# eCommerce Handbook 2018

## Latam Focus

March 2018

SWS.consulting | RISE CAPITAL

# Top insights from the 2018 eCommerce handbook

Global eCommerce sales are **growing at 19% annually**

**10% of total retail sales** are accounted for by eCommerce sales

**Global eCommerce revenue** in 2017 accounted for **U$2.8Tn**

**15 eCommerce players generate +60%** of gross merchandise sales

Consumers **will turn to private labels** because retailers favor the discovery of owned brands

Asia leads in eCommerce **innovations and the integration** of physical and digital spaces

Appliances and personal goods are some of the **categories with the highest growth potential**

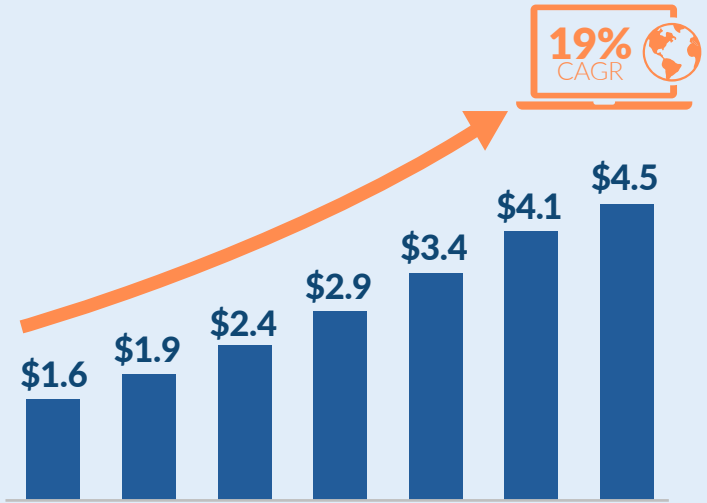
eCommerce sales in Latam **reached $45Bn in 2017** and will continue growing 20% annually

**MercadoLibre leads** the eCommerce space in Latam with 61M AMUVs, but not for long

Fraud is still a **critical deterrent** for eCommerce in Latam, (8% of orders are rejected)

# eCommerce represents **10% of total retail sales** and will maintain growing double digit

## Global eCommerce sales
(2015–2021F, in trillions USD)




| | 2015 | 2016 | 2017 | 2018F | 2019F | 2020F | 2021F |
|---|---|---|---|---|---|---|---|
| % of total retail sales | 7.4% | 8.7% | 10.0% | 11.5% | 12.0% | 14.6% | 15.5% |
| Digital buyers penetration* | 57.0% | 58.3% | 60.2% | 61.6% | 63.0% | 64.6% | 65.2% |

## Digital buyers and penetration, by region
(2017)

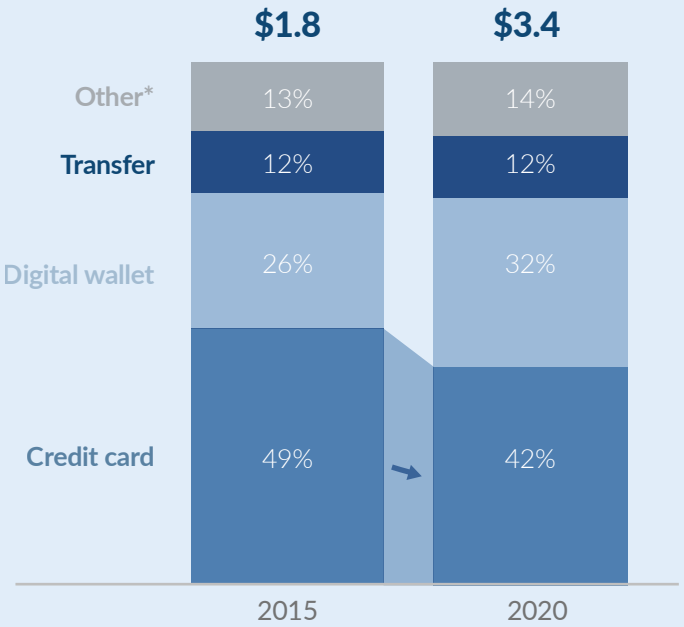
| Region | % of Total Retail Sales | Digital Buyers (M) | Digital Buyers Penetration* |
|---|---|---|---|
| Asia-Pacific | 14.4% | 925 | 61.7% |
| Western Europe | 9.0% | 217 | 74.7% |
| North America | 9.0% | 203 | 77.6% |
| **Latin America** | **1.9%** | **155** | **48.8%** |
| Central and Eastern Europe | 3.4% | 113 | 44.6% |
| Middle East and Africa | 1.9% | 49 | 36.0% |
| **Worldwide** | **10.0%** | **1,662** | **60.2%** |

 **Source:** eMarketer, August 2016. **Note:** *as % of total Internet users.

# **Credit cards represent 49%** of total global eCommerce transactions

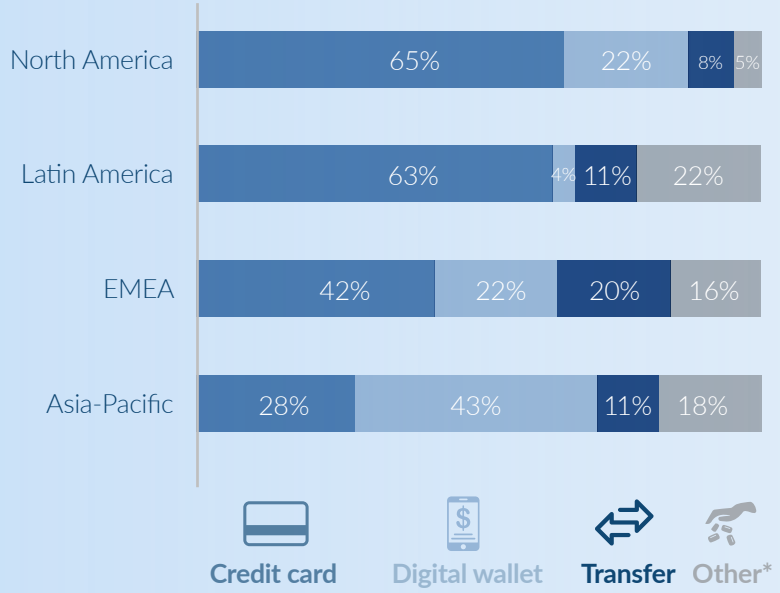
## Global eCommerce sales share by payment method

(2015 and 2020, in trillions USD and % of total)




## Regional eCommerce sales share by payment method

(2020, in billions USD)




 **Source:** McKinsey and Company, "Global Payments 2016", September 2016. **Note:** *Includes Prepay Solutions and Cash on Delivery.

