



# PLATFORM-ENABLED SMALL BUSINESSES AND INCLUSIVE ECONOMIC OPPORTUNITIES

Evidence from How eBay-enabled Small Businesses in Europe  
Responded to the Economic Downturn

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## INTRODUCTION

Since 2011, the eBay Public Policy Lab and a team of economists at Sidley Austin LLP<sup>1</sup> have together carried out research into the exporting practices of firms that use the online commerce platform. We have uncovered a fundamental transformation occurring within global trade. Global trade has expanded beyond traditional traders, especially large global corporations, and today also includes commerce by very small Internet-enabled enterprises connecting directly with customers in almost every country of the world.

We must now leave behind the narrow world view of global trade as container shipments of one company's wares along predetermined trade corridors. We also need to acknowledge that there is an alternative way for the smallest enterprise to internationalize without participating, in the traditional sense, in Global Value Chains.

When we recognize that there is today a model of independent internationalization with firms leveraging the online commerce platform to build direct relationships with customers spread across the globe, we realize that this will impact our economy and society. The Lab has begun exploring such effects, and this paper continues those studies.

This paper looks at the ability of small online commercial enterprises to adapt to macroeconomic changes. The analysis is based on the European Commission's study of how companies of different sizes attempted to rebalance their export destinations in response to the significant relative decrease in export opportunities within Europe due to the recent economic and financial crisis.<sup>2</sup> All size classes of European exporters attempted to expand their extra-EU exporting relative to intra-EU exports as demand from outside of Europe grew more rapidly relative to demand from within Europe. All size classes of business achieved a rebalancing in favor of more pronounced extra-EU exports. However, the largest businesses were more adaptable and flexible. They were able to achieve a significantly greater degree of rebalancing by expanding extra-EU exports to the greatest degree among the traditional EU-based businesses.

The findings presented here confirm what we have previously discovered; namely, that the online commerce platform empowers the very smallest of businesses to perform like large companies despite them lacking comparable in-house experience, expertise and resources. In fact, eBay-enabled small businesses in Europe, nearly all of whom are exporters, proved most nimble and adaptable of all classes. They exceeded even the rate of rebalancing toward extra-EU exports of the largest European businesses, and they were considerably more adaptable than the general

## 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.

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<sup>2</sup> See Figure 39 of Annual Report on European SMEs 2014/2015, European Commission, available: [http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item\\_id=8557](http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8557)

classes of small business exporters. Our conclusion is that government export support programs should take this learning into account. We recommend partnerships between towns or regions, the local businesses and online commerce platform providers to bring platform-based exporting to local Micro, Small and Medium-sized Enterprises (MSMEs).<sup>3</sup>

## RESEARCH PARAMETERS

The research presented in this paper is based on a data set covering eBay transactions in EU28 for the period 2009 to 2013 by what we call "Commercial Sellers". Those are firms with at least \$10,000 USD in annual sales on eBay. We have limited the data on which our research is based to transactions by 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 predominately micro enterprises (with less than 10 employees).

We look primarily at the value share of Commercial Sellers' exports to non-EU countries as that is the parameter the European Commission studied. But we have also looked at the share of Commercial Sellers selling to non-EU countries for that period. We contrast changes in the value share of Commercial Seller exports and in the number of Commercial Seller exporters with the traditional economy. Here we rely on Eurostat data, the same source used by the Commission.

## INDEPENDENT INTERNATIONALIZATION

A large body of research confirms how firms that are connected to the global economy are generally more productive than firms that serve the domestic market only. Higher productivity is in turn associated with more prosperous communities.<sup>4</sup> As those communities are largely dominated by MSMEs<sup>5</sup>, including those firms in international trade becomes an obvious priority.

For instance, MSMEs represent 99% of EU's total enterprise population, and micro enterprises account for as much as 93%. Nevertheless, across OECD countries, less than 5% of micro enterprises are exporters while typically half of large enterprises export.<sup>6</sup> To serve as an illustration, 6% of the UK's micro sized retailers engage in exporting, compared to 57.5% of large UK retailers.<sup>7</sup>

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<sup>3</sup> This report will use the term "MSME": micro, small, and medium-sized firms. In fact, the commonly used term "SME" encompasses these three classes of company size. In quotes, we will of course stick to the term originally used, most often "SME".

