



# TOWARDS A MORE REGIONALLY INCLUSIVE ECONOMY

An eBay Study of the Contribution Regions Make to Total Enterprise Growth  
in the UK and Germany

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# INTRODUCTION

Since 2011, the eBay Public Policy Lab and a team of economists at Sidley Austin LLP have together carried out research into the trade and commercial activities of firms that use the online commerce platform. We have uncovered a fundamental transformation occurring within global commerce, driven by the dramatic reduction in the cost of engaging in commerce over distance when a firm is enabled by online platforms.

National and global opportunities have expanded beyond traditional large corporations as even the smallest Internet-enabled enterprises can connect directly with customers around the world. Our 2017 Global Report shows how small firms in both advanced and emerging economies seize these opportunities to build an international customer base spanning on average 27 different countries.<sup>1</sup>

This report presents new findings coming out of this collaboration; we have studied the regional contribution to total enterprise growth in the UK and Germany. This study builds on our previous research, identifying a more geographically inclusive distribution of platform-enabled small retail business activity compared to traditional entrepreneurship.<sup>2</sup>

We contextualize this study with the findings of the OECD's third edition Regional Outlook (2016), entitled "Productive Regions for Inclusive Societies".<sup>3</sup> The Outlook finds how, in general within OECD countries, income gaps are increasing among regions, cities and people. Nevertheless, the Outlook takes an optimistic view concluding that "regions lagging behind have opportunities to 'catch up' in terms of social and economic development" and by fueling the "catching-up machine" countries would benefit from both increased productivity and inclusion. Our research suggests that the online commerce platform model offers regions a form of catching-up engine.

We have compared the contribution by regions to net enterprise growth in the traditional economy with the online platform-enabled economy for the UK and Germany. These are two countries displaying different trajectories in terms of regional disparities; according to the OECD, regional disparities have been increasing across UK regions while decreasing across German regions.

Our study shows that the growth in eBay-enabled firms is more evenly spread across regions in both the UK and Germany. We also find it to be less concentrated to regions with high GDP per capita

## 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.

We invite you to explore our full catalogue of research at: [www.ebaymainstreet.com/lab](http://www.ebaymainstreet.com/lab)

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<sup>1</sup> See e.g. the eBay Policy Lab's Small Business Online Growth Report, "Towards an Inclusive Global Economy" (2017), available: [https://www.ebaymainstreet.com/sites/default/files/ebay\\_global-report\\_0.pdf](https://www.ebaymainstreet.com/sites/default/files/ebay_global-report_0.pdf)

<sup>2</sup> We recommend two recent eBay Policy Lab's reports: (i) "Platform-Enabled Small Businesses and the Geography of Recovery: evidence of more inclusive new enterprise growth on eBay than reflected in official statistics" (2017), available [https://www.ebaymainstreet.com/sites/default/files/ebay\\_report\\_county-growth\\_0.pdf](https://www.ebaymainstreet.com/sites/default/files/ebay_report_county-growth_0.pdf) and (ii) *Bridging Distance to Opportunity: an eBay report on how the online commerce platform enables inclusive economic opportunities in France* (2017), available: [https://www.ebaymainstreet.com/sites/default/files/ebay\\_report\\_county-growth\\_0.pdf](https://www.ebaymainstreet.com/sites/default/files/ebay_report_county-growth_0.pdf)

levels than traditional enterprise growth. In short, more regions and more poor regions are able to contribute to total enterprise growth in the platform-enabled economy than in the traditional economy.

Our findings point to the online platform model being a powerful tool for driving more inclusive and broader participation in entrepreneurial activity and for expanding access to economic opportunities throughout a country. We believe that this should be reflected in national policies and actions aimed at promoting regional and rural development.

## METHODOLOGY

The research presented in this report is based on a data set covering commercial activity on eBay by what we call “Commercial Sellers,” or eBay-enabled firms, based in the UK and Germany. Those are firms with at least \$10,000 USD in annual sales on eBay and at least 10 annual transactions. The annual threshold of \$10,000 USD is converted into local currency (€ EUR or £ GBP) based on the 2015 exchange rate to the \$ USD.