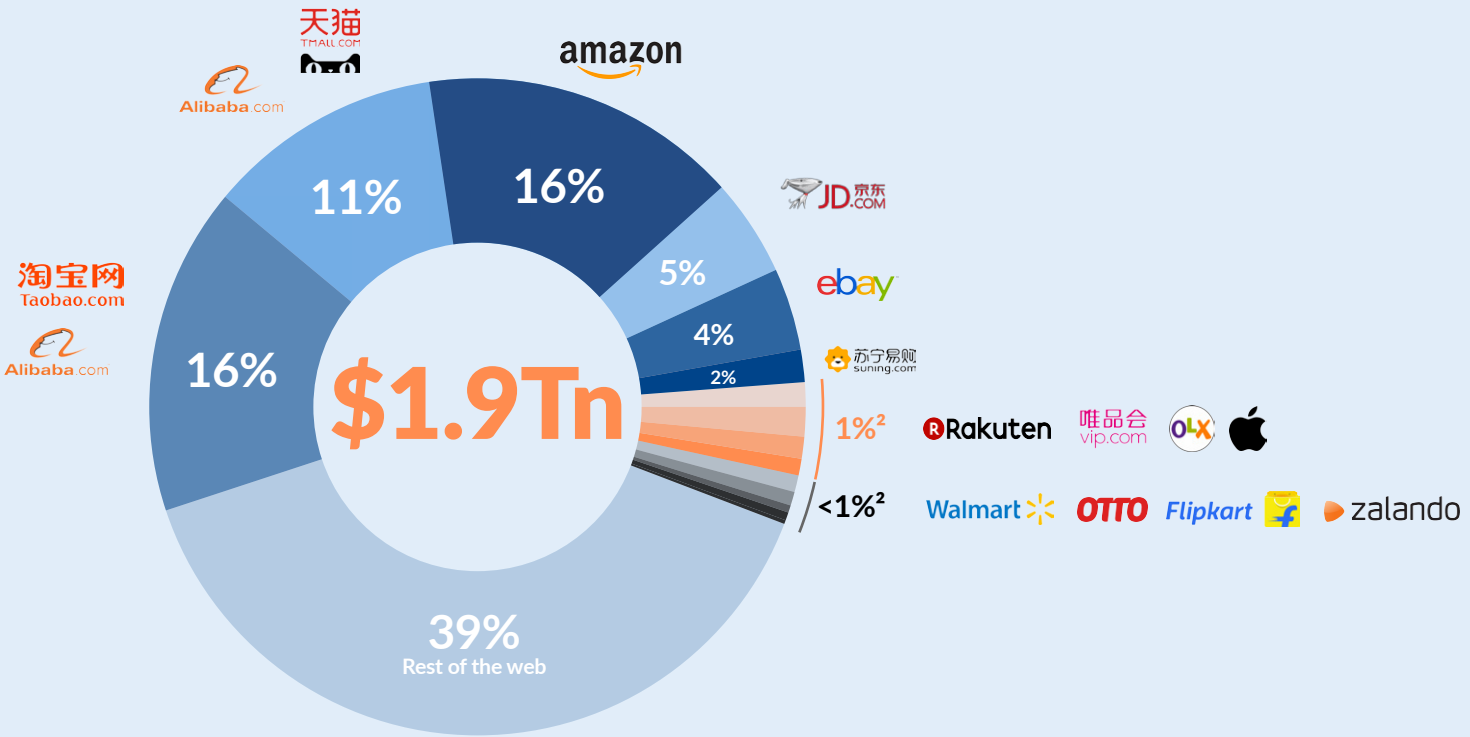
# **Amazon is now bigger** than almost all brick and mortar retailers put together

Retailer's market cap in the US
(in billions USD, % change)

| | JCPenney | NORDSTROM | macy's | KOHL'S | BEST BUY | TARGET | Walmart | amazon |
|---|---|---|---|---|---|---|---|---|
| 2008 | $11 | $9 | $12 | $14 | $18 | $29 | $219 | $22 |
| 2018 | $1 | $8 | $8 | $11 | $21 | $41 | $262 | $729 |
| % change | ↓-89% | ↓-9% | ↓-35% | ↓-25% | ↑18% | ↑42% | ↑19% | ↑3,228% |

# 15 eCommerce players **account for +60%** of gross merchandise sales

## eCommerce gross merchandise sales volume[1]
(Global, 2016)



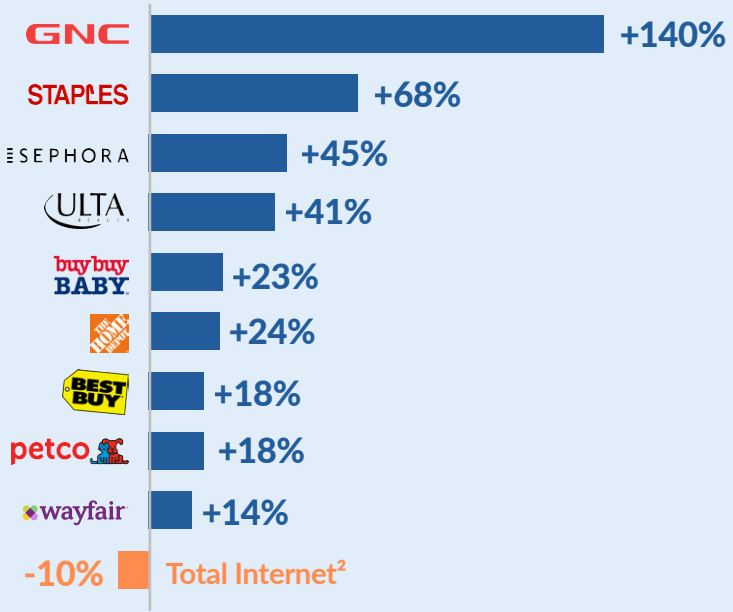



**Source:** Activate, "Tech and Media Outlook 2018". Activate analysis, Company financials, eCommerce Foundation, eMarketer, Fortune, GeekWire, Nasdaq, National Retail Federation, OfferUp, OLX, TechCrunch. **Note:** 1. Excluding travel and tickets. 2. Each 1% or <1% respectively.

# Retailers and brands will continue growing by offering **more engaging experiences**

## Growth in time spent per website visit[1]

(US, August 2015-2017, % change)



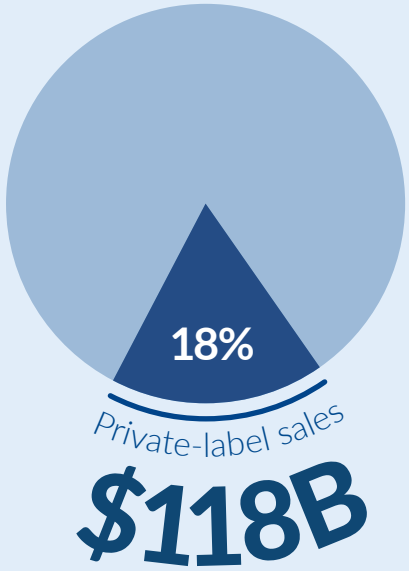

## Key strengths of specialty retail

**Source:** Activate analysis, comScore. **Note:** 1. Time spent on website per visit across all platforms. 2. Average time spent per visit across all Internet as defined by comScore.

