



**EVALUESERVE**

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## Latin America Thought Starter Series

# Ecommerce

### Sector Intelligence:

Views on the impact, implications and risks across Latin America due to COVID-19

As we continue to witness a global crisis of unprecedented scale, professional advice, experience, and active support are more critical than ever for business leaders across the globe.

With each report, we will dive into a sector to assess what's happening now and what the long-term implications are. We will provide our thoughts on what businesses can do during these times.

Our aim is to strike a balance between brevity and context.

Time stamp: 23 April 2020

COVID-19 is accelerating ecommerce growth around the globe.

Ecommerce in LatAm is now forecast to grow 50-60%. This paper explores the unique aspects of LatAm and how they will shape ecommerce growth during and after COVID-19.



# How has COVID-19 affected LatAm?

## Regional impact at a glance

The global pandemic has exposed LatAm's high dependency on a few key economic activities, highlighting the need for the region to diversify, explore increasing intra-regional trade, and increase its value-added manufacturing capabilities.

### Areas of high dependency:



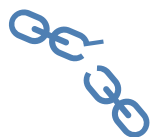
#### Commodity / raw material exports, primarily copper, iron ore, soy, beef

YTD price declines of 10-30% due to decreased export and manufacturing demand  
Countries most affected: Chile, Brazil, and Peru



#### O&G exports

YTD price declines of 30%+  
National O&G retail demand down 15-50% due to partial lockdowns  
Countries most affected: Brazil, Mexico and Venezuela (together 75% regional production), Colombia, Argentina, Ecuador – due to higher costs of production vs global competitors



#### Supply chains of the major trading partners – China, US, EU

Global disruptions creating knock-on impact in LatAm  
Countries most affected: Brazil, Mexico (largest manufacturers)



#### Tourism

Accounts for 20% of GDP in some cases; estimates for a 10-30% decline in tourism-generated revenues depending on the duration of lockdowns  
Countries most affected: Central America, Caribbean

### Other immediate impacts of the global slowdown:

- The latest estimates from CEPAL put the average regional economic contraction at -5.3% for 2020.
- The value of the region's exports is estimated to fall by at least 10.7% in 2020, primarily driven by lower prices.
- There has been a decrease in imports of essential goods, highlighting the insufficient manufacturing capability of some countries to produce basic essentials.
- Due to the global slowdown, the region is seeing decreased remittances, which is a key source of income.
- Currency has devalued significantly against the USD in Q1 2020: BRL, MXN, CLP, COP are at historic lows.
- M&A is down 50% by deal value to USD8.7bn in Q1 2020 due to 2019 political unrest and COVID-19.



## Regional Stats \*

(23 Apr 2020)

Confirmed: 122,800  
Deaths: 6,189  
Trend: Still increasing



## Thoughts

LatAm was already in a complicated situation at the end of 2019, marked by social uprising against growing inequalities, stagnation since 2014, and inconsistent politics.

Now in 2020, the LatAm economy has been hit by the 1st wave, the global slowdown, but the impact of the 2nd wave, local COVID-19 cases, is just starting.

Government responses to COVID-19 have been varied. President Nieto of Mexico and President Bolsonaro of Brazil have both received criticism for their lack of action and rhetoric downplaying the potential threat, whereas other countries like Panama, Colombia and Bolivia have implemented strict lockdowns.

Digital technology has been key in other countries' prevention measures. In LatAm, 60-70% of the population has access to the internet, but there are wide gaps along income levels, indicating hurdles for remote work / education options and contact tracing.

**COVID-19 will expose shortcomings in LatAm's economic, political and social systems. But it will also open new areas of opportunity.**

# Spotlight Ecommerce

Space for robust ecommerce growth due to low penetration and high consumer interest

Although ecommerce penetration across LatAm averaged just 4.7% of total retail sales compared to the global average of 15.5%, ecommerce sales have been increasing ~20% annually (2015-2019), driven by an increasingly digital consumer base.

For many countries, ecommerce growth is now forecast at 50-60% for 2020 due to COVID-19.



## LatAm Consumer Profile

Consumers in the region show a greater willingness to use digital tools and there is a higher confidence level on how they work.