We focus our research on Commercial Sellers to ensure we properly capture the community of small commercial enterprises on eBay. We would add that in our experience Commercial Sellers are predominantly micro enterprises (with less than 10 employees).

We have calculated the net growth in numbers of Commercial Sellers and compared this with the net growth in numbers of traditional businesses. For the UK, we calculated the growth rate between 2010 and 2015, and for Germany between 2010 and 2014 (the shorter time period for Germany is due to the traditional economy data set not yet being available for 2015). We have also calculated the geographical distribution of the total growth in numbers of Commercial Sellers and traditional businesses across NUTS 1 regions for both countries (corresponding to the 16 Länder of Germany and, for the UK, to the 9 regions of England as well as Scotland, Wales and Northern Ireland). The results show the percentage contribution of each region to total growth in enterprise numbers (note that where seller numbers went down, this percentage contribution is negative). This produces an overview of how the net enterprise growth is distributed across regions in the UK and Germany, and it allows us to compare the regional contribution to the total growth in enterprise numbers in the traditional economy with the platform-enabled economy. It also allows us to contrast regional contribution to total enterprise growth with regional GDP per capita levels.

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<sup>3</sup> OECD Regional Outlook 2016, “*Productive Regions for Inclusive Societies*” (October 2016), available: <http://www.oecd.org/regional/oecd-regional-outlook-2016-9789264260245-en.htm>

# CONTRIBUTION BY REGIONS TO TOTAL ENTERPRISE GROWTH

**“Regions matter for building productive economies and inclusive societies.”**

OECD Regional Outlook, 2016

The OECD (2016) finds that while gaps in GDP per capita between countries have narrowed over the last two decades, within their own borders OECD countries are witnessing increasing gaps between higher performing and lower performing regions. The gap within countries between the top 10% regions with the highest labor productivity (i.e. GDP per worker) and the bottom 75% has grown on average by almost 60% over the last two decades.

This report sheds some light on how online platform-enabled entrepreneurial activity compares to traditional entrepreneurial activity in terms of regional inclusivity. We study the regional distribution of total enterprise growth in the UK and Germany, comparing across NUTS 1 regions the contribution of each region to traditional enterprise growth and eBay-enabled firm growth. And we contrast regional contribution to total enterprise growth with regional differences in GDP per capita levels. In general, we find that platform-enabled entrepreneurial participation is less concentrated to a few rich regions.

## **FUELING CATCHING-UP IN THE UK**

Regional disparities across regions in the UK have been growing over the last decade. According to the OECD (2016), the gap in GDP per capita between regions has increased between 2008 and 2013 because poorer regions saw their income decrease whereas richer regions increased their income. For instance, Greater London is 56% more productive (in terms of GDP per worker) than the country average; most of the country is merely keeping pace with London's performance, while several regions are falling further behind (OECD, 2016).

Our analysis of regions' contribution to total enterprise growth for the period 2010 to 2015 confirms the concentration of traditional economic activity to the Greater London region. In contrast, platform-enabled economic activity shows much lower dependency on London as a powerhouse and occurs also in regions where traditional economic activity is weak. Indeed, all regions were able to contribute to total eBay-enabled firm growth; even Northern Ireland, one of the regions with the lowest GDP per capita, contributed 2% to total eBay-enabled firm growth but was not able to contribute at all to total traditional enterprise growth.

Although the Greater London region accounted for the largest share of total eBay-enabled firm growth (18%), this share is much smaller than Greater London's share of traditional enterprise growth (29%). For example, North West England is not far behind Greater London in its capacity to contribute to enterprise growth in the platform-enabled economy (16%) but significantly so in the traditional economy (10%).

Our findings show that, in the platform-enabled economy, disadvantaged regions do not necessarily trail high-performing regions in terms of their ability to contribute to total enterprise growth.

For example, West Midlands and Yorkshire & the Humber, two regions with third-tier GDP per capita levels, captured a share of total eBay-enabled firm growth (11% and 9%) that is at par with that of South East England (12%), the region with the highest GDP per capita. This contrasts to how West Midlands and Yorkshire & the Humber were able to contribute to traditional enterprise growth (both only 5%) and how they performed vis-à-vis South East England (16%).