# Consumers will turn to **private labels and retailers** will favor the discovery of owned brands

## Private-label sales share, supermarkets and mass channels

(US, 2016, % of sales)

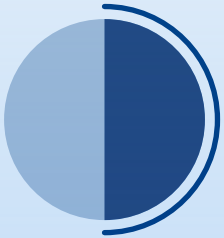



**Examples of private-label brands with high value and perception**

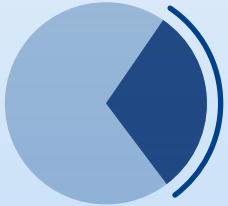
wholesome
BRANDLESS™
KIRKLAND Signature
amazonbasics
365 EVERYDAY VALUE

## Shifts in US search behavior

(2020E)



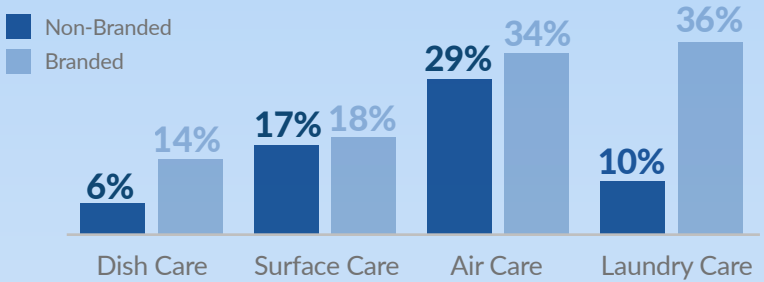
**50%** of searches will be voice searches



**30%** of searches will be done without a screen

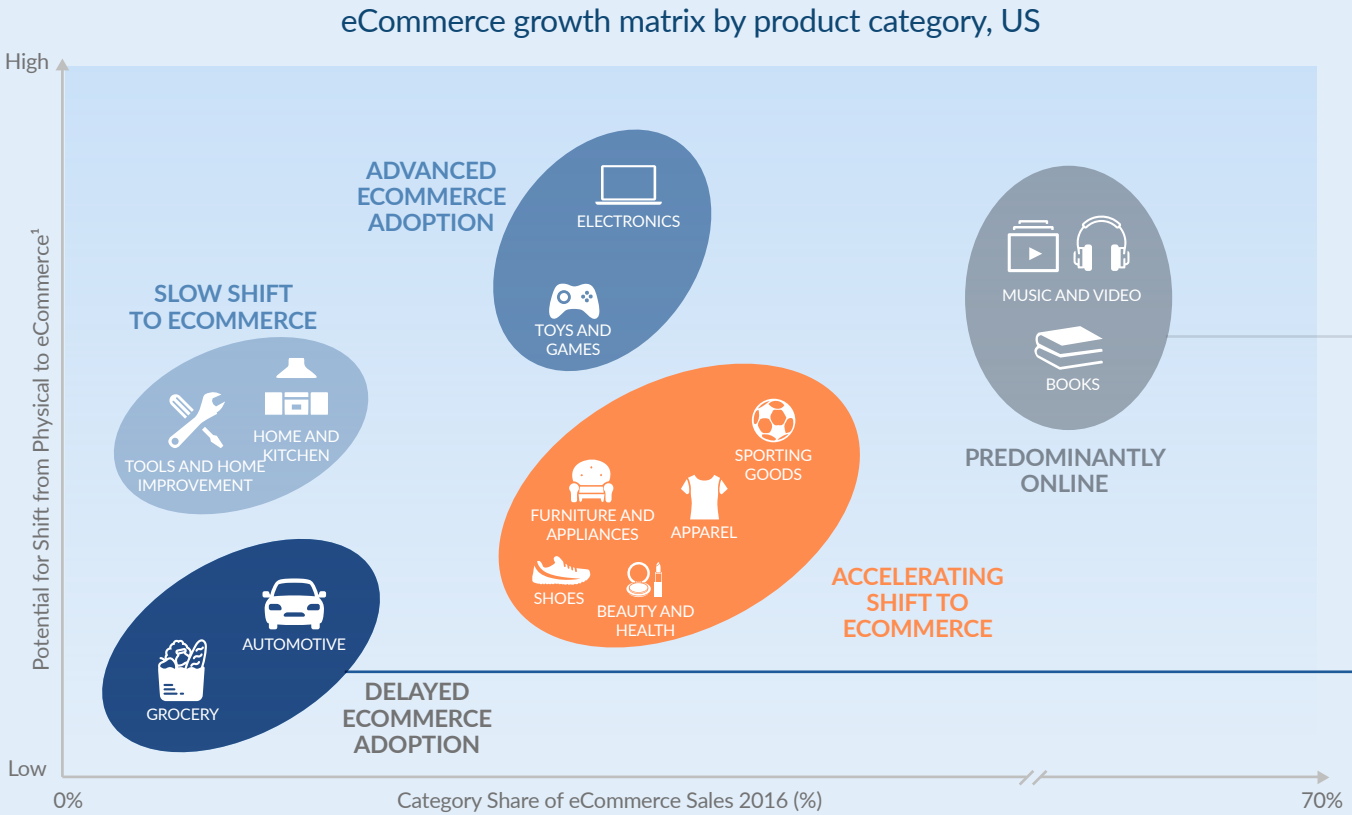
## Branded vs. non-branded growth in search volume

(US, April 2016 vs. March 2017)




 **Source:** Activate analysis, Branded3, comScore, Gartner, Keyword Tool IO, L2, Manufacturing Association, MediaPost, Nielsen, Private Label

# Appliances and personal goods are some of the **categories with highest growth potential**



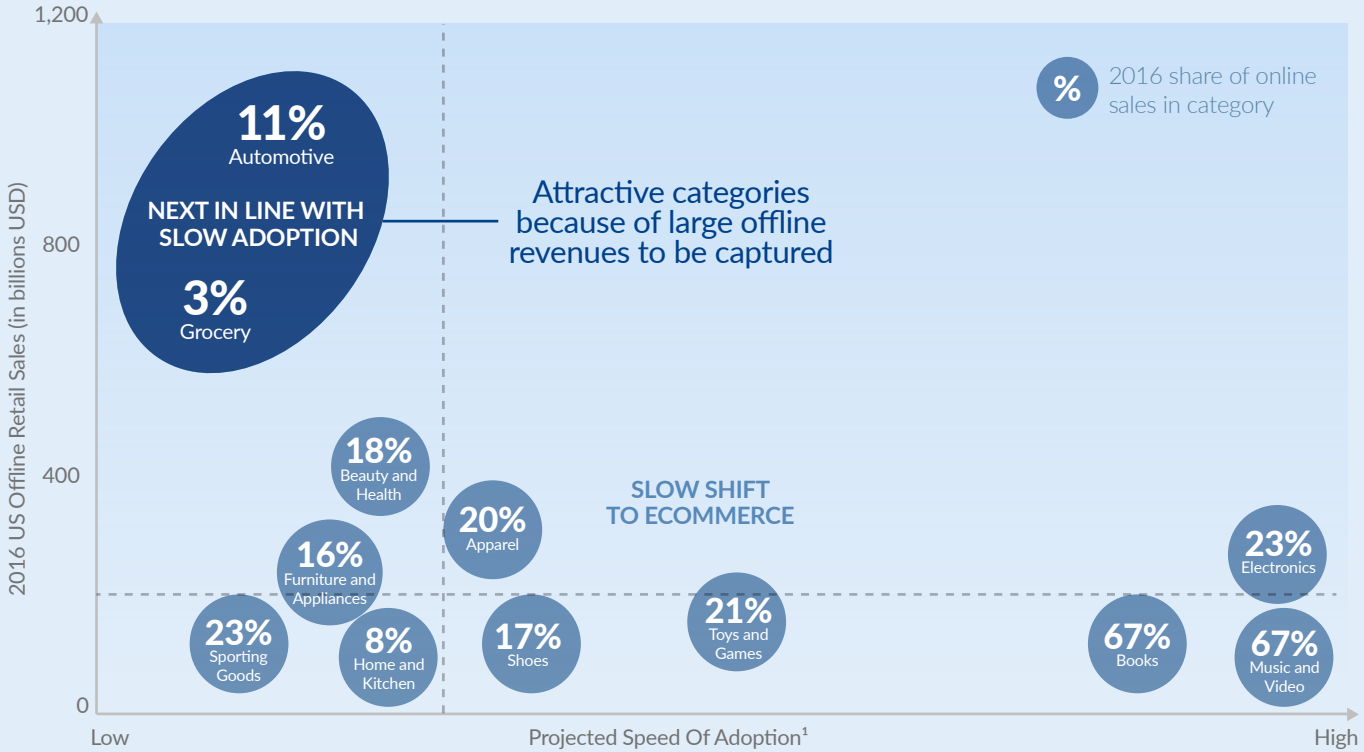

Products are predominantly digital

Products involve **first-hand experience,** e.g., food freshness, used car condition

 **Source:** Activate analysis, Activate 2017 Consumer Tech and Media Research Study. Cowen and Company, eMarketer, Kantar Retail, Nielsen, US Census Bureau.