<sup>4</sup> "Inclusive Global Value Chains", OECD and World Bank (2015), <https://www.oecd.org/trade/OECD-WBG-g20-gvc-report-2015.pdf>

<sup>5</sup> Micro enterprises with less than 10 employees, small with less than 50 employees, and medium with less than 250 employees.

<sup>6</sup> "Enterprise at a Glance", OECD (2013).

<sup>7</sup> Own calculation using the OECD Trade by Enterprise Characteristics database, year 2013, [http://stats.oecd.org/Index.aspx?DataSetCode=TEC1\\_REV4#](http://stats.oecd.org/Index.aspx?DataSetCode=TEC1_REV4#)

Micro and small enterprises are under-represented in traditional trade because of the costs associated with long-distance trading, including access to market information, locating customers, complying with foreign laws, etc. MSMEs are usually less well equipped to deal with such challenges than larger enterprises with in-house expertise and greater financial and human resources.<sup>8</sup>

Against this background, the participation in Global Value Chains (GVCs) is promoted as a promising way for MSMEs to reap the benefits of global trade. The concept of GVCs captures the globalization of the productive activities that lead a product from conception to market; Multi-National Enterprises (MNE) organize most GVCs and tend to be the leading actor with MSMEs as intermediary suppliers. It is suggested that GVCs provide “SME suppliers access to global markets at lower costs than those faced by individual small-scale producers.”<sup>9</sup>

Participation in GVCs thus adds to the traditional ways of engaging in world trade: intra-enterprise trade and arm’s length trade. However, in parallel to GVCs, yet another model of internationalization is now evolving. The World Economic Forum (WEF) recently noted how platform-based online commerce has had a strong positive impact on many small businesses, both by opening up new export avenues and facilitating access to low-cost imported inputs.<sup>10</sup>

The online commerce platform basically makes it possible to serve an international customer base directly from anywhere. It provides access—and at low cost—to services such as international marketing, delivery, payments, effective communication, etc.. Taken together, these services reduce, as pointed out by WEF, many non-tariff barriers, such as access to information, and it does so to the extent that company size becomes less of a condition for exporting. By basing their operations on an online commerce platform, small enterprises are able to internationalize on their own terms.

## **PLATFORM-BASED EXPORTING**

There are different online commerce platforms. This paper discusses that of an export platform, which enables small businesses, as independent retail enterprises, to engage in commerce that is a technology-enabled version of traditional small retailing. Exports then involve that small business communicating with buyers in different countries, shipping products to those buyers, and following up and engaging in customer service with these foreign buyers. The cross-border activity is thus carried out by the enterprise.

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<sup>8</sup> Annual Report on European SMEs 2013/2014; “Internationalisation of European SMEs”; European Commission (2010).

<sup>9</sup> “Enhancing the Role of SMEs in Global Value Chains”; OECD (2008).

<sup>10</sup> “What Companies Want From the World Trading System”; World Economic Forum (2015).

This type of platform-based exporting is proving successful in supporting the internationalization of independent small enterprises. Almost all Commercial Sellers (recall that those are firms with at least \$10,000 USD in annual sales on eBay and predominately micro-sized) engage in cross border commerce. For example, 93% of EU Commercial Sellers transact cross-border, while only 7% of EU MSMEs sell cross border.<sup>11</sup> Across OECD countries, fewer than 10% of firms are exporters.<sup>12</sup>

Moreover, Commercial Sellers reach a very large number of different export destinations. In a 2016 report, the Lab shows that Commercial Sellers in 18 different countries – both advanced and emerging economies – serve on average 27 different countries in a year.<sup>13</sup> To put that in context, World Bank estimates that the average number of countries reached by exporting firms in Belgium, Bulgaria, Estonia, Portugal and Spain is around four.<sup>14</sup>

The OECD reports that, in a majority of OECD economies, 50% or more of exporting enterprises trade with only one country. At the same time, the firms that export to more than 10 countries are also those dominating trade.<sup>15</sup> Note that across the 18 countries we studied in our 2016 report, between 38% and 98% of Commercial Sellers reach 10 or more countries.

