

# E-commerce in Brazil: an overview<sup>1</sup>

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## I. Introduction

Globalization and Internet have been creating new business opportunities. The online electronic commerce (e-commerce) is one of the outcomes of “New Economy” and is an international phenomenon. Nevertheless, contrary to the idea of globalization and internationalisation, the e-commerce between business and consumers doesn't necessarily stay with global features.

The regional dimension of the e-commerce in Brazil is also important and will be discussed in this note. This paper is organized as follows. First, a description of the Internet is made. The diffusion of the Internet created the conditions for fostering electronic commerce. Some characteristics of the Internet in Brazil are important to understand the stage and the possibilities of the electronic commerce in our country.

Next, e-commerce will to be discussed. The economic potential attributed to the Internet is associated to the e-commerce. The e-commerce can be divided in three categories:

- Among enterprises (B2B - business to business)
- From enterprises to consumers (B2C – business to consumer)
- From business to government (B2G)

Researches indicate that B2B and B2G is developing very fast, while B2C moves slowly. In this note B2C will be emphasized. The consolidation of online e-commerce must confront the resistance of the users with ingrained customs. Thus, the popularisation of Internet is a necessary, but not sufficient, condition.

## II. The Internet in Brazil

The opportunities created by economic globalization and the communication revolution are associated with the Internet potential. The access to Internet is

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a necessary condition for entrance in the New Economy, a source of dynamism for the economy. As a result, Internet businesses involve millions of dollars.

In Brazil, this process is observed in small scale, but it is also happening. Recently created firms have been sold for significant amounts. Banks and traditional enterprises acquired providers, sites and information technology enterprises, or have become their partners. This movement reflects the diagnosis that information technology is one of the main sources of increases in productivity and income<sup>2</sup>.

Commercial operations in the Internet were launched in the country in 1995.<sup>3</sup> Nowadays, approximately 6 million Brazilians have access to the Internet and, according to an Ibope<sup>4</sup> research, 1 million use the Internet to buy goods and services. The number of people accessing the Internet is growing fast and, despite the fact that Internet in Brazil is not so developed as in the United States or Europe, the country consolidated its leadership in Latin America.

Forecasts, based on income data, indicate that more than 50 millions Brazilians can be considered potential Internet users, what transforms Brazil in a strategic market. It is important to point out that this represents only approximately one third of the Brazilian population. The other two thirds are excluded of the digital economics due to the inequality in income distribution. They don't have enough income to buy and/or education to access a computer.<sup>5</sup>

Internet is being progressively incorporated to the quotidian and popularized. People use the net to pay their bills, exchange information (e.g. via e-mail), buy, participate in chat rooms and use services. For instance, in 2000, more

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<sup>2</sup> See "The Emerging Digital Economy"

<sup>3</sup> In 1995, the Communication Ministry and Industry and Commerce Ministry liberated the commercial operation of the Internet in Brazil.

<sup>4</sup> Ibope is one of the most important market research institute of Brazil.

<sup>5</sup> The exclusion of part of the population from the digital economy may increase the inequality in Brazilian income distribution in view of the fact that the one of main responsible for the economic dynamism is the Information Technology Industry.

than 10 million taxpayers (around 80 per cent of total) used the Internet to present their income tax returns (See table 1).

**Table 1**  
**Personal Income Tax**

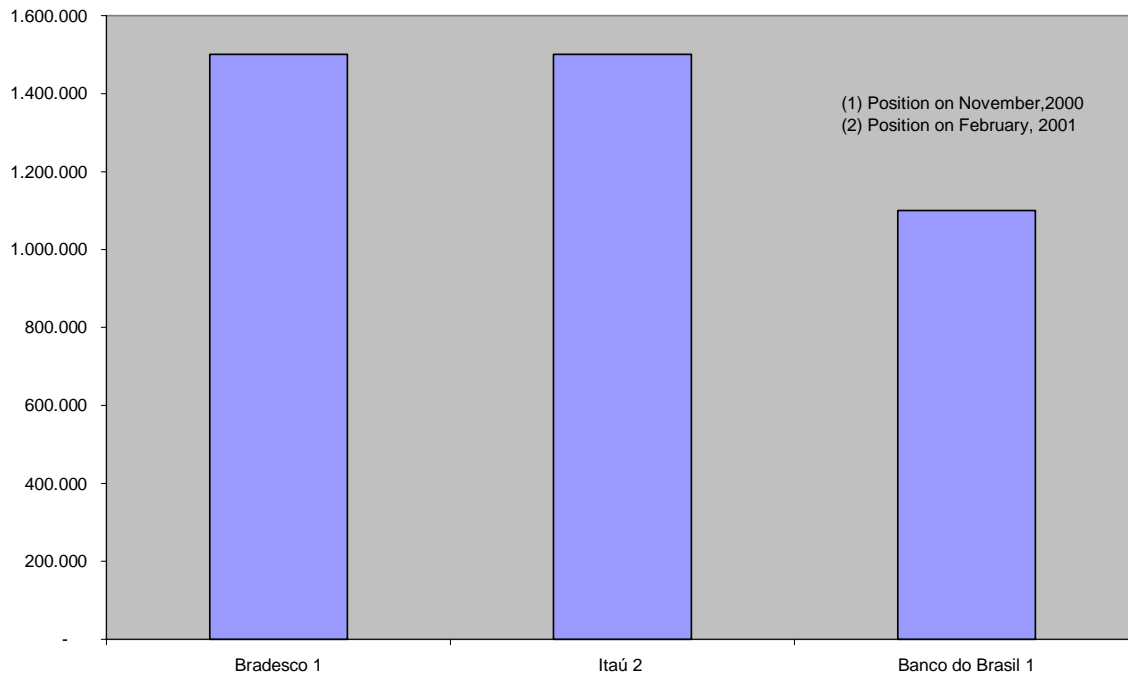
year	Impress	Diskette	Internet	Phone	Total
1996	4.288.900	3.310.520			7.599.420
1997	3.743.652	4.505.164	474.915		8.723.731
1998	3.234.495	4.839.182	2.707.664		10.781.341
1999	1.989.981	3.391.401	6.119.896	68.644	11.569.922
2000	1.171.182	1.073.564	10.063.239	32.679	12.340.664