# Groceries and cars will be the next **eCommerce battleground—but** adoption will be slow

## eCommerce adoption forecast by category, US




**What could accelerate eCommerce penetration in grocery?**

- **Consumer Trust** in fresh food delivery
- **Delivery Experience** that is fast and satisfactory, particularly for fresh food offerings
- **Pricing** that is consistent and competitive

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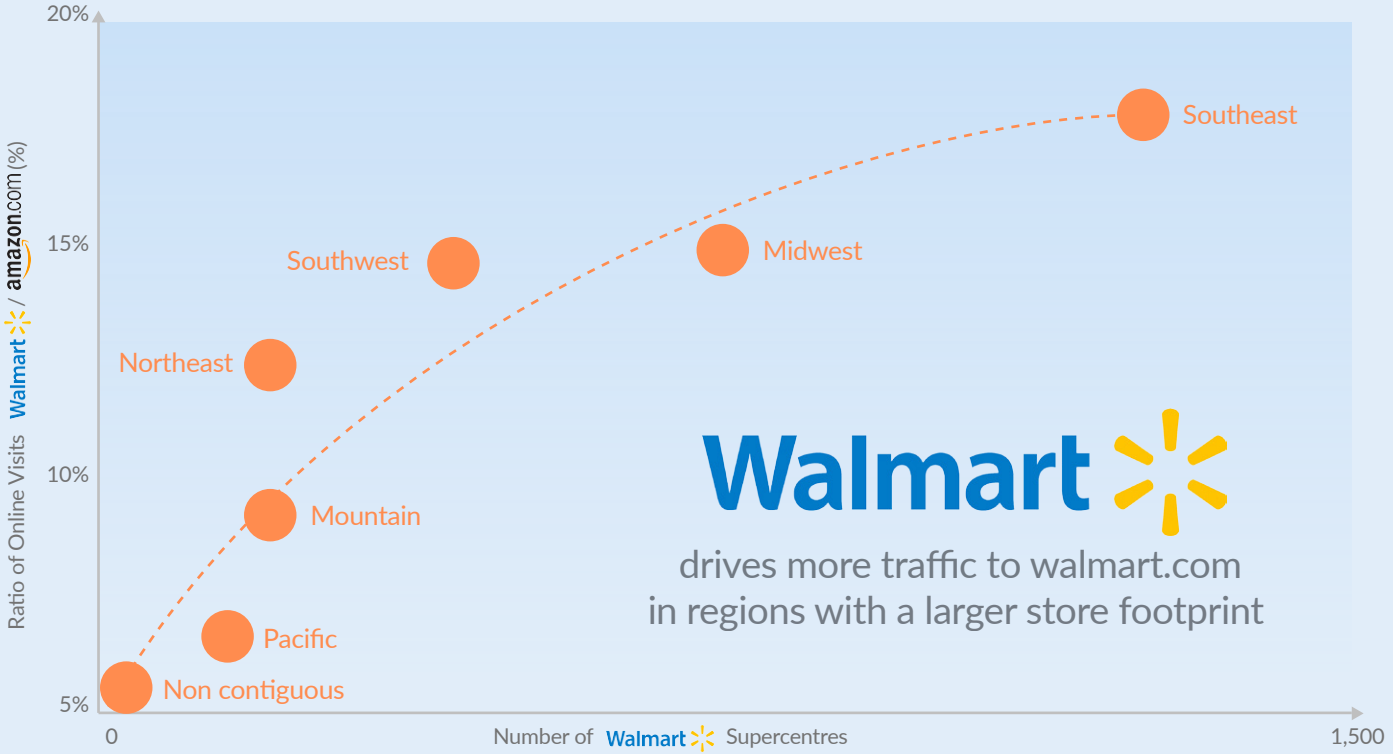
**Source:** Activate analysis. DrugStore News, eMarketer Euromonitor, IBIS World, International Publisher's Association, IRI, One Click Retail, PricewaterhouseCoopers, St. Louis FRED, US Census Bureau, Venture Beat, Wazir.

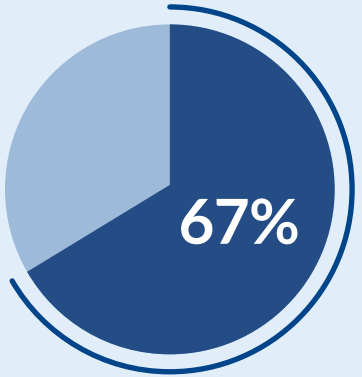
# Many **retailers are leveraging their physical presence** to drive higher revenue per shopper

## Impact of Walmart's physical footprint on online engagement by region in the US

2016, number of Walmart stores vs. ratio of online visits (Walmart / Amazon)