~650M population

~200M online shoppers

~365M internet users

Millennials are 30% of population

60-70% internet penetration

85%+ smartphone penetration

30-70% non-bankarized;  
avg. 55% bankarized

10-30% credit card use

What do people buy online?



### Entertainment and IT Products

66% Highest respondents Brazil, Mexico

13% Lowest respondents Puerto Rico, Dominican Republic



### Food

66% Highest respondents Colombia

13% Lowest respondents Puerto Rico



### Clothing

78% Highest respondents Brazil

48% Lowest respondents Argentina, Chile



### Beauty and Personal Care

78% Highest respondents Brazil

48% Lowest respondents Chile

# Ecommerce in LatAm

Discoveries from trends and global learnings → Key questions for decision makers to consider

## Retaining an increased customer base

The 2003 SARS outbreak in China served as a major boost to digital shopping platforms like Alibaba. Already, online shopping is up 40% during the first 2 weeks of March in Brazil and up 49% during the first 7 days of national quarantine in Peru, with forecasts putting regional growth at 60% for 2020.

**2x**  
increase in  
online shopping  
from Tier 3-5  
cities, China

During the COVID-19 outbreak, China saw a surge in new ecommerce users from Tier 3-5 cities, with this group adding 2x more users than upper Tier cities. Considering the large populations across LatAm that still live in developing conditions, China's experience indicates these populations could become of focal point of growth.

Alibaba reported that in China, online grocery orders placed by people born in the 1960s were four times higher during the outbreak period than normal. Again, China's experience provides cautious optimism on another growth area.

**4x**  
increase in  
online shopping  
60+ age group,  
China

A key difference between LatAm and China is that China imposed a strict lockdown, which rapidly contained new cases and brought the curve down. This is the case in very few countries in LatAm, so **we can assume that LatAm will see a longer recovery time and continued spikes as new hotspots appear – these moments would be key for capturing new consumers online.**

Governments will continue to modify restrictions to manage the COVID-19 outbreak over the coming months and likely 1-2 years.

### Food for Thought

- Extended restrictions could drive positive growth for ecommerce.
- The large informal segment (53% of regional employment) and general trend towards supporting local businesses could move a portion of ecommerce traffic into alternative channels such as Facebook or WhatsApp.
- Longer lockdown durations could increase the likelihood of new online consumers making a permanent migration to ecommerce post-recovery. This could be driven by online consumer behavior becoming engrained, or consumer desire to continue precautions through social distancing.
- Considering the deteriorating economic outlook for LatAm in the next 1-3 years, ecommerce growth could plateau due to decreased purchasing power and consumers opting for cheaper local options, regardless of lockdown status.

## Continuing investment in customer experience

Before the crisis, buying behavior was trending towards a more “agnostic” consumer, favoring innovation, quality and price over brand, and also showing an increasing preference for local goods.

**As new customer segments come online and as we move into a global recession, what requirements will companies need to meet for these new customers?**



Providing an **easy experience for new shoppers**, particularly the elderly. Pharmaceuticals ecommerce could benefit from this expanded base.



Tailoring product offering, delivery alternatives and payment alternatives (including cash on delivery) to new customers based in “Tier 3-5” cities; **grow a new base through inclusion.**



**Standardizing shopping options**, such as Lider's (Walmart Chile) recently launched “Easy Box” that contains a pre-allocated selection of basic goods, which optimizes the online process for both consumer and vendor.



**Improving reverse logistics** to open new ecommerce models. For retailers, an alternative revenue stream could be found in clothing rental and clothing subscription.



Launching **new innovations for those at-home**, for example, augmented reality dressing rooms for clothes and makeup. This could address a concern that 10-46% of traditional offline shoppers have which is seeing the product before buying.

### Food for Thought

**Customer analytics will form the cornerstone of these initiatives and allow for faster pivoting to meet changing customer... and as we see now, global health... demands.**

Firms that do not yet have functional customer analytics will likely feel the pressure to implement solutions, but could be faced with budget constraints.

Firms that have implemented analytics but struggle to pull insightful conclusions from the data will need to do a serious internal reflection about WHY their analytics aren't working.