Commercial Sellers are truly international. For example, 39% of EU Commercial Sellers serve customers in four or more continents.<sup>16</sup> This can be contrasted with the observation that 60% of all EU exporting firms depend on exports to only one or two extra-EU markets.<sup>17</sup>

## THE POWER OF EXPORTING

The independent internationalization of micro and small enterprises described above brings positive economic and societal effects. This flows from how “exports play an important role in fostering economic progress”<sup>18</sup> and how most country’s enterprise population is indeed made up of micro and small enterprises.

The Policy Lab has started to explore what those effects entail.<sup>19</sup> For example, we have found that the online commerce platform, which empowers independent retail enterprises, creates a more balanced

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<sup>11</sup> “A Digital Single Market Strategy for Europe”, European Commission (2015).

<sup>12</sup> “Entrepreneurship at a Glance”, OECD (2013); see also OECD Insights 2016.

<sup>13</sup> “Small Online Business Growth Report: Towards an Inclusive Global Economy”, eBay (2016), [http://www.ebaymainstreet.com/sites/default/files/ebay\\_global-report\\_vf\\_no-countries\\_0.pdf](http://www.ebaymainstreet.com/sites/default/files/ebay_global-report_vf_no-countries_0.pdf)

<sup>14</sup> World Bank Exporter Dynamic Database.

<sup>15</sup> “Entrepreneurship at a glance”, OECD (2015).

<sup>16</sup> “European Small Online Business Trade Summary”, eBay (2015), [http://www.ebaymainstreet.com/sites/default/files/pan\\_emea\\_growthreport\\_1.pdf](http://www.ebaymainstreet.com/sites/default/files/pan_emea_growthreport_1.pdf)

<sup>17</sup> “SMEs are more important than you think! Challenges and opportunities for EU exporting SMEs”, Chief Economist Note, Issue 3, September 2014, [http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc\\_152792.pdf](http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc_152792.pdf)

<sup>18</sup> OECD (2015).

<sup>19</sup> Explore our policy papers: <http://www.ebaymainstreet.com/policy-papers>

environment between large and established companies, on the one hand, and small firms and new entrants, on the other; that firms using the online commerce platform show strong sales growth, often outpacing their country's GDP growth; and that remote, less privileged regions and areas also hold active and large communities of international online enterprises. We have also touched on how the online commerce platform enables a great diversity of independent enterprises, providing a way out of unemployment, a tool for ensuring a family business remains competitive, and a medium for scaling a part-time occupation into a full-time business.

It is becoming apparent that independent internationalization supports the development of a healthy micro and small enterprise population. In line herewith and elaborated on below, we can now also show that platform-based exporting allows small firms to navigate macroeconomic changes—a pre-condition for building a sustainable MSME population.

## **NAVIGATING MAJOR ECONOMIC DISRUPTION**

The economic and financial crisis playing out in the EU between 2008 and 2013 may serve as an illustration of how tied MSME performance is to macro-economic developments.

Over that period, domestic demand dropped by about 4% across EU28 while extra-EU demand rose by about 7%. From the perspective of economic demand and growth opportunities between 2008 and 2013, the key macro-economic driver of growth was demand from outside the EU. At the end of that period, in 2013, MSMEs within Europe were reporting that finding customers was their single most pressing problem.<sup>20</sup>