**Walmart** drives more traffic to walmart.com in regions with a larger store footprint



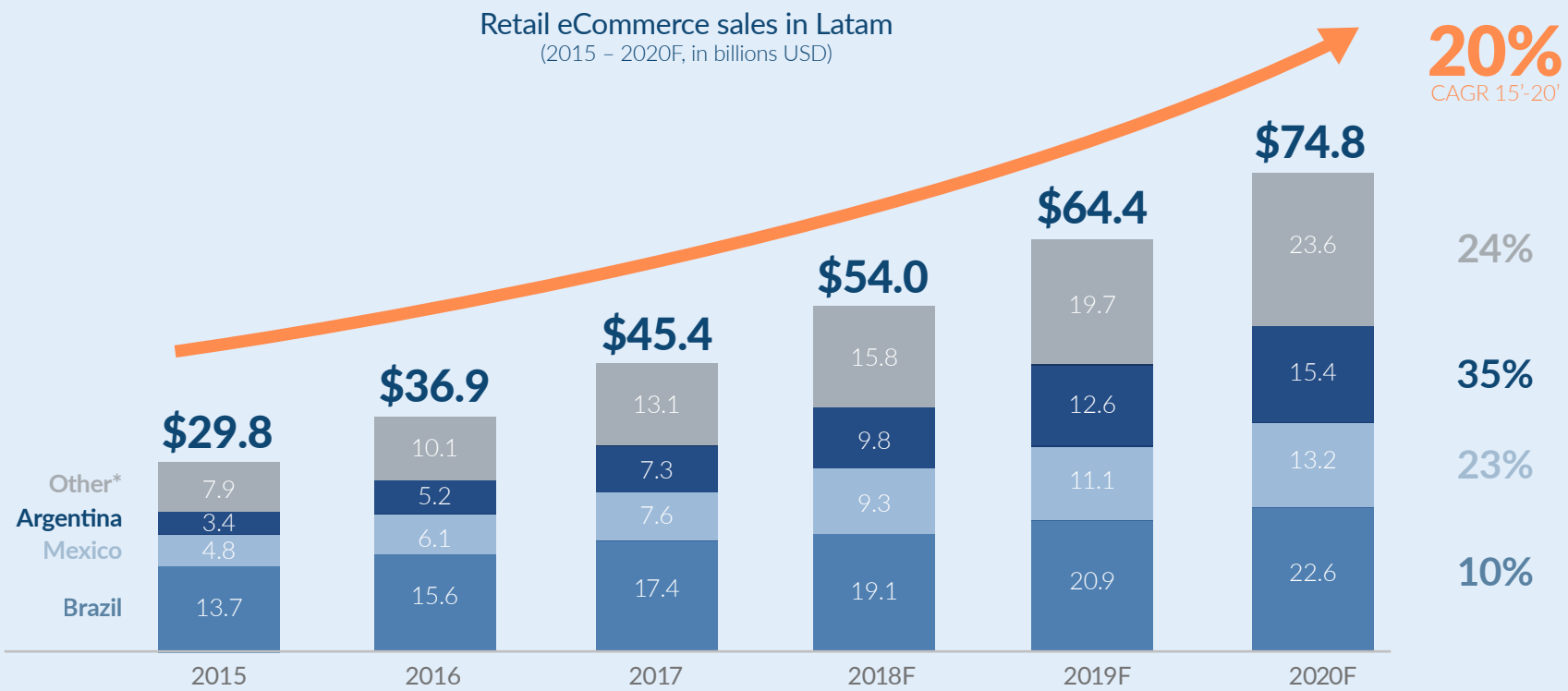

**of consumers who prefer to buy online rely on a physical store** before or after their purchase

# Latam reached **177M eShoppers** and 360M Internet users

| | GDP | Population | Internet Users | Smartphone Users | eShooppers | |
|---|---|---|---|---|---|---|
| | 2016 in billions USD | 2016 in millions USD | 2017 in millions USD | 2017 in millions USD | 2017 in millions USD | % of Internet users |
| Brazil | $1,775 | 208 | 123 | 133 | 59 | 48% |
| **Mexico** | **$1,144** | **128** | **71** | **65** | **31** | **40%** |
| Argentina | $583 | 44 | 31 | 32 | 25 | 56% |
| Colombia | $292 | 49 | 28 | 34 | - | - |
| ROLA | $1,254 | 150 | 101 | 130 | 53 | 52% |
| **Total Latam** | **$5,048** | **579** | **354** | **394** | **177** | **49%** |

**Source:** World Bank, 2016. Internet World Stats, 2016. eMarketer, 2017. Advertising Age "Hispanic Fact Pack", 2017. CIA World Factbook, 2017. Encuesta Nacional sobre Disponibilidad y Uso de Tecnologías de la Información en los Hogares (ENDUTIH) 2017, INEGI.

# eCommerce sales in Latam reached $45Bn in 2017 and **will grow 20% annually**

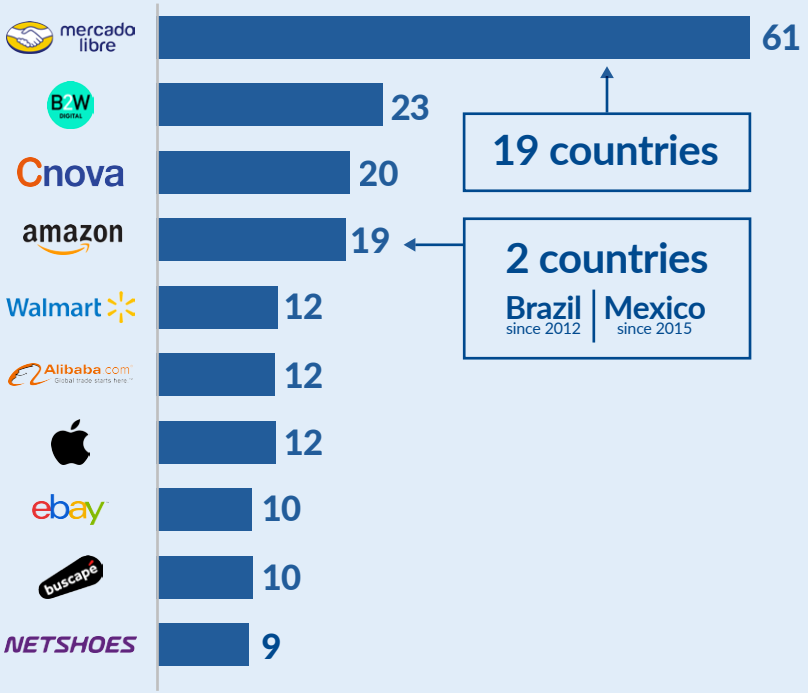



 **Source:** eMarketer, August 2016.

# MercadoLibre leads the eCommerce space in Latam with **61M monthly visitors**

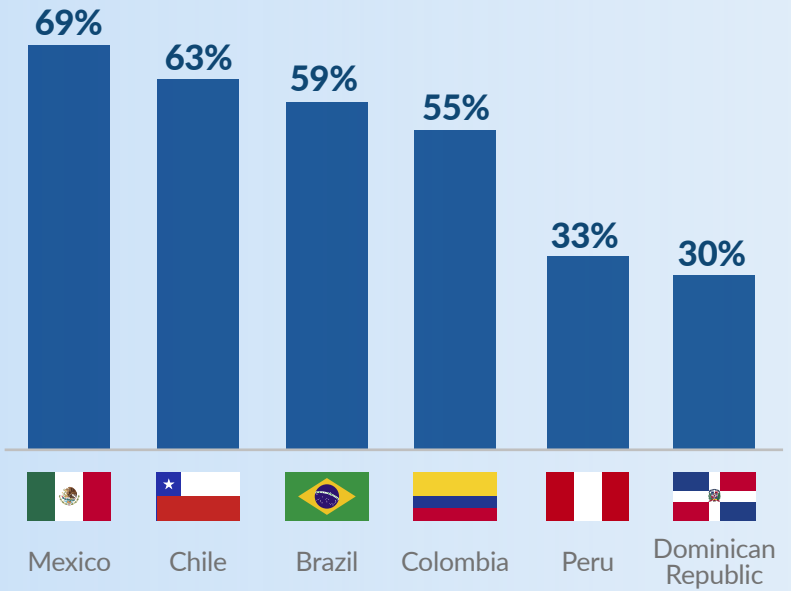
## Top 10 eCommerce sites in Latam

(Dec 2016, in millions, avg. monthly unique visitors)




## Credit card usage for digital purchases in Latam

(July 2016, % of respondents)






**Source:** Tecnocom, "Tendencias en Medios de Pago 2016", November 2016. comScore Media Metrix, April 2017. **Note:** MercadoLibre is available in the following Latam countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, DR, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Portugal, El Salvador, Uruguay, Venezuela

# Rising connectivity in Mexico continues to boost the country's digital economy

## Online sales growth

In the last 4 years, online sales have grown at a rate of 43%, while in the same period the retail sector has grown 5%.

## Hot Sale growth

Total 2017-edition HotSales reached U$ 262M, 4.2 times more than in 2016.

