MARKET REPORT: E-COMMERCE IN BRAZIL

A careful investigation of opportunities and challenges in the Brazilian e-commerce market, and the possibility of leveraging emerging technologies to bring value to the e-commerce industry.
BRAZILIAN E-COMMERCE MARKET OVERVIEW

According to the data of Statista, the growth rate of Brazil’s E-commerce market size from 2017 to 2019 is all above double digits, and the market size has reached $17.2 billion in 2019. Due to the impact of the COVID-19, it is estimated that the market size will reach nearly $19.2 billion by 2020 and will exceed $27.2 billion by 2024.

The annual compound growth rate of revenue (CAGR from 2021-2023) in the Brazilian market is 10.1% while the CAGR in China is about 8.6%. In recent years, with the development of the Internet, artificial intelligence, blockchain, and other technologies, as well as the impact of COVID-19 on online shopping, the scale of the E-commerce market will continue to expand.

Leading companies

According to the data of ecommerceDB, the top five E-commerce in market share is magazineluiza.com.br, americanas.com.br, casasbahia.com.br, carrefour.com.br, and apple.com. These five companies’ market share in 2019 accounts for nearly 25% of all E-commerce in Brazil. Most of their main sell categories are toys, Hobby & DIY, and Electronic & Media.
The majority of the top Brazilian E-commerce are local companies and their operational models are B2B/ B2C.

Vendors

To both local Brazil E-commerce and international E-commerce, the vendors are wholesalers, manufacturers, retailers, and brand sellers. The customers can be individuals, companies, and retailers.

Added value

As to the local Brazil E-commerce, the added value mainly comes from the high cost of logistics, supply chain, and the maintenance of the website.

As to the cross-border international E-commerce, the added value mainly comes from the high import tax, law issues, cross-border payment tax, and logistics.
### Logistics technology

Since the infrastructure in Brazil is still not quite perfect, we can see the majority of the top Brazil E-commerce has made lots of effort to improve their logistics. For example, magazineluiza.com.br has a multichannel distribution network. Its own logistics company Magalu Entregas enables 66% of the deliveries to be completed within two days and enables sellers pickup in their 1100 stores. Besides, another top E-commerce casasbahia.com.br has acquired ASAPLog to “uberize” the last mile and collaborate with large transportation companies. However, the logistics efficiency for fresh products still needs to be improved.

### Support payment technology

Since lots of Brazil E-commerce don’t support international credit cards, they provide lots of other payment ways for safety and convenience, such as membership card, Ewallet, and bank invoice. Some E-commerce even has already used cryptocurrency for the original cash users.

<table>
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<tr>
<th>LEADING E-COMMERCE COMPANIES</th>
<th>OPERATIONAL MODEL</th>
<th>LOGISTICS COMPANY</th>
<th>PAYMENT</th>
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<tr>
<td><strong>magazineluiza</strong></td>
<td>B2B/B2C</td>
<td>State-run postal service (Partner) &lt;br&gt; Magalu Entregas (In-house) &lt;br&gt; Multichannel distribution network &lt;br&gt; Netshoes: enhance logistics services</td>
<td>Membership Card: Installment plan purchases; Credit cards; Ewallets: MagaluPay; Bank invoice</td>
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<td><strong>americanas</strong></td>
<td>B2B</td>
<td>O2O</td>
<td>Installment plan purchases; Prepaid tickets; Credit card; Postpaid payment slip</td>
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<tr>
<td><strong>BAHIA</strong></td>
<td>B2C</td>
<td>State-run postal service (Partner) &lt;br&gt; KION: Transportation &lt;br&gt; ASAPLog: &quot;Uberizes&quot; the last mile/ allows drivers, motorcycle couriers and even buses to deliver parcels to customers</td>
<td><strong>Blockchain: Airfox; Membership Card: Installment plan purchases; Credit cards; Ewallets; Bank invoice</strong></td>
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<td><strong>Carrefour</strong></td>
<td>B2C</td>
<td>Intelligent logistics plan (In-house) &lt;br&gt; FM Logistic: Transportation (Partner)</td>
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<td><strong>Apple</strong></td>
<td>B2B/B2C</td>
<td>The best transportation company (Partner)</td>
<td>Installment plan purchases; Credit cards</td>
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The Brazilian E-commerce market is still in the growing stage of the industry life cycle as the revenue of the top E-commerce is still growing and there are lots of innovations in the industry.

PEST analysis

**POLITICAL FACTORS**
- Government intervention is reducing: Brazilian government enacted Economic Freedom Act on 9/20/2019
- Unstable political environment: Deteriorating and unstable political environment
- Plenty of applicable rules to E-commerce in Brazil

**ECONOMICS FACTORS**
- Overall adverse economics: Brazilian government lowered its 2020 GDP forecast to -4.7% due to Covid-19
- High import tax: Imported goods over the total value of $50 are subject to taxation, adding 60% to the purchase price
- Low customer confidence

**SOCIETY FACTORS**
- Customer prefers local online business
- Thriving online customer base: 40% of Brazilians are under 25 years old and internet penetration is already high at around 75%
- Open to new technology: Willing to accept new technologies

**TECHNOLOGY FACTORS**
- Encourage changes:
  - Top e-commerce in Brazil provides flexible payment ways and use different strategies to enhance logistics.

