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# E-commerce in Latin America: Maximising equitable growth and the potential of retail post-Covid-19

Policy Paper

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## Executive Summary

Despite the pandemic-led growth, e-commerce penetration rates remain below average in Latin America, and the region remains largely untapped. According to the United Nations Conference on Trade and Development (UNCTAD) B2C e-commerce index, apart from Africa, Latin America and the Caribbean (LAC), has the lowest regional average score in the Business-to-Consumer (B2C) e-commerce index and has a lower share of global online shoppers than its emerging peers.<sup>1</sup>

The growth of e-commerce in response to the social disruptions caused by the Covid-19 pandemic has shown that e-commerce can play a crucial role in delivering a wide arrange of economy-wide benefits. This is particularly relevant in the context of Latin America's economic recovery, considering it was hit harder than any other region in the world.<sup>2</sup> Nevertheless, with lockdowns and other social distancing rules being lifted, current estimates suggest that the pace of growth will slow down.<sup>3</sup>

This paper aims to contribute to the debate on how Latin American countries can better harness the benefits of e-commerce, using it as a tool to drive growth, competition, innovation and expand employment. We have reviewed the evolution of the retail sector, the current trends, the different players, the impact Covid-19 has had on consumer behaviour, as well as the role, opportunities, and remaining challenges that governments and policymakers will need to address. The concluding chapter analyses policy issues governments and policymakers will need to consider to improve e-commerce penetration in the region as it charts its journey to post-Covid 19 economic recovery.

### Key Findings

The main findings of our research are summarised below.

#### Retail landscape

- Latin America has tremendous potential for online retail sales. The growth and penetration rates vary significantly between different countries within the region. There are a few homegrown online marketplaces, with the leader being Mercado Libre.<sup>4</sup> New entrants have entered the region in a variety of separate ways, such as overseas entry, entry via acquisition, new Start Ups and entry and expansion are also occurring in adjacent /downstream services.
- To address the weak internal capacities and lack of financial resources considering the high initial investment costs involved in developing electronic commerce capabilities, micro, small and medium-sized enterprises (SMEs) tend to leverage existing online marketplaces to capitalise on the benefits of digitalisation.<sup>5</sup>
- With lockdowns and other social distancing rules being lifted, it is expected that e-commerce growth rates will decline, with temporary or infrequent shoppers gradually returning to pre-covid consumption patterns. Behaviour changes are not linear, and the sustainability of e-commerce growth will depend on the ability of retailers – from brick-and-mortar stores to purely internet-based businesses – to meet consumers' ever-evolving preferences, such as investing in an omni-channel strategy, which blends physical and online channels.

#### Economy-wide impact

- Latin American economies are suffering from poverty and inequality, high unemployment and low investment and productivity. There is also a rise in the informal economy, which consists

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<sup>1</sup> UNCTAD. 'The UNCTAD B2C E-commerce Index 2020. Spotlight on Latin America and the Carribeans'. 2020.

<sup>2</sup> OECD. 'Development in Transition: Dialogues to chart new paths for Latin America and the Caribbean'.

<sup>3</sup> Additionally, while e-commerce has increased in the region, shopping malls and brick-and-mortar stores will still continue to play an important role as they provide proximity to the customer, which can increase engagement. For example, shopping malls in the region are prime destinations for families of all income levels.

<sup>4</sup> Statista. 'Leading online marketplaces in Latin America as of April 2021, based on number of monthly visits'. 2021.

<sup>5</sup> OECD. 'SMEs in the online platform economy'. 2021.

of activities that have market value but are not formally registered.<sup>6</sup> Approximately 60% of workers are informal, and most of them belong to disadvantaged socioeconomic groups.<sup>7</sup> Fostering competition, reducing barriers to entry for companies, deepening international trade, and regional integration are some of the areas where significant efforts are required.<sup>8</sup>

- The growth of online retail during the pandemic offers governments and policymakers the opportunity to harness e-commerce as a tool to enhance financial inclusion, boost productivity, competition, expand employment opportunities, and spark innovation.

### **Policy and Regulatory Landscape**

- To sustain Latin America's e-commerce growth post-Covid-19, some major challenges will need to be addressed, such as poor internet connectivity, logistics, payments support to boost e-commerce uptake amongst SMEs.
- In the same vein, governments will need to approach the regulation of the retail sector with caution. In Europe and the United States, regulatory agencies are focusing their attention on certain large companies, seeking to introduce ex-ante regulations. However, the conditions for the development of the sector in Latin America are different. The heterogeneity that exists within and among our countries makes it necessary to be very careful when analysing which regulations are appropriate for local contexts. For instance, the region has been and continues to be the birthplace of leading e-commerce companies, which demonstrates Latin America's uniqueness in this respect.
- Regulations seeking to regulate the use of digital tools and solutions need to be carefully designed to prevent curbing the growth of e-commerce.

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<sup>6</sup> [IMF. Five Things to Know about the Informal Economy.”, 2021.](#)

<sup>7</sup> [ECLAC. “Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E - commerce and Digital Trade.”, 2021.](#)

<sup>8</sup> [Scioteca. “Instituciones para la productividad Hacia un mejor entorno empresarial.” 2018.](#)

# 1. Introduction

The year 2020 was marked by the Covid-19 outbreak – an unprecedented global challenge that forced upon us social distancing measures and other restrictions. To overcome the social and economic disruptions caused by the pandemic and the suspension of many physical operations, businesses across all industry sectors had to move online.

Retail is no exception to this trend; as part of this accelerated digitalisation, retailers ramped up their e-commerce strategies to serve consumers, ‘accelerating existing trends in e-commerce adoption’.<sup>9</sup> In Latin America – one of the fastest-growing regions – retail e-commerce expanded by 37% in 2020.<sup>10</sup>

Despite this, e-commerce penetration levels remain marginal in the continent compared to other regions. For example, penetration of e-commerce in Brazil rose from 7.5% in 2019 to 12.5% in 2020.

The disruption caused by the pandemic has also accentuated the gaps that remain and the many structural problems that Latin America will need to face before fully realising the potential of e-commerce.<sup>11</sup> Some of those challenges include poor internet connectivity, logistics hurdles, use and availability of e-payment services and support for businesses to develop successful e-commerce strategies. There are also some policy challenges including a range of competition issues in the retail sector. As the retail industry continues to evolve, policy responses should consider the nature of the changes, namely, examining the key players, the new entrants and the changing consumer and business behaviour, particularly with Covid-19. This is particularly important for Latin America, given the current wave of regulatory investigations sweeping Europe and the US involving certain large companies and the e-commerce sector.

## 2. E-commerce in Latin America

The World Trade Organisation (WTO) has defined e-commerce as ‘production, distribution, marketing, sale or delivery of goods and services by electronic means’.<sup>12</sup> Similarly, the Organisation for Economic Co-operation and Development (OECD) defines it as ‘the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders.’<sup>13</sup> Hence, e-commerce services play a key role in ensuring the smooth functioning of the supply chain by facilitating transactions and product delivery.

Latin America is experiencing a rapid surge in online retail spending, presenting untapped opportunities for business and consumers. The Covid-19 pandemic has forced Latin Americans to stay at home and shop online resulting in more retail businesses pivoting to online sales.

Until the pandemic, online retail was still in the early stages of consumer adoption. But in 2020, it was estimated that 38 million consumers in Latin America were first-time online buyers. In 2021, the total number of buyers who shopped online is expected to rise to 248.7 million.<sup>14</sup>

Companies of all sizes, including hundreds of SMEs were able to continue with their business operations giving consumers the option to shop in stores or online with real-time access to digital price comparison tools, fuelling competition. This section explores the e-commerce trends during the height of the pandemic in Latin America, the key regional e-commerce players including those that are entering into the region, as well as the future of e-commerce post-Covid-19.