## Connectivity

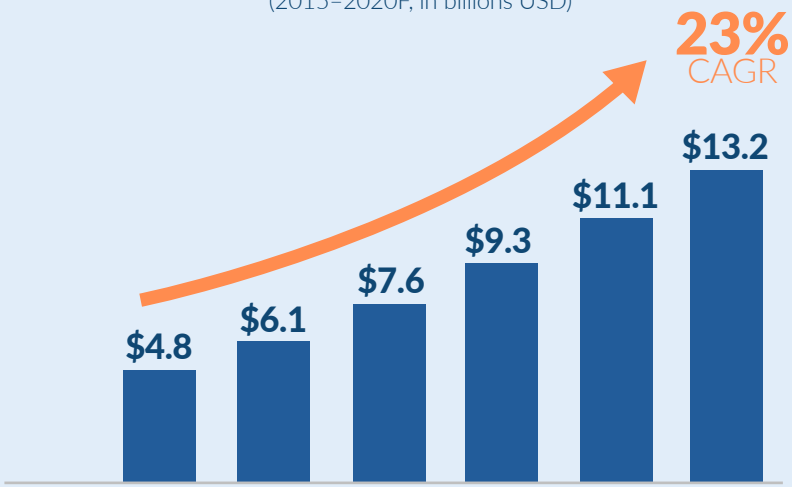
Mexico is more connected than ever. In 2017 over 71M individuals had Internet access and 65M owned a Smartphone.

## Market validation

Major venture capital investments are also on the rise in Mexico. For example, mattress company Luuna just raised U$5M in funding.

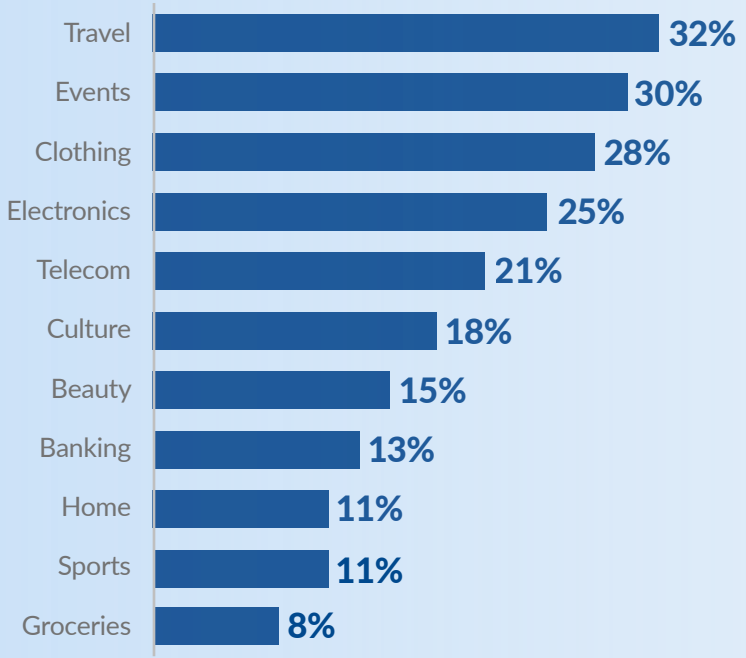
# In 2017, Mexico reached $7.6 Bn USD eCommerce sales for **23% annual growth**

## Mexico eCommerce revenues
(2015–2020F, in billions USD)




| | 2015 | 2016 | 2017 | 2018F | 2019F | 2020F |
|---|---|---|---|---|---|---|
| % of total retail sales | 1.2% | 1.4% | 1.7% | 1.9% | 2.2% | 2.5% |
| Digital buyers penetration* | - | 38.3% | 40.0% | 40.9% | 41.6% | 43.0% |

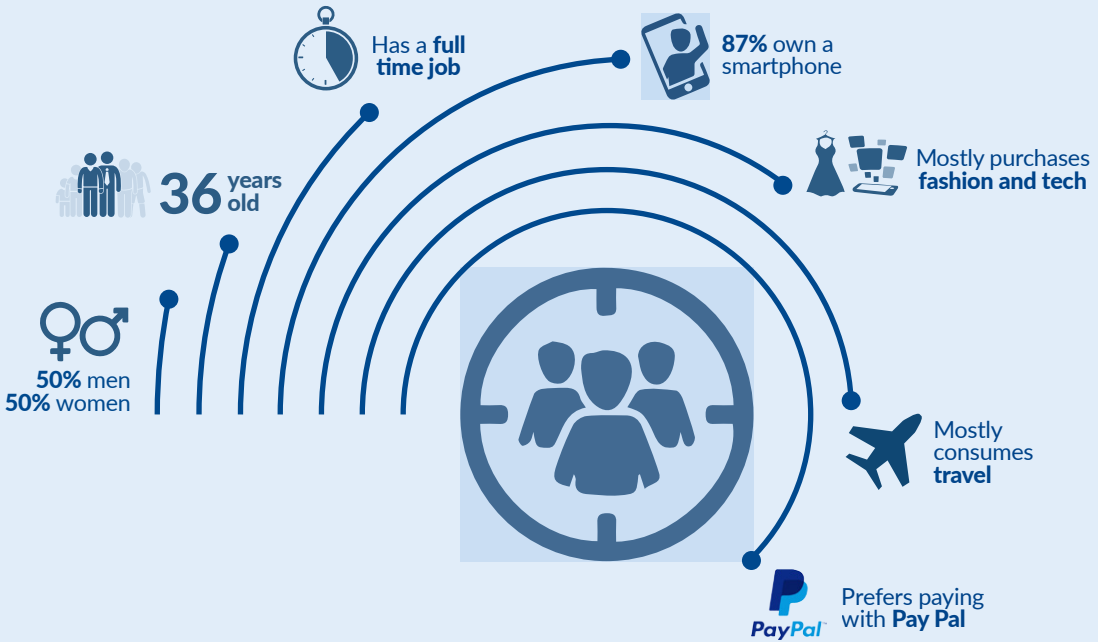
## Product/service categories purchased digitally by internet users in Mexico
(Feb 2017, % of respondents)




 **Source:** eMarketer, August 2016, June 2017. The Cocktail Analysis and Instituto Superrior para el Desarrollo de Internet (ISDI), March 2017. **Note:** *as % of total Internet users.

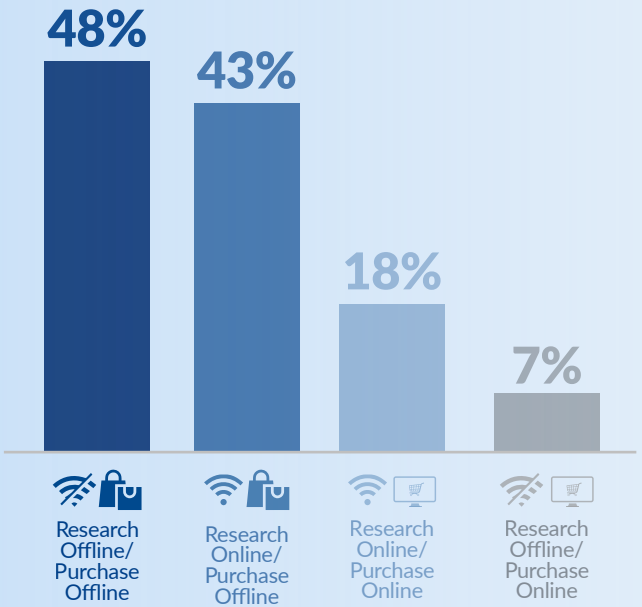
# 43% of Mexican online buyers **prefer to research online and purchase offline**

