



EUROPEAN SMALL ONLINE BUSINESS TRADE SUMMARY 2015

May 2015

In recent years, technology has ensured more equal economic opportunities for small and medium sized businesses (SMBs). Since 2011, the eBay Public Policy Lab and a team of economists at Sidley Austin LLP have been working together to examine how globalisation and technology is liberating the ambitions of SMBs.

This report presents new findings coming out of this collaboration, exploring what is nothing short of a trade revolution and the impact this is having across the EU. It will also show how the economic activity of small online companies is emerging across the continent's regions – Sidley economists have measured the “Digital Density” of the EU's regions by assessing the number of small businesses on eBay alongside their location and volume of sales.

The research results show that small online businesses on eBay across Europe are exporting to more countries than ever before, both in Europe and beyond, gaining market share more quickly, and showing better resilience in the face of tough trading conditions, than small businesses that are offline. They are effectively Small Global Traders.

Technology is reducing barriers to global markets by allowing these eBay SMBs access to services that were once the preserve of large firms, such as smart shipping, international payments and translation. This is allowing small businesses to compete with larger firms, and reducing the dominance of bigger firms on the marketplace.

The analysis carried out by Sidley Austin for this report is based on data covering transactions on the eBay Marketplace in Europe from 2010 to 2014. Sidley economists conducted econometric and statistical research based on a number of datasets covering eBay marketplace transactions and small online businesses on eBay in the EU and globally. To ensure that the community of small commercial enterprises on eBay was properly captured, the team limited the data to transactions by sellers with sales of more than \$10,000 (approximately €9000) annually on the eBay marketplace. These are called “Commercial Sellers”, or small online businesses¹. Sometimes, for short they are referred to as eBay SMBs. To allow for comparisons with “traditional” SMBs, i.e., regular brick-and-mortar companies, Sidley has used data from publicly available sources, including from the World Bank, UN Comtrade, Eurostat, and various statistical agencies within Member States.

Technology is ensuring Europe's SMBs are truly European, and even global, from birth. These new businesses are trading within the EU and with the rest of the world, accelerating the integration of the EU's internal market and its more than 270 regions.² In 40% of EU regions, every small business on eBay is leveraging the eBay Marketplace to export internationally. Thanks to technology, businesses do not need to be located in Europe's most wealthy countries, in its major capitals or most prosperous regions – entrepreneurs are no longer tied to any particular geography. For instance, since 2011, more than 130,000 new digital small businesses have emerged, with sales of nearly €18.5bn.³

As in eBay's previous reports, the eBay Marketplace provides the illustration of a new model for trade that is emerging, one that increases the prospects for more broad-based growth. These findings allow for wider conclusions about trade and growth that go far beyond eBay itself.

About the eBay Public Policy Lab

The eBay Public Policy Lab seeks to address the public policy challenges that lie at the nexus of technology and commerce. We conduct innovative research using unique data analytics methodologies and creative insights. We seek to inspire debate at the highest levels of public policy discourse about the future of commerce and how technology can be leveraged to achieve the best possible outcomes for all.

Brian Bieron,
Executive Director

Hanne Melin,
Director & Head of Europe

Usman Ahmed,
Counsel & Head of Americas

Sassoon Grigorian,
Head of Asia-Pacific

¹ Small online businesses are defined as those that have made more than 10k USD (currently 9000 euros) GMV (Gross Merchandise Volume, which indicates a total sales dollar value for merchandise sold through a particular marketplace over a certain time frame) in any given year. For the purposes of new businesses since the crisis, these are businesses with no sales in 2010, but more than 10k USD GMV each year during the 2011-2014 period.

² This report looks at the NUTS2 regions, and we have used the 2010 classification that divides the EU into 272 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

³ For the purposes of new businesses since the crisis, we consider eBay Commercial Sellers with no sales in 2010, but more than 10k USD GMV on average each year during the 2011-2014 period.

