

# Brazil's mobile sector threatens to confound PayPal expansion

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The comeback story is rare in the dot-com world, but eBay is poised for a resurgence. As part of its reboot strategy, the company is betting PayPal's international expansion on Brazil.

PayPal, the Web payment company eBay bought a decade ago, burst into Brazil's retail scene two years ago, determined to strike it big. On a call with analysts and reporters last month, eBay CEO John Donahoe said PayPal's popularity in Brazil is soaring.

But its success has been mostly with [Web retailers](#), and what it really needs to succeed is to conquer the Brazilian [mobile market](#). How successful PayPal is in Brazil's mobile sector could determine its success in other markets that are part of PayPal's global expansion.

Challenges await in Brazil. With limited mobile Web access, a smartphone shortage, challenges from Brazilian mobile carriers and competition from home-grown startups, PayPal faces a thorny environment that threatens to stall its growth there.

"PayPal will find big competitors in Brazil," said Eduardo Henrique, co-founder of Movable, a mobile publishing platform with offices in Brazil and [Silicon Valley](#). "Almost nobody sees PayPal as an option for mobile. Their product is not as good as the others."

Some experts say PayPal hasn't yet figured out the peculiarities of Brazil's [mobile industry](#). And in a country where more people own

phones than computers, and would rather shop from their phones than an Internet cafe, the lack of a surefire mobile plan is a problem.

"The potential of m-commerce is much, much greater than e-commerce," said Brazil native Ron Czerny, a longtime Silicon Valley entrepreneur and founder of mobile gaming network PlayPhone.

"Everyone has a phone and purchases through phones. Not everyone purchases through PCs."

In Brazil, it's go mobile or go home. Cellphones, but not smartphones, are king, and computer and Internet access remains scattered. About 42 percent of people have Internet access, and there are about 70 million PCs for a country of 197 million. But almost everybody in Brazil - young and old, poor and rich - has a phone. The country has about 260 million cellphones, about 130 phones per 100 people, and mobile users have more than doubled since 2007, according to Teleco, a Brazilian telecommunications research company.

Electric bill, water bill, phone bill - many Brazilians pay their monthly expenses on their phone through a mobile carrier, Czerny said. Buying clothes, Christmas gifts and baby diapers is a natural next step for the country recently named the fifth-largest mobile phone market in the world by telecommunications research firm BuddeComm.

If PayPal can figure out how to reach people on their phones, it can tap into large and diverse swaths of consumers in a country with limited transportation and infrastructure. But that's not easy for a company that has been tethered to PC and smartphone shopping since its inception. In Brazil, only about 15 percent of mobile customers have smartphones. Analysts say taxes keep smartphones out of reach for many; an iPhone can run \$1,100.

Without the luxury of smartphones, PayPal's entry into mobile depends

on partnerships with mobile carriers to facilitate cell purchases without Web access. The success of these partnerships, said Henrique, will determine whether PayPal is successful in Brazil. But there is little incentive for Brazilian [mobile carriers](#) to help an American company compete in a space where they have long had control.

"Carriers do not like it; they see it as a threat," said Czerny. "So they put up barriers for PayPal."

PayPal knocked down some of those barriers when it announced a partnership with Brazilian mobile company Vivo in August. The companies created a messaging technology that works without Internet and allows customers to use PayPal on their phones to buy minutes.

More than 80 percent of all Brazilian cell phone users have prepaid phones. Before, when Vivo users wanted more minutes, they had to buy them at a grocery store or corner store. PayPal removes that step.

"We are hugely convenient," said Mario Mello, head of Latin America for PayPal.

Mello said PayPal plans to expand the program to allow Vivo users to shop any of the 50,000 PayPal merchants in Brazil from their phone, without Internet. That technology is at least a year out, though.

The partnership - PayPal's first with a Brazilian telecommunications company - is widely considered an innovative move for the San Jose, Calif., company, but some experts don't have high hopes. The payment system requires a credit card, which 1 out of 4 adults does not have.

That's not to say PayPal hasn't done well in Brazil. With the country's e-commerce boom - an \$11 billion industry that is expected to grow an additional 25 percent this year - retail websites and e-commerce

aggregators have flourished in the past few years, and Brazil has given birth to its own versions of Amazon.com and Etsy. Many now bear the familiar blue and yellow PayPal logo.

"Anything that e-retailers can do to give the perception of security, and safety and trust, they'll do. That's where PayPal has huge opportunity," said Renata Streit Quintini, a Brazil native and partner at Palo Alto, Calif., firm Felicis Ventures.

PayPal's fraud-detection capabilities and customer service far surpass many Latin American companies, easing fears among Brazilians of getting ripped off. Quintini, who is an e-commerce expert with nonprofit BayBrazil, which fosters business relationships between Silicon Valley and Brazil, said that about one-third of Brazilians who don't shop online say they are afraid of disclosing their bank account information. PayPal, she said, is a reassuring alternative.

But PayPal isn't the only game in town. Czerny said the Brazilian Web payment service PagSeguro is popular, and MercadoPago, which started in Argentina and expanded to Brazil, is another preferred option. Wal-Mart uses MercadoPago for online shoppers in Brazil.

Brazil's thriving startup sector will likely generate more challengers. The lively scene caught the attention of PayPal co-founder Peter Thiel, who recently invested millions in an e-commerce startup.

"PayPal faces a lot of competition worldwide, not just in Brazil, and there are plenty of startups in the payment space," said Colin Sebastian, an analyst with Baird Research.

Or it could be that PayPal is well situated to take a risk. Despite the company shedding about 400 jobs in what's being called a "restructuring," PayPal continues its upswing, posting a 23 percent

revenue increase in the third quarter of this year compared to 2011. The strong gain helped eBay beat Wall Street expectations.

PayPal may hang on long enough to ride out the challenges in Brazil. The tech landscape will look completely different in a few years, and [PayPal](#) may find its sweet spot. Sales of phones running Google's Android operating system are expected to skyrocket, and some analysts expect [eBay](#) Marketplace will soon expand to Brazil.

Said Mello: "It could take two years, it could take four years, but change will come very fast in Brazil."

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