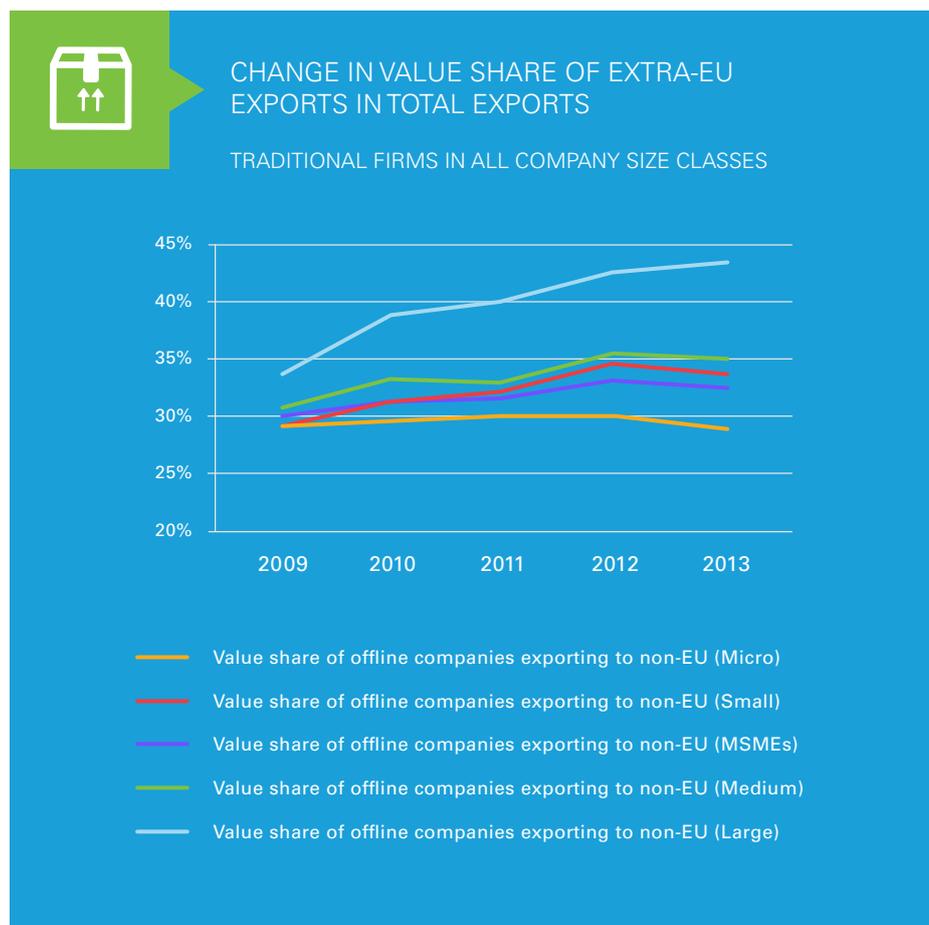
Two factors could help explain that predicament. First, recall that MSMEs are in general under-represented in exporting and so largely dependent on domestic demand. Second, those European MSMEs that were exporting were either not able to, or for some reason choose not to, shift their focus to capture the growth in extra-EU demand to help offset for the relatively depressed state of the European market.

The specific economic activity this paper studies is the level of exporting to extra-EU markets as a share of total exports: the reaction to the lower level of demand within Europe compared to demand from other markets was increased shares of exports going to extra-EU markets in the time frame studied. This phenomenon of growing extra-EU exports as a share of total exports as a strategy to help offset the negative effects of the European regional economic distress was seen by European exporters of all size businesses: large, medium-sized, small and micro.

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<sup>20</sup> Annual Report on European SMEs 2013/2014 and 2014/2015.

As the chart below shows, large European firms were able to respond most effectively to changes in intra-EU demand by increasing their share of extra-EU exports: the share of extra-EU exports in total exports by large European firms increased by about 26% for the period 2009 to 2013.<sup>21</sup> EU MSMEs did not to the same extent as large firms adapt their operations to the macro-economic changes. Small enterprises saw the largest increase (14%), followed by medium-sized enterprises (13%) but still well below the increase of 26% by large firms.