A FORCE FOR MARKET INTEGRATION

"Thanks to eBay we were able to start up our family business with low structural and management costs. Today, our business is becoming more and more successful and is growing in terms of turnover. For small and medium enterprises that, like us, have decided to focus on the excellence of Made in Italy products, it is important to note that many companies have found in eBay a partner that supports them and stays by their side offering them technological innovation and making international commerce increasingly simple"

*Maria Gabriella Russo and
Vincenzo D'Aniello
eBay Store "Prodotti Tipici", Italy
Sells Italian regional food*



There are more than 20 million (SMBs) in the EU, and they represent an astonishing 99% of businesses.⁴ These firms operate mainly at the national level, with only relatively few SMBs engaging in cross-border activity, even within the EU. These businesses forsake the economic opportunities that lie in a European market of about 500 million people⁵, not to mention the potential customers found in the rest of the world.

For the last six years⁶, EU policymakers have looked to e-commerce as the tool that will open up foreign markets to SMBs. However, the statistics seem to suggest that this is not happening quickly enough. Instead, only 15% of companies in the EU sell online⁷ and no more than 7% of them sell cross borders.⁸

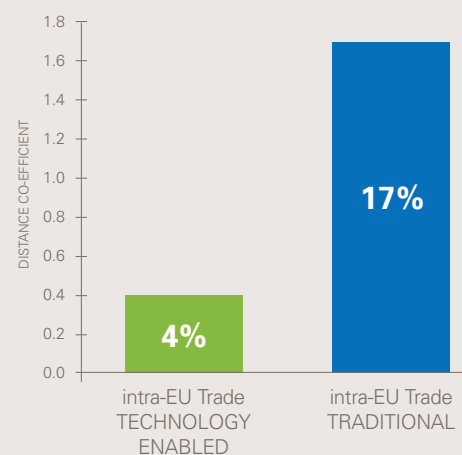
But this is not the full picture. The research we have carried out together with economists at Sidley Austin tells a different story. Our team studied cross-border trade by small online businesses on eBay from countries in the Americas, Africa, Asia and Europe. Across the globe, the trend is identical: these small online businesses build truly international operations that serve customers in an average of 20 to 40 different countries annually.⁹ They are leveraging the global network of the internet together with new digital services to reduce barriers to foreign markets. The internet has helped these businesses get access to the kind of support with marketing, translation and payments that had previously been out of reach for firms of their size. That combination is proving a powerful model for connecting businesses with consumers across national and cultural borders, and helping them punch above their weight with larger competitors.

The power of the internet and technology to integrate markets is measurable. Geographical distance between exporting and importing countries traditionally has a negative effect on trade. It is commonly found that increasing distance by 10% reduces trade by 15% to 20%.¹⁰ Indeed, such an increase in distance between a buyer and a seller in the EU would, according to our estimates, decrease cross-border trade by 17%.

In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80% lower for SMBs in the online marketplace.

European small businesses are taking advantage of these lower trade costs. In the EU, 93% of

DISTANCE'S NEGATIVE IMPACT ON EXPORTS IN THE EU: COMPARING THE ONLINE WITH THE TRADITIONAL MARKETPLACE



Source: Sidley Austin LLP analysis based on eBay data, Eurostat and UN Comtrade. The table shows how an increase in distance by 10% within the EU reduces technology-enabled cross-border trade by 4% (distance coefficient of 0.4) and traditional cross-border trade by 17% (distance coefficient of 1.7)

⁴ European Commission estimates, available http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm

⁵ http://en.wikipedia.org/wiki/Demographics_of_the_European_Union

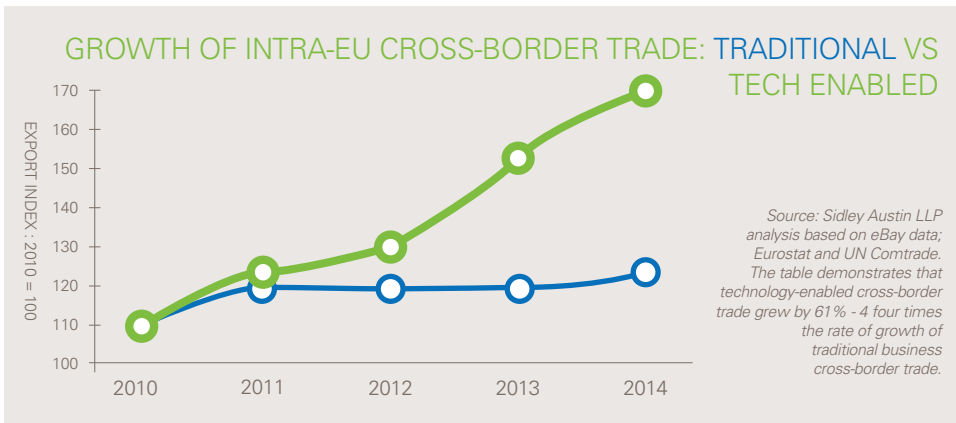
⁶ The European Commission's 2009 e-Commerce Communication can be considered the starting point of an EU policy focus on online commerce: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52009DC0557&qid=1431242668062&from=EN>

