

# ***What is behind the facade?***

*Opportunities for the Netherlands in the sector*

*E-Commerce in Mexico*



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Embassy Kingdom of the Netherlands in Mexico

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## 1. Introduction

During the global COVID-19 pandemic we realized that we should digitalize even more right now, not one day later. In two months we made progress that was expected to take place in years from now. We are all in a roller coaster of changes and the fastest will be able to take a seat.

Mexico, as one of the most promising countries of Latin America, has a high potential for E-commerce. Mexico is now where the Netherlands was about 10 years ago, but the changes that are happening right now Mexico will make huge steps. The Netherlands can walk hand-in-hand with Mexico to make these steps with the good practices of the past and our innovations for the future.

This report will give a non-exhaustive overview of the Mexican E-commerce sector and the opportunities and challenges for Dutch companies that are interested in trading overseas.

## 2. The definition of E-commerce

The CBS (Dutch statistics institute)<sup>1</sup> defines E-commerce as receiving or placing orders for goods or services using electronic networks, regardless of how these goods or services are paid for or delivered. Orders by telephone, fax or e-mail are not included. These transaction include sales through the Internet as well as through other - often more specialised - networks.

Its Mexican counterpart INEGI (Mexican statistics institute)<sup>2</sup> defines E-commerce as the process of buying, selling or interchanging products, services and information by electronic networks for which can be paid online or offline.

In this study we refer to E-commerce as the buying and selling of goods or services using the internet including all the processes of operating an online business as payment, logistics, marketing, customer experiences and front and -back office.

## 3. Dutch strengths in E-commerce

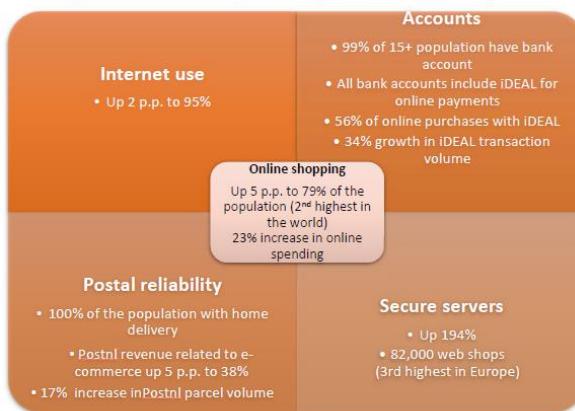
The Netherlands is leading the list of UNCTAD's Business-to-Consumer (B2C) E-commerce Index<sup>3</sup> because of its highest score on access to secure internet servers, the reliability of postal services and infrastructure, and the portion of their population that uses the internet and has an account with a financial institution or mobile-money-service provider (Figure 1).

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<sup>1</sup> CBS (2006) E-commerce. CBS. Consulted on June 2020 through: <https://www.cbs.nl/en-gb/news/2006/50/slower-growth-for-e-commerce-in-the-netherlands/e-commerce>

<sup>2</sup> INEGI. Comercio electronico. INEGI. Consulted on June 2020 through:  
<https://www.inegi.org.mx/temas/vabcoel/>

<sup>3</sup> UNCTAD, 2019. UNCTAD B2C E-COMMERCE INDEX 2019. UNCTAD Technical Notes on ICT for Development N° 14



Source: Eurostat, World Bank, iDEAL, PostNL, Ecommerce News, Thuiswinkel.

Figure 1. Data on online shopping, internet use, accounts, postal reliability and secure servers in the Netherlands.<sup>3</sup>

Strengths of the Netherlands in E-commerce are technology and services to facilitate e-commerce like payment services, Enterprise Resource Planning (ERP), Costumer Relation Management (CRM), marketing, API (connecting the different software used) , warehousing and drop shipping.

In the following table you can find a SWOT analysis of the Dutch E-Commerce sector.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Focus on innovation and sustainability</li> <li>Combination between business, government and universities</li> <li>Good market position and international name</li> <li>Processes to facilitate E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>Mainly focused on European and more developed market</li> <li>Relative high cost of products and services</li> <li>Language</li> <li>Physical distance to Latin America</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>COVID-19 has accelerated digitalization and e-commerce world wide</li> <li>Internationalization, market opportunities for Dutch products</li> <li>Cross-over between sectors, new networks and new collaborations between different sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Competition of other players in the market.</li> <li>Online presence of international experienced markets versus less experienced retailers</li> </ul>

## 4. E-commerce development in Mexico

### 4.1 Business to Consumer

#### *Demographic information*

Around 128 million people are living in Mexico and the average age of the Mexican is 28 years old, about 85 percent is between the ages of 18 and 45. The last 4 years internet use has increased substantially, from 57% to 70% of the population above 6 years. Though available internet connection at home is only 56%, mobile phones use is 75%.