**Source:** Eurostat.

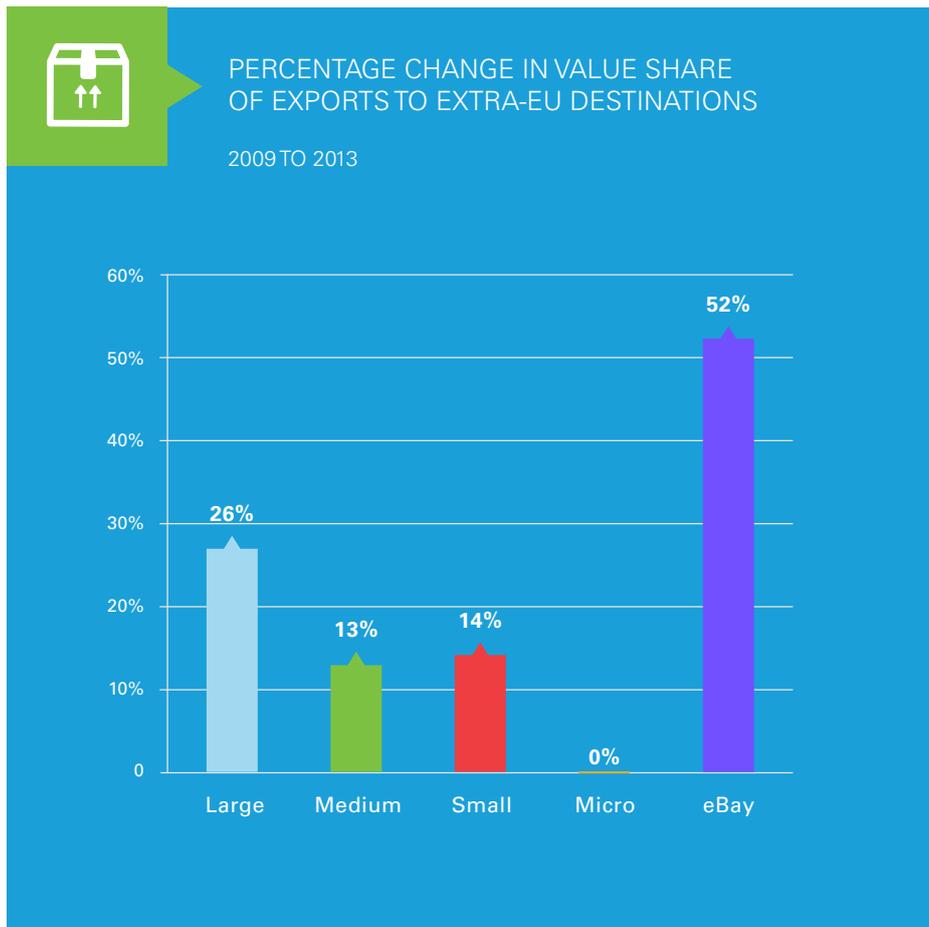
The chart shows how the value share of extra-EU exports out of total exports changes for traditional firms in all company size classes over the period 2009 to 2013.

Overall, this suggests that European MSMEs were, in general, less able than large firms to take advantage of changes in the macro-economy, such as relatively greater growth in demand from more remote regions. This relative inability of traditional small businesses to use export flexibility to adapt to changed circumstances seems particularly pronounced for micro enterprises, which did not manage to increase their share of extra-EU exports. They are in effect locked into their domestic or regional market.

<sup>21</sup> This paper uses the time period 2009 to 2013 because of data constraints. In the Annual Report on European SMEs 2014/2015, the European Commission uses the period 2008 to 2013.

We have replicated this analysis for EU Commercial Sellers. Recall that Commercial Sellers are firms with at least \$10,000 USD in annual sales on the eBay marketplace and they are predominately micro enterprises.

The charts below present the results. Commercial Sellers show the strongest rebalancing of export destinations, increasing their value share of extra-EU destinations by 52%. Moreover, it is among Commercial Sellers we see an increase in the number of firms tapping into the extra-EU demand growth.



**Source:** Eurostat and eBay.

We have calculated the percentage change, from 2009 to 2013, in the value share of exports going to extra-EU destinations. For example, eBay based firms saw their share of extra-EU exports in total exports go from 23% in 2009 to 35% in 2013.