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<sup>9</sup> IDB. “Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.”, 2021.

<sup>10</sup> Oxford Business Group. “How Covid-19 triggered a Latin American e-commerce boom.”, 2021.

<sup>11</sup> BID. “Expansión de herramientas financieras digitales para impulsar el comercio electrónico de las MiPyMEs de América Latina.”, 2021.

<sup>12</sup> WTO. “Electronic Commerce.”, 2021.

<sup>13</sup> OECD Statistics Directorate. “Glossary of Statistical Terms - Electronic Commerce.”, 2020.

<sup>14</sup> Emarketer. “Latin America Ecommerce Forecast 2021”.



## 2.1 Key Trends

While e-commerce remains a small part of the economy in Latin America, its recent growth shows that Latin America has tremendous potential for online shopping. Research shows that on a national level, Brazil and Mexico compete for the spotlight, accounting for 31% and 28% of the Latin American e-commerce sales in value, respectively. However, other economies such as Argentina, Peru, Chile and Colombia have seen significant growth during the pandemic.<sup>15</sup>

The reason for this current growth is changes to consumer and business behaviour caused by the pandemic. We describe below key trends in online retail activity recorded during the pandemic.

- **New customers purchasing online due to the pandemic.** In Brazil, a survey found that the number of **new online shoppers in Brazil** grew by more than **two million** in the second half of 2020.<sup>16</sup> Another survey conducted by the CGI has shown that 66% of internet users bought products and services online during the Covid-19 outbreak compared to 44% in 2018 (CGI, 2020). That meant that e-commerce shares of retail sales went from 6% before 2020 to 11% at the peak of the pandemic.<sup>17</sup> In Mexico during 2020, more than one million shoppers purchased goods online in just nine months. The growth came in part from a high proportion of new buyers, who began to use e-commerce during the pandemic.<sup>18</sup>
- **Existing customers responded to the pandemic by shopping more frequently and spending more online.** According to a survey fielded by Kantar in Argentina during March 2020, 44% of respondents said they were buying, or planned to buy, more items online to avoid going to a physical store during the pandemic.<sup>19</sup> Data collected by the Mexican Association of Online Sales (Asociación Mexicana de Venta Online (AMVO)) also shows that people were buying online to avoid leaving their home in fear of the pandemic (55%) and avoiding congregating in physical stores (40%).<sup>20</sup> In Colombia, during Covid-19, the growth in e-commerce came from people who already shopped via this channel, but there was also a high number of new users.<sup>21</sup>
- **Change in the type of products purchased online.** The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) reports that between the first and second quarters of 2020, internet traffic in e-commerce websites increased 157% in total, with personal hygiene products being a key driver.<sup>22</sup> In Argentina, 87% of internet users aged 18 to 65 were buying, or planned to buy, more household cleaning and personal hygiene items. In Brazil, the Regional Center of Studies on the Development of Information Society (Cetic.br) at the Brazilian Network Information Center (NIC.br) reported that, during the pandemic, a greater proportion of internet users were buying essential products such as food and beverages, cosmetics and medicines.<sup>23</sup> In Mexico, social distancing measures and travelling restrictions hit the tourism industry, which used to account for 28% of total e-commerce value pre-Covid-19. On the other hand, the pandemic-led growth benefited other product categories, particularly homeware and grocery goods.<sup>24</sup>

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<sup>15</sup> [Oxford Business Group. "How Covid-19 triggered a Latin American e-commerce boom.", 2021.](#)

<sup>16</sup> [Kantar. "Regional highlights.", 2021.](#)

<sup>17</sup> [Mastercard. "Recovery Insights: Mastercard Recovery Insights: E-commerce a Covid Lifeline for Retailers with Additional \\$900 Billion Spent Online Globally.", 2021.](#)

<sup>18</sup> [Kantar. "More than 7 million LATAM shoppers bought FMCG via Ecommerce.", 2021.](#)

<sup>19</sup> [Emarketer. "COVID-19's Impact on Businesses and Consumers in Latin America.", 2020.](#)

<sup>20</sup> [Amvo. "Reporte 4.0 impacto Covid-19 en Venta online Mexico", 2021.](#)

<sup>21</sup> [Kantar. "More than 7 million LATAM shoppers bought FMCG via Ecommerce.", 2021.](#)

<sup>22</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E - commerce and Digital Trade.", 2021.](#)

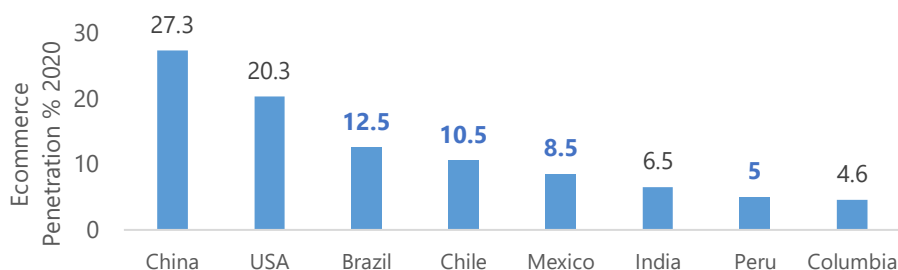
<sup>23</sup> [UNCTAD. "COVID-19 has changed online shopping forever, survey shows.", 2020.](#)

<sup>24</sup> [Amvo. "Reporte 4.0 impacto Covid-19 en Venta online Mexico".](#)

## 2.2 Potential Growth of E-commerce

Despite advances led by the pandemic, Latin American's e-commerce penetration rate still lags compared to other regions.

Figure 1: Ecommerce Penetration



Source: Fidelity International, BTG Pactual Research, Euromonitor 2021

A survey by Statista shows that while the e-commerce share of retail sales in Latin America rose to 11% during the pandemic,<sup>30</sup> e-commerce penetration in Latin America remains lower than in most other regions.

The growth and penetration rates also vary significantly across the Latin American region, with Brazil and Mexico leading the way in terms of sale value. In terms of e-commerce penetration rate, according to an ECLAC report, there are also significant differences across countries.<sup>25</sup> 'In Brazil and Chile, around 35% of internet users shopped online, while in Bolivia (Plurinational State of), El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Peru, less than 10% did.'<sup>26</sup> 'While some of these differences reflect differences in GDP per capita, some countries like Argentina, the Dominican Republic, Mexico, Panama, and Trinidad and Tobago have lower shares than would be expected given their GDP per capita'.<sup>27</sup>

Given that the use of e-commerce is at different stages of development within Latin America, existing retailers (online and offline) and new entrants have the potential to expand in countries like Brazil, Argentina and Mexico, where e-commerce is more developed, or expand into Peru and Colombia, where there are higher levels of growth potential. All in all, the whole region lags behind its developed and emerging peers in e-commerce penetration and remains largely untapped.<sup>28</sup>

## 2.3 Economy-Wide Benefits Of Ecommerce

As Latin American countries chart their journeys to post-Covid-19 economic recovery, the increased use of online retail during the pandemic offers governments and policymakers the opportunity to harness e-commerce as a tool to enhance financial inclusion, boost competition, productivity, expand employment opportunities, and spark innovation.

This is particularly relevant considering that Latin America countries are suffering from poverty and inequality, high unemployment and low investment and productivity. There is also a rise in the informal economy, which consists of activities that have market value but are not formally

<sup>25</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#)

<sup>26</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#) p.58.