Source: [www.receita.fazenda.gov.br](http://www.receita.fazenda.gov.br)

In the private sphere, online services have been diversified since 1995. Sites about everything one can imagine, offering all kinds of services and goods, can be found. The success of the "Home Banking" and its role in the boost of Internet in Brazil has to be stressed.

The high level of automation of the Brazilian banking services, which have improved significantly since the beginning of the 90's, facilitated the entrance of the banks in Internet. As clients are familiarized with the use of electronic cashiers to make their financial transactions, their resistance to do these same operations via Internet was reduced. Approximately 4 million account owners access banks though the Internet to perform different kind of operations, including bill payments or money transfers (Figure 1). The increase in the number of transactions via Internet implies reduction of bank operation costs.

**Figure 1**  
**Users of Internet Banking**



Source: [www.bb.com.br](http://www.bb.com.br), [www.itau.com.br](http://www.itau.com.br), [www.bradesco.com.br](http://www.bradesco.com.br)

Note: Bradesco and Itau are the biggest private commercial banks of Brazil. Banco do Brasil, the largest, belongs to Federal Government

The Brazilian government is making efforts to promote the information technology industry and to stimulate the use of the Internet. In this way, aiming to turn potential into effective users, the Brazilian government<sup>6</sup> finances the purchase of computers through loans with subsidized interest rates<sup>7</sup>. In parallel, implementation of the e-government is a priority for the federal government<sup>8</sup> and, on March 14<sup>th</sup>, 2001, a committee (the E-commerce Technical Committee) to discuss e-commerce issues was created

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<sup>6</sup> The Brazilian government strategy is based on:

- the supply of computer policy;
- the use of the Internet to turn itself more efficiently.

<sup>7</sup> Program financed by a public bank (Caixa Econômica Federal).

<sup>8</sup> See [www.bndes.federativo.com.br](http://www.bndes.federativo.com.br)

States and municipalities are also implementing the e-government. For instance, some states accept the communication of police occurrences by the Internet. Since the beginning of 2000, the São Paulo police has received 100 denunciation of vehicle steals per month, in average.

The increase of the free access to Internet since 1999 is another question to be emphasized. Following an international trend, the free access to the Internet in Brazil was introduced in 1999 and rapidly occupied an important market share. The profitability for the free ISP (Internet Service Provider) is assured by the publicity. Nowadays, there are more than 10 free ISP. Only the largest (IG-Internet Grátis) has 1.5 million of users. Nevertheless, free ISP sites are being turned in paid ISP. It is important to point out that banks continue to offer free access to their clients.

### III. The E-Commerce in Brazil

The e-commerce transactions are one of the most potentially profitable operations in the Internet. Brazil is, nowadays, the main Internet market in Latin America, accounting for US\$ 300 millions of a total turnover of US\$ 580 millions. (See table 2).

**Table 2**  
Latin American Online Retail Transactions and Internet Users - 2000

	Retail Transactions		People Online	
	US\$	%	Users	%
Brazil	300	52%	5.676.000	43%
Mexico	91	16%	2.772.000	21%
Argentina	82	14%	1.320.000	10%
Other Countries	67	12%	3.432.000	26%
Imports from the USA	40	7%	-	-
<b>Total</b>	<b>580</b>	<b>100%</b>	<b>13.200.000</b>	<b>100%</b>

Source: Online Retailing in Latin America (produced by BCI)

Despite the fact that Brazil has been responsible for more than half the value of online retail transactions in Latin America, online retailing represents less than 0,01% of the Brazilian global retail sales.