### GROWTH IN VALUE SHARE

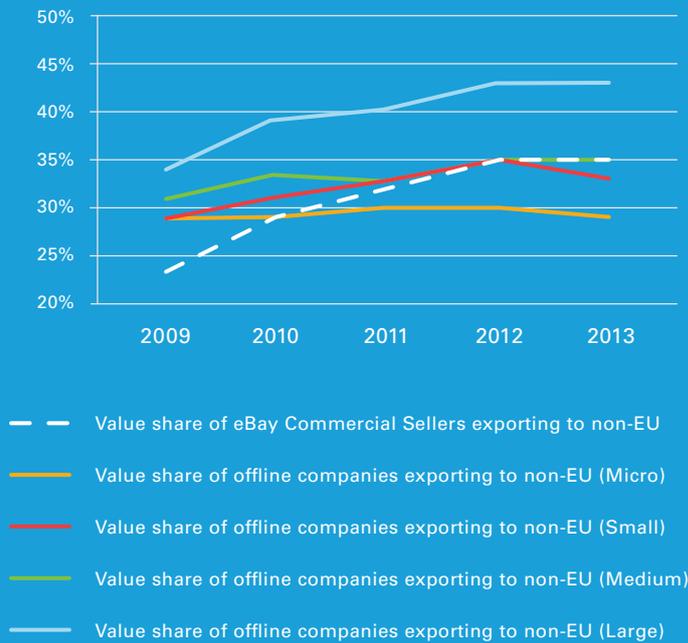
The performance by eBay Commercial Sellers – predominately, micro enterprises – replicates and even exceeds that of large (traditional) firms. Indeed, our findings suggest that the smallest online enterprises proved to be just as responsive, or more, to macro-economic change as large firms despite them holding the resources, experience and expertise.

The explanation lies in the independent internationalization through platform-based exporting. The online commerce platform makes very small commercial retailers just as equipped as large firms to navigate the macro-economy and take advantage of changes rather than suffer under them.



## CHANGE IN VALUE SHARE OF EXTRA-EU EXPORTS IN TOTAL EXPORTS

TRADITIONAL FIRMS IN ALL COMPANY SIZE CLASSES & EBAY-ENABLED FIRMS



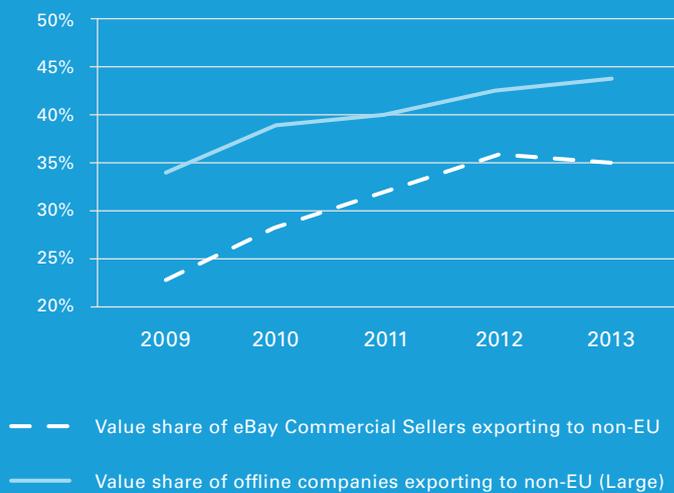
Source: Eurostat and eBay.

The chart shows how the value share of extra-EU exports out of total exports changes for traditional firms in all company size classes and eBay Commercial Sellers over the period 2009 to 2013.



