Optimizing for the Mobile Channel in Latin America: Staying Competitive in a Shifting Payments Landscape
AMI is the leading independent market intelligence provider for 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>
</tr>
</tbody>
</table>

AMI Market Intelligence
The Growing Role of Convenience Stores in E-commerce
E-commerce Growth: Full Speed Ahead

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

**Growth, CAGR 2015-2019**

- E-commerce: Brazil 15%, Mexico 18%, Colombia 20%, Argentina 30%, Chile 15%
- M-commerce: Brazil 30%, Mexico 38%, Colombia 41%, Argentina 55%, Chile 40%

**E-commerce by country, 2017, billions, USD**

- Brazil: $25
- Mexico: $9
- Colombia: $6
- Argentina: $5
- Chile: $4
- Peru: $4

Total e-commerce in Latin America = $59 bn

Sources: eMarketer, Gestion, El Financiero, La Nación, interviews, AMI analysis
### Cash Maintains a Strong Presence in E-commerce

Convenience stores play a crucial role in e-commerce in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Cash payment penetration of all e-commerce sales</th>
<th>Cash payment providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>25%</td>
<td><img src="#" alt="SafetyPay" />, <img src="#" alt="Boleto Bancário" /></td>
</tr>
<tr>
<td>Mexico</td>
<td>22%</td>
<td><img src="#" alt="SafetyPay" />, <img src="#" alt="OXXO" />, <img src="#" alt="7Eleven" /></td>
</tr>
<tr>
<td>Colombia</td>
<td>34%</td>
<td><img src="#" alt="SafetyPay" />, <img src="#" alt="efecty" />, <img src="#" alt="Via" />, <img src="#" alt="Baloto" /></td>
</tr>
<tr>
<td>Peru</td>
<td>33%</td>
<td><img src="#" alt="SafetyPay" />, <img src="#" alt="Pago Efectivo" /></td>
</tr>
<tr>
<td>Argentina</td>
<td>40%</td>
<td><img src="#" alt="PagoEfectivo" />, <img src="#" alt="rapipago" />, <img src="#" alt="Cobro Express" /></td>
</tr>
</tbody>
</table>

- Cash payments are popular in e-commerce, even among banked shoppers
- They are a successful way to bring new users to e-commerce and then convert them to card payments
- **There is ample room to develop new products, including prepaid mobile wallets and cards**

*Sources: E-bit, PayU, AMPICI, El Tiempo, interviews*
Case Study: Cash E-commerce Payments Coming to the Forefront

A stellar example of embracing cash to engage new users and grow e-commerce overall

PagoEfectivo, Peru’s newest eCommerce cash payment provider, announced it expects to grow 45% in 2016, driven by new integrations with top eCommerce merchants, including OferTop, Cuponatic, EstiloMio, Falabella, LC Peru, Linio, Platanitos, Ripley, and Wong. These are all among Peru’s top 20 online merchants.

In September 2015, PagoEfectivo launched its Tarjeta Visa PagoEfectivo, the first prepaid card in the market designed specifically for eCommerce.

PagoEfectivo also recently integrated with EBANX, a payment service provider that allows international merchants to sell locally into Peru without setting up a local entity.

A large chunk of PagoEfectivo’s users are banked customers who are afraid to use their credit cards online.

Merchants report that integrating PagoEfectivo and other cash solutions gives them access to a new customer group. Merchants then partner with banks and card networks to convert these customers to card payments.
Mobile Will Grow in Importance as Smartphone Penetration Increases

Convenience stores will have a growing role to play as more consumers join the online channel

**Financial inclusion in Latin America**, millions of people, ages 15-65, 2017

<table>
<thead>
<tr>
<th></th>
<th>Smartphone users</th>
<th>Feature phone users</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card holders</td>
<td>104</td>
<td>9</td>
<td>113 / 123</td>
</tr>
<tr>
<td>Non-credit card holders</td>
<td>117</td>
<td>141</td>
<td>311 / 170</td>
</tr>
<tr>
<td>Totals</td>
<td>209 / 232</td>
<td>173 / 149</td>
<td></td>
</tr>
</tbody>
</table>

**Implications**

- The fastest growing customer group is smartphone users who do not have a credit card
- Demand for e-commerce will grow among millennials and others who do not have an electronic payment methods

Sources: The World Bank, eMarketer, MasterCard, GSMA, AMI analysis
Local Payment Methods Are Becoming More Accessible

Technology is enabling the underbanked to access global merchants for the first time, resulting in increased cash-based payments

