



UK 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 are 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 in the UK. It will also show how economic activity of small online businesses is emerging across the country. Sidley economists have measured the “Digital Density” of UK regions by assessing the number of small businesses on eBay alongside their location and volume of sales.

The analysis carried out by Sidley Austin for this report is based on a study of data covering transactions on the eBay Marketplace from 2010 to 2014. Sidley economists then looked at which sellers are registered in the UK. To ensure that the community of small online businesses on eBay were fully captured, the data was limited to transactions by sellers with sales of more than \$10,000, (approximately £6,400) annually on the eBay Marketplace. These are called “Commercial Sellers”, or small online businesses¹. Sometimes, for short they are referred to as eBay SMBs.

The research results show that technology is opening up tremendous opportunities for SMBs across the UK. Technology is reducing barriers to global markets by allowing SMBs access to services that were once the preserve of large firms, such as smart shipping, international payments and translation. Based on an analysis of this data, Sidley economists estimate trade costs to be four to five times lower on the online marketplace compared to the traditional marketplace, and this is something UK small businesses are taking advantage of.

A massive 91% of SMBs on eBay in the UK export – far higher than businesses that have not embraced online – and they reach on average 20 different countries annually. They are effectively Small Global Traders, and they operate from almost anywhere in the country. Thanks to technology, businesses do not need to be located in the UK’s more central or prosperous regions, and entrepreneurs are not tied to any particular geography. The research results presented in this report paint a picture of a much more inclusive marketplace: not dominated by a few “superstars”, but rather welcoming to startups, and encompassing the whole of the UK.

The report does not just rely on eBay data but contrasts research findings from the eBay Marketplace with “traditional” trade data publicly available elsewhere – in particular World Bank and Eurostat data and surveys.

As in 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

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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.

“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*



MAKING THE WORLD SMALLER

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%.² 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%.

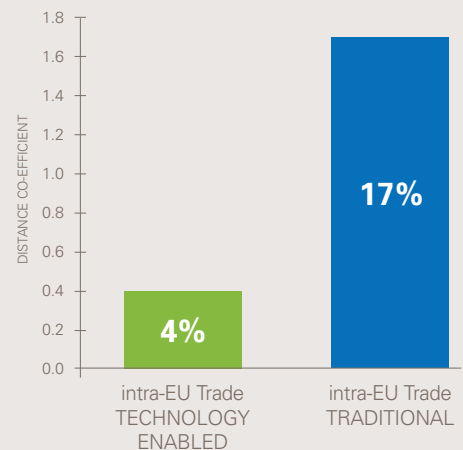
In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80 per cent lower for SMBs in the online marketplace.

UK SMALL BUSINESSES EXPLORE THE WORLD

The effect of distance has traditionally hurt small businesses that want to explore foreign markets. However, the internet and digital services are changing this. Essentially, they are reducing the barriers that prevented SMBs going into new markets. And this is something that UK SMBs are taking advantage of.

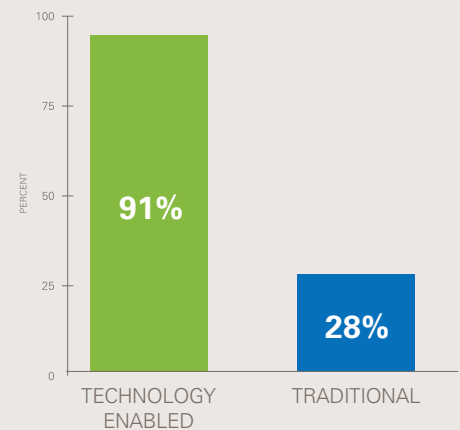
eBay Marketplaces data demonstrates that 91% of UK-based “Commercial Sellers” sell to customers in foreign countries. In short, almost all of them export. This is in stark contrast to traditional businesses in the UK, of which only about a quarter export. Our assessment shows that the UK online marketplace fosters Small Global Traders: half of the UK’s “Commercial Sellers” reach four or more different continents.

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)

SHARE OF UK FIRMS EXPORTING

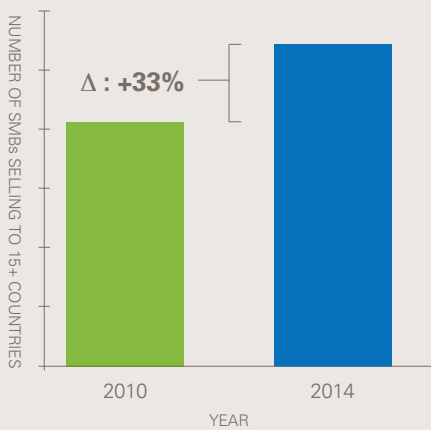


Source: Sidley Austin LLP analysis based on eBay data; Federation of Small Businesses, “Voice of Small Business Index”, Quarter 1, 2015.

