

# MercadoLibre Defies Skeptics as Spending Spree Begins to Pay Off

For years, the Argentine company invested heavily in a transportation network to help grow its e-commerce platform, the success of which has enabled it to branch into more profitable lines of business, such as consumer credit. In a volatile economic environment, MercadoLibre is a reminder of the growth and earning power of high-quality companies outside the US.

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## Key Takeaways

- MercadoLibre is the leading e-commerce platform in the fast-growing markets of Brazil, Mexico, and Argentina. Next, it wants to become their largest digital bank.
- The synergies between its e-commerce and consumer-credit businesses, including data-sharing and advertising opportunities, have given it a unique competitive edge.
- E-commerce penetration is still low in Latin America, and many consumers still don't have credit cards, which leaves a large growth opportunity, especially if the economy in places such as Argentina stabilizes.

MercadoLibre is Latin America's most popular online marketplace. But to call it the "Amazon.com of Latin America," as US investors and media sometimes do, would fail to convey the company's distinctive journey—and the ample room it has left to grow.

One differentiating element is the literal terrain in which the business operates. Unlike the US, where UPS and FedEx have long served as reliable couriers for e-commerce companies, swaths of Latin America lack robust third-party shipping infrastructure, partly due to the region's high proportion of unpaved roads (more than 60% as of 2018, twice as many as the US). Therefore, scaling MercadoLibre's digital platform has largely depended on costly investment in the physical world: myriad logistics centers that now add up to several hundred football fields, thousands of last-mile delivery vans, and even airplanes so it can offer next-day shipments to remote towns. Capital expenditures have soared to create these systems, from a mere US\$18 million in 2012, the year before the company launched its Mercado Envíos fulfillment and shipping service, to US\$860 million in 2024.

For a while, investors were skeptical of all that spending, adding to the bevy of risks many already associate with companies in developing countries. As losses piled up, some wondered if MercadoLibre would survive. How the company overcame those doubts to post a nearly 13% operating margin last year reflects the ingenuity of its long-term strategy: Not only did all those investments in logistics finally produce a significant competitive advantage and captive user base, but that user base has also become the launchpad for a consumer-credit business in markets such as Brazil and Mexico—an expansion that has boosted the company’s fortunes.

Margins in the retail industry tend to be narrow—even Amazon’s e-commerce profits, until recently, were low and erratic, partly due to its own investments in logistics. The tech giant makes most of its money from Amazon Web Services (AWS), the division comprising its cloud-computing platform and data centers. Likewise, for MercadoLibre, consumer loans and credit cards have become a source of sustained profitable growth to support the broader company.

“The company found its own AWS,” said Sergei Pluitsinski, an analyst covering consumer companies for Harding Loevner. “They found it in credit, and credit is a very profitable business.”

In fact, the expansion into financial services has been so successful that Chief Executive Officer Marcos Galperin—who founded MercadoLibre in 1999, after being inspired by eBay as an MBA student at Stanford University—has broadened his vision for the company. He wants the e-commerce leader to become the region’s top digital bank, too.

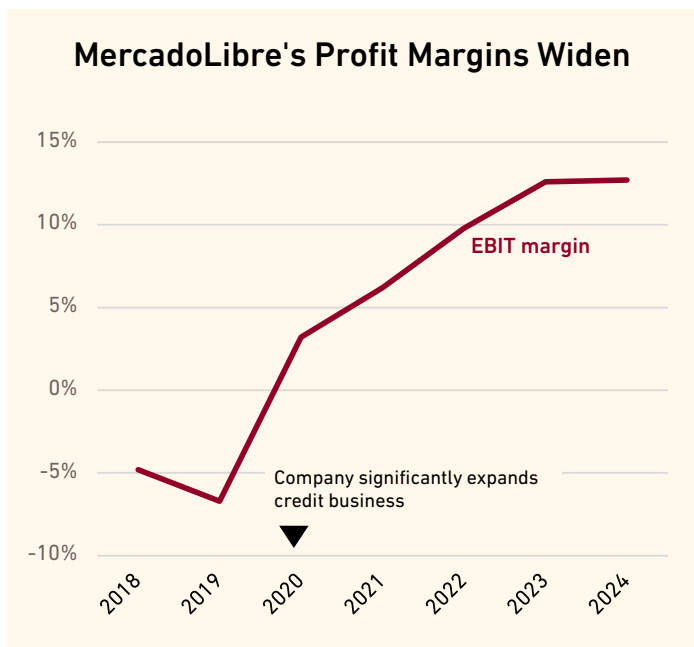
Despite the macroeconomic challenges in its home markets and the competition it faces across its business—from Chinese

