Opportunities in Brazil’s E-Commerce market

*Why and how to go to market*
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About AMI
AMI is the leading independent Market Intelligence 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 payments industry

- Payment gateways
- Small business and corporate credit cards
- NFC
- Digital wallet

- Correspondent banking
- Fleet cards
- Mobile payments
- Credit lines

Map of the world with Latin America highlighted.
Setting the stage: Market size, segmentation and growth
The state of e-commerce in Brazil
#10 in the world for e-commerce sales, Brazil towers over other LatAm markets

Brazilian e-commerce data, 2015

- Market size*: $23 billion
- E-shoppers: 39 million
- Online merchants: 550,000

Average ticket of $111
Mobile penetration at 14%

Global comparison, e-commerce sales, USD bn, 2015

<table>
<thead>
<tr>
<th>Latin America</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7</td>
<td>$563</td>
</tr>
<tr>
<td>$5</td>
<td>$349</td>
</tr>
<tr>
<td>$5</td>
<td>$94</td>
</tr>
<tr>
<td>$2</td>
<td>$79</td>
</tr>
</tbody>
</table>

*Comprises all segments including retail, travel, digital goods and services, and all payment methods

Sources: eMarketer, E-bit, Bigdata Corp, AMI analysis
Retail takes 52% of all e-commerce in Brazil

Compared to 2014, high ticket items gained share, while cheaper goods lost momentum

E-commerce market by vertical, USD bn, 2015

Retail e-commerce sales by category, USD bn, 2015

Compared to 2014

Fashion and cosmetics

Mobile phones and accessories

Home appliances

Sources: eMarketer, E-bit, NextCommerce, AMI analysis
An impressive growth story – Brazil is resilient
Even in the midst of economic crisis, e-commerce is growing at surprising rates

Brazilian e-commerce market, 2011-2016

2011-2016, R$ and USD billions

Brazil is currently experiencing its worst recession since the 1930s

The Real has lost 50% of its value against the dollar since 2011

Despite a collapsing economy, e-commerce grew 20% in 2015 and is forecasted to grow 13% in 2016.

Sources: eMarketer, E-bit, NextCommerce, IMF, Federal Reserve, AMI analysis
E-commerce growth is slowing, but mobile is set to take off

M-commerce is gaining traction and has years of robust growth ahead

The average ticket grew in 2015, as the number of transactions nearly stagnated. This indicates less participation by SES C and B as a result of economic crisis.

E-commerce growth is slowing, as a result of overall market maturation and a difficult economic environment.

But the mobile channel is growing energetically, powered by free browsing provided by retailers, the expansion of the app economy and growing popularity of on-demand services.

Brazilian E-commerce growth rates, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth of e-commerce retail sales</th>
<th>Growth of number of e-commerce retail transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>34%</td>
<td>26%</td>
</tr>
<tr>
<td>2012</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>2013</td>
<td>32%</td>
<td>28%</td>
</tr>
<tr>
<td>2014</td>
<td>24%</td>
<td>17%</td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>3%</td>
</tr>
</tbody>
</table>

E-retail sales stats 2014-2015 growth

- Number of e-shoppers: 3%
- Number of transactions: 3%
- Total sales: 15%
- Value of average ticket: 12%
- Sales via mobile: 88%

Sources: E-bit
So what? Developing an e-commerce strategy for Brazil

Brazil will see sustained e-commerce growth of 10-15% growth in the medium term. To be extra competitive, merchants need a honed mobile strategy. How?

2016 will be Brazil’s worst year in decades. Growth will resume in 2018

Even so, merchants can expect e-commerce growth of 10-15% in 2016 and 15-17% in 2017

Mobile will grow in the high double digits for several years to come

International merchants wary about Brazil’s economic situation should use the next 24 months to gear up for a Brazil market entry in late 2017

Merchants entering Brazil in the short term must have a targeted strategy to drive and capture mobile sales

Now is a particularly good time for mobile-oriented digital goods merchants to begin playing in Brazil
Brazil’s local payment system
How to go to market? Cross-border vs local

Cross-border is more than having a Brazilian website. It means plugging into the local payment system.

What does cross-border mean for payments?

- From a payments perspective, a “cross-border” transaction is one that is captured by an international acquirer, even if it is transacted in a local currency, on a localized website.
- A transaction is considered “local” when it is processed by a local acquirer.

### Global acquirers

- Chase Paymentech
- First Data
- Citi
- Worldpay
- Vantiv
- Barclays

### Brazilian acquirers

- Rede
- Getnet
- Stone

- Most international merchants do not have a Brazil-specific payments strategy. They process transactions from Brazil cross-border through international acquirers.

### Cross-border merchants

- Victoria’s Secret
- eBay
- Amazon
- TripAdvisor
- Best Buy
- Macy’s
- Booking.com

[AMI Americas Market Intelligence]
The problem: Cross-border is only the tip of the iceberg
A cross-border approach restricts merchants to only 17% of the total market

A cross-border approach is not ideal for several reasons:

1. All purchases made in a foreign currency are subject to a 6.38% financial operations tax.
2. Only 20% of Brazilian credit cards are enabled for international purchases.
3. Non-card payments make up ~25% of all e-commerce sales and are only available through Brazilian banks.
4. ~60% of e-commerce sales are purchased through an installment plan, made available only by Brazilian acquirers.

Cross-border sales represent only 17% of all e-commerce in Brazil. Without a local processing strategy, merchants forfeit access to $19 bn addressable market.