Almost fifty percent of the online buyers live in the center of Mexico (including Mexico City). One of the main reasons of this conglomeration are the two metropolitans: Mexico City and Guadalajara in this zone and as well the internet access that differs between urban and rural areas 77% - 48%, whereas north and south Mexico are considered more rural<sup>4</sup>.

#### *Shopping profile*

Over the the last years the percentage of people buying online has increased to almost 40% it is expected that this growth will continue (Figure 2).

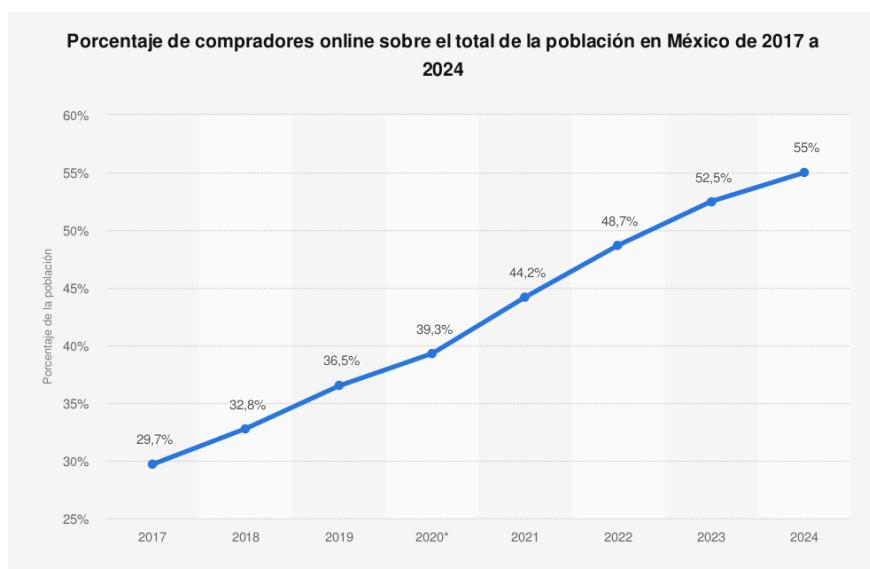


Figure 2. Percentage of online buyers over total population in Mexico 2017-2024.<sup>5</sup>

Asociacion de Internet MX<sup>6</sup> reveals in its latest research that the transaction value for 2018 was 25.5 billion dollar (+24% compared to 2017). The first semester of 2019 reflects an increase of 22% compared to the first 6 months of 2018 (Figure 3).

<sup>4</sup> INEGI. ICT in households. Consulted on July 2020 through: <https://en.www.inegi.org.mx/temas/ticshogares/>

<sup>5</sup> Statista (2020). Porcentaje de compradores online sobre el total de la población en Mexico de 2017 a 2024. Consulted on July 2020 through: <https://es.statista.com/estadisticas/703404/tasa-penetracion-comercio-electronico-mexico/>

<sup>6</sup> Asociación de internet MX ( December, 2019). Estudio sobre Comercio Electrónico en México 2019.



Figure 3. Transaction value of E-commerce (Mexican pesos) in Mexico<sup>6</sup>

Mexican consumers start browsing products on his mobile phone, but is more likely to purchase on desktops (70% over 25% desktop or mobile made sales). Mobile shopping is growing though and since COVID-19 in-app sales increased.

Mexicans used to buy more services than products online, but since COVID-19 changes in consumer behavior occurred due to closure of physical shops. Many Mexicans started to shop online and most sales categories had 50% to 100% more sales than before march 2020. It is expected that numbers will lower, but a trend is set and trust in online shopping has increased by 21% during this period<sup>7</sup>.

Online retail events have been another important factor to increase costumer trust. The main events are in order of importance the December holidays, Buen Fin (sales weekend in November), Hot Sale (online sale weekend in April), Cyber Monday and Mother's day.

Mexican consumers remain loyal to their brands. Though having a variety of options can definitely test consumer loyalty as other factors are getting more important (service and delivery). They prefer a Spanish site with a Mexican domain name. If they use foreign sites it's preferred to buy from the USA, China, Japan, South Korea and Germany<sup>8</sup>.