- Regional and global payment service providers are innovating to enable international merchants to have access to local payment methods
- The result: Consumers without an international credit card can buy online for the first time
- Highly concentrated among Silicon Valley tech companies
- For these PSPs, cash-based payments make up 30%+ of all e-commerce transactions

The growth of this model generates incremental opportunity for convenience stores powering e-commerce payments
Technology Companies Embrace Cash Payments

Convenience stores should be prepared for increasing cash payment volume

- Tech companies who want to grow in emerging markets are becoming wise to local payment methods, especially cash
- Many are reconfiguring their payment model to enable prepaid, cash payments
- Convenience stores will experience an increase in low-ticket cash payments for e-commerce
- These digital giants are seeking to penetrate the underbanked and are **looking for local partners to enable e-commerce for all consumers.**

Being an ally to tech giants in the endeavor to make e-commerce more accessible will open doors to new opportunities
Mobile wallets have not yet reached scale
Despite heaps of investment, MNOs and banks haven’t provided the right incentive to encourage adoption

Mobile money penetration, year end 2015

- 460mn LatAm adult population
- 17mn Registered MM users
- 6mn Active MM users*
- 4% Total MM penetration

- Despite heavy investment by the region’s biggest players, mobile money has still not reached scale after 8+ years in operation.

Scaled services, year end 2015

- Only 3 out of 37 services have achieved 1 million+ users
- Most MM services have <5% penetration of total mobile subscriptions.
- MM is most successful in small countries such as El Salvador and Honduras
- MM has gained almost zero traction in large economies Brazil and Mexico

Sources: GSMA, AMI analysis
Region-wide, Mobile Wallets Suffer the Same Pitfalls
Despite heaps of investment, MNOs and banks haven’t provided the right incentives to encourage adoption

Most mobile money platforms fail because:

- They are created for the unbanked who are poor, mistrust technology and banks
- They do not provide proper incentives to motivate usage or provide a better experience than cash
- There is no mechanism to inject funds into the system and no incentive to keep it there
- They are built for features phones thus not suitable for young city dwellers using smartphones
Smartphone-based P2P Is Finally Arriving in The Region

App-based mobile wallets are much more likely to succeed

**Yape by BCP in Peru**

- Closed-loop network
- Enables bank-account funded P2P payments
- Will enable merchant QR code payments
- To launch 2017

**Nequi by Bancolombia in Colombia**

- Tool for money management including saving and budgeting
- Branding itself as Colombia’s new digital bank
- Enables bank-account funded P2P payments, merchant payments and cash out at ATMs
### Flurry of Investment in Contactless but Growth Is Stunted

Banks and payment companies are eager to win in this space. Convenience stores are in a privileged position to encourage adoption.

#### Recent and upcoming launches

<table>
<thead>
<tr>
<th>Product</th>
<th>Country</th>
<th>Launch date</th>
<th>Involved entities</th>
<th>How it works</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billetera Móvil</td>
<td>Colombia</td>
<td>Q3 2015</td>
<td>Bancolombia, MasterCard</td>
<td>Via QR code</td>
</tr>
<tr>
<td>Aval Pay</td>
<td>Colombia</td>
<td>Q3 2015</td>
<td>Grupo Aval, Credibanco, YellowPepper</td>
<td>Via QR code</td>
</tr>
<tr>
<td><strong>SMART WALLET</strong></td>
<td>Colombia</td>
<td>Q4 2015</td>
<td>Banco Davivienda, Citibank, Credibanco, YellowPepper</td>
<td>Six digit one-time passcodes</td>
</tr>
<tr>
<td>Yepex Wallet</td>
<td>Mexico</td>
<td>2015</td>
<td>YellowPepper, eGlobal, Banamex</td>
<td>NFC, BLE, QR codes, six digit one-time passcodes</td>
</tr>
<tr>
<td><strong>BBVA Wallet</strong></td>
<td>Mexico</td>
<td>Q2 2015</td>
<td>BBVA Bancomer</td>
<td>NFC, Host Card Simulation</td>
</tr>
<tr>
<td>PayClub</td>
<td>Ecuador</td>
<td>Q4 2015</td>
<td>Diners Club of Ecuador, Banco Pichincha, YellowPepper</td>
<td>Six digit one-time passcodes</td>
</tr>
<tr>
<td>Samsung Pay</td>
<td>Mexico, Colombia</td>
<td>2016</td>
<td>Samsung, Loopay</td>
<td>Magnetic Secure Transmission</td>
</tr>
</tbody>
</table>

Despite heavy investment, this product is still nascent. Products in the market don’t offer a better experience than credit cards or cash.