**Porter 5 Forces Analysis**

**THREAT OF SUBSTITUTE PRODUCTS:**

- NOT HIGH
  - Growing Market: E-commerces differ by using new technology, providing different services and products

**THREAT OF NEW ENTRANTS:**

- NOT HIGH
  - High Brand Loyalty: Brazilians prefer using local online business.
  - High Barriers: High import tax; prefer domestic payment methods
  - High Requirement: Brand reputation and advanced technology

**EXISTING COMPETITION IN THE INDUSTRY:**

- VERY HIGH

**BARGAINING POWER OF CUSTOMERS:**

- VERY HIGH
  - Buyers Information Availability: Customers can easily access to other platforms and compare the price of products and service on the Internet.
  - There is no switching cost for buyers

**BARGAINING POWER OF SUPPLIERS:**

- NOT HIGH
  - Plenty of Suppliers in the local market
PROSPECTIVES

Opportunities under pandemic

Brazilian E-commerce market is growing
After COVID-19, the Brazil E-commerce market grows 57% in the first 5 months. From the market overview, we can see that the market size is expected to be 19.2 $ billion in 2020 and the compound growth rate for the next 3 years is about 10.1%. Besides, the number of the online customer base is also growing as 40% of Brazilians are under 25 years old and internet penetration is already high at around 75%.

E-commerce in Brazil is not very mature
Among the top 5 E-commerce in the Brazil market, we can see most of this E-commerce focus on toys and electronics and very few sell fresh products. One of the possible reasons behind it is that logistics in Brazil is not very efficient. For example, carrefour.com.br, which is the only e-commerce selling fresh products among the top 5 Brazil E-commerce, is famous for its inefficient logistics. It not only reflects the high cost of logistics in Brazil due to the high import tax but may result in potential risk to customers’ health.

Open to new technology
We can see lots of Brazil local E-commerce try to be more competitive by enhancing logistics ways and increase payment ways. For example, casasbahia.com.br not only acquires ASAPLog to “uberize” the last mile, allowing drivers, motorcycle couriers, and even buses to deliver parcels to customers, but also take blockchain technology for enhancing payment safety. Besides, Facebook brings payments to WhatsApp, starting in Brazil, which also shows Brazil encourage new technology.

Risk factor analysis

Strategic risks

Strategy: The viability of strategy such as the choice of products does not meet expectations. Currently, local people prefer using local online business. If the company’s strategies cannot attract local customers, the company will lose a competitive market share.

External relations: The unexpected changes in the company’s relationship with external stakeholders with public voices such as the media. If the company doesn’t have a good relationship with the media, the sales of the company will reduce.

Competitors: Since the barriers of entering this market such as technology and the capital requirement are high, it is not very likely to have new competitors.

Suppliers: The supply chain is one of the most important parts of E-commerce. For cross-border E-commerce, if they choose suppliers in other countries besides Brazil, they can encounter challenges such as high import tax, cross-border logistics problems, and law issues. Besides, lots of supply chains are not transparency and traceability, which can easily result in safety and legislative issues. However, if this cross-border E-commerce chooses Brazil local suppliers, they also can have supply chain
problems due to information asymmetry issues.

**Strategic relationship:** The logistics are also very important to E-commerce. If an E-commerce doesn’t have reliable logistics, the quality of the goods cannot be guaranteed.

**International:** Currently, in Brazil, the import tax is high. Besides, there is also a tax for cross-border payment. Brazil likely changes its attitude and rules to foreign countries.

**Legislative:** Currently, in Brazil, there are some laws for E-commerce. The unexpected changes in law likely increase the cost to the company.

**Technology:** As to E-commerce, website safety is very crucial. It is likely to have risks such as data breaches.

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**Operational risks**

**Litigation:** If food quality has problems, E-commerce can have litigation risk.

**Disaster:** Currently, the COVID-19 has impacted all the industries. There can be a disaster impacting supply chain, logistics, and operations.

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**Challenges & advices**

**Internal challenges**

**Local customer acquisition:** Although the Brazilian prefer using the local online business, we can try to tailor our products, service, and websites to local customers. For example, we can organize some special events or provide some products based on local culture. We can collaborate with local
E-commerce or local suppliers. We can also use new technology to attract local customers for providing convenience.

**Supply chain:** Use blockchain to increase supply chain transparency and traceability. We can collaborate with local suppliers.

**User experience:** Website
How to make Brazil e-commerce websites more user-friendly, diverse, and safer? We can use blockchain to reduce data breaches and enhance data safety. Blockchain technology relies on encryption and is shared across a network of read-only computers. The hackers cannot target only one company without decode the whole network. We can use AI to make the platform more interesting and user-friendly.

**Inefficient logistics:** Use blockchain to increase logistics transparency and efficiency by enhancing tracking and global contracts.

**External challenges**

**High import tax:** Collaborate with local suppliers to lower the import tax cost. We can also use new technology such as AI to increase operational efficiency.

**Legislative risks:** Consult the local lawyers and prepare the backup plan for unexpected changes.

**REFERENCES**


ABOUT

Nestled in the SoHo district of Manhattan, the Aves Lair Accelerator program is a carefully crafted collaboration between Lair East and Nakamoto & Turing Labs.

Aves Lair is dedicated to supporting and ushering in a new wave of blockchain & A.I. applications and founders with a focus on compliance, track record and longevity. We provide a wide range of customized services to startups and entrepreneurs with investments, training and a global network of resources that are thoroughly dedicated to creating a thriving atmosphere for all pioneers within our ecosystem.

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