The online commerce platform appears to empower entrepreneurship in both disadvantaged and high-performing regions, enabling disadvantaged regions to perform more similar to high-performing regions in terms of entrepreneurial activity. Our findings therefore suggest that with such widespread concerns over increased income and economic opportunity disparities, a country displaying regional disparities can promote the online commerce platform model as an effective mechanism for fueling a "catching-up" dynamic by lowering the threshold for entrepreneurship also in less privileged regions.

# REGIONAL DIFFERENCES IN GDP PER CAPITA AND ENTERPRISE GROWTH

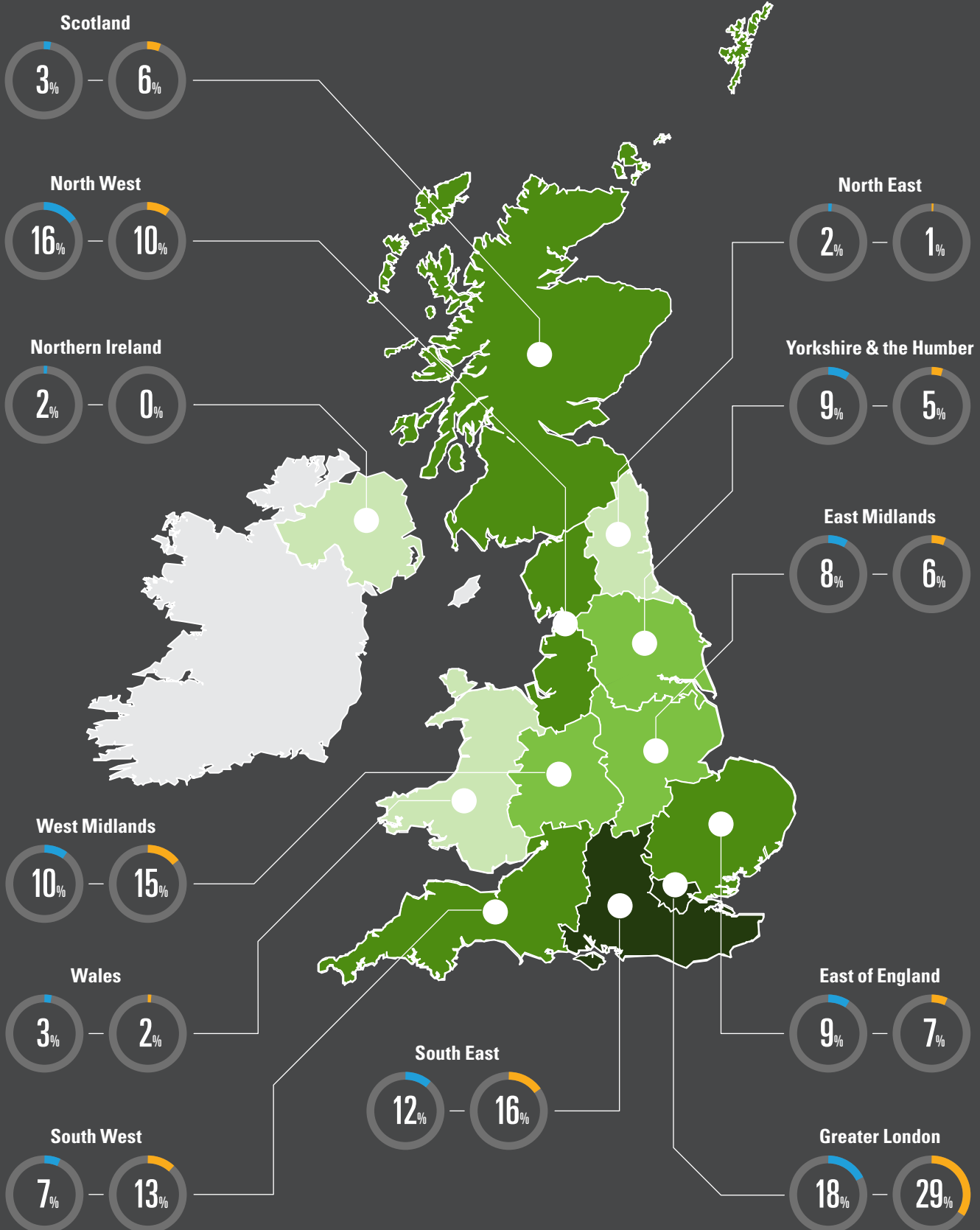
We compare the regions' share of total eBay-enabled firm growth with their share of total traditional enterprise growth. We contrast their contribution to total enterprise growth with their GDP per capita level.