A study from AMVO<sup>9</sup> shows that the top 5 reasons for buying online are: receive the product at home, time reducing, possibility to compare price and products, only available online, products from abroad. It is found important to receive the product in perfect conditions, being punctual on the delivery and clear on devolution options. On average consumers search on 5 different information sources before buying. As off lines shoppers are worried about the security of buying online, 70% of the online shoppers feel secure while shopping. For which it is important to make shopping online attractive for offline shoppers in terms of security.

<sup>7</sup> Information revealed in a webinar by AMVO June 2020.

<sup>8</sup> Societe Generale Import & Export services. (2020). Consulted on August 2020 through: <https://import-export.societegenerale.fr/en/country/mexico/ecommerce>

<sup>9</sup> AMVO (2020). Estudio sobre venta online en Mexico 2020.

### *Payment*

In Mexico only 47% of the adults have a bank account<sup>10</sup>, and cash payments are preferred above card payments (95% of sales below \$25). Common practice is the ordering of products via mobile and then paying for them in cash at convenience stores, with Oxxo standing as the retail chain that is leading this method.

The future of digital transactions is favorable and yet we see big steps taken during the pandemic COVID-19 with new launched digital payment methods for SME's and increased use of the methods.

Credit and debit cards are used as payment methods mainly by the middle class population. Credit cards are often used to obtain credit without interest (3 up to 24 months without interests are commonly used). Cash and digital wallets are the second-most used payment method, each taking a 17 percent share of the overall e-commerce payments market<sup>11</sup> (Figure 4).

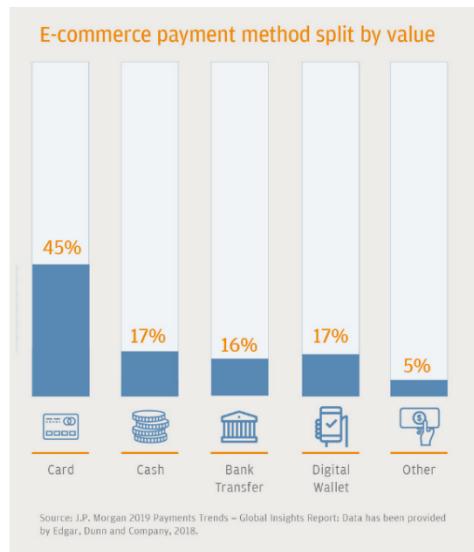


Figure 4. E-commerce payment methods split by value<sup>11</sup>.

With the upcoming megatrends expected in digital payment: universal access to payment credentials in the digital space, universal access to digital points of sale, security of data, automated commerce as Internet of Things and 5G changes will occur rapidly in Mexico<sup>12</sup>.

### *Social Media*

Mexicans are very active at social media and use it for shopping, as shoppers increasingly click through to shopping sites via social platforms. At present, Mexican citizens spend three hours and 46 minutes on social media every day. Facebook is

<sup>10</sup> NEXOS (2019). La inclusión financiera en México más allá de la bancarización. Consulted on August 2020 through: <https://economia.nexos.com.mx/?p=2214>

<sup>11</sup> Morgan (2019). E-commerce Payment Trends: Mexico. Consulted on August 2020 through: <https://www.jpmorgan.com/merchant-services/insights/reports/mexico>

<sup>12</sup> Mexico Business (2020). Four megatrends payment methods. Consulted on July 2020 through: <https://mexicobusiness.news/finance/news/four-megatrends-payment-methods?tag=fintech>

the most-used site (90% of internet users has Facebook ), followed by Pinterest, Twitter, YouTube and Instagram<sup>8</sup>.

## 4.2 Business to Business

### *Retail and export*

In 2019 E-commerce in Mexico represented 5% of GDP<sup>2</sup>. As revealed in a study from AMVO 2020<sup>13</sup> 6 out of 10 SME's sell on the internet; that is an increase of 94.6% versus 2019. Mainly social media and big platforms like Mercadolibre and Amazon (Annex 1) are used to offer products and services. About 54% of the SME's are interested in expanding their business by exporting main focus is on USA and second Latin America. Nowadays two out of 10 SME's export their products which represents 35% of their sales.

### *Big Data, API's, Artificial Intelligence and operational software*

In 2015 A.T. Kearney and Google Mexico<sup>14</sup> visualized the website, purchase and delivery experience in Mexico (Figure 5). This figure still reflects the main challenges for Mexico to improve the customer journey experience. Therefore Mexico needs more experienced and developed business of operational software, AI, API's etc. More information can be found in a research from the British Embassy about AI in Mexico<sup>15</sup>.