⁷ European Commission Staff Working Document on DSM, page 8, available at http://ec.europa.eu/priorities/digital-single-market/docs/dsm-swd_en.pdf

⁸ See, http://ec.europa.eu/priorities/digital-single-market/docs/dsm-factsheet_en.pdf

⁹ See our "Commerce 3.0" reports, available: <http://www.ebaymainstreet.com/commerce-3>

¹⁰ A. Lendle, M. Olarrea, S. Schropp, P-L. Vezina, "There goes gravity: how eBay reduces trade costs", CEPR Discussion Paper 9094, 2012.



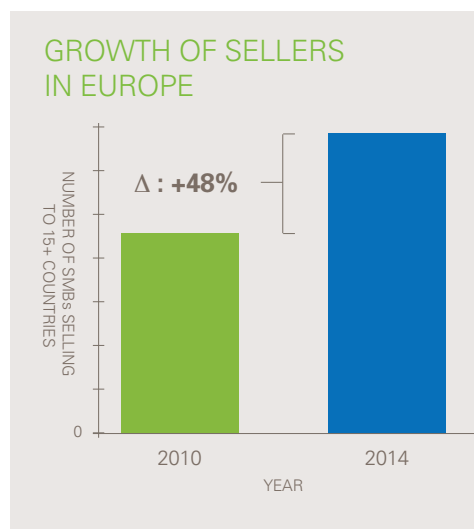
SMBs using the eBay marketplace in the EU export – in contrast to an average of 26% of traditional firms. These technology-enabled exporters reach on average 18 different countries annually, and 10 of those are EU countries. Some 77% sell to five or more foreign countries. In short, the goal of dramatically increased rates of cross-border sales by European SMBs is being realised in the context of technology-enabled small enterprises engaged in commerce over platforms like eBay. Cross-border trade within the EU is growing fast and steadily for SMBs on the eBay Marketplace. For the period 2010 to 2014, it grew by 61%, outpacing traditional trade by four times.

This means that a lot of the aspirations inherent in the EU’s vision for the Digital Single Market are already being realised in the online marketplace.

EUROPE’S SMALL GLOBAL TRADERS

In many cases, small online businesses are truly global businesses, exporting to nearly every corner of the world. In 2014, European SMBs on eBay exported to 211 markets around the world. This is a growing phenomenon.

For example, for the period 2010 to 2014, the number of European SMBs on eBay exporting to 15 or more countries increased by over 48%.



To demonstrate the unprecedented geographic reach and scale of these small online businesses, we have categorized these firms into:

- Continental – exporting to one continent
- International – exporting to two continents
- Multinational – exporting to three continents
- Global – exporting to four or more continents

Our assessment shows that the EU hosts an army of Small Global Traders: more than 39% of eBay SMBs serve customers in more than four continents.