In our view, **for analytics to be successful there must be a business culture that embraces cross-department collaboration, constant innovation, and curiosity.** From there, a firm can begin the journey of understanding its analytics objectives, structuring its data, and building the necessary visualizations to facilitate decision making.



# Ecommerce in LatAm

Discoveries from trends and global learnings → Key questions for decision makers to consider

## Leveraging new delivery formats

With COVID-19, delivery is rapidly catching up across LatAm.

In Colombia, Grupo Éxito launched 350+ click&collect sites in March 2020, but in-house solutions are concentrated in the large retailers whereas SMEs tend to rely on delivery apps.

Contactless delivery is on the rise, as across the globe.  Delivery services have seen +30% demand in Colombia (UberEats, Rappi, Domicilios).

- **Retailers are partnering with delivery platforms to cover demand.** In Chile, a passenger transportation firm is seeking to partner with supermarkets, as airport taxi services accounted for over 40% of revenues that have dried up.
- As quarantines relax, **locker pick-up in city centers or near “essential” locations** such as hospitals or supermarkets could lighten the burden on the last mile.
- The concept of **dark kitchens could become a financially interesting alternative for the restaurant industry**, especially during restrictive periods. The differentiator vs normal delivery is the focus on customized packaging to improve the at-home dine-in experience.
  - Where approved, the use of **unmanned drones and robots** would provide an alternative channel during strict lockdowns. Rappi has just launched a pilot of 15 Kiwibots in Medellin doing ~120 deliveries daily.
- Curbside pickup at small local stores has been successful in the US, but **curbside pickup does not seem to be a trend in LatAm, potentially due to lower car ownership** (US 80%+, LatAm 20-30%).
- Small local vendors have taken to Facebook and WhatsApp to offer home delivery.

### Food for Thought

**Forecasting the COVID-19 situation, anticipating restrictions, and identifying target markets would inform which delivery formats to implement or partner on.**

Providing lower-cost delivery could resonate with costumers, especially considering pre-outbreak, shipping costs were perceived as high, particularly in Brazil.

Many platforms are facing delays in normal delivery timelines, opening opportunity for new solutions to grab market share.

## Expanding marketing channels

Since the outbreak

<b>+20-30%</b> Social media use	<b>+40%</b> News consumption	<b>2x</b> Viewers on open channel TV	<b>+25%</b> Paid TV services
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In Brazil alone, there are 100M+ active social media users (~50% of population) making this a top channel for customer acquisition for ecommerce, especially for web-only retailers. More than 70% of businesses have adopted content marketing, one of the most profitable models in the online market, and 20% of them plan to.

**The pandemic has accelerate the move online.** It's time to embrace the full power of new marketing channels.

- Sports and entertainment events have been cancelled or postponed, but marketing and sponsorship options exist in the online channels.
- The spike in online gaming provides another growing channel.
- Companies will begin shifting out-of-home publicity to the new hotspots, like supermarkets and pharmacies.
- Social media and news outlets are picking up stories on companies that:



promote CSR or ESG activities, which has been a growing demand area from consumers.



support employees, the community, their partners and vendors, and health efforts during the pandemic.

### Food for Thought

**Maintaining a strong brand is fundamental. In a study by Kantar, strong brands recovered 9 times faster following the financial crisis of 2008.**

A deeper dive into web-only retailers would provide interesting ideas on alternative marketing strategies for more traditional retailers.

# Ecommerce in LatAm

Discoveries from trends and global learnings → Key questions for decision makers to consider

## Nationalizing supply chains?

In a survey by Mundo PMMI of LatAm CPG firms:

<b>41%</b> are facing supply chain outages	<b>31%</b> concerned about issues in production	<b>20%</b> concerned about issues with stock	<b>14%</b> concerned about issues with the economic / financial environment
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This results from:

- increased price points for imported raw materials
  - supply shortages given the high dependency on APAC
  - shifts in logistics priorities to essential goods
    - LatAm currency devaluation, among other factors.

In Chile, Walmart announced a 30% increasing in stocking capacity, indicating that large firms can manage supply chain disruption.

**LatAm countries have low capacity, and an underdeveloped and fragmented manufacturing infrastructure, a result of the export-focused economy since the early 2000's commodity boom.** For example, Panama simply doesn't have the capacity to locally produce sufficient essential goods for its population, and hence is dependent on international ecommerce and imports.