## Mexico online consumer profile



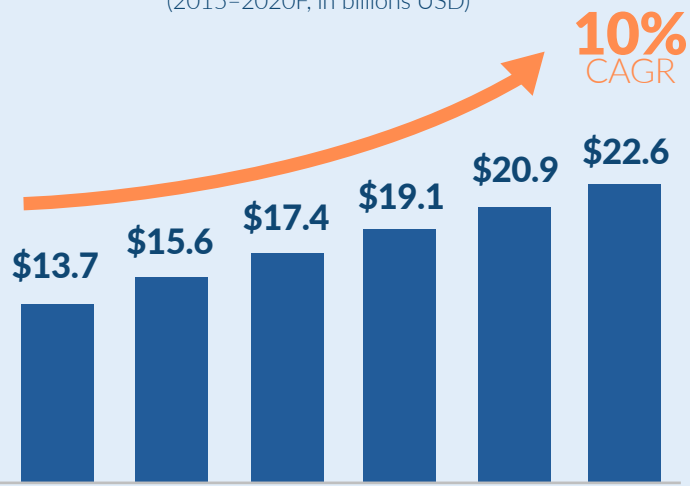

## Research & purchase method

(percentage of respondents)



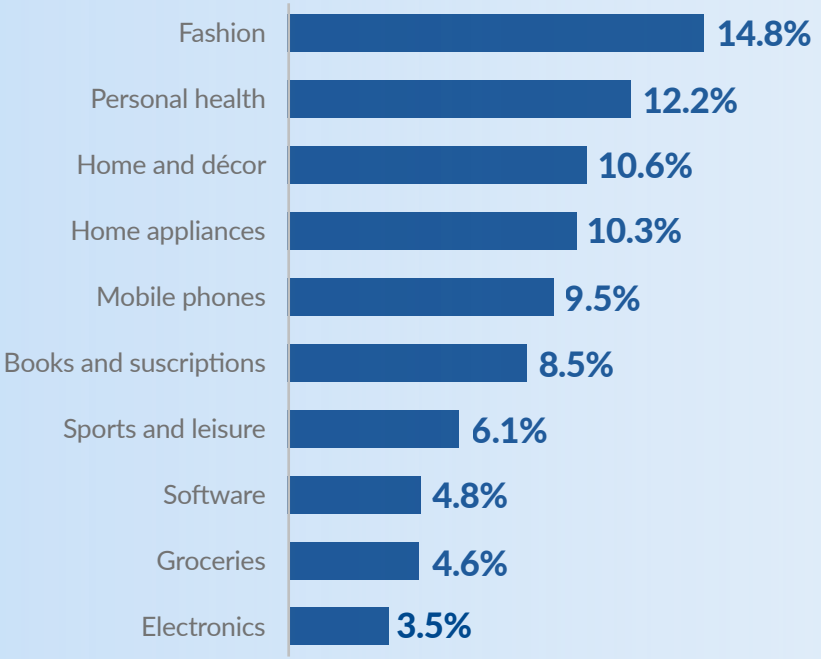
# Brazil's 2017 eCommerce sales reached $17.4 Bn with **10% annual growth**

## Brazil eCommerce revenues
(2015–2020F, in billions USD)




| | 2015 | 2016 | 2017 | 2018F | 2019F | 2020F |
|---|---|---|---|---|---|---|
| % of total retail sales | 2.2% | 2.5% | 2.8% | 3.0% | 3.3% | 3.5% |
| Digital buyers penetration* | - | 45.9% | 47.7% | 49.4% | 50.6% | 51.7% |

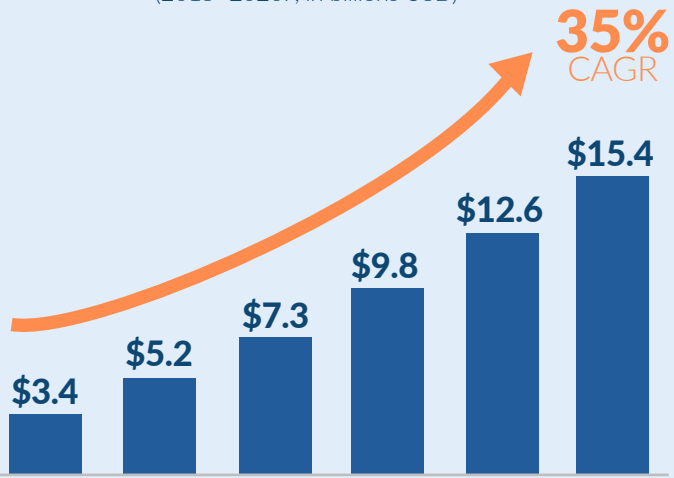
## Top 10 eCommerce categories in Brazil
(H1 2017, % of total)




 **Source:** eMarketer, August 2016, June 2017. E-bit Informacao, August 2017. **Note:** *as % of total Internet users.

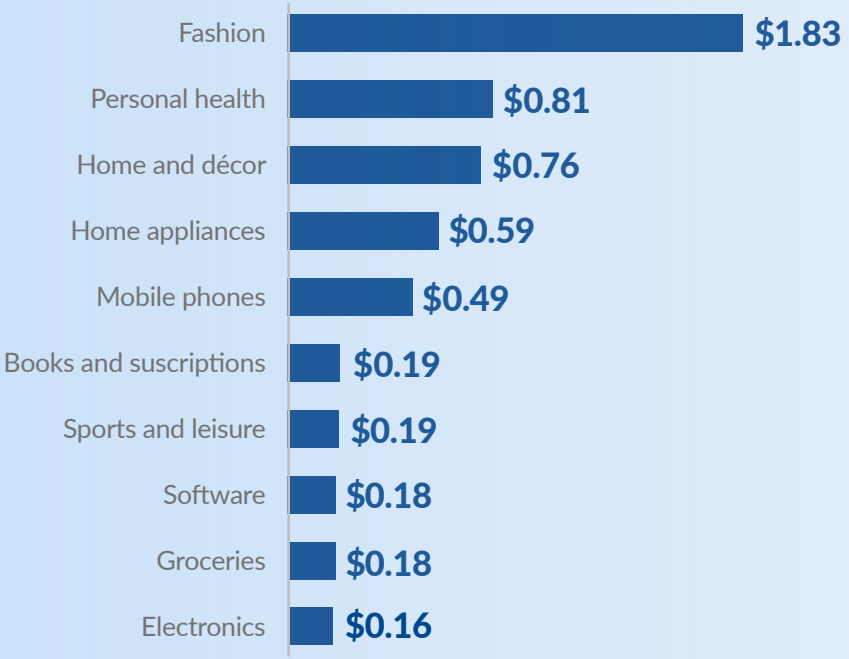
# Argentina's 2017 eCommerce sales reached $7.3 Bn USD, with **35% annual growth**

## Argentina eCommerce revenues
(2015–2020F, in billions USD)




| | 2015 | 2016 | 2017 | 2018F | 2019F | 2020F |
|---|---|---|---|---|---|---|
| % of Total Retail Sales | 1.3% | 1.7% | 2.2% | 2.7% | 3.2% | 3.6% |
| Digital buyer penetration* | - | 54.0% | 55.7% | 56.1% | 56.3% | 56.5% |