According to a 1999 Ibope´s research, 79% of those accessing the Internet have already made use of some product or service in the net; and others 18% affirm that they would use. However, as shown in table 3, Brazilian Internet users do not demonstrate much interest for buying through the Internet (see

Table 3). Furthermore, the research concludes that only 32% of the Internet users have already bought through the Internet. Another 48% declared that they have never bought, but they may; and 19% affirmed that they have not the intention of buying via Internet (See Table 4). In spite of the high level of rejection for buying through the Internet, it is possible to expand online retail sales

**Table 3**

**Interest of the Brazilian Internet Users for Buying in the 1999**

Internet shopping is	Distribution
Very interesting	14%
Quite interesting	15%
Interesting	23%
Of some interest	21%
Of No interest	27%

Source: 4<sup>th</sup> Research IBOPE/Cade

**Table 4**  
**Purchases in Internet**

Products	Have ever bought...	Would utilise...	Will not utilise...
Supermarket Items	7%	61%	32%
Books	22%	61%	18%
Compact Discs	20%	62%	17%
Softwares	16%	60%	24%
All products	32%	48%	19%

Source: 4<sup>th</sup> Research IBOPE/Cade

Brazilian online e-commerce is concentrated in books, compact disks, travel services, electronic goods and supermarket items. The online sale is simplified by the nature of these products<sup>9</sup>. Their homogeneity allows the appraisal of the trade-off between prices and quality. Initiatives of traditional retailing

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<sup>9</sup> There are exceptions as the sale of flowers (and its delivery in any place of the world), a differentiated service which is growing in the Internet.

businesses, which are investing in online framework, may introduce new products in this list.

Following the example of international sites as Amazon.com and Barnes-and-Nobles.com, there are some sites in Brazil specialized in books and CDs. In certain fields, the sales through the Internet tend to become representative in terms of global sales. Large Brazilian bookstores have set the main sites for books shopping. Furthermore, the majority of bookstores sell online. The principal Brazilian searching site (Cadê?) offers services of crossing information about main national and international bookstore sites. The sales of Compact Discs are also very disseminated. Sites of supermarkets, department stores, bookstores and ISP offer CDs.

In the electronic products sector, virtual space is correlated to the real space. Sites originated from traditional retail commerce – direct shopping, pontofrio, americanas.com, comprafácil (linked with Hermes – long distance sales), ambientair – predominate. The strategy is to use the goodwill achieved by traditional stores to explore the new way of doing business. The marketing of the retail shops often includes references about e-commerce sites. The absence of English or Spanish versions evidences that these sites aim at the Brazilian market.

Brazilian e-commerce sites often aren't very friendly. Many a time, it is not easy to discover information about the form of payment and freight. This probably happens because these sites are originated from traditional retail traders.

In the entertainment field, sites specialized in shows assure the sale of tickets for theatres, movies and spectacles. In the site [www.ingresso.com.br](http://www.ingresso.com.br), for example, one can buy online, print the ticket and present it at the entrance. In other sites, one can make the reservation online and pick up the tickets afterwards.

There are many Brazilian sites specialized in travel. Despite of the potential for tourism in Brazil, these sites are predominately turned to the Brazilian

consumer (there are no English or Spanish version). Besides of the travel agency sites, commerce via Internet is an attempt to create a new space of sales. These sites frequently are linked to ISP, as Uol and Terra.

Finally, an important trend in Brazil is the creation of virtual shopping centers. ISP sites have banners of different business. Also the commercial banks, as Unibanco and Itaú, are building virtual shopping centers. As banks had to build frameworks to set Internet Banking, which are accessed by more than 4 million clients access these sites, they explore this opportunity by renting virtual space for shop banners, thus indirectly promoting e-commerce.

#### **IV. Bottlenecks**

E-commerce in Brazil has increased very fast in the recent years, but its participation in retailing sales is very low yet. The performance of the electronic commerce in 1999 and 2000 has created an expectation of accelerated growth for the next years.

The change in the economy due to the Information Technology Revolution, however, generated new questions and updated old problems. In this section, the focus is set on the telecommunication problems.

Telecommunication services supply in Brazil can be considered a bottleneck to the expansion of the new economy. In the nineties, the telecommunication sector was privatised by the Brazilian government. In the privatisation process, the Brazilian market was fragmented and each part sold to a different company. One of the motivations was to assure the necessary investment for competition in the New Economy. Phone lines offered, even in the richer areas, are still insufficient to satisfy the demand and, sometimes, present a low quality, slowing down speed of access to the Internet.

High tariffs and pricing (based on the duration of the call) are also obstacles to the expansion of the Internet in Brazil. Alternatives to telephone lines, as cable internal, only recently became available. These are expensive services, which are supplied only in a few areas of the country.

Despite of the fact that Brazilian Market has been become strategic in this process in reason of its effective performance and its potential, some problems, as these present in telecommunication, have been slowing down the growth of Internet in Brazil.

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