<sup>27</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#)

<sup>28</sup> [UNCTAD. "The UNCTAD B2C E-commerce Index 2020, spotlight on Latin America and the Caribbean.", 2020.](#)

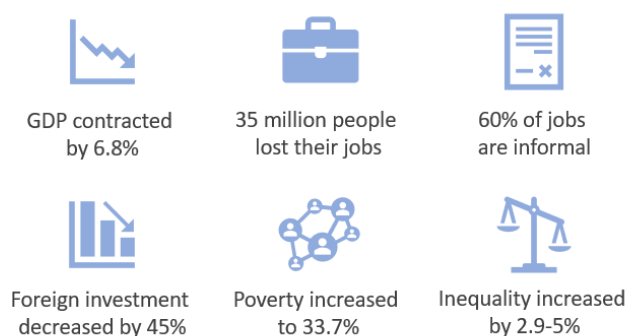
registered.<sup>29</sup> In Latin America, approximately 60% of workers are informal, and most of them belong to disadvantaged socioeconomic groups.<sup>30</sup>

Foreign direct investment (FDI) was already in the decline in Latin America, and the pandemic's impact made it decrease by 45% in 2020 according to the UNCTAD's World Investment Report 2021, the sharpest regional decline globally. Furthermore, unlike other developing regions, the forecast is that investment flows to Latin America will remain low throughout 2021 and 2022 and will not recover fully before 2023.<sup>31</sup> Economic contraction and shrinking investment have led to many closures in small and medium-sized enterprises (SMEs), and the associated destruction of productive and human capacities.<sup>32</sup> The Covid-19 pandemic damaged employment opportunities last year, with unemployment increasing by more than in previous crises. From this challenging starting situation, the employment sector has been slow in its recovery. Less than two thirds of those who became unemployed at the beginning of the pandemic in major Latin American economies had found jobs by the end of 2020.<sup>33</sup>

Moreover, there is a growing consensus in Latin America that low productivity lies at the core of most of the region's economic challenges, and the deterioration of human and physical capital has made that situation dire. Fostering competition, reducing barriers to entry for companies, deepening international trade and regional integration are some of the areas where significant efforts are required.<sup>34</sup>

The table below summarises Latin America's economic outlook.

Figure 2: Summary of Economic Outlook



Against this backdrop, e-commerce has a crucial role to play in delivering a wide arrange of economy-wide benefits:

- **Enhance Competition.** E-commerce can reduce barriers to entry, particularly for SMEs, as it can reach a larger pool of customers in different countries without having to invest in physical stores. Through the expansion into new and existing online channels, retailers have a variety of options to sell their products and services directly or through online marketplaces. As a result, consumers have a wider choice of suppliers, offering a wide range of different products and services, which they can easily purchase from their own online device.
- **Employment.** According to recent studies, companies that use the Internet intensively effectively doubled the average number of jobs. These studies position **the Internet as a net**

<sup>29</sup> [IMF. "Five Things to Know about the Informal Economy.", 2021.](#)

<sup>30</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#)

<sup>31</sup> [UNCTAD. "The Unctad B2c E-Commerce Index 2020 Spotlight on Latin America and the Caribbean.",](#)

<sup>32</sup> [ECLAC. "The recovery paradox in Latin America and Caribbean Growth amid persisting structural problems...", 2021.](#)

<sup>33</sup> [Werner, Komatsuzaki, and Pizzinelli. "Short-Term and Long-Term Healing for Latin America and the Caribbean.", 2021.](#)

<sup>34</sup> [Scioteca. "Instituciones para la productividad Hacia un mejor entorno empresarial." 2018.](#)



**creator of employment, with 2.6 jobs created for every job that Internet technologies may displace.**<sup>35</sup> In addition, online commerce can create jobs directly through logistics services and corporate roles.<sup>36</sup> For instance, Mercado Libre will double its direct workforce in Latin America from 15,500 in 2020 to 32,000 by the end of 2021.<sup>37</sup> However, online marketplaces also create indirect employment through other parts of the broader e-commerce ecosystem. Such is the case for SMEs, which traditionally employ between 60% and 70% of the workforce. **Digitalising their services has led to SMEs maintaining — and even creating — more jobs.**

- **Digital Upskilling.** E-commerce can also contribute to the upskilling of the workforce. For example, Amazon continues to invest in programs that train employees to move into more highly skilled jobs within the company or find new careers outside of the company. Further, e-commerce has also fostered the creation of knowledge-intensive employment. For example, the knowledge-intensive services sector employs 1.3 million people in high-quality, well-paid, and formal jobs in Argentina.<sup>38</sup> Globant, a homegrown global information technology (IT) services company, is an example of this, employing 8,300 people in 14 different companies.<sup>39</sup>
- **Productivity.** E-commerce can spur productivity in their enterprises and economies, an aspect that is particularly beneficial for Latin America and the Caribbean given the low productivity levels. Recent studies show that, in industries where SMEs are the majority, the adoption of digital tools can improve the productivity of incumbents and stimulate the movement of workers to more productive firms.<sup>40</sup> When e-commerce companies provide SMEs with the tools to scale, leverage network effects, and access analytics, they can in turn lower search, logistical, and other business costs, thus leading to a positive impact over productivity levels. What is more, this also expands to the SME workforce. According to the Bureau of Economic Analysis, **from 2006 to 2016, the average GDP output per employee in the ICT and related industries was more than twice the average productivity of the whole economy.**<sup>41</sup>
- **Innovation.** Online marketplaces and e-commerce websites successfully employ different approaches to enhance productivity, including data analytics strategies, omnichannel retailing, enhanced logistics and supply chain management, and impeccable customer service. **All these strategies support SMEs growth and productivity standards, allowing them to introduce new and innovative ideas.** For example, digital payment technologies, such as Mercado Pago, have spread throughout the region enabling e-commerce companies to extend credit to consumers and merchants.
- **Financial Inclusion.** Not only does e-commerce enable more transactions to occur, but it also connects the previously unconnected to the global financial marketplace. Enabled by online marketplaces, e-commerce introduces new financial inclusion opportunities in Latin America through the expansion of existing and new digital financial services offering (i.e., digital lending, e-wallets, digital remittances). **This serves particularly true in Latin America, where 45% of adults do not have a bank account.**<sup>42</sup> Digital payment solutions such as Mercado Pago, PayPal, or Amazon Pay are filling the gaps for customers that would otherwise not have the possibility of accessing credit, savings, insurance, or pensions. This allows the underserved to attain financial inclusion and benefit from several previously unimaginable opportunities,

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<sup>35</sup> [Congressional Research Service. “Digital Trade and US Trade Policy.”, 2019.](#)

<sup>36</sup> [The World Bank. “E-Commerce Can Boost Job Creation and Inclusive Growth in Developing Countries.”, 2019.](#)

<sup>37</sup> [Bloomberg | Quint., “MercadoLibre Plans to Double Workforce With 16,000 New Jobs.”, 2021.](#)

<sup>38</sup> [GTIPA. “GTIPA Perspectives: The Importance of E-commerce, Digital Trade, and Maintaining the WTO E-commerce Customs Duty Moratorium.”, 2020.](#)

<sup>39</sup> [Globant, 2021.](#)

<sup>40</sup> [OECDiLibrary. “OECD Economics Department Working Papers.”](#)

<sup>41</sup> [Brookings. “Trends in the Information Technology Sector.”, 2019.](#)

<sup>42</sup> [AmericaSMI. “The acceleration of financial inclusion during the COVID-19 pandemic: Bringing hidden opportunities to light.”](#)

such as ‘smoother consumption patterns, better expenditure planning, the addressing of health-related risks, and investment not only in productive endeavors but also for the long term, such as in education’.<sup>43</sup> In the same vein, **online marketplaces enable (and incentivise) SMEs to transition to a formalised economy.** By joining these marketplaces, SMEs can access analytical tools, widen their scope and increase their pool of customers across different jurisdictions.

