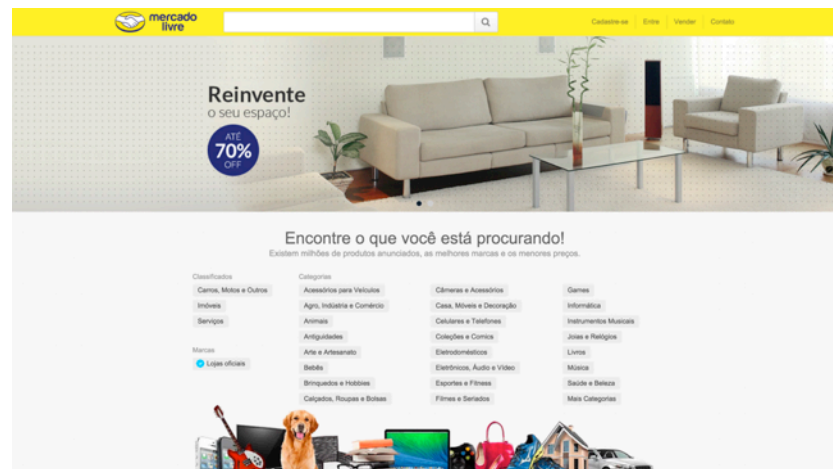


Source: E-bit

## LEADING PLAYERS

Leaders in the e-commerce market are taking note of the Brazilian market's explosive growth, and they are expanding rapidly in the country. While the majority of Brazilians shop online on local country websites, they are more comfortable shopping on foreign sites than consumers in Asia and Europe are, on average. According to Statista, 23% of Brazilian consumers shop on US-based websites versus only 9% of European consumers.

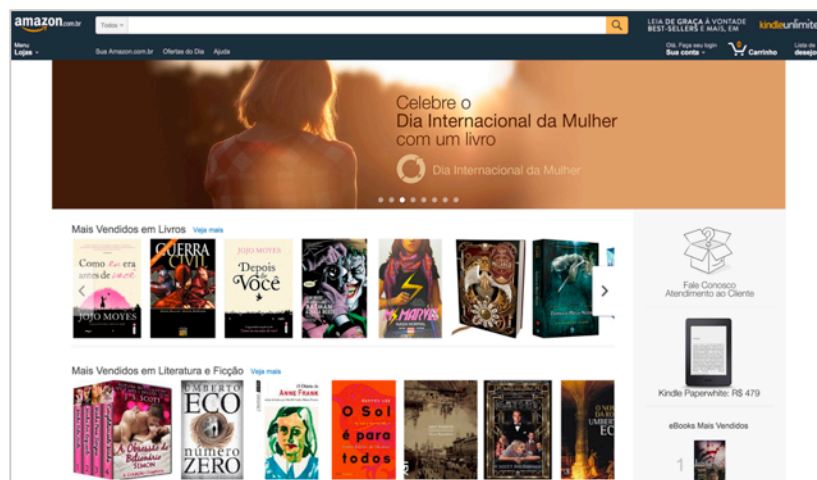
According to e-commerce research firm Internet Retailer, in 2013, the Brazilian-led Latin American market was the fastest growing foreign segment for Amazon.com.



MercadoLibre, the leading e-commerce retail company in Latin America, reported a 17.1% increase in net revenues in 2015. Brazil accounted for nearly half of that, US\$290.6 billion out of US\$651.8 in total. MercadoLibre had seen 45.22 million unique visitors in Latin America during the month of

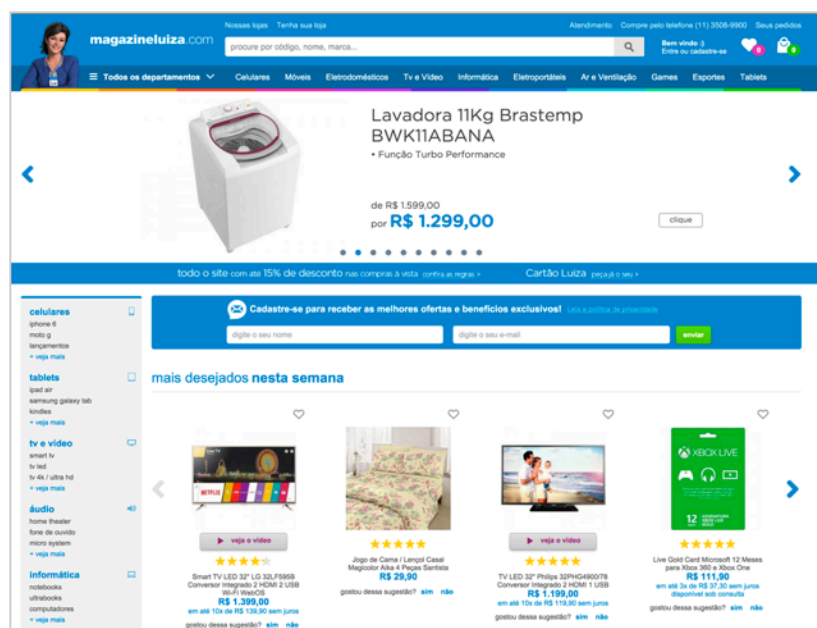


June 2014. eBay, which owns 18.4% of MercadoLibre's total common stock, is also in the top 10 online retailers in Latin America. B2W Digital, a Brazilian company that is owned by Lojas Americanas, is the second-most-popular online retailer in Latin America.



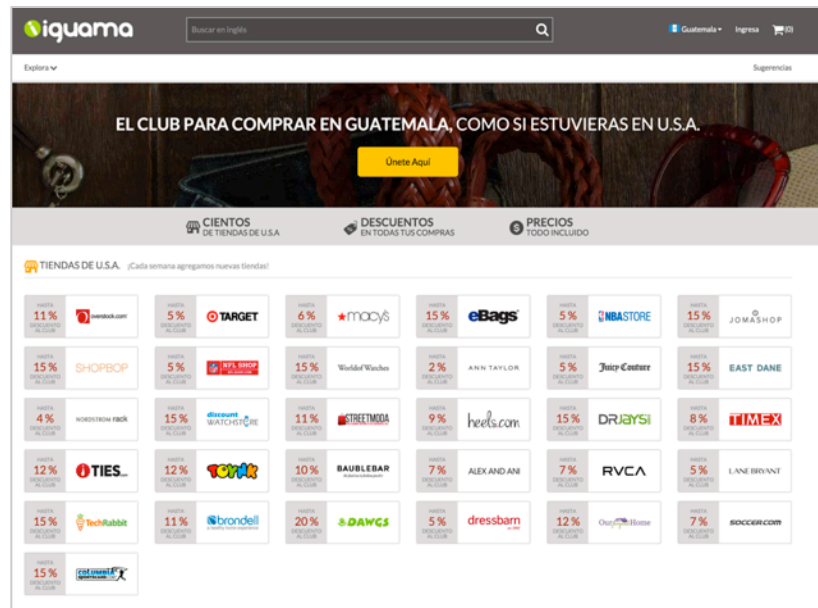
Amazon entered the Brazilian market in 2012, first with only e-books. Nearly 13 months later, the company began selling print books in the country. According to e-commerce research firm Internet Retailer, in 2013, the Brazilian-led Latin American market was the fastest growing foreign segment for Amazon.com.

Magazine Luiza reported slumping brick-and-mortar sales in the fourth quarter of 2015, although its e-commerce sales increased by 19.1% during the period.



Magazine Luiza, one of Brazil's largest retailers, has taken advantage of social media, particularly Facebook, to sell products and generate revenue. This connected, social way of selling, known as "F-commerce" also helps to build consumer loyalty due to the candid, comfortable nature of the experience. Magazine Luiza reported slumping brick-and-mortar sales in the fourth quarter of 2015, although its e-commerce sales increased by 19.1% during the period.





Iguama, a Latin American, cross-border e-commerce mall, has recently hired former senior executives from Borderfree, a technology logistics company that allowed businesses to sell products internationally (Borderfree was acquired by Pitney Bowes in May 2015 for \$395 million). Iguama intends to expand its cross-border online sales throughout Latin America.

### MOBILE PAYMENTS IN BRAZIL

According to E-bit, Brazilians spent US\$76.2 million on Cyber Monday in 2015, a 56% increase from 2014, despite a slumping economy.

In February 2016, PayPal began expanding its operations in Latin America, particularly in Brazil, where the company partnered with América Móvil to help boost usage of digital wallets. In the previous month, Samsung announced that it had closed deals with seven Brazilian financial institutions to offer Samsung Pay, another mobile wallet platform. Brazil will be the first country in Latin America to receive the service, making cashless purchases easier. In October 2015, Visa announced the launch of Visa Checkout in Brazil in order to make online checkouts easier from any device.

### CYBER MONDAY AND SINGLES' DAY IN BRAZIL

According to E-bit, Brazilians spent US\$76.2 million on Cyber Monday in 2015, a 56% increase from 2014, despite a slumping economy. Singles' Day launched in Brazil in 2015 with Alibaba's AliExpress platform finally opening a dedicated Portuguese language website. AliExpress partnered with the Brazilian Post in 2014 in order to make sure Brazilian shoppers can receive their purchases quickly and securely; thus, AliExpress expects to see an increase in sales in Brazil in the coming years.

### MACROECONOMIC OUTLOOK AND RISKS

The Brazilian economy shrank by 3.8% in 2015, its largest contraction in 25 years. The downturn is often compared to the 4.3% contraction seen in 1990. The 2016 forecast is negative, as economists expect the economy to contract by an additional 3.5%. However, even as prices in Brazil continue to rise, many Brazilians are opting to buy overseas and online.



## CONCLUSION

While the level of growth Brazilian e-commerce will see in the coming years is up for debate, it is certain that the channel will continue to grow, keeping on trend with the global decline in in-store sales and the concurrent increase in online sales. Although the macroeconomic conditions in Brazil are unfavorable, e-commerce companies cannot afford to turn their backs on the country, as building customer loyalty from scratch will be more difficult once the economy recovers.

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