## CHANGE IN VALUE SHARE OF EXTRA-EU EXPORTS IN TOTAL EXPORTS

TRADITIONAL LARGE FIRMS VS EBAY-ENABLED FIRMS



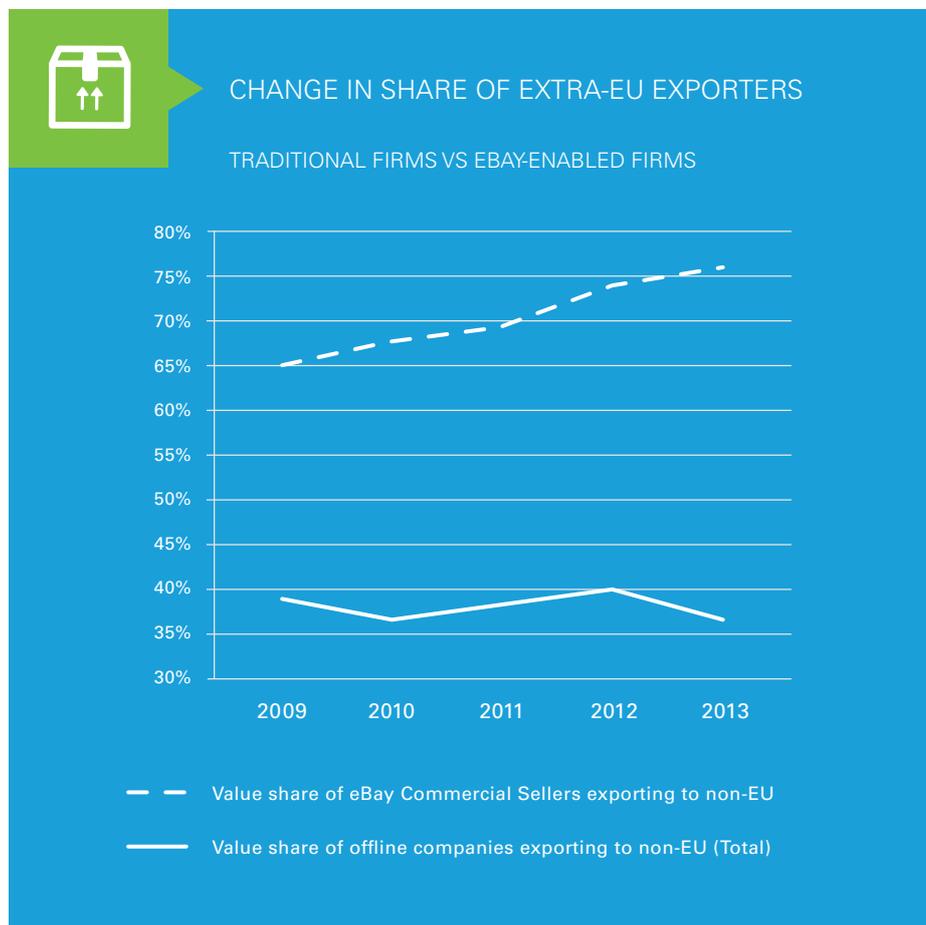
Source: Eurostat and eBay.

The chart compares the change in value share of extra-EU exports in total exports for large traditional firms and eBay Commercial Sellers.

## GROWTH IN NUMBERS

While there was some growth in the volume share of extra-EU exports by traditional firms over the period, the share of companies exporting to extra-EU destinations remained constant. In other words, growth happened among existing firms (at the intensive margin), and not in new firms tapping into extra-EU demand.

In contrast, the share of eBay-enabled small businesses selling to extra-EU destinations significantly increased over the period. This means that the online commerce platform enabled growth also in the number of firms able to take advantage of the increase in extra-EU demand (at the extensive margin).



Source: Eurostat.

The chart compares the change in share of firms exporting to extra-EU destinations for traditional firms (all company size classes combined) and eBay Commercial Sellers.

## OBSERVATIONS

Our findings point to the significant difference in export capability, export adaptability and business nimbleness between traditional small businesses and platform-enabled small businesses. The platform-enabled small firms appear to have an additional set of tools to navigate the macro-economy rather than be driven by it, more akin to traditional large enterprises than traditional small enterprises. Empowered by digital

tools, MSME performance does not have to be tied to macro-economic developments in a negative sense alone where it is “[o]nly when the [...] economy, on a macro scale, will emerge from recession into recovery, one can expect that the fortunes of SMEs will improve accordingly.”<sup>22</sup>

Platform-based exporting offers a complementary path to internationalization, particularly suitable for micro and small enterprises. This is important as the traditional models of world trade have not worked for MSMEs and in view of the downsides identified with GVCs, such as economic dependence and power imbalances. These downsides are aggravated during a macro-economic crunch. Large retailers and producers may lower their purchases with dramatic consequences for MSME suppliers, in particular if they are dependent on one MNE.<sup>23</sup>

Our research – presented in numerous reports over the last five years, including this paper – suggests that platform-based exporting offers a workable solution to address low MSME export participation and overcome dependency on a few export destinations. Encouraging this type of independent internationalization by MSMEs will also go to broadening the economic base of a country and alleviating the downsides associated with GVCs.