## GDP LEVELS

- 35,000+
- 30,000 – 35,000
- 28,000 – 30,000
- 35,000 – 28,000

## % CONTRIBUTION TO TOTAL GROWTH

- eBay-Enabled Firms
- Traditional Enterprises



## **SUPPORTING CATCHING UP IN GERMANY**

Regional disparities across German regions have been declining since 2000. According to the OECD (2016), the gap between the 20% richest and the 20% poorest regions has decreased between 2008 and 2013 because the poorer regions have outperformed the richer regions. There is a catching-up dynamic.

Our analysis of the regional contribution to total enterprise growth for the period of 2010 to 2014 shows that eBay-enabled firm growth is even more evenly spread across regions and less concentrated to the southern regions with the highest GDP per capita levels.

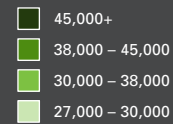
Traditional enterprise growth in Germany was clustered in the two richest southern regions of Baden-Wurtemberg and Bayern (25% and 24%) as well as the capital region Berlin (24%). Baden-Wurtemberg and Bayern also account for high shares of total eBay-enabled firm growth (13% and 14%) but in contrast to the traditional economy, all four of the poorest regions (Sachsen-Anhalt, Thuringen, Brandenburg, and Mecklenburg-Vorpommern) capture a share of total enterprise growth in the platform-enabled economy. Moreover, two third-tier GDP level regions, Sachsen and Rheinland-Pfalz, contribute to eBay-enabled firm growth (7% and 5% respectively) at par with that of Berlin (7%). In contrast, Sachsen's contribution to traditional enterprise growth was a slim 2% and Rheinland-Pfalz contributed negatively (-9%).



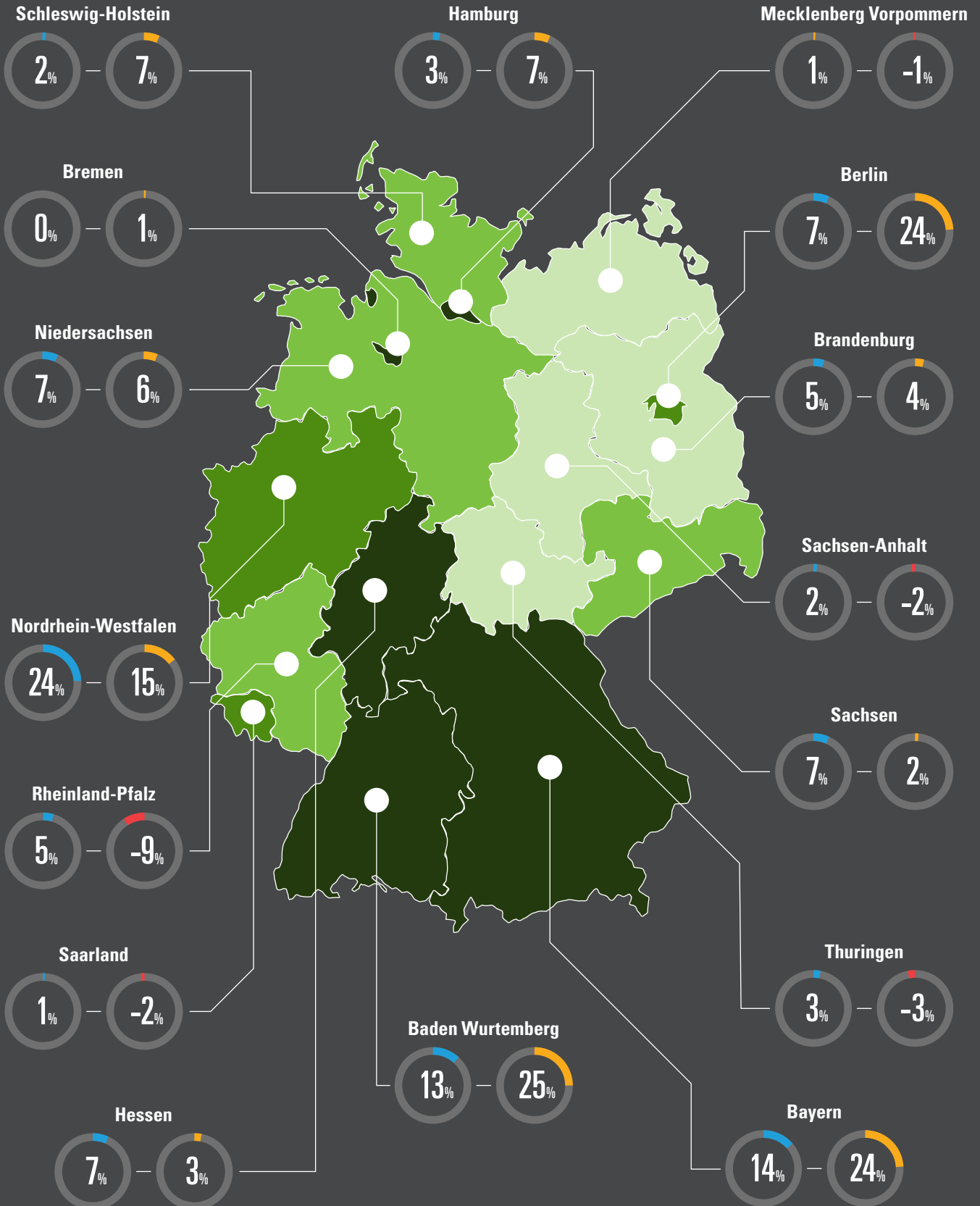
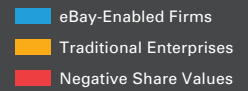
# REGIONAL DIFFERENCES IN GDP PER CAPITA AND ENTERPRISE GROWTH