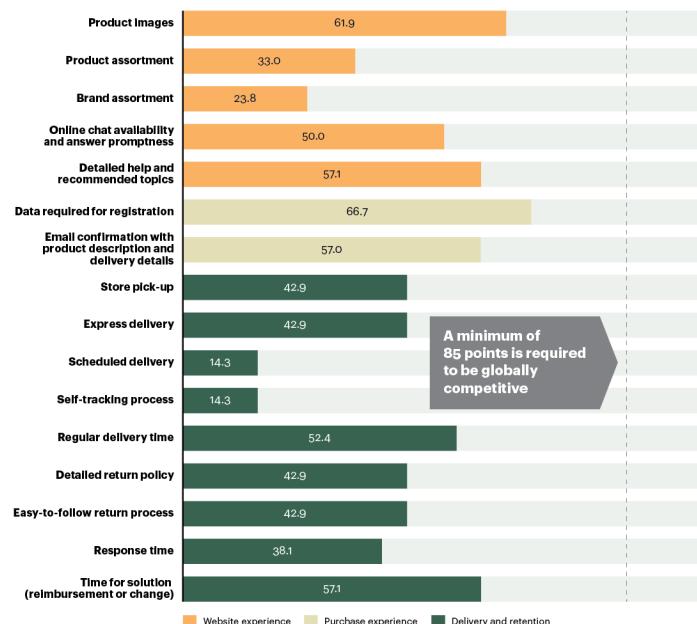


Figure 5. Mexico's retail leaders face an array of challenges<sup>14</sup>.

<sup>13</sup> AMVO (2020) Estudio Venta Online PYMES 2020.

<sup>14</sup> Kearney. (2020). The tipping point for e-commerce in Mexico. Consulted on August 2020 through: <https://www.es.kearney.com/consumer-retail/article/?/a/the-tipping-point-for-e-commerce-in-mexico>

<sup>15</sup> British Embassy. (June 2018). Towards an AI strategy in Mexico. White paper by the British Embassy.

### *Payment Methods*

Mexico is developing respecting payment methods at a high rate. While payment systems tend to be highly complex a broad range of payment methods is available to not exclude any potential clients.. Security and fraud are topics mentioned to switch to more developed payment service providers. Mexico needs more secure payment methods which have developed over experiences.

### *Logistics*

The logistic network in Mexico is the best in Latin America, mainly the central zone and urbans zones are well connected, more south and north distribution is more challenging in time and cost. UPS, DHL, FedEx are covering most of the Mexican states, expect a few highly remote zones. Another positive logistic point is the increase in sales of commercial vehicles over the last years. The main reason is to lower operational costs<sup>16</sup>. As seen in Figure 5 in transparency on the shipping and delivery has a big step to be made. A logistic weakness is the high rate of cargo thefts in Mexico.

As a main chain in the sales process it is important to coordinate with the different software systems and since drop shipping and warehousing are coming up investment in innovative logistic options for Mexico are welcome.

### *Drop shipping and warehousing*

Drop shipping from Mexico might challenging as most companies are minimally digitalized. Most work with excel, some with SAP, but as well pen and paper are still a way to register inventory. Though COVID-19 has made people change to digitalization so it is definitely an option to investigate.

The sector's share of industrial space leased in Mexico increased from 23 percent to 45 percent since 2014. Both E-Commerce and the new trade agreement between Mexico, Canada, and the US, and a growing interest among Chinese investors in serving the US from Mexico will boost the growth for warehousing in Mexico<sup>17</sup>

### *Knowledge*

Most SME's require innovation and orientation for digitalization (marketing, webshop, client services, market places and infrastructure) and new business models<sup>7</sup>.

The omnichannel service needs to adapt to have an optimal customer journey online. Increase the trust of the customer by multi ways of explaining the quality of the product and the constant feedback on shipping and delivery. About 70% of the businesses who started digitalization failed in the first year due to high expectations and having digitalization as a goal and not a tool for the future. It is important to increase knowledge on the digitalization of the businesses and data availability by the government and research institutes<sup>18</sup>.

There is a need for customized marketing tools that connect their social networks to reduce the time spend in basic costumer service as well as a tool that streamline

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<sup>16</sup> <https://www.automotores-rev.com/record-en-ventas-de-volkswagen-vehiculos-comerciales-en-2019/>

<sup>17</sup> Joc.com (February 2019) Freight growth drives Mexican warehousing boom. Consulted on August 2020 through: <https://medium.com/@xpass/mexicos-digital-growth-f350e1ed02a4>

<sup>18</sup> ISDI (March 2017). Retos del E-commerce Mexico 2017.

their workflows and processes. A cooperative eco-system that boosts SME's businesses and sales would be a great opportunity.

## 5. SWOT analysis E-commerce market in Mexico

Mexicans main trade partner is the USA. Mexico is placed in a very favorable position with ports on both sides (Atlantic and Pacific Oceans) to Europa, Asia and Australia, distribution centers can profit from this exceptional position.

According to The Digital Evolution Index published in 2018, Latin American region is experiencing a digital growth spurt. They consider 4 key drivers: demand, supply. Institutional environment and innovation. One of those rapidly advancing countries is Mexico (Figure 6). Mexico's digital advancement is driven by relatively stable institutions, innovation mindset, and improvements in information and communication technology infrastructure<sup>19</sup>.



Figure 6. Digital Growth Index for Latin American countries based on demand, supply, institutional environment and innovation<sup>19</sup>.

That exponential digital growth in Mexico is driven by following factors: the rising middle class and high percentage of the population lives in urban areas (80%), highest smartphone penetrations in the world and high levels of internet access in the region.

In the following table a SWOT analysis on the Mexico E-commerce sector is visualized.

<sup>19</sup> Xpass (April 2020). How can your business keep up with Mexico's fast-paced digital growth? Consulted on August 2020 through: <https://medium.com/@xpass/mexicos-digital-growth-f350e1ed02a4>

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Mexico is a growing market with high potential (2<sup>nd</sup> in Latin America)</li> <li>Mexican population average age is 28 (young, middle, urban class the e-commerce population)</li> <li>Mexico is the number one in use of mobile devices</li> <li>43 Free Trade Agreements Globally</li> <li>Sector value growth 24%</li> <li>Positive start up culture</li> <li>Best logistic network in Latin America</li> <li>Use of social media by Mexican population</li> </ul>	<ul style="list-style-type: none"> <li>Low level of confidence by customer and retailer in security of e-commerce</li> <li>Low level of local knowledge on FinTech and digitalization</li> <li>Complex logistics processes</li> <li>Few governmental policies</li> <li>Penetration of bank account holders is low</li> <li>Old fashioned banking system</li> <li>Choice of safe and secure payment methods</li> <li>Fraud with credit cards</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>COVID-19 has accelerated the digitalization world wide</li> <li>Customer journey</li> <li>Main trade partner USA</li> <li>Product assortment</li> <li>Financial inclusion is a goal of the government</li> <li>Chinese trade with USA requires warehousing</li> <li>Specialized assistance and workshops to increase digital knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Online presence of international experienced markets versus Mexican less experienced retailers</li> <li>Robbery on transport affecting delivery</li> <li>Corruption and informal sectors</li> <li>Copying of brand names</li> </ul>

## 6. Porters model

### 6.1 Threats of substitutes (low/average)

During COVID-19 the world realized that we had to substitute physical shopping by digital shopping and services had to be mainly offered online as much as possible. This made businesses aware of the importance of digitalization. This is not an ending process, it is the refresh of an already existing trend. In Mexico this trend is young, but gaining interest at a high speed.

Therefore many companies realized they need to digitalize and automatize their processes for which operational software is becoming highly important. The payment systems will become more relevant as cash will be losing the battle with cards and digital payments in Mexico. And as well the logistic sector realized that their systems are lacking innovation and capacity as a result of increased demand.

## 6.2 Threats of new entrants (average)

Mexico scores 60<sup>th</sup> on the list of 190 countries in ease of doing business<sup>20</sup>. Furthermore Mexico has 43 Free Trade Agreements which makes the country an interesting trade partner.

The language spoken in Mexico is Spanish and most people do not have sufficient knowledge of English. In Mexico it is important to have a local presence of your company. Gaining trust by hiring local employees and important local brands as customers or partners will help you to position yourself quickly. Mexican business is based on personal contact and lunch or dinner appointments above pure business contact and e.g digital correspondence as in the Netherlands is a common way of doing business.

The banking system is old fashioned and it is important to have a secure payment service provider to reduce fraud and charge backs from credit cards.