e-commerce apps to local incumbent banks—MercadoLibre continues to prove the skeptics wrong. After reporting strong earnings in February, the company announced in April that it is stepping up investments across the region this year. It plans to spend nearly US\$6 billion in Brazil, plus an additional US\$6 billion spread among Mexico, Argentina, and Chile, with much of the money going toward additional warehouse space and hiring thousands more workers, as well as growing its credit business. Moreover, shifting international relations and trade policies have recently thrown into question some long-held assumptions about where the risks in global investing lie. As investors rediscover international markets, MercadoLibre is one example of the quality-growth opportunities that exist outside the tunnel vision of US exceptionalism, as well as the importance of assessing individual companies in the context of their industries, rather than painting markets such as Latin America with a broad brush.

## Complementary Businesses

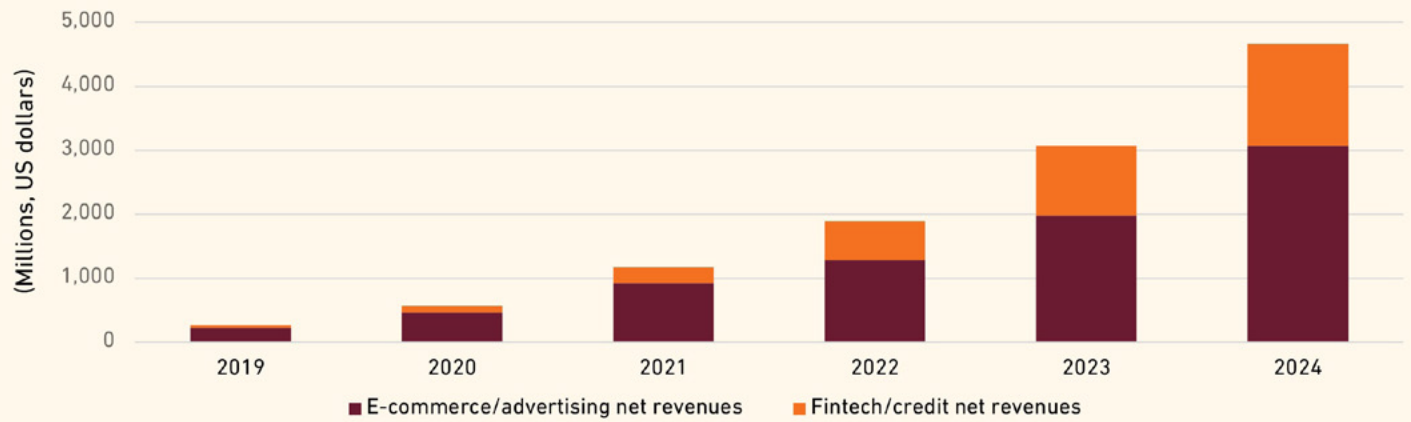
Even though the credit business is the profit center (the credit portfolio’s net interest margin after losses of 27% last year was double the company’s overall operating margin), the key to MercadoLibre’s success is the way in which its e-commerce and credit businesses reinforce each other. Take Mexico as an example. MercadoLibre has an 18% share of the country’s e-commerce market, on par with Amazon and trailed by Walmex (Walmart’s Mexico subsidiary). But the vast majority of consumer transactions in Mexico are in cash. By offering installment loans and credit cards that bring more consumers into the formal financial system, MercadoLibre is expanding its potential market of online shoppers. The spending patterns gleaned from its e-commerce platform also give the company a proprietary ability to assess the financial situation of consumers who may not have a credit history. This has been an effective way to get around some of the challenges that have kept traditional banks from targeting those consumers, such as coming up with alternative methods of assessing their financial situation and probability of paying back debt.

The company has had to adapt its strategy to each market. In Brazil, where the financial system is more established, many consumers already have credit cards, and half of transactions are paid with installment credit. Therefore, MercadoLibre initially focused on offering loans to the relatively small segment of consumers who shopped on its platform but couldn’t take out credit at a bank. While these borrowers are considered risky, they’ve also been very profitable for MercadoLibre. The company charges an average annual percentage rate (APR) of about 90% on those loans. About a quarter of them go into default, but because the interest rate is so high, the other customers make up for the losses, and MercadoLibre is left with a more than 50% profit margin. The larger growth opportunity is in credit cards, the pursuit of which has put MercadoLibre in more direct competition with banks. To break into their territory, MercadoLibre has had to invest upfront by offering attractive terms, such as 0% APR for the first year, delaying the return it makes on those borrowers.



