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As economic growth in Latin America slows, brands have to find new and unusual ways to connect with consumers via e-commerce says Fernando Armada, Chief Strategy Officer, MediaCom Latin America

Latin America has long been identified as a growth hotspot for global brands. In 2001, Jim O'Neill, then Chief Economist of Goldman Sachs, predicted that Brazil – as part of his so-called BRIC markets, alongside Russia, India and China – would grow faster than most developed countries and play an increasingly important role in the global economy.

For the next decade or so, this prediction was on the money, with neighbouring countries also performing well. But, in the last two or three years, the economic outlook in Brazil and across the entire continent has changed considerably.

Brazil saw huge negative growth in both 2015 and 2016 (by -3.8% and -3.6%) and while 2017 saw a rise, it was only to 1%. Similarly, while Mexico, the second-largest market in Latin America, enjoyed a slight upward swing in Q3 2018, with growth up 2.6%, economic improvement had previously been at a five-year low. Argentina, the third-largest market in the region, has just entered a recession expected to last until 2020.

Yes, smaller markets like Perú are enjoying genuine growth, but they aren't big enough to transform the financial fortunes of the region as a whole.

Opportunities and challenges

As in other countries around the world, new technologies hold the key to thriving in these low-growth environments. E-commerce, in particular, gives brands a huge new opportunity to connect with – and sell directly to – consumers across Latin America, wherever they may be. The opportunity is obvious. In developed countries, like the UK, e-commerce accounts for 8.5% to 9% of GDP, but in Brazil, it's just 1.5% to 2%.

Online marketplace Mercado Libre, LATAM's answer to eBay, was founded in 1999 in Argentina and leads the e-commerce category across the region – but Amazon is joining the party. The world's largest online store launched in Mexico in 2015, ramped up its presence in Brazil in 2017 and is now setting its sights on Argentina.

If global brands are going to succeed with e-commerce in this region and drive growth at scale, however, they will need to overcome two key challenges.

Firstly, people in Latin America don't trust e-commerce. This is largely due to online card fraud, which is rife in the region. In 2017, for example, 2.5 million e-commerce fraud claims were reported in Mexico – the highest fraud rate in the world. Additionally. according to a study by Konduto, in the first quarter of 2017, 18% of Brazil's population had had personal information stolen online.

Perhaps because of this, consumers in the region are more trusting of retailers who have

physical stores they can visit in person. This presents an obvious barrier for e-tailers entering Latin America of the first time.

Secondly, in some Latin American countries, only small numbers of consumers have credit cards. In Mexico, for example, nearly one in two people (42%) don't have one. That's a huge barrier because not all websites allow purchases to be made with debit cards. The solution for some brands has been pre-paid cards sold in convenience stores. Brands like Spotify, Netflix, iTunes, Uber and the PlayStation Store have all tried this method.

Creative solutions

Progressive brands should seek creative solutions to overcome these barriers – particularly when dealing with younger consumers, who are more open to digital purchase options.

In Mexico, for instance – a country where the average person drinks 700 cups of Coke a year, nearly double what Americans drink – Coca-Cola has launched Coke at Home, its own home delivery platform. Coke, which wants Coke at Home to be "the preferred direct delivery platform" for Mexican consumers, launched the venture in eight major cities in 2017. So far, it has attracted 400,000 users and delivered 7.6m orders.

Elsewhere, Peugeot Argentina has created an official store on the Mercado Libre platform. Consumers are now able to reserve a car in four simple steps in a safe and transparent way. They can choose from four different models and access exclusive content about each car.

Next steps

Despite slow GDP growth, e-commerce represents a huge opportunity in Latin America. Right now, it represents 2.4% of total sales, but in the next three years, we expect that will grow to 3.5%. That's a rise of U$S 82.33 billion.

By being creative about the way they approach this opportunity, brands can overcome consumer anxiety about this channel and build trust in their e-commerce operations.

And by carefully managing the data they collect from these channels, brands can get to know their consumers better, optimise their media investments, and create targeted campaigns that reinforce and expand digital buying habits.

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