## 6.3 Buying power of buyers (average)

When we look at the average age of Mexicans and the growing middle class, knowing E-Commerce is a fast growing market, Mexico is one of the most promising countries in the world. Therefore and with the changes made during COVID-19 there is a need for e.g. good digital business software and increased logistical systems. As many companies were not prepared for digitalization the consequences of COVID-19 made them realize that their lack of knowledge and adequate technology has to be fulfilled. As digitalization in-house is a high cost investment many companies will opt for the outsourcing. An opportunity for the Netherlands can be found in offering specialized assistance and workshops or courses for company employees.

## 6.4 Power of suppliers (high)

In the E-Commerce sector the power of the suppliers is high as the companies need the operational software, logistical innovations, payment providers to be a digital success.

In the retail sector the big marketplaces have a lot of power, but the Mexican bigger companies and SME's are interested in growing and are investigating their export opportunities. Which is an opportunity to use operational software and payment providers with years of international experience.

With a favorable physical location of Mexico, close to the USA, companies need the best logistics opportunities in terms of e.g. warehousing and transparency during the shipping with customer friendly track and trace.

## 6.5 Threat of competition (average)

E-commerce is a sector with some big players active all over the world. Still there is a big upcoming market right behind them. In E-Commerce the competition is high as physical country boundaries are easily erased, therefore positioning, diversification

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<sup>20</sup>Trading economics (2020). Ease of doing business in Mexico. Consulted on August 2020 through:  
<https://tradingeconomics.com/mexico/ease-of-doing-business>

and marketing are key factors to stay competitive. In Mexico at B2B level there is not much competition and the saying first comes first serves might be applicable.

## 7. Conclusion

The E-Commerce sector in Mexico is a promising growing market with at the consumer side the favorable situation of the growing middle class and 85% of the Mexicans are aged between 18 and 45 years. Mexico has an e-commerce sale of 25.5 billion dollar (2018), while the Netherlands already pass these numbers with only 17 million people. The Mexican E-commerce market is young, opportunities are plenty. At the B2C side product variety in luxury goods is a promising topic and B2B service providers in the sectors logistics, payment and operational software are opportunities to initiate, optimize and innovate the online businesses in Mexico. The customer experience which is crucial for a growing E-Commerce sector. This is where the Dutch innovation and knowledge comes in. To optimize the linkages and the processes in the Mexican companies to finally fulfill the customers wishes. Mexico is ready for the next step, are you?

## Annex 1: Market place in Mexico

In Mexico mainly USA based E-Commerce sites are active, but the leader is the Argentinean MercadoLibre. Nonetheless the number 4 and 5 of the list are Mexican nationals. Digitalization in supermarkets is still a very thin layer. You choose your products online, a person shops for you in your selected supermarket, your ticket will be made and a delivery man will bring it to your door step or you can pick it up on store. Automating of this process might be more expensive than hiring more people. During COVID -19 Walmart hired high numbers of employees to full fill the orders<sup>21</sup>.

Top 10 E commerce Sites Mexico 2020			
E-commerce sites	Founded	Monthly visitors	Category
Mercadolibre	Argentina	127.64 million	Marketplace
Amazon Mexico	USA	63.76 million	Marketplace
Walmart Mexico	USA	27.66 million	Department store
Coppel	Mexico	23.21 million	Department store
Liverpool	Mexico	21.81 million	Department store
Sam's Club	USA	6.9 million	Warehouse Club
Home Depot Mexico	USA	6.45 million	Home improvement Supplies
Best Buy Mexico	USA	4.59 million	Mainly Electronics
Sears Mexico	USA	4.08 million	Department store
Ticketmaster Mexico	USA	3.25 million	Ticket sale and distribution
Based on <sup>22</sup>			

<sup>21</sup> Forbes (2020). Negocios Walmart contrata a más 7000 para atender la alta demanda covid 19. Consulted on July 2020 through: <https://www.forbes.com.mx/negocios-walmart-contrata-a-mas-7000-empleados-para-atender-la-alta-demanda-coronavirus-covid-19/>

<sup>22</sup> Ecommerce guide (2020). Top 10 E-commerce sites in Mexico. Consulted on July 2020 through: <https://ecommerceguide.com/top/top-10-ecommerce-sites-in-mexico/>

## Annex 2 Events and Expo's in Latin America

There are different events and expositions related to E-Commerce in Latin America. The eCommerce Institute has launched the primer guide *Guía Regional de Proveedores de Soluciones* for the sector Digital Commerce in Latin America. <https://ecommerce.institute/esoluciones/>

March: E-Show <https://www.the-eshow.mx/>

Octubre (2020 digital): E-Commerce Summit and Expo ECSE <https://www.ecse.mx/>