Source: Company filings.

## MercadoLibre's Online Marketplace and Credit Business Expand in Mexico



Source: Company filings.

But an underlying advantage for MercadoLibre is its customer data. For example, this data enables it to tailor credit offers to shoppers on the platform, which means its customer-acquisition costs are lower relative to rivals such as Nubank, a Brazilian digital-banking service backed by Warren Buffett's Berkshire Hathaway. The convenience of the e-commerce app's integrated payments technology and lending options, and the scope of the data it collects through those different customer touchpoints, also give MercadoLibre an upper hand over Chinese e-commerce challengers such as Shein and Temu, which must rely on third-party payment systems.

A few years ago, the company began using its vast customer data to build a stand-alone advertising business. Around the same time, Apple and Google also took steps to restrict the ability of third-party companies to track smartphone users, making MercadoLibre's role as a first-party data collector even more attractive as merchants and brands look to target consumers. Mercado Ads now represents around 2% of the company's gross merchandise value (GMV), or the total value of goods sold through its marketplace, which was about US\$51 billion in 2024. It may be able to grow advertising to 8–10% of GMV, the way Amazon has done. While MercadoLibre's expansion into advertising has required ongoing investment in technology, it's a fast-growing business that earns 80% margins, the value of which is not fully recognized by investors.

### Growth Outlook

For all the progress MercadoLibre has made, Latin America's e-commerce penetration remains low at about 11% of total retail sales. Many people still don't use conventional banking services either. According to data from the World Bank in 2021, about a quarter of Latin America's population didn't have bank accounts, and an even larger number lacked access to credit and loans. In Mexico, for example, only 7% of adults in rural areas had

borrowed from a financial institution the preceding year. The investments MercadoLibre has made to expand the reach of its logistics network, monetize shopper data, and grow its reputation as a financial-services brand put it in a strong position as online shopping and banking in the region likely become more commonplace.

Argentina is set to be one such growth area. While MercadoLibre has a 60% share of the e-commerce market in Argentina, the country accounted for just 12% of its e-commerce revenues last year. Argentina has been a very volatile market due to the unstable macroeconomic situation, including multiple revaluations of the country's currency—challenges that have at least kept some competitors at bay. However, the outlook seems to be improving, as interest rates in the country have come down, from about 120% at the end of 2023 to about 30% recently.

"A reduction in interest rates of that magnitude just creates a huge demand for credit," Pliutinski said. "MercadoLibre has the dominant position in Argentina, and it has done well there even in volatile conditions. Improving conditions are going to be a big benefit to the company."

Meanwhile, MercadoLibre is boosting user engagement and revenue with its Meli+ loyalty program ("MELI," the company's equity ticker, has also become a nickname). Meli+ subscribers can qualify for free shipping and gain discounted access to streaming services such as Disney+. Another competitive tactic is its package-pickup locations, which it calls Meli Places. In Mexico, this has helped MercadoLibre to compete with Walmart, given that the big-box retailer has the advantage of several thousand stores throughout the country. MercadoLibre plans to hire 10,000 more people in Mexico, bringing its total workforce there to 35,000.

The company is also expanding its presence in Chile, Colombia, Costa Rica, Ecuador, Peru, and Uruguay. While it doesn't provide detailed performance information for those individual markets,

together they represent a sizable growth opportunity and feature many of the same dynamics as its core markets. Already, in Chile, more than 30,000 small and medium-size businesses sell on MercadoLibre's platform. It also has 12 distribution centers and 650 pickup locations in the country, with plans to hire 900 more workers.

This year's spending may pressure margins, and we don't know yet if sales growth will offset this. However, the company's most difficult investments—building a fulfillment and transportation network from scratch—are in the past.

"MercadoLibre took that pain upfront, and now they're largely through it," Pliutsinski said. "If the latest round of investments is in response to a potentially more benign competitive environment to capture a larger share of the overall market, those efforts could be very productive."

## Contributors

Analyst [Sergei Pliutsinski](#), contributed research and viewpoints to this piece.

## Disclosures

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