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%
GBR	1	Continental	16.3%
GBR	2	International	15.7%
GBR	3	Multinational	16.2%
GBR	4+	Global	51.8%

² A. Lendle, M. Olarreaga, S. Schropp, P-L. Vezina, “There goes gravity: how eBay reduces trade costs”, CEPR Discussion Paper 9094, 2012.

GROWTH OF SELLERS IN UK



The UK's small online businesses are truly global businesses exporting off the eBay Marketplace to nearly every corner of the world.

In 2014, SMBs on eBay in the UK exported to 209 markets. On average these SMBs reach 20 different countries annually. In contrast, the World Bank suggests traditional firms in EU countries export to an average of only four different countries.

The global reach, UK based small business is a growing phenomenon. The number of SMBs in UK on eBay selling to 15 or more countries grew by 33% over the period 2010 to 2014.

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A MORE INCLUSIVE MODEL FOR UK TRADE

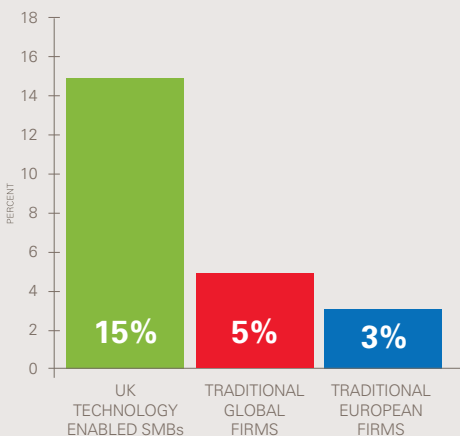
In the past, the benefits of global trade have almost exclusively been enjoyed by large established firms. Small businesses generally could not afford the infrastructure, marketing, and capital costs required to engage in global trade.

As the research findings presented in this report shows, the internet now enables SMBs to "go global" instantly. This translates into a commercial environment supportive of newcomers and not so tilted in the favour of a few "superstars".

Startup businesses, or newcomers, on the eBay Marketplace are able to capture 15% of the market share in just one year, whereas newcomers only make up 3% of the traditional European export market.

What does this mean for the traditional economy? It means the largest traditional companies capture most of the market share. Among European countries, the top 5% of traditional exporters account for 82% of the export market.³

MARKET SHARE OF NEWCOMERS: TECHNOLOGY-ENABLED AND TRADITIONAL



Source: Sidley Austin LLP analysis based on eBay data; World Bank Exporter Dynamics Database, latest available year ("market share of new entrants").

This contrasts hugely with the online economy. Take SMBs in the UK using the eBay Marketplace; The top 5% only account for 59% of all exports on the eBay platform. Simply put, an online marketplace is a more balanced and open marketplace that is arguably less likely to concentrate market share in the hands of a few. It is more inclusive.

³ World Bank Exporter Dynamics Database, latest available year.

...location is no longer a condition for commercial success: it is possible to run an international, prospering business from rural, perhaps remote, and sometimes less economically privileged areas.

BROAD-BASED MARKET PARTICIPATION

The research also shows that the UK's small online businesses operate from all across the country. Contrary to common belief, our research results show that entrepreneurs need not be located in London, the most populous region or the richest region⁴ in order to be able to build thriving businesses.

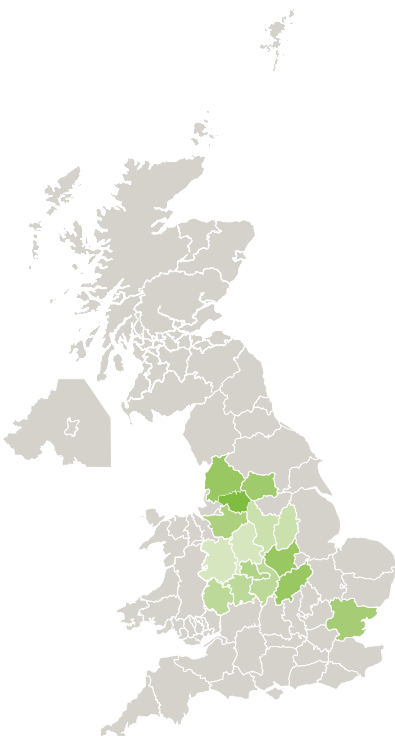
Of course, many small online businesses choose to operate in central regions. However, what is clear from our research is that a central location is no longer a condition for commercial success: it is possible to run an international, prospering business from rural, even remote, and sometimes less economically privileged areas.

We have studied two indicators of the level of small online business uptake found in the UK regions: (1) the number of "Commercial Sellers" per 100,000 inhabitants and (2) sales by "Commercial Sellers" per 100,000 inhabitants. Together these indicators make up what we call "Digital Density".⁵

On both these indicators, we find the level across the regions of the UK to be fairly equal. Ranking the regions in relation to each other on Digital Density, one finds that those regions that rank high are not necessarily the ones with the highest GDP per capita or the largest population.

For example, the Inner London and North Eastern Scotland regions have the highest and second highest GDP per capita in the UK but only come in at number 26 and 37, respectively, in Digital Density ranking. The NUTS-2 region classified as 'Surrey, East and West Sussex' is the third most populous region in the UK but only number 22 in Digital Density. By contrast, while Lancashire has the country's second highest Digital Density score, it is among the regions with the lowest GDP per capita. It is also worth calling out the Lincolnshire region, which makes it into the top 10 Digital Density ranking but is among the lowest scoring 10 regions in the UK in terms of both GDP per capita and population.

DIGITAL DENSITY: THE TOP UK REGIONS IN TERMS OF TECHNOLOGY-ENABLED BUSINESS UPTAKE



Position	Region
#1	Greater Manchester
#2	Lancashire
#3	West Yorkshire
#4	Leicestershire, Rutland and Northamptonshire
#5	Essex
#6	Cheshire
#7	West Midlands
#8	Herefordshire, Worcestershire and Warwickshire
#9	Derbyshire and Nottinghamshire
#10	Shropshire and Staffordshire

Bringing together these findings and those on market share, it becomes clear how the online marketplace is a more inclusive venue for SMBs, allowing them to compete no matter where they are located, and at what stage they are in the business cycle.

⁴ With "regions" we refer to NUTS2 region using the 2010 classification. Under this classification, the UK has 37 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

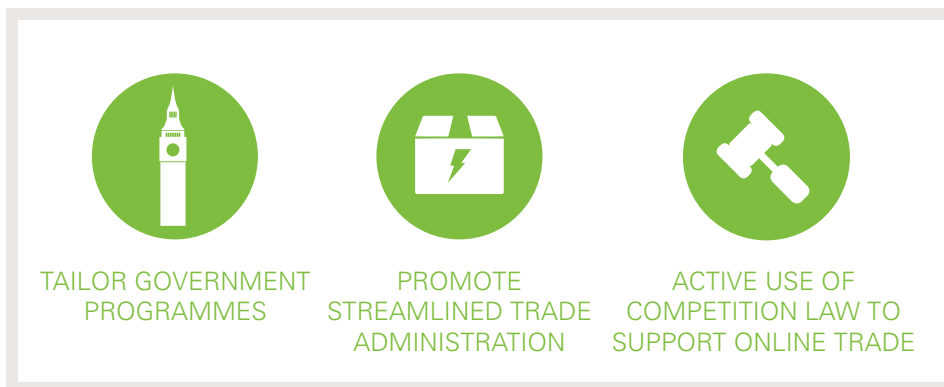
⁵ The "Digital Density" score is a weighted combination of indicators 1 and 2. The weighted average puts more emphasis on the sales per small online businesses, as starting up a business is the first step to selling.

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.

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 global trade by small businesses have not been proposed, let alone implemented within the traditional trade regime.

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



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- 1 Tailor Government Programmes:** The UK Government has established a Business Mentoring Programme. As part of this, it should develop a cadre of E-Exporting Mentors who can offer advice to businesses who want to start exporting within the EU and beyond. The Government should also as part of its E-Exporting Strategy treble the number of Digital Trade Advisors in UK Trade and Investment able to offer advice to SMBs on how technology can facilitate their exporting, and on how to navigate potential risks and trade barriers.
- 2 Promote Streamlined Trade Administration:** We call on the UK government to support efforts at EU level to streamline the VAT framework and to push for an online trade friendly customs policy. Businesses within the EU should be able to make a single VAT declaration and payment in their own Member State, rather than having to declare and pay VAT to each individual Member State where their customers are based. Such a one-stop-shop system should be accompanied by SME-friendly rules on audits, VAT thresholds, registration, and payment systems. Furthermore, the EU should align the customs duty threshold for goods bought online (currently 150) with that of personal imports offline (430) and establish a simplified fast-track customs procedure for e-commerce.
- 3 Active Use of Competition Law to Support Online Trade by SMBs:** We urge the Competition & Markets Authority (CMA), together with the European Competition Network, to recommend that the European Commission actively use EU competition law to promote intra-EU online trade by (1) opening a case targeting the inclusion of “online platform bans” in distribution policies, (2) removing the “logo clause” from paragraph 54 of the Guidelines on Vertical Restraints, and (3) instituting, as a political signal, an EU hotline for merchants to report discrimination and practices harming the development of technology-enabled trade. We call on the CMA to take firmer action against platform bans, which are used to facilitate resale price maintenance.

EBAY'S PLATFORM EASES THE BURDENS ON SMALL BUSINESSES



LANGUAGE
Improved machine
translations



SHIPPING
Aggregated shipping
programs



CUSTOMS
International
customs experts

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