## Top 10 Product/Service Categories in Argentina
(2016, in billions USD)

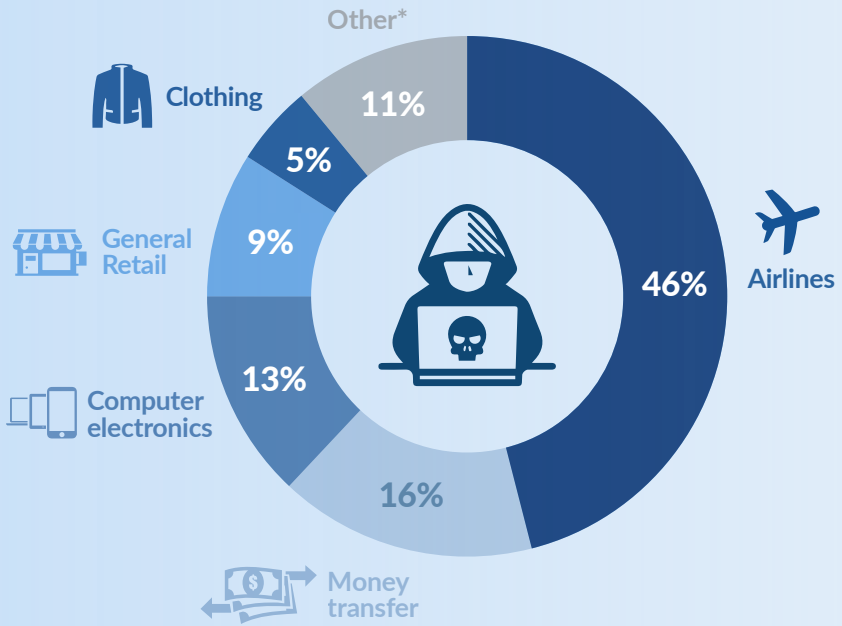



 **Source:** eMarketer, August 2016, June 2017. Cámara Argentina de Comercio EleCommercetrónico (CACE), Feb 2017. **Note:** *as % of total Internet users.

# Fraud is still a critical deterrent for eCommerce in Latam

| | Chargeback index on invoiced order volume | Rejected orders |
|---|---|---|
| **Latam** | **1.4%** | **8.0%** |
| USA and Canada | - | 2.8% |
| Europe | 0.8% | 4.8% |
| Mexico | 1.9% | 14.3% |
| Brazil | 1.5% | 4.6% |
| Argentina | 0.8% | 8.2% |
| Colombia | 1.9% | 10.1% |

## Top merchant categories affected by fraud
(2016)




 **Source:** CyberSource, 2016. RSA Security, 2016. **Note:** Other includes: travel, gaming, toys and jewelry.

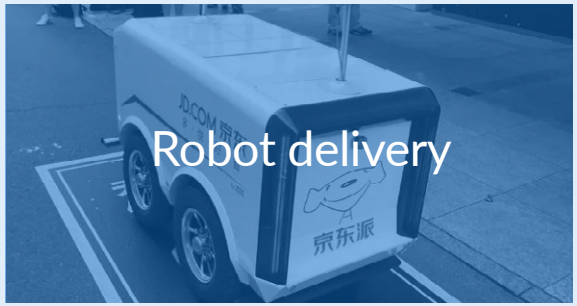
# Today's eCommerce industry enjoys **strong, affordable, capability providers**

eCommerce capability stack

 **Source:** Activate analysis, Big Commerce, Capterra, CB Insights, Crunchbase, Forbes, Fortune, Luma Partners, Marketing Mag, New York Times, Wall Street Journal, Website Builder Expert

# Asia leads eCommerce innovations alongside physical/digital spaces integrations

## Advanced Logistics and Investment in Technology



## Engagement Elements

## Physical and Digital Integration

 **Source:** Activate, "Tech and Media Outlook 2018".

# Brick-and-mortar retail will consolidate its hold by **integrating technology into in-store experiences**

## Dynamic pricing

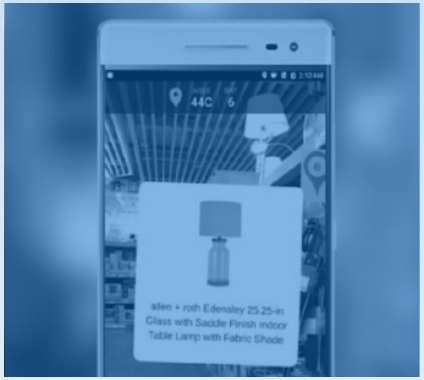
- Ensures consistent competitive prices with online retailers
- Minimizes showrooming

Digital price display

## Customized service and experience

- Offers services such as product information, recommendations and seamless checkout

Smart mirror (e.g., Oak Labs)




## Product information and discovery

- Assists shopper with product discovery both in-sore and online (e.g., at home)

Augmented Reality mobile technology (e.g., Lowe's)

## Personalized in-store targeting

- Feeds recommendations and promotions to consumers base on shopping history, across channels

In-store apps powered by visible light communication (e.g., MediaMarkt, Edeka, Carrefour)

 **Source:** Activate analysis, Amazon, Aptaris, Carrefour, eMarketer, Forbes, Lowe's, MediaMarkt, New York Times, Oak Labs, Philipps, Retention Science.

# Global tech eCommerce **trends to follow in 2018**

### Rebirth of brick and mortar

A new breed of retail stores and in-person experiences, rooted in digital, will begin to replace outmoded retailers.

### Disruption of B2B eCommerce

The perfect storm is about to hit the nearly 1 Trillion $B2B eCommerce sector.

### In-home augmented reality

Augmented Reality (AR) will be huge in 2018 as brands roll out features that allow consumers to use their mobile devices to visualize items in their home or office before purchasing.

### Measuring digital ads' in-store ROI

Retailers will know how many dollars in in-store sales are attributable to each dollar of marketing spend thanks to reliable ROPO[1] Ratios attribution models

### Mobile checkout overtakes desktop

Wheter it's buying products and renewing services on the go, checking out or buying in-store, mobile checkout will become a convenience that no consumer will want to do without

### Machine learning x eCommerce

A.I. will create the perfect, customized customer experience. 2018 will signal a shift in mostretailers' and brands' targeting strategy

### A year of marketplace maturity

Amazon is expected to continue its relentless growth. Like its counterpart Alibaba, Amazon will be ubiquitous element in every 2018 eCommerce business plan.

### Voice will change SEO

In 2018, consumers will start speaking to devices and using voice to interact (conversational AI) like never before.



**Source:** Absolunet, "10 eCommerce Trends for 2017". **Note:** [1] Research online, purchase online.

# Top retail and eCommerce events we recommend for 2018

NRF® NATIONAL RETAIL FEDERATION®

Canada's Leading Technology, Digital Marketing and Retail Event.

**Toronto** | March 9-11

The world's leading tech summit, showcasing talks by the industry's most prominent leaders.

**Rancho Palos Verdes, CA** | May 29-31

recode

Event designed to develop a response to the shifting consumer, technology and business model disrupting the global retail landscape.

**London** | September 10th

DIGIDAY

In 2018 the World Retail Congress will bring together industry leaders to discuss innovation and how to connect with today's consumers.

**Madrid** | April 17-19

IRCE
INTERNET RETAILER
CONFERENCE + EXHIBITION

The Internet Retailer Conference and Exhibition is one of the largest Internet conferences covering the eCommerce and retail industry.

**Chicago** | June 5-8

web summit

The largest technology conference in the world, its goal is to connect the technology community with all industries, both old and new.

**Lisbon** | November 5-8

SWS. consulting

SWS is a hands-on consulting firm specialized in disruptive and results-oriented strategy. Our client list includes global players and local industry leaders in search of solid future positions that embrace the powerful benefits the connected world can offer. Focused on both the US Latino and Mexican markets, our strengths comprise proven expertise in telecom, media, marketing and digital space.

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RISE CAPITAL

Rise Capital is a global investment firm that focuses on making expansion-stage investments in Internet businesses in Emerging Markets. We back industry-leading businesses run by world-class entrepreneurs who attack large addressable market opportunities. Leveraging our experience as Emerging Market Internet operators and investors, we strategically guide these businesses to scale.

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