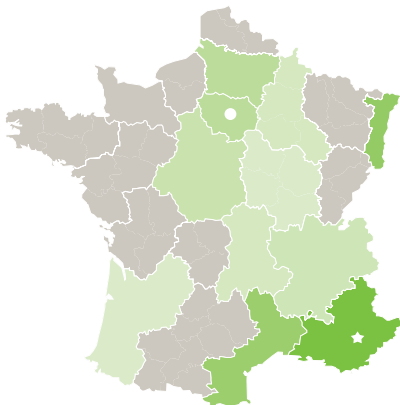
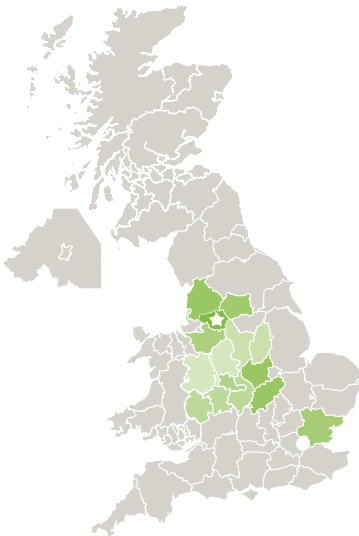
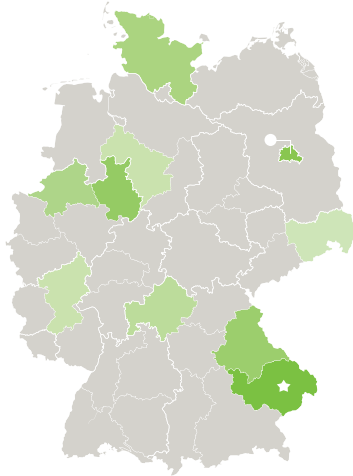
Exporter country	Number of different continents reached	Type	Share of all commercial sellers
EU28	1	Continental	25.5%
EU28	2	International	18.9%
EU28	3	Multinational	16.5%
EU28	4+	Global	39.1%

“On the surface, my business is a small online shop blending spices in the Midlands. But we’re really a digital success story - shipping to six continents. I think we would benefit from cheaper digital international payments and smart shipping, and tucked in close to Birmingham I can see how we benefit from the emerging Digital Density of the UK’s regions.”

Sanjay Aggarwal
Spice Kitchen, UK
Sells spices



- ☆ Area of highest Digital Density
- Area of highest GDP



DIGITAL DENSITY

The ambitions of these SMBs are no longer held back by location. Our research confirms that technology-enabled businesses are operating and prospering outside of national capitals, as well as the most populous and wealthy regions.¹¹

Many small online businesses are operating in central regions, but it is now possible to run a growing pan-European and global business from Europe’s more rural, remote, and sometimes less economically wealthy areas.

We have studied two indicators of the level of small online business uptake in the various regions:

1. The number of SMBs on eBay per 100,000 inhabitants
2. Sales by SMBs on eBay per 100,000 inhabitants

This allows us to calculate the “Digital Density”¹² of regions across the EU, and the results are encouraging for Europe’s more remote areas. For example, one might expect the capital regions of Ile-de-France, Inner London and Cologne to score high as dynamic areas for online businesses. But in fact, Languedoc in France, Lancashire in the UK and Niederbayern in Germany are among the regions that rank the highest.

Likewise, a region’s population and GDP size do not determine the region’s absolute number of digital small businesses. For example, Aquitaine in France, West Yorkshire in the UK, and Münster in Germany are not the most populous regions but nevertheless hold relatively large communities of eBay SMBs.

The table below lists the regions with the highest GDP as well as the largest population in the EU and compares with the regions’ national ranking on Digital Density. This table ranks regions against each other within a country with regard to the two indicators mentioned above.

The comparison demonstrates that technology is allowing businesses to start and flourish in urban, suburban, and rural regions. Factors such as a particular region’s purchasing power or number of inhabitants do not necessarily determine whether that region has a robust community of small international businesses. What factors foster a climate of entrepreneurship as well as the courage to seek out an international customer base is indeed a very interesting area for further study.

DIGITAL DENSITY: TECHNOLOGY-ENABLED BUSINESS UPTAKE CONTRASTED WITH GDP AND POPULATION

Regions with the highest GDP EU Level	DD National Ranking	Regions with the largest population EU Level	DD National Ranking
Inner London	#26	Ile-de-France	#4
Bruxelles	#2	Lombardia	#12
Hamburg	#12	Andalucia	#9
Ile de France	#4	Rhone-Alpes	#7
Groningen	#5	Lazio	#4
Oberbayern	#30	Dusseldorf	#11

¹¹ This report looks at the NUTS2 regions, and we have used the 2010 classification that divides the EU into 272 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

¹² The “Digital Density” score is a weighted combination of indicators 1 and 2. The weighted average puts more emphasis on the sales per small online businesses, as starting up a business is the first step to selling.

A MORE INCLUSIVE MODEL

The marketplace described in this paper (where European small businesses are effectively Small Global Traders, serve customers both within the EU and around the world), is a far more inclusive environment than traditional models.