## RECOMMENDATION

There are a number of policy, regulatory and administrative barriers making trade more cumbersome for MSMEs.<sup>24</sup> But there are also hurdles to making the very leap into exporting. Companies may be deterred from entering into exports because they perceive certain issues as problematic. For instance, a 2015 Eurobarometer survey found that for half of the companies with exporting experience “too high financial investment” had not been a problem at all; whereas only 16% of companies without experience wrote it off as no problem.<sup>25</sup>

Companies may also simply overlook the opportunity. The 2015 Eurobarometer survey found that 74% of MSMEs currently not exporting said they “will probably never export”; and, as few as 9% said they were “considering it for the future.” This may be explained in part by what an OECD analysis report deems “critical constraints to SME internationalization”: limited international contacts and lack of managerial knowledge about internationalization.<sup>26</sup>

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<sup>22</sup> Annual Report on European SMEs 2013/2014

<sup>23</sup> UNCTAD describes how an economic crisis may lead to a domino effect within GVCs: the main enterprise faces difficulties, the first tier suppliers are strongly affected, the second and third tier suppliers end up suffering from serious financial difficulties with their survival threatened. “Integrating Developing Countries’ SMEs into Global Value Chains”, UNCTAD (2010), [http://unctad.org/en/Docs/diaeed20095\\_en.pdf](http://unctad.org/en/Docs/diaeed20095_en.pdf)

<sup>24</sup> For a discussion on those, see “Empowering People and Creating Opportunity in the Digital Single Market”, eBay (2015), [http://www.ebaymainstreet.com/sites/default/files/eBay\\_europe\\_dsm\\_report\\_10-13-15\\_1.pdf](http://www.ebaymainstreet.com/sites/default/files/eBay_europe_dsm_report_10-13-15_1.pdf), and eBay (2016).

<sup>25</sup> “Internationalisation of Small and Medium-Sized Enterprises”, Flash Eurobarometer 421, European Commission (2015).

<sup>26</sup> “Top Barriers and Drivers to SME Internationalisation”, OECD (2009), <https://www.oecd.org/cfe/smes/43357832.pdf> A 2009 survey of EU SMEs showed lack of adequate support among the three most important external barriers to exporting and it is felt more important for SMEs with plans to enter international markets compared to those who are already active (presented in “Internationalisation of European SMEs”, European Commission (2010)).

There is an abundance of government programs for the support of MSME internationalization<sup>27</sup>, and a common focus is indeed on providing market information.<sup>28</sup> However, awareness of these programs is low, and especially so with what should be their most important audience: micro enterprises and MSMEs with no international activities or no plans to that end.<sup>29</sup> Moreover, the perceived effectiveness of these programs appears also to be low among users<sup>30</sup>, with only 8% of micro enterprises responding that they “would not have internationalized without support.”<sup>31</sup>

Now, this paper has shown how there is in platform-based exporting a powerful model for independent internationalization by micro and small enterprises. A practical illustration of this is the pilot project initiated by Mönchengladbach’s private sector development authority in 2015. The authority contacted eBay for help with bringing local businesses online, and eBay assisted with establishing online presence for the businesses and advising them on marketing their products to local as well as foreign customers.<sup>32</sup> The pilot phase ran for nine months, and during that period the 79 participating businesses sold a total of 87,000 items online, generating more than €3,2m in additional sales.

The project’s primary objective was to bring online the town’s merchants. But the project also led to the majority of participating businesses starting to engage in exports. