2017 Trends in Retail in Latin America: What’s to Come and How to Compete
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Americas Market Intelligence (AMI) is the leading independent market intelligence and research provider in Latin America.

AMI is Latin America’s leading Market Intelligence and Advisory group.

AMI’s founding partners are pioneers in the field of market intelligence in Latin America, with over 20 years experience in the region.

AMI has experience in every market in Latin America and the Caribbean.

AMI is a member of SCIP – Strategic and Competitive Intelligence Professionals.
Experts in the Latin American Financial Services Industry

<table>
<thead>
<tr>
<th>eCommerce</th>
<th>mCommerce</th>
<th>Mobile POS</th>
<th>Mobile money</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P payments</td>
<td>Credit cards</td>
<td>Prepaid cards</td>
<td>Fleet cards</td>
<td>Distribution and purchasing cards</td>
</tr>
<tr>
<td>POS systems</td>
<td>NFC</td>
<td>EMV cards</td>
<td>Mobile payments</td>
<td>Lending</td>
</tr>
<tr>
<td>Payment gateways</td>
<td>Digital wallet</td>
<td>Retail cards</td>
<td>Credit lines</td>
<td>Financial inclusion</td>
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</tbody>
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2017 Trends in LatAm Retail
In 2017, Technology Brings Retailers Closer to the Consumer

Three major trends in will shape retail in Latin America in 2017

**Mobile** will play an increasingly important role, and *mobile conversion* will begin to take off

**Loyalty programs** are becoming more sophisticated, varied, and relevant to consumer segments

Retailers are implementing **artificial intelligence** to create more personalized, memorable shopping experiences
E-commerce Growth: Full Speed Ahead

While e-commerce is maturing, m-commerce is still in early stages of development

<table>
<thead>
<tr>
<th>Growth, CAGR 2015-2019</th>
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<tbody>
<tr>
<td>E-commerce</td>
</tr>
<tr>
<td>11%</td>
</tr>
<tr>
<td>M-commerce</td>
</tr>
<tr>
<td>27%</td>
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</tbody>
</table>

Growth drivers

- Smartphone penetration growing at 12% annually
- Limited access to broadband and Wifi is pushing mobile
- Low cost of handsets
- Sales via Whatsapp/social media
- Growth of key verticals
- Creative merchant solutions

Sources: eMarketer, Gestion, El Financiero, La Nación, interviews, AMI analysis
While Mobile Is Highly Influential, Conversion Is Still Low

Barriers to conversion create opportunities for innovation

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Steps to address it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of fraud</td>
<td>• Consumers believe purchases made on a mobile phone are less secure than those made on a computer</td>
</tr>
<tr>
<td></td>
<td>• Insert secure logos into app/mobile site and do multiple rounds of testing</td>
</tr>
<tr>
<td></td>
<td>• Offer added discounts/promotions to incentivize sales through mobile</td>
</tr>
<tr>
<td>Fear of “wasting” data</td>
<td>• 95% of mobile subscriptions in LatAm are prepaid</td>
</tr>
<tr>
<td></td>
<td>• Merchant sponsored data</td>
</tr>
<tr>
<td></td>
<td>• Consumers don’t want to “waste” data on online shopping</td>
</tr>
<tr>
<td></td>
<td>• Be present on social media, where consumers spend most of their time</td>
</tr>
<tr>
<td>Inconvenience</td>
<td>• Extremely low conversion rates (1-2%) due to lack of tools to facilitate entering in payment information</td>
</tr>
<tr>
<td></td>
<td>• Incorporate card-on-file capability and integrate with digital wallets</td>
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</table>
Emerging Payment Technologies For Mobile
Payment innovation will drive m-commerce growth

Digital wallets

- Visa reports that Visa Checkout results in an 86% approval rate (globally) by providing enhanced security and convenience.

![Visa Checkout Logo]

Social media users

<table>
<thead>
<tr>
<th>Region</th>
<th>Twitter</th>
<th>Facebook</th>
<th>WhatsApp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>14</td>
<td>80</td>
<td>38</td>
</tr>
<tr>
<td>Mexico</td>
<td>8</td>
<td>61</td>
<td>32</td>
</tr>
<tr>
<td>Argentina</td>
<td>4</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

- Digital wallets that store payment information, such as Visa Checkout, dramatically improve mobile conversion
- They are also a key way to boost consumer confidence around security
- Latin Americas are voracious social media users and powering commerce through WhatsApp/Facebook/email will be become more common

Sources: Visa, El Universal, El Financiero, El Economista, Folha, Infobae, La Razón
Case study: Netshoes
The first online store globally to offer free access to its mobile site

What is Netshoes?

- Online clothing and sporting goods retailer, with annual sales of $500+ million
- 2009-2015 CAGR: 52%
- Mobile channel represented 46% of traffic on its website in 2015

% of web visits represented by mobile

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile Traffic</th>
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<tbody>
<tr>
<td>2014</td>
<td>10%</td>
</tr>
<tr>
<td>2015</td>
<td>46%</td>
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</table>

The problem: Factors limiting mobile conversion

- 70% of Brazilian cell phones are on a prepaid plan
- 120 million Brazilians do not have data at least one day per month
- Highly social: Brazil is the third market worldwide for Facebook and Instagram
- Brazilians don’t want to “waste” data on online shopping

The solution: Free web access

Netshoes collaborated with MUV Mobile, Brazilian mobile marketing company

- Negotiated with mobile carriers
- Launched free web access campaign
- Leveraged ‘Black Friday’
- Transferred the cost of data from the user to the merchant

Sources: MUV Mobile
Netshoes: The results

The success of offering free web access will spark a growing trend

% of mobile, visits to Netshoes.com

• **Impressive results**
  - Average time spent on mobile devices 80%
  - Number of transactions in the mobile channel 80%
  - Revenue in mobile channel 60%
  - Conversion rate 60%

• **Trends**
  - Free web access will become more common
  - Emergence of platforms to facilitate negotiation with telecoms
  - Growing competition will drive prices downward

Sources: MUV Mobile
Loyalty programs must also be innovative

Increased competition and increasing penetration of e-commerce makes generating loyalty more difficult than ever

A 2016 survey conducted by Nielsen demonstrates that:

- 44% of Latin American consumers belong to some loyalty program
- 46% of Latin American retailers offer a loyalty program
- Decent penetration of loyalty programs
- Consumers respond extremely well to promotions and discounts

A changing landscape

- Nielsen reports that in Latin America, millennials will replace baby boomers as the most important consumer group starting in 2018
- Millennials are more experience-oriented, less focused on material goods
- Access to digital goods and exclusive online content are considered valuable rewards
- Non-traditional partnerships providing access to music, video, travel experiences, educational experiences, etc. may be new reward areas to explore
- Personalization of loyalty rewards will be increasingly important
AI will improve the online and mobile shopping experience

Shoppers can expect a more personalized, relevant shopping experience that will boost sales

According to IDC, 50% of consumers globally already interact with AI and machine learning systems.

• The most sophisticated merchants globally are applying artificial intelligence and machine learning to:
  o Analyze consumer behavior;
  o Identify consumption patterns;
  o Provide customers with better solutions at the right time, with the right message and on the right device.

• Where is data collected?
  o Online sales
  o Customer service operations
  o When a loyalty program is used

In 2016, IBM partnered with GBM to create Cognitiva, machine learning company to be focused on Latin American markets and introduce IBM’s Watson tool.

Cognitiva will establish hubs in Argentina, Chile, Colombia Costa Rica and Mexico.
Merchants are using AI to deliver differentiated value props

AI opens up a whole new universe of experimentation for retailers. Getting it right will take trial and error and a willingness to adapt

<table>
<thead>
<tr>
<th>What will AI do in the retail industry in Latin America?</th>
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<tbody>
<tr>
<td>Transform the mobile channel</td>
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<tr>
<td>• Make products easier to find</td>
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<tr>
<td>• Show customer more relevant ads and promotions</td>
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<tr>
<td>• Make transactions more agile, less clunky</td>
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<tr>
<td>Improve in-store sales</td>
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<tr>
<td>• Having done better and more targeted research online</td>
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<tr>
<td>• Consumers know exactly what they want when they arrive</td>
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<tr>
<td>• In stores</td>
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<tr>
<td>Development of niche online</td>
</tr>
<tr>
<td>• Gift concierge</td>
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<tr>
<td>• Personal shopper</td>
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<tr>
<td>• Better online customer service</td>
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<tr>
<td>interactive shopping experiences</td>
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<tr>
<td>Out of stock management</td>
</tr>
<tr>
<td>• Monitor macro consumption trends, weather,</td>
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<tr>
<td>• Prices, etc. to help optimize inventory levels</td>
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Challenge: Profiling in-store customers

Profiling brick and mortar customers is essential to leveraging AI and machine learning.

- While AI can collect data from users online, there is a lack of mechanisms to do so in stores.
- Merchants cannot collect data from in-store shoppers who are not registered with a loyalty program or signed into an online account.
- “Every time you fail to connect a purchase to a unique user account, you lose money.” – participant in the 2017 National Retail Federation.

Merchants need new ways to capture and profile brick and mortar purchases. Existing strategies include the following, but innovation is needed:

- Loyalty cards
- Co-branded credit cards
- Encouraging consumers to use the retailer’s mobile app while in the stores

Membership retailers have a distinct advantage in profiling in-store shoppers, because they have to provide their membership number for each and every purchase.
Final thoughts
Non-traditional competitors are offering cards with non-traditional partnerships

01 Latin American consumers are becoming more sophisticated and demanding.

02 Technology enables consumers to educate themselves on a purchase beforehand.

03 Despite the growth of e-commerce, brick and mortar still represents the bulk of all retail sales (90%+).

04 Mobile conversion is still very low and significant barriers still exist. Should conversion be the goal?

05 Loyalty must be increasingly personalized, modern, and solution-oriented.

06 Merchants must make investments in AI to stay competitive. Leveraging big data to better market to consumers is a megatrend sweeping the region.
About AMI

AMI is Latin America’s leading independent market intelligence consultancy

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AMI consultants have conducted close to 2,000 client engagements in Latin America since 1993

Our consultants have worked in every market in Latin America

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