Domestic vs cross-border e-commerce sales in Brazil
2015, USD billions

Sources: E-bit, interviews, AMI analysis
Brazil’s e-commerce payment landscape
Local payment methods represent 78% of e-commerce sales, accessible only through local acquirers

### Active credit cards in Brazil, 2015, millions

- Domestic use only: 68
- Enabled for international use: 17

### Brazilian e-commerce sales by payment type, 2015

- International credit card: 2% (Enabled for international use)
- Domestic credit card: 49% (Enabled for international use)
- Boleto bancario: 22% (Domestic use only)
- Online bank transfer: 23%
- Debit card: 4%

### What is boleto bancario?

- A cash-based invoice issued by banks at the request of a merchant
- Customers select boleto bancario at check out, print out a voucher, and pay in cash at millions of locations throughout Brazil, i.e. banks, supermarkets, lottery agents, etc.

### Why do international merchants need to think about boleto?

- Boleto makes up 23% of all e-commerce spend and is especially popular in high-ticket purchases
- 50 million Brazilians do not have a bank account or any electronic payment method.

Sources: Pagamento.me, Adyen, allpago, The Paypers, interviews, AMI analysis
Top international merchants with a local strategy
Both international retailers and digital goods merchants leverage local payment methods.
Parcelamento makes Brazil go round

Offering *parcelamento* places a financial burden on merchants but can significantly increase revenue

**Parcelamento**, or “interest free” installment plans, are a cornerstone of the Brazilian shopping experience

**How do they work?**

- Acquirers make the option available to merchants for varying fees
- Merchants make the option available to customers at the point of sale
- Customers can choose to finance their purchase from three up to 12 installments, usually “interest free”
- Merchants incorporate the financial cost of installments into the final price of the product
- 12 month interest-free installment plans are available on goods priced as low at R$150, or 40 USD, for every kind of product

**Why should international merchants care?**

In 2015, 58% of e-commerce sales were made using an installment plan, equal to $13 bn.

*Sources: E-bit*
Payment processing: Key takeaways

Brazil is too competitive a market for merchants not to take seriously via a local strategy

Merchants who use a cross-border strategy in Brazil are only scratching the surface of their sales potential.

In contrast, processing locally, merchants can offer local payment methods, which grants them access to an additional $19 bn in addressable market.

To process payments locally, merchants must work with local acquirers.

Brazilian consumers expect to be able to buy in installments. To be competitive, merchants—especially retailers—must offer them.

To generate a sound local payments strategy, merchants need to understand the local banking and acquiring landscape, payment methods, and peculiarities of the Brazilian market.
Going local: How is it done?
Doing business in Brazil: Not for the faint of heart

Many merchants are deterred from Brazil because of the high cost and risk involved.

In many cases, to process payments locally, merchants must open a legal entity.

Brazil is a difficult and expensive place to do business. The notorious *Custo brasileiro* entails:

- Cumbersome regulation and endless red tape
- High taxes and a supremely complicated tax code
- Extreme difficulty firing personnel
- Difficulty repatriating funds
- Corruption

<p>| Brazil’s rank on the 2015 World Bank’s Ease of Doing Business Index, out of 185 countries |
|---------------------------------|----------------|----------------|--------------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th>Overall rank</th>
<th>Starting a business</th>
<th>Paying taxes</th>
<th>Registering property</th>
<th>Trading across borders</th>
</tr>
</thead>
<tbody>
<tr>
<td>116</td>
<td>174</td>
<td>178</td>
<td>130</td>
<td>145</td>
</tr>
</tbody>
</table>

Sources: World Bank
**Going local is no easy task, but merchants have options**

Due diligence into e-commerce enablers and their capabilities will help clarify the decision of how to go local.

Opening a full local entity is not always required, especially for digital goods merchants who do not need a physical footprint.

Various technology companies enable merchants to sell from afar without a full legal entity.

E-commerce enablers – gateways and payment service providers – depending on their model, provide a long list of services to help merchants sell into Brazil. These include:

- General advisory services on how to set up local payments
- Introductions to local attorneys and accountants
- Opening and maintenance of a non-resident bank account
- Official representation of the merchant in Brazil in lieu of a legal entity
- Wire transfers out of Brazil
- Customer support for the merchant’s customers in Brazil
- Support for payments in other LatAm and global markets
Where do I get more information?
Optimizing E-commerce payments in Brazil
A practical guide for international merchants on how and why to go local

AMI has published a comprehensive report on developing an e-commerce payments strategy in Brazil, including:

### Brazil’s e-commerce market

**Brazil’s banking system**
- Top Brazilian banks by revenue
- Acquirer market share
- Card network market share
- E-commerce breakdown by payment method
- Detailed description of local payment methods, including local credit card schemes, boleto bancario, and wallets
- Detailed description of installments

**E-commerce enabler directory**
Detailed profile of 16 payment gateways and payment service providers, including:
- Number of merchants
- Number of transactions processed per month
- 2015 growth
- Years of experience in Brazil and ownership
- Coverage of other LatAm markets
- Acquirers and all payment methods supported
- Complete service offering
- Fraud and risk management services
- Tools and strategies to maximize approval rate
- Merchant specialization and noteworthy clients
- Level of experience with international merchants
- Special services for international merchants
- Capabilities regarding the need to open a legal entity
- Number of employees
- Customer service and English language capabilities
- Fee structure
- Competitive advantage
- Types of merchants for which it is best suited
- Sales team contact information

**Models for market entry**
- When and why to open a local entity
- Description of alternative market entry models
- List of payment processors supporting each model

**Merchant best practices**
- AMI analysis of Brazilian e-commerce enablers by merchant type and size
- Merchant best practices when choosing a provider

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About AMI

AMI is Latin America’s leading independent market intelligence consultancy

Our founding partners helped pioneer the field of market intelligence in Latin America

Our consultants have advised over ½ of the region’s 100 largest strategic investors over a span of two decades

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

Our holistic approach to market intelligence is unique. We combine market research, competitive intelligence, political analysis and economic forecasting in our studies. Few others do the same in Latin America

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