### 2.3.1 Benefits to SMEs

In Latin America, as in many middle-income and low-income countries, SMEs are the primary source of employment and a key supplier of goods and services to a large share of the population. Estimates suggest that SMEs represent as much as 99.5% of all businesses in the region, 60% of the employed population, and 25% of GDP.<sup>44</sup> The advent of Internet-based electronic commerce offers considerable opportunities for these retailers to expand their customer base, enter new product markets and rationalise their business.<sup>45</sup> As mentioned above, the use of digital tools also leads to significant productivity gains – including at firm level. As an immediate impact, these technologies allow automation of common processes, such as distribution, sales, after-sales service, and inventory management.<sup>46</sup>

The figure below summarises data gathered by the Mexican Association of Online Sales (AMVO).

Table 1: Study on Online Sales in SMEs 2021 (AMVO)

|  |  |   |
|--|--|---|
| <p>For 34% of SMEs, selling online was their only source of income during the pandemic. 48% of SMEs started selling online after the pandemic.</p> | <p>For 7 out of 10 SMEs selling online allowed them to become competitive.</p> | <p>The majority of SMEs sell through multiple channels, including the Internet, where 39% of their total revenue comes from online marketplaces. 7 out of 10 SMEs sell through multisided marketplaces and eRetailers</p> |
|--|--|---|

While e-commerce has served as a lifeline for brick-and-mortar stores that were forced to shut their physical stores during the pandemic, expanding into new online channels does not come without challenges. To address the weak internal capacities and lack of financial resources considering the relatively high initial investment costs involved in developing electronic commerce strategies, a common entry strategy for SMEs in the online space is to use existing online marketplaces.<sup>47</sup> A survey conducted by Jet in partnership with E-commerce Brasil shows that sales made through established online marketplaces account for 21.5% of online retail sales.

#### **Online marketplaces offer a number of benefits to SMEs:**

- **Accessing consumers across jurisdictions:** Since SMEs do not have the size, resources, administrative, or logistical capacity to make their way through competing jurisdictions, they count on online marketplaces to serve as intermediaries and connect with the customer. For example:

<sup>43</sup> [Universidad Católica Argentina, Global Encyclopedia of Public Administration, Public Policy, and Governance. “Financial Inclusion in Latin America.”, 2017.](#)

<sup>44</sup> [UNDP in Latin America and the Caribbean. “Small businesses, big impacts: Supporting productive SMEs as an engine of recovery in LAC.”, 2021.](#)

<sup>45</sup> [OECD. “Enhancing the competitiveness of SMEs in the global economy: strategies and policies.”, 2000.](#)

<sup>46</sup> [OECD. “Enhancing the competitiveness of SMEs in the global economy: strategies and policies.”, 2000.](#)

<sup>47</sup> [OECDiLibrary. “SMEs in the online platform economy.”](#)

- Amazon's 'Made in Italy' campaign saw Italian product sales rise by 30%, with almost half of it marked as exports.<sup>48</sup> The company rolled out a similar campaign in Latin America, 'Amazon Handmade in Mexico', which consisted of a division of its site open exclusively to Mexican artisans that enabled local entrepreneurs to export their products to other parts of the world.
- In Mexico, Canasta Rosa provides a marketplace for SMEs to sell handmade items. The majority (97%) of its SMEs sellers are women.<sup>49</sup>
- In Argentina, TiendaNube supports more than 27,000 active online stores and is registering around 500 new businesses each day.<sup>50</sup>

**Through the use of online marketplaces, SMEs can diversify their sales and thus increase their profitability and likelihood of survival.** The latter is particularly relevant due to Covid-19, which made SMEs more susceptible to additional costs and barriers to online trade.

- **Easing payment transactions processes:** Online marketplaces have built-in systems that ease online transactions, bringing renewed efficiency, convenience, affordability, and speed to the buying process. By reducing transaction or trade costs by a substantial margin, online marketplaces offer SMEs important growth channels. Governments, banks, and online marketplaces are also partnering to support electronic payments and SMEs across the region. For example, in Colombia, the private bank Credibanco partnered with the 'Buy Ours' platform and launched the 'I stay at my business' programme to incentivise electronic payment methods among SMEs using the platform and guarantee business continuity during the COVID-19 crisis.<sup>51</sup>
- **Tracking and processing data:** The retail sector has traditionally collected and processed data thanks to its availability, its size, dynamic nature, the possibility for researchers to exploit their personal domain knowledge, and extensive coverage by business analysts.<sup>52</sup> More recently, with the popularity and recent surge of trade through online channels, retailers are now also able to collect information through different means, such as chatbox messages and product reviews. SMEs are also able to benefit from data analytics services offered by e-commerce marketplaces, which allow them to optimise their sales processes. This is because online marketplaces bear many of the costs of data-related infrastructure, and incur a marginal cost of processing, storing, replicating and transmitting data for additional users (or customers) once the initial fixed costs incurred for hardware and software development have been covered/paid.<sup>53</sup>
- **Logistical support:** Online marketplaces add layers of efficiency in distributing goods and services, which lowers SMEs' operational costs and bureaucratic procedures. **By enhancing the logistics system, the industry has also created a new stream of business opportunities.** For example, companies such as Mercado Libre and Amazon tend to operate their own warehouses and partner with regional private carriers for first and last-mile delivery. Such is the case for 99 Minutos, an e-commerce SME with fast delivery that quickly turned into a last-mile delivery service for other e-commerce companies.<sup>54</sup> Operating in 40 major locations across Mexico, Chile, Colombia, and Peru, the start-up announced a \$40 million Series B round

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<sup>48</sup> [GTIPA. "The Importance of E-commerce, Digital Trade, and Maintaining the WTO E-commerce Customs Duty Moratorium.", 2020.](#)

<sup>49</sup> [Crowdfund Insider. "Building the E-commerce Infrastructure for Small Businesses to Thrive in Latin America.", 2020.](#)

<sup>50</sup> [Crowdfund Insider. "Building the E-commerce Infrastructure for Small Businesses to Thrive in Latin America.", 2020.](#)

<sup>51</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#)

<sup>52</sup> [Science Direct. "Retailing and retailing research in the age of big data analytics.", 2020.](#)

<sup>53</sup> [SSRN. "Scale Without Mass: Business Process Replication and Industry Dynamics." 2007.](#)

<sup>54</sup> [McCarthy, M. 99 minutos, Mexico's last mile delivery startup, raises a \\$40M Series B. 2021.](#)

in June 2021.<sup>55</sup> In response to the Covid-19 surge in demand for delivery services ordered through e-commerce marketplaces, post offices also implemented initiatives to offer SMEs new delivery and fulfillment services. For example, the Costa Rica Post reduced fees for entrepreneurs to increase take-up of its 'Pymexpress' integrated online service and made delivery of goods bought in Asian marketplaces free of charge if done in Post offices or at a discount for home delivery.<sup>56</sup>

### 2.3.2 Benefits to consumers

Far and wide, customers have an increased ability (and convenience) to access a comprehensive set of goods and services at reduced prices and higher quality.<sup>57</sup> Moreover, e-commerce may offer customers greater convenience. By facilitating the connection with SMEs and other businesses, e-commerce platforms offer consumers more freedom to choose their preferred product and/or service.

Another consumer benefit is that customers have freedom and more options, including which channels or providers they choose. The latter enhances competition between e-commerce companies and local businesses, incentivising them to innovate and offer the best products.

Customers can benefit from having adequate information, products and services presented to them. This is powered by an algorithm fed with troves of data collected from past or similar purchases. This also provides a more personalised experience to the consumer.

Lastly, Latin American consumers no longer need to go to a bank thanks to the rise of fintech or e-commerce digital payment solutions. Firms like Konfío, Mercado Libre or Geopagos are effectively removing a barrier for millions of consumers to access several products and services previously out of reach.

## 3. Different Types of E-commerce Players

There are different types of e-commerce players in the region, such as:

- **Online marketplaces** – E-commerce players that provide the platforms for buyers and sellers to transact.<sup>58</sup>
- **Pureplay retailers** – sell their products/services via one sales channel only, namely offline or online only but not both.
- **Omnichannel retailers** – aim to provide a seamless customer experience whether the client is shopping online or in a brick-and-mortar store. Although both multi and omnichannel involve selling across multiple physical and online channels, the key difference is how different channels are joined up to offer customers a customised experience. Omnichannel retailers offer experiences such as 'buy-online-and-pick-up-in-store' (BOPIS), 'buy online, return in-store' (BORIS), 'buy online ship to store' (BOSS) and 'buy online, deliver from store' (BODFS).

The OECD has recognised the importance of online marketplaces that connect and facilitate transactions between sellers and buyers. Online marketplaces often provide services to advertisers, such as enhanced rankings within any search facility in the site.<sup>59</sup> An online marketplace may operate as an intermediary hosting third-party sellers, or it may have its own retail offerings while providing intermediary services for other retailers. Both types of online marketplaces are active in Latin America.

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<sup>55</sup> [Prosus. "99minutos raises \\$40 million series B led by Prosus Ventures and Kaszek.", 2021](#)

<sup>56</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.](#)

<sup>57</sup> [GTIPA. "GTIPA Perspectives: The Importance of E-commerce, Digital Trade, and Maintaining the WTO E-commerce Customs Duty Moratorium.", 2020.](#)

<sup>58</sup> [OECD. "The Role of Internet Intermediaries in Advancing Public Policy Objectives Online Marketplaces and Counterfeit Goods.", 2011.](#)

<sup>59</sup> [OECD. "Implications of E-commerce for Competition Policy - Background Note.", 2018.](#)

In addition to online marketplaces, Latin America has seen many retailers become e-retailers either as pure play or adopted omnichannel strategies of operating online and offline.

As a result, consumers can choose between online, physical, and omnichannel when making purchasing decisions. For example, they might search for a product in a store, pay for it online, and then pick it up curbside. In turn, retailers are investing more to offer products or services online, offline, and omnichannel, giving customers even more flexibility about where to buy, complete purchases, and receive their products (whether picked up at the store, delivered to customers' homes or delivered to other locations to be picked up).

Table 2: Example of Major Retailers Operating Online and Offline

|   |  |   |
|---|--|---|
| <p><b>Magazine Luiza</b></p> <p>Magazine Luiza is a reference when discussing omnichannel in the Brazilian retail landscape. Even before the crisis, more than 40% of the online orders were picked up in physical stores</p>   | <p><b>Riachuelo</b></p> <p>One of the largest retail chains in the fashion and clothing sector in Brazil, Riachuelo had its e-commerce inaugurated in 2017. From the beginning, it had the premise that the online and offline universes were fully integrated. In January 2019, the brand took another step in its digitalisation plan, inaugurating its first online space in a physical shop.</p> | <p><b>Natura</b></p> <p>In June 2021, Natura opened the first of six physical stores it will have in Mexico with the aim of giving its consumers an omnichannel experience. The establishment joins its 300 thousand consultants and its electronic commerce channel.</p> |
| <p><b>Walmart</b></p> <p>Walmart has the most robust omnichannel logistics network in Mexico, which it continues to strengthen. At the start of 2020, it announced plans to construct five new distribution centres (DC's). During 2020, it opened three, one in the State of Mexico, one in Mérida (south east Mexico), and one in Chihuahua (north west).</p> | <p><b>STF Group</b></p> <p>The Colombian fashion giant STF Group, owner of Studio F, ELA and STF MAN, among others, is moving forward in the local area based on omnichannel and is installing multichannel experience centres in its physical shops. STF's bet is made up of unified services between its physical stores, the online shop and sales assisted by Whatsapp.</p>                      |   |

### 3.1 Key Regional Players

While there are a number of homegrown online marketplaces, the regional leader is Mercado Libre, which now operates in 18 different countries across Latin America. The pandemic has seen the company's sales in Chile, Colombia, and Mexico double, and as of April 2021, Mercado Libre was the most visited online marketplace in Latin America, with almost 668 million visits per month.<sup>60</sup>

Other significant operators in the region's e-commerce sector can be found in the table below and include Caribbean-focused payments platform WiPay, Mexican online marketplace Linio, and the Mexico City-based grocery delivery chain Jüsto.<sup>61</sup>

Table 3: Key Ecommerce Businesses in Latin America

|                      |              |            |
|----------------------|--------------|------------|
| <b>Mercado Libre</b> | <b>Rappi</b> | <b>B2W</b> |
|----------------------|--------------|------------|

<sup>60</sup> Statista. "Leading online marketplaces in Latin America as of April 2021, based on number of monthly visits.", 2021.

<sup>61</sup> Oxford Business Group. "How Covid-19 triggered a Latin American e-commerce boom.", 2021.

|   |  |  |
|---|--|--|
| Established in 1999 in Argentina, Mercado Libre's MarketPlace is a platform designed to match buyers and sellers. Customers bid for items or pay a set price for offered products. Items are delivered after payment, and users can provide feedback.[33] 3,000 official stores or bands work with Mercado Libre. | Headquartered in Colombia, and with main offices in São Paulo and Mexico City. Founded in 2015, active in nine countries (Colombia, Mexico, Costa Rica, Peru, Ecuador, Chile, Argentina, Uruguay and Brazil) and more than 200 cities. Rappi has been defined as the Latin American SuperApp and one of the fastest growing companies in the region. | Belongs to Lojas Americanas S.A. and controls three main e-tail brands; Americanas.com, Submarino, and Shoptime. Both Americanas.com and Submarino saw a boost during the pandemic, recording a growth web traffic of over 20% between February and July 2020. |
| <b>OLX Brazil</b>   | <b>Magazine Luiza</b>  | <b>Amazon</b>  |
| Part of the global Netherlands-based online classifieds business OLX Group. The online marketplace founded in 2006 reported BRL 350 million (US\$ 63.3 million) of net revenue in 2019 for its Brazilian subsidiary.  | One of the largest Brazilian retail companies, Magazine Luiza consolidated itself as the largest multichannel retailer in Brazil.  | Proactive in Latin America, including launching localised e-commerce operations in Mexico and Brazil. At the end of 2018, Mexico had the most Amazon features and services of all Latin American markets. <sup>62</sup>  |

### 3.2 New Entry of E-commerce Players

Given the rapid acceleration of e-commerce and revenue potential, new entrants have been attracted to enter the region in a variety of different ways. These include:

- **Overseas entry:** Shopee, the largest e-commerce platform in Southeast Asia, owned by Singaporean company Sea, has increased its presence in the region. In April 2021, it attracted 40.1 million monthly visits.<sup>63</sup> It started operations in Brazil in 2019, and in February 2021 it launched an app in Mexico. In June 2021, it expanded into Colombia and Chile.<sup>64</sup>
- **Entry via acquisition:** In October 2021, the global company Etsy announced its acquisition of Elo7, a Brazilian online marketplace.<sup>65</sup> Elo7 has approximately 1.9 million active buyers and 56,000 active sellers, with about eight million items for sale. In addition, the Chinese e-commerce giant Alibaba is attracted to the region's growth and has selected Medellín as a new entry point into Latin America and Colombia.<sup>66</sup>
- **New Start Ups :** The Latin American e-commerce start-up Merama, launched last year, has raised \$225 million in Series B funding, bringing the value of its direct-to-consumer (D2C) financing business to close to \$850 million. Merama has also purchased stakes in 20 brands throughout Latin America.
- **Entry and expansion are also occurring in adjacent /downstream services.** For example, the Latin American e-commerce platform Nuvemshop plans to acquire Brazil-based Mandaê, a logistics platform for small and medium-sized businesses. Mandaê's services include the collection of orders placed on the merchant's website and delivery of all items in the orders.<sup>67</sup> Mercado Libre has also expanded with the company now consisting of a logistics division, a credit service, a financial technology platform, and an advertising agency.<sup>68</sup> Last year Amazon

<sup>62</sup> [Euromonitor. "An overview of Amazon in Latin America.", 2019.](#)

<sup>63</sup> [Statista. "Leading online marketplaces in Latin America as of April 2021, based on number of monthly visits.", 2021.](#)

<sup>64</sup> [Asia Nikkei. "Singapore e-tailer Shopee takes Latin America by storm.", 2021.](#)

<sup>65</sup> [Pymnts. "Etsy eyes Latin American expansion with second acquisition this month.", 2021.](#)

<sup>66</sup> [Jingdaily. "How Alibaba Won Latin American E-commerce.", 2021](#)

<sup>67</sup> [Pymnts. "Consumer Spending Up in August; Neiman Marcus Data Breach Hits 4.6M Customers.", 2021.](#)

<sup>68</sup> [Oxford Business Group. "How Covid-19 triggered Latin American e-commerce boom.", 2021.](#)



announced plans to open its largest distribution centre in Brazil and launched Amazon Cash in Mexico, a payment option that allows customers to make purchases with cash at participating convenience stores.

### 3.3 Omnichannel Strategies

The sustainability of e-commerce growth will also depend on the ability of retailers – from brick-and-mortar stores to purely internet-based businesses – to meet consumer's ever-evolving preferences. Based on that, policymakers will need to consider how to provide companies enough regulatory flexibility to meet consumers' preferences.<sup>69</sup> Within retail, one particular strategy that businesses are likely to pursue is the combination of online and offline functions through the adoption of an 'omnichannel strategy'. Omnichannel is the strategy by which retailers provide a consistent, coordinated customer experience across all possible customer channels, using consistent, universal data, to provide a better, more complete shopping experience, with fewer online and offline barriers.<sup>70</sup>

As physical stores shuttered in 2020 due to the pressures of the pandemic, retailers had to move to e-commerce channels to remain in business. Even if the growth rate is likely to drop with the reduction in social distancing requirements, many retailers will still need to maintain their online presence to meet consumer expectations.<sup>71</sup> But this does not mean that physical storefronts are on their way out. In fact, according to a study by Harvard Business Review undertaken by 46,000 shoppers, only 7% of people preferred shopping exclusively online.<sup>72</sup> A survey conducted by Kantar in Colombia investigates why some shoppers still prefer to have access to physical stores: 40% of the respondents were not buying online because they wanted to see the products in person.<sup>73</sup>

Selling through a variety of different channels has become an important strategy to create a seamless shopping experience for customers and attract potential shoppers. While e-commerce has increased in the region, shopping malls and brick-and-mortar stores will continue to play an important role as they provide proximity to the customer, which can increase engagement.<sup>74</sup> For example, shopping malls in the region are prime destinations for families of all income levels. In Brazil, consumers go to shopping malls to relax and enjoy the refreshing air conditioning.

Even before the pandemic, the retailing industry was already trending toward omnichannel, where the differences between offline and online channels was likely to become less apparent.<sup>75</sup> The idea is that, if applied successfully, neither customers nor retailers would be able to distinguish between channels anymore – or, better put, they would not need to distinguish them.<sup>76</sup> Further, study by the

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<sup>69</sup> [OECD. "E-commerce in the time of Covid-19.", 2020](#)

<sup>70</sup> Beck, N. and Rygl, D., 2015. Categorisation of multiple channel retailing in multi-, cross-, and omni-channel retailing for retailers and retailing. *Journal of Retailing and Consumer Services*.

<sup>71</sup> A survey carried out by Kantar (Kantar, [How COVID-19 has reshaped Latin America shopping habits](#)) reveals that as the pandemic receded in 2020, e-commerce growth dropped from its Q3 2020 highs. According to another survey conducted by Mastercard (Mastercard, [Mastercard Recovery Insights: E-commerce a Covid Lifeline for Retailers with Additional \\$900 Billion Spent Online Globally](#)), which measures sales in brick-and-mortar shops and e-commerce, retail sales in Brazil in July 2021 grew 23.1 percent over a year earlier. In contrast, ecommerce saw a 9.6% drop. Another market research conducted by eMarketer in July 2021 ([eMarketer, Latin America Ecommerce Forecast 2021](#)) has projected that after reaching its peak at 63.3% 2020, e-commerce sales growth would drop to 25.6% in 2021 and to 12.6% in 2022.

<sup>72</sup> [Harvard Business News. "How "Buy Online, Pick Up In-Store" Gives Retailers an Edge.", 2021.](#)

<sup>73</sup> [Kantar. "How COVID-19 has reshaped Latin America shopping habits."](#)

<sup>74</sup> [Lazard Fund Managers. "The The E-Commerce Boom Coming to Latin America.", 2020.](#)

<sup>75</sup> Beck, N. and Rygl, D., 2015. Categorisation of multiple channel retailing in multi-, cross-, and omni-channel retailing for retailers and retailing. *Journal of Retailing and Consumer Services*.

<sup>76</sup> Brynjolfsson, E., Hu, Y. and Rahman, M. S., 2009. Battle of the retail channels: how product selection and geography drive cross-channel competition. *Management Science*.

International Council of Shopping Centers found that omnichannel customers shop more frequently and spend more money, on average, than other shoppers.<sup>77</sup>

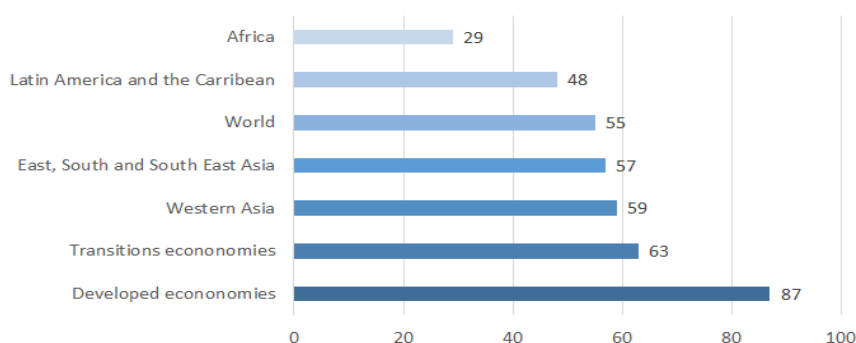
Data collected by the Brazilian National Confederation of Store Managers (*Confederação Nacional de Dirigentes Lojistas – CNIL*) and Credit Protection Service (*Serviço de Proteção ao Crédito – SPL*) captures the cross-over between offline and online shopping. Moreover, the same research reveals that only 13% of all respondents would buy any type of goods online, whereas ‘fear that the product will be different from the description’ and the ‘need for trying on the item or seeing it in person before’ are the most common reasons for why shoppers still prefer in-store shopping.<sup>78</sup>

This finding confirms that to meet consumers’ expectations, retailers will need to invest in an omnichannel strategy, blending physical and online channels to engage consumers in the channel of their choosing. This will facilitate the integration of numerous retail channels to offer an interchangeable and seamless retail shopping experience to consumers.<sup>79</sup> That is, ‘while operators of brick-and-mortar stores are now considering e-commerce a potentially crucial, complementary or alternative sales channel’,<sup>80</sup> e-commerce companies will need to invest in proximity to the consumer through strategies seeking a differentiated and customised buying experience by integrating the online sales channel with new physical stores.<sup>81</sup>

## 4. Key Challenges for E-commerce in Latin America

Latin America's e-commerce growth post-Covid-19 could boost economic recovery, but the region will need to tackle a number of infrastructure challenges. Research indicates that the region is behind in preparing and therefore benefitting from e-commerce.

Figure 3: Preparedness for B2C Ecommerce 2020 (Index 0 to 100)



Notes: Higher values of the index indicate better readiness to engage in and benefit from ecommerce

Source: UNCTAD (2021)<sup>82</sup>

To sustain Latin America's e-commerce growth post-Covid-19, six major challenges will need to be addressed, namely poor internet connectivity, logistics, payments, support to boost e-commerce uptake amongst SMEs, competition and regulatory issues.

<sup>77</sup> [Lazard Fund Managers. “The The E-Commerce Boom Coming to Latin America.”, 2020.](#)

<sup>78</sup> [Consumo Online, CNDL e SPC, 2021.](#)

<sup>79</sup> [Expert Journal of Marketing. “Literature Review on Omnichannel Retailing.”, 2020.](#)

<sup>80</sup> [OECD. “E-commerce in the time of Covid-19.”, 2020.](#)

<sup>81</sup> Brynjolfsson, E., Hu, Y. J. and Rahman, M. S., 2013. Competing in the age of omnichannel retailing. Cambridge, MA: MIT, pp. 1-7.

<sup>82</sup> [UNCTAD. “The Unctad B2c E-Commerce Index 2020 Spotlight on Latin America and the Caribbean.”.](#)

## 4.1 Internet Connectivity

Connectivity infrastructure, particularly high-speed broadband connectivity, is the backbone of digital transformation. Latin America is behind developed countries in terms of internet connectivity, and even within the region, broadband-quality internet connection and access to mobile connectivity are unevenly distributed. For example, while economies like Chile and Costa Rica claim 80% of Internet users as a share of the country's total population, the regional average is around 60-65%.<sup>83</sup> Latin American countries face challenges in expanding connectivity and Information and Communication Technology (ICT) infrastructure to lay the basic foundations for e-commerce. Limited infrastructure investments by operators, hindering regulations and policies, and poor adoption rates for fixed broadband are some of the reasons for poor internet access.<sup>84</sup> Research shows that the penetration of fixed broadband in Latin America is three times lower than in the United States and Europe.

## 4.2 Logistics

Latin America is a notoriously difficult country to operate in from a logistics standpoint. The region is highly fragmented with weak transport infrastructure and significant levels of traffic in the bigger cities. For instance, despite being Latin America's largest e-commerce sector in terms of value, Brazil is a challenging place to do business due to complex infrastructure and lack of national coverage by private delivery carriers. Retailers are often required to rely on the national post office, which means lengthy and inconsistent shipping times.<sup>8586</sup>

Nevertheless, the poor performance of the postal service is one of the most critical aspects of the region's preparedness to engage in e-commerce.<sup>87</sup> Of the four components that make up UNCTAD's B2C e-commerce index, postal reliability was the area in which the region underperformed the most in 2019, significantly below the OECD and South East Asia averages.

A survey conducted by the Mexican Association of Online Sales (AMVO) shows that six out of ten shoppers had problems when shopping online during the pandemic, with long and delayed delivery times being the problem most often faced by respondents. Another survey filed by the Brazilian National Confederation of Store Managers (*Confederação Nacional de Dirigentes Lojistas – CNIL*) and Credit Protection Service (*Serviço de Proteção ao Crédito - SPL*) shows that the foremost reason deterring respondents from shopping online is the excessive costs of delivery.<sup>88</sup> Data collected by Amazon also shows that long delivery times are also the most common reason for why Colombians do not buy online.<sup>89</sup>

## 4.3 Unbanked Population

Despite the widespread adoption of mobile and internet technology, countries in Latin America and the Caribbean (LAC) have not been at the forefront of payment innovation. Around 70% of Latin Americans do not have a bank account, and 60% of transactions made by small businesses are still in cash. Relative to other regions, retail payment services in LAC continue to involve high costs for end-users and be of subpar efficiency, partly reflecting low competition among financial institutions and limited compatibility among different payment solutions. Along with low-income levels, high

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<sup>83</sup> [Statista, "Internet users as share of the total population in countries in Latin America and the Caribbean as of January 2021.", 2021.](#)

<sup>84</sup> [Lazard Fund Managers. "The E-Commerce Boom Coming to Latin America.", 2021.](#)

<sup>85</sup> [Fidelity International. "The rise of e-commerce in Latin America.", 2021.](#)

<sup>86</sup> [Lazard Fund Managers. "The E-Commerce Boom Coming to Latin America.", 2021.](#)

<sup>87</sup> [ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E - commerce and Digital Trade.", 2021.](#)

<sup>88</sup> [Consumo Online, CNDL e SPC, 2021.](#)

<sup>89</sup> [AmazonAWS. "Estudio De Consumo, Percepción y Comportamiento Del Comercio electrónico en Colombia.", 2020.](#)

informality, and low financial literacy contribute to limiting the access to electronic and digital payments for large swathes of the region's population.<sup>90</sup>

## 4.4 Low Uptake of E-commerce by SMEs

The World Bank estimates there are up to 445 million micro, small and medium-sized enterprises in the developing world. In Latin America, nearly 90% of all businesses fall into this category. However, persistent gaps in terms of e-commerce participation remain for SMEs, many of which operate informally due to a lack of industry information and poor access to digital and financial services. Unlike larger firms, the ability of SMEs to develop internal digital infrastructures that can capitalise on the benefits of digitalisation is limited by a lack of financial resources and/or skills. Low levels of digitalisation and difficulties in accessing and adopting innovative technologies make it particularly difficult for those firms to change existing work processes and introduce an e-commerce sales channel.<sup>91</sup>

To overcome the poor technical and financial capacities that could hamper the uptake of e-commerce by this type of companies, SMEs tend to leverage existing online marketplaces.<sup>92</sup>

## 4.5 Policy and Regulatory Frameworks

To support businesses and to provide consumers with better, cheaper and innovative shopping experiences, governments can adopt policy and regulatory frameworks that promote competition and innovation in both online and offline retail channels. Such frameworks need to be fit-for-purpose: that is, clear enough to avoid legal ambiguity and sufficiently flexible to accommodate changing market conditions, the use of digital technology and applications and changing businesses models. At the same time, regulations must provide sufficient safeguards to protect businesses and consumers from online fraud, data breaches and cyberattacks. The lack of transversal regulations that guarantee the safety of online transactions (such as cybersecurity framework or data protection laws) and/or policies that foster the adoption of electronic and digital payment systems are remaining bottlenecks that need addressing by policymakers in Latin America.

As such policymakers need to ensure that there are no unintended consequences of introducing policies and regulations related to e-commerce that could unnecessarily increase barriers to entry and expansion. An example brought by ECLAC illustrates well the potential (unintended) effect that strict sector-specific regulations can have at this point: the Peruvian Ministry of Production enacted regulations according to which businesses wanting to operate online during the pandemic needed to meet a 2% minimum share requirement of online over total sales and were required to deliver goods using their own logistics, not being able to use third-party delivery services nor platforms. Online sales were also limited to the Lima Metropolitan region, leaving out 40% of e-commerce activity in other regions. This regulation led to a decrease in e-commerce operations, estimated at 32% (yoy) during March according to PayU.<sup>93</sup>

As the retail landscape changes, there is a greater need to examine the key players, the new entrants and the changing consumer and business behaviour, particularly with Covid-19. This is particularly important for Latin America, given the current wave of regulatory investigations sweeping Europe and the US involving large companies and e-commerce.

With the rise and rapid growth of e-commerce in developed economies, online shopping has become part of daily shopping habits. Relative to economies where the use of the internet is more developed and the e-commerce penetration rate is higher, Latin America is at a different stage of e-commerce

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<sup>90</sup> BIS. "Retail payments in Latin America and the Caribbean: present and future.", 2020.

<sup>91</sup> Crowdfund Insider. "Building the E-commerce Infrastructure for Small Businesses to Thrive in Latin America.", 2020.

<sup>92</sup> OECD. 'SMEs in the online platform economy'. 2021.

<sup>93</sup> ECLAC. "Post Pandemic Covid - 19 Economic Recovery Enabling Latin America and the Caribbean to Better Harness E-commerce and Digital Trade.", 2021.

development. As discussed in Chapter 2, even if accelerated by the outbreak of Covid-19, the penetration level remains low in the region due to many structural challenges.

Moreover, Latin America has its market structure and economic reality. For instance, UNCTAD data shows that, from the five largest e-commerce sites in the region, four of them are regional players (Mercado Libre, B2W, Casas Bahia and Dafiti).<sup>94</sup> This alone confirms that Latin American countries have their own market conditions, which requires each of them to evaluate its dynamics, the possible competition risks and how to best address them.

Any premature adoption of new and untested regulation in Latin America that affects e-commerce development could delay economic recovery from the pandemic affecting the large proportion of SMEs that now rely on online sales as a key source of revenue. This is particularly relevant considering that, as seen above, the region has been harder hit by the pandemic than any other region in the world.<sup>95</sup>

## 5. Policy Considerations

This section highlights some policy considerations based on the data gathered and trends identified in the paper. More than providing answers, it sheds light on some e-commerce trends, landscape, and aspects related to the digitalisation of SMEs that policymakers will need to look at when addressing some of the structural and policy challenges identified above.

- **The future of e-commerce after Covid-19 will depend on countries' capacity to address structural challenges and on enabling policies allowing businesses to adapt to consumers' evolving trends and preferences.** E-commerce in Latin America is still a largely untapped region, with enormous growth potential. As the vaccination programmes roll out and lockdowns are lifted, the question that arises is whether the pandemic-inspired growth in online sales is sustainable in the long term. The answer depends on two factors: (i) **whether Latin America will have the right policies and investment in place to support e-commerce development**; and (ii) **whether businesses will adopt the right strategies to ensure the loyalty of those that started buying online during Covid-19.**
- **To harness the potential of e-commerce, policies need to be flexible and adaptable to emerging trends in retail, such as the omni-channel sale model, where offline and online channels blend.** In the context of an increasingly complementary relationship between offline and online sales strategies, given that omnichannel strategies are likely to nuance the barriers between online and brick-and-mortar shopping, **policymakers may need to assess how to enable the development of innovative business models and strategies as the line between online and offline channels become less obvious.**
- **As Latin American countries chart their journey to post-Covid 19 economic recovery, e-commerce should be seen as a tool to drive growth, competition, innovation and employment.** The expansion of e-commerce channels by large players, but also SMEs, is a powerful factor driving competition, offering consumers a greater range of products and services, and fostering innovation in goods and services distribution. The use of digital tools of large players and SMEs improves competition and innovation, thus benefiting consumers all over the region.
- **The pandemic-induced growth has shown the potential of e-commerce but has also shed light on the persistent challenges that need addressing.** The pandemic prompted a transition from in-person to online shopping, and now to an omni-channel sales model as social distancing rules ease. This constitutes an opportunity to promote economic recovery, but it also poses

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<sup>94</sup> [UNCTAD. "The UNCTAD B2C E-Commerce Index 2020 Spotlight on Latin America and the Caribbean.", 2020.](#)

<sup>95</sup> [UNCTAD. "The UNCTAD B2C E-commerce Index 2020. Spotlight on Latin America and the Carribeans.", 2020.](#)

significant challenges to SMEs such as internet access and last-mile delivery. The region remains below the World's average regarding preparedness to engage and benefit from e-commerce.<sup>96</sup>

- **To improve e-commerce uptake in Latin America, structural problems such as logistics need to be addressed.** Despite the growth in e-commerce penetration rate, expanding into new online channels does not come without challenges – especially for SMEs. Before going online, many SMEs are faced with bottlenecks such as weak internal capacities, lack of financial resources and logistical hurdles. **To address these issues – which are impediments to the region's competitiveness – long-term investments and policy development are required.** In terms of postal reliability, considered the main opportunities for improvement, public-private investment strategies to address the deficient infrastructure, as well as trade agreements and logistics policies are needed to boost productivity gains, create new business opportunities, promote production transformation, and increase regional competitiveness.<sup>97</sup>
- **Given the current (low) level of Latin American' e-commerce readiness, online marketplaces provide an opportunity for SMEs to access online markets.** In the context of inclusive economic recovery from the crisis triggered by the pandemic, supporting market access through such enterprises is more crucial than ever, in particular in developing countries such as Latin America. **This is particularly relevant considering the vital role that online marketplace has in helping knock down barriers to entry.** Given that setting up a physical store involves more costs than placing products or services on a third-party marketplace, competition authorities need to ensure fair competition in online marketplaces and that the contractual relationship between online marketplaces and microenterprises and SMEs is fair.
- **Policies and Regulations need to be carefully designed to prevent damage to e-commerce growth.** Any premature or kneejerk reaction seeking to regulate companies offering online or digital solutions could harm e-commerce growth and prevent SMEs from expanding into new e-commerce channels.
- **Despite the current wave of legislative and regulatory reforms in advanced economies that seek to regulate certain companies, Latin American countries are at a different stage of e-commerce development and may require a different, more tailored approach.** Before importing foreign legislations, there are some fundamental aspects that policymakers need to consider:
  - **With e-commerce still growing in Latin American countries, the reliance of SMEs on online marketplaces, and the entry and expansion of new and existing players** highlighted in this paper, any unnecessary regulations affecting e-commerce could deter trade and investment into the country and impact the services that online marketplaces provide to SMEs and consumers.
  - In Latin America, the process of technological innovation and change so far has been less ambitious and concentrated on changes to the sales, marketing, and supplier relationship segments of the value chain, and not to direct changes in production processes.<sup>98</sup> Therefore, **it could be premature to import regulation from advanced economies to Latin America.**
  - A particular aspect of the larger LAC countries is the presence of regional e-commerce players alongside major global companies, which suggests that **Latin America has a different market structure from the countries where these regulations are being drafted**

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<sup>96</sup> UNCTAD. "The Unctad B2C E-Commerce Index 2020 Spotlight on Latin America and the Caribbean.", 2020.

<sup>97</sup> FAL. "Logistics for production, distribution and trade.", 2019.

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**for.** This alone shows that a closer examination of e-commerce in each Latin American country is needed before any foreign proposal is considered.

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