Are convenience stores the missing link?

Sources: Electronic Payments International
How Can Convenience Stores Add Value to Players in the Payment Value Chain?

The particular needs of each player speak to opportunities for convenience stores

**Consumers need:**
- Frictionless payments at the point of sale
- Security and convenience
- Incentives to adopt payment technology

**E-commerce merchants need:**
- Partners to guarantee a pleasant payment experience for customers
- Tools to increase conversion in cash-based e-commerce
- Support in migrating customers to an electronic payment method

**Mobile wallet operators need:**
- Partners to guarantee a pleasant payment experience for customers
- Help providing the correct incentives to encourage adoption
As Volume Increases, Store Chains Must Be Savvy Competitors

Increasing in-store e-commerce purchases creates an opportunity to differentiate from the competition.

<table>
<thead>
<tr>
<th>Payment product</th>
<th>Occurring trend</th>
<th>Time frame</th>
</tr>
</thead>
</table>
| • Cash-based e-commerce payments | • VOLUME will increase over next three years  
• COMPETITION for cash-paying customers will increase | • Immediate                 |

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Provide a seamless, easy payment experience:</td>
</tr>
</tbody>
</table>
| • Mobile bar codes  
• QR codes  
• Exclusive lines | 02 Generate loyalty |
| • Offer in-store discounts, promotions, giveaways when making payments | 03 Partner with e-commerce merchants to compete with other payment methods and generate loyalty, especially high-growth tech companies |
| • Offer discounts at the time of purchase  
• Bundle other products/services like mobile topups/data |
Offering a Mobile Wallet Directly Solves Some of the Pitfalls

Convenience stores are in a unique position to offer both digital and physical goods in high demand

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### OPPORTUNITIES

**01**

Be a reliable **cash-in partner** to merchants and mobile wallet operators:

- Offer discounts or product bundling to customers when conducting a cash-in transaction

**02**

**BE THE MOBILE WALLET** and create incentives for usage

- Co-brand with wallet operators to create a personal relationship with consumers
- Leverage the sale of digital products through wallets: mobile topups, data, bill pay,
- Offer discounts at the time of purchase
- Bundle other products/services like mobile topups/data
- Drive business in stores through targeted advertising

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<table>
<thead>
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<th>Payment product</th>
<th>Occurring trend</th>
<th>Time frame</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stored value mobile wallets</strong></td>
<td>Currently not scaling. Not popular among consumers</td>
<td>Products are already available in the market</td>
</tr>
<tr>
<td></td>
<td>• Mega popular e-commerce companies i.e. Facebook, Netflix will likely be the ones to offer this solution and make it scale</td>
<td>Rapid growth will likely occur in 1-3 years</td>
</tr>
</tbody>
</table>

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*AMI Market Intelligence*
### Barriers Still Remain for Contactless Payments

Focusing efforts on competitive advantage and loyalty may be a wiser allocation of resources.

<table>
<thead>
<tr>
<th>Payment product</th>
<th>Occurring trend</th>
<th>Time frame</th>
</tr>
</thead>
</table>
| • Contactless in-store payments | • Banks and others are launching various contactless wallets  
• Most are not growing  
• Massive education and incentives are required | • Products are already available in the market  
• Growth may occur in 1-3 years |

### Opportunities / Risks

<table>
<thead>
<tr>
<th>01</th>
<th>02</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase sales volume by cutting down lines and improving security</td>
<td>Be a partner in offering a superior experience to cash</td>
<td>Effort by banks</td>
</tr>
</tbody>
</table>

- **01**  
  - RISK: Investment may not pay off immediately

- **02**  
  - Consumers need to learn new behavior and incentives to adopt mobile payments.  
  - Offer discounts/product bundling. Target millennials

- **03**  
  - Banks are desperate to win in contactless payments and they need the right partners to achieve this
Final Thoughts

Convenience stores play a vital role in payments in Latin America

Offering both physical and digital goods puts stores in a unique position to offer exciting loyalty programs

Merchants and mobile wallet players need convenience stores to be the face to consumers. Leverage this preferential position

Co-branding mobile wallets provides the opportunity to communicate directly with customers and collect their information = opportunity to generate loyalty

Contactless payments won’t scale without the right incentives.

Competition for payment collection will increase among convenience stores, so competitive differentiators are key
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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