We compare the regions' share of total eBay-enabled firm growth with their share of total traditional enterprise growth. We contrast their contribution to total enterprise growth with their GDP per capita level.

## GDP LEVELS



## % CONTRIBUTION TO TOTAL GROWTH



## POINT OF DEPARTURE

### “Business dynamics contribute to regional development and prosperity.”<sup>4</sup>

OECD, 2017

Regional and rural development policies should seek to unlock “the catching-up potential” of lagging regions (OECD, 2016). The research presented in this paper indicates that online commerce platforms are a tool with a proven capacity to empower entrepreneurial activity and enable independent micro and small business formation in less privileged regions. We see that contribution to platform-enabled enterprise creation is more evenly distributed across regions in both Germany and the UK and conclude that inclusive entrepreneurial growth is possible and indeed happening. Based on this conclusion, we propose that the online commerce platform makes entrepreneurship accessible to more people in more places and weakens the link between location in a privileged growth hub and economic opportunity.

We offer this study as a point of departure for further research of how the online platform model can support regional economic activity by independent enterprises, including in the more remote areas of Europe. We believe this study could be used for research into the factors and conditions that determine a region’s ability to take advantage of the way the online commerce platform facilitates remote commerce by small, independent enterprises. For example, what micro-economic factors might explain the strong contribution to total eBay-enabled firm growth by North West England and Nordrhein-Westfalen while their contribution to total traditional enterprise growth is relatively more modest?

The online commerce platform is arguably capable of narrowing existing regional disparities. The findings in this report confirm earlier research where we conducted a similar analysis of new business formation in the US for the period 2010 to 2014.<sup>5</sup> That analysis showed that eBay-enabled firms emerged in a more geographically inclusive manner compared to traditional enterprises. Those promising findings together with the untapped potential this report also uncovers, we hope will encourage further study of how rural and regional development policies and actions can leverage the online commerce platform model for entrepreneurial activity and economic growth in all of Europe’s regions.

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<sup>4</sup> “The Geography of Firm Dynamics: Measuring Business Demography for Regional Development”, OECD 2017.

<sup>5</sup> See the eBay Policy Lab Report “Platform-Enabled Small Businesses and the Geography of Recovery: evidence of more inclusive new enterprise growth on eBay than reflected in official statistics” (2017), available [https://www.ebaymainstreet.com/sites/default/files/ebay\\_report\\_county-growth\\_0.pdf](https://www.ebaymainstreet.com/sites/default/files/ebay_report_county-growth_0.pdf)



## APPENDIX

## REGIONAL DIFFERENCES IN GDP PER CAPITA AND ENTERPRISE GROWTH (UK)

REGION	GDP PER CAPITA LEVEL	% CONTRIBUTION TO TOTAL EBAY-ENABLED FIRM GROWTH	% CONTRIBUTION TO TOTAL TRADITIONAL ENTERPRISE GROWTH
Greater London	1	18%	29%
South East	1	12%	16%
East of England	2	9%	7%
North West	2	16%	10%
Scotland	2	3%	6%
South West	2	7%	13%
East Midlands	3	8%	6%
West Midlands	3	11%	5%
Yorkshire & the Humber	3	9%	5%
North East	4	2%	1%
Northern Ireland	4	2%	0%
Wales	4	3%	2%

**Source:** Sidley Austin LLP analysis of eBay data for period 2010 - 2015. GDP per capital levels from for year 2013 from OECD Regional Outlook 2016 Country Notes. Traditional enterprise growth data for period 2010 to 2015 from Regional Time Series, Table 26, UK National Statistics, Business population estimates for the UK and Regions 2016.

## REGIONAL DIFFERENCES IN GDP PER CAPITA AND ENTERPRISE GROWTH (GERMANY)

REGION	GDP PER CAPITA LEVEL	% CONTRIBUTION TO TOTAL EBAY-ENABLED FIRM GROWTH	% CONTRIBUTION TO TOTAL TRADITIONAL ENTERPRISE GROWTH
Baden Wurtemberg	1	13%	25%
Bayern	1	14%	24%
Bremen	1	0%	1%
Hamburg	1	3%	7%
Hessen	1	7%	3%
Berlin	2	7%	24%
Nordrhein-Westfalen	2	24%	15%
Saarland	2	1%	-2%
Niedersachsen	3	7%	6%
Sachsen	3	7%	2%
Rheinland-Pfalz	3	5%	-9%
Schleswig-Holstein	3	2%	7%
Mecklenberg Vorpommern	4	1%	-1%
Brandenburg	4	5%	4%
Sachsen-Anhalt	4	2%	-2%
Thuringen	4	3%	-3%

**Source:** Sidley Austin LLP analysis of eBay data for period 2010 - 2014. GDP per capita levels for year 2013 from OECD Regional Outlook 2016 Country Notes. Traditional enterprise growth data from Regionalstatistik, Table 401-31-4-B, for period 2010 - 2014.

### **TOTAL EBAY-ENABLED FIRM GROWTH FOR GERMANY**

The eBay data reflects the net growth in eBay-enabled firms (sellers with at least \$10,000 USD in annual sales on eBay, or €9,017 using the 2015 exchange rate to \$ USD, and at least 10 annual transactions) for the period 2010 to 2014 and the contribution in percentage by each of Germany's 16 NUTS 1 regions to the net growth.

### **TOTAL TRADITIONAL ENTERPRISE GROWTH FOR GERMANY**

The data reflects the net growth in traditional enterprises for the period 2010 to 2014 and the contribution in percentage by each of Germany's 16 NUTS 1 regions to the net growth. We have used data on existing enterprises from Regionaldatenbank Deutschland ([www.regionalstatistik.de](http://www.regionalstatistik.de)).

### **TOTAL EBAY-ENABLED FIRM GROWTH FOR THE UK**

The eBay data reflects the net growth in eBay-enabled firms (sellers with at least \$10,000 USD in annual sales on eBay, or £6,545 using the 2015 exchange rate to \$ USD, and at least 10 annual transactions) for the period 2010 to 2015 and the contribution in percentage by each of the UK's 12 NUTS 1 regions to the net growth.

### **TOTAL TRADITIONAL ENTERPRISE GROWTH FOR THE UK**

The data reflects the net growth in traditional enterprises for the period 2010 to 2015 and the contribution in percentage by each of the UK's 12 NUTS 1 regions to the net growth. We have used data on the number of enterprises in the private sector at the start of each year from UK National Statistics, Business population estimates for the UK and Regions 2016 ([www.gov.uk](http://www.gov.uk)).

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