In 2014, the top 5% of traditional firms (by size) account for roughly 82% of EU traditional exports. The top 5% of technology-enabled EU28 SMBs only account for 58% of the exports. Simply put, online marketplaces like eBay are less dominated by a few “superstars” and the long-established firms. They are more balanced and open.

Moreover, the share of new entrepreneurs is four times higher in the eBay Marketplace compared to the traditional marketplace. This shows how the online marketplace offers lower market entry barriers, but also provides better opportunities to start and grow businesses.

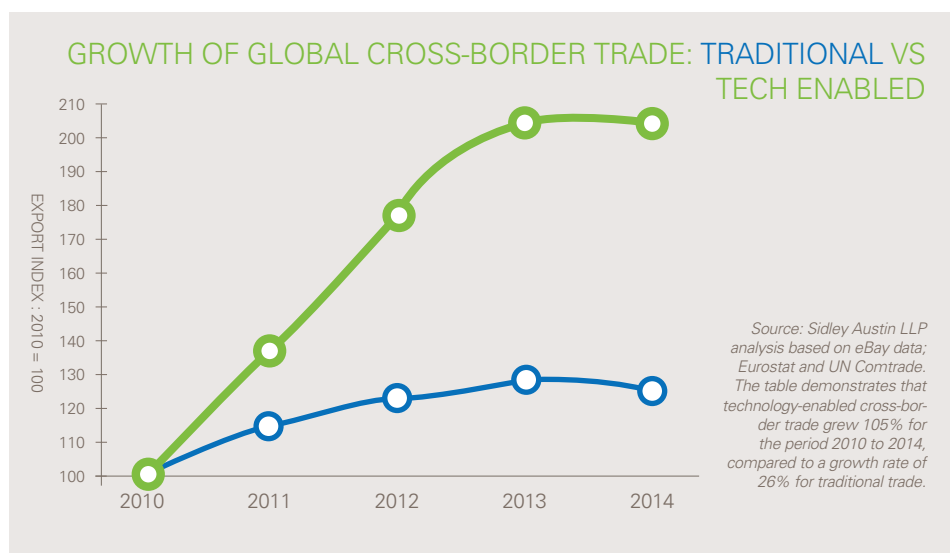
Evidence to those favourable conditions in the online marketplace is the fact that newcomers on the eBay Marketplace are able to capture 14% of the market share in just one year, whereas newcomers only make up about 3% of the traditional export market in Europe and about 4.6% globally according to World Bank estimates.¹³

New and small entrepreneurs can gain access to the type of infrastructure that is usually the preserve of large retailers through marketplaces such as eBay. For example, the eBay Marketplace gives new and small businesses the ability to sell via mobile apps, to have their offerings translated and accessible to 157 million users worldwide, and to offer their customers delivery options such as click-and-collect – where consumers can order goods for pick-up at local shops.

STRENGTHENED RESILIENCE

With traditional models, the complexities involved in exporting often lead to high failure rates among firms. The World Bank has found that across six EU countries only 16% of exporting firms were still exporting after three years. On eBay it is very different. As many as 71% of eBay SMBs continue exporting after three years, more than four times the percentage of offline firms.¹⁴

Small online businesses are clearly more resilient as exporters than their traditional counterparts. This is also evident from the fact that, through the financial challenges of the last five years, these businesses have managed to grow their cross-border sales both intra-EU (as table on page 4 illustrates) as well as globally (as seen below). Moreover, this export growth is nearly four times that of traditional exporters.



“Our choice was based on the customisation options of the platform and also the confidence and security that eBay offers buyers and sellers. Furthermore, once the store was created, we saw the opportunity that the marketplace offered us for internationalisation and we decided to take it. Through the translation system of eBay listings, and the international publishing tools it was really easy to expand our business to thousands of new consumers. After seeing the international demand we have received through our shop on the platform, we have seen how our products have been well received in markets which we would have never thought to enter initially. Thus, in just one year, we managed to sell to more than 16 countries, and we have gone from having 500 items listed to 8,000. Specifically, in 2015 we expect to offer 200,000 products through this platform and double our international sales.”

*Cristina Gómez Reyes,
CEO, deMartina, Spain
Sells toys*



¹³ World Bank Export Dynamic Database, latest available year, category “market share of new entrants”.

¹⁴ eBay SMBs with exports in 2011 of at least USD 10’000 that have exported continuously throughout 2012-2014.

POLICY RECOMMENDATIONS

Imperfect government policies can have a particularly powerful effect on SMBs. The International Organisation of Employers finds that proportionate compliance costs can be 10 to 30 times greater for small firms than for larger firms. For example, small online businesses wishing to trade in another EU country face around €9,000 extra costs for having to adapt to national laws.

Moreover, small online businesses are a relatively new business phenomenon, which means they have never before been a meaningful part of trade negotiations. This means that policies needed to facilitate trade by global small businesses have not been proposed, let alone implemented within the traditional trade regime.

There are four policy recommendations that would boost the ability of European small businesses to serve customers in the EU and globally.



ADAPT DELIVERY
SERVICES TO THE
SMALL GLOBAL TRADER

1 **Adapt regional, EU and global delivery services to the Small Global Trader:**

Sidley Austin has estimated that the trade reducing effect of shipping costs is four times larger for online trade compared to offline trade. Access to efficient and affordable delivery services is critical for the growth of technology-enabled small businesses. Action is needed at regional, EU and global level to:

- Promote the application of shared infrastructure for collection and delivery of parcels in rural regions to begin to improve competition and facilitate alternative delivery services for businesses in those regions.
- Target interoperability and standardisation; transparency of prices and services; and, competition between the different entities in the value chain in order to address the unrelated high costs of cross-border shipping within the EU.
- Improve the global postal system through multilateral harmonisation, including agreement on addressing mechanisms, customs clearance policies, parcel sizes, and tracking.



USE COMPETITION
LAWS TO SUPPORT
ONLINE TRADE

- ### 2 **Actively use EU competition law to promote online trade:**
- In recent years, we have witnessed how an increasing number of manufacturers respond to the intensified competition that has come with the broadened and more inclusive market by prohibiting their retailers from trading online, in particular on online marketplaces such as Amazon, eBay, Rakuten and Allegro. In a survey carried out by the German Federal Association of Online Trading, 31% of online sellers indicated that the future of their business is threatened by online sales restrictions. In a recent European Commission survey, 19.1% of companies already active in cross-border e-commerce and 29% of companies that are not yet active, declared that suppliers' restrictions affecting sales on online platforms constituted or would constitute a problem for their business when selling online.

This is not a problem confined to a few European countries. The International Competition Network (ICN) has found that 49% of 104 competition agencies are concerned about online sales bans.

The European Commission should set an example and actively use EU competition law to promote online trade by taking action against manufacturers' distribution contracts that prevent retailers from using online sales channels such as online marketplaces.

3. Support the digital economy through a balanced intermediary liability framework

The European digital economy, which is essential for smaller enterprises across Europe to realize the potential of a single European market, has been able to develop and thrive in part due to the legal certainty created by the EU hosting liability framework, established by the E-Commerce Directive and the IP Enforcement Directive. This framework has been an essential driver of innovation, consumer choice, and economic development across Europe.

Within the EU, the Commission needs to rigorously uphold the current balanced intermediary liability framework and protect it from attempts at national level to impose wide-ranging and disproportionate injunctions against intermediaries. Internationally, the Commission should continue to seek to harmonise intermediary liability regimes through trade agreements. Very few nations have adopted regimes governing intermediary liability, and the EU has a role to play in encouraging countries to adopt balanced, pro-innovation liability regimes modeled around the EU framework.



BALANCED
INTERMEDIARY
LIABILITY FRAMEWORK

4. Streamline VAT and customs administration

Within the EU, VAT systems differ between Member States and that presents a major obstacle for intra-EU exporting: SMBs who cross the VAT threshold for cross-border sales into other EU countries need to deal with VAT administration in those countries. A "one stop shop", which allows such businesses to deal with one single authority for VAT purposes when trading within the EU, would better enable SMBs to cope with this administrative burden, in particular if combined with simplified rules on audits, VAT thresholds, registration and payments. Furthermore, international technology-enabled commerce is slowed down by import duty thresholds as well as burdensome customs procedures. The EU should establish itself as an international leader in online trade customs policy by aligning the customs duty threshold for goods bought online (currently €150) with that of personal imports offline (€430) and establishing a simplified fast-track customs procedure for online trade.



STREAMLINE VAT
AND CUSTOMS
ADMINISTRATION

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