The direct-to-consumer trend is another area to monitor, as the role of warehouses and distribution centers, as well as related packaging, are responding to changing demand patterns.

### Food for Thought

The COVID-19 impact highlights the importance of a diversified international supply chain and strong local participation. **To what extent will this shift the supply chain towards a more nationalized and localized strategy?**

We believe that governments will be looking at local manufacturing capacity as a future strategy. This could decrease the cross-border ecommerce demands but also open new opportunities for local partnerships and M&A.

## Tapping into the power of SMEs

Concern has been expressed at a global level about the impact that local/national lockdowns and the economic slowdown are having on SMEs.

SMEs account for  
**80-90%**  
of LatAm  
businesses.



The informal sector  
accounts for  
**17-53%**  
of LatAm economies.

The duration of the crisis and government initiatives will determine how many SMEs are pushed out of business, opening the door for **a potential consolidation among larger retailers.**

In Chile, an estimated 70% of SMEs are closed. Non-food category SMEs saw a 35% drop in sales in March 2020 with the last week seeing a 90% contraction which has extended into April.

The Chilean government has launched an initiative "Apóyame Aquí" (Support Me Here). Some of the **largest online retailers are opening their sites to host SME products, essentially expanding into the marketplace segment.**

### Food for Thought

For established online marketplaces, the encroachment of retailers into the marketplace segment suggests potential competition for the SME-generated revenue stream.

As unemployment increases, it will be interesting to see how the informal market responds, to what extent this market moves online, and if they diversify from Facebook and WhatsApp.

# Ecommerce in LatAm

Discoveries from trends and global learnings → Key questions for decision makers to consider

## Addressing the existing improvement areas

COVID-19 will force many consumers into the online channels.

**Keeping those new customers will depend greatly on a company's ability to address the existing improvement areas.**

In a survey run by MasterCard in December 2019, the main barriers to shopping online in LatAm were:



### Distrust

Countries with high levels of distrust also showed high levels of fear that card information would be stolen – Costa Rica, Puerto Rico and Dominican Republic.

Brazil and Chile showed the lowest levels of distrust, at 18% and 17% of respondents.

Of note, across all countries, only 1-3% of respondents were concerned about the store being fake.

Interestingly, the respondents from countries with the highest levels of distrust were relatively unconcerned about not seeing the product (10-18% concerned).

Chile and Argentina had the highest levels of respondents wanting to see the product, at 46% and 40%. This could be attributable to the strong "mall shopping" culture in these countries; LatAm malls have higher occupancy rates than the US.



### Inability to see the product

Brazil stands out at 40% of respondents vs the 2<sup>nd</sup> ranked country Puerto Rico at only 24%.

This indicates that overall, ecommerce shipping is affordable across LatAm, although note that ecommerce shopping tends to be concentrated in the middle class and above. Customers will likely become more price sensitive as the recession sets in.

Related to shipping, only 2-11% of respondents expressed fear of having trouble returning an item.



### Shipping costs

## What to monitor over the coming months?

How each government's policies could impact the demand for ecommerce in the near and long term



How the supply chain adjusts (decentralization, nationalization, flexible production lines, direct to consumer)



What unique aspects arise from new users (alternative payments, new channels, online to offline)



Changes in customer behavior and patterns that would dictate new targeting approaches or opportunities



New competitors; unique competitive advantages



What unorthodox methods retailers try to create an agile ecommerce experience and supply chain



Which companies are struggling to adapt to the new market dynamics



What opportunities arise to increase brand perception





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**Our key solutions for ecommerce:**

- Compiling competitive and market intelligence
- Benchmarking to identify best practices, opportunities and threats
- Assessing e-commerce goals and resource alignment, ecommerce maturity
- 360° monitoring of innovations and disruptors
- Managing data lake migration and building architecture
- Creating customer segmentation, prioritization and marketing strategies
- Designing, executing, and analyzing marketing campaigns
- Running analytics on supply chain and distribution networks, and looking for risk
- Providing advanced analytics tools augmented with market/customer research for continuous monitoring of Rol
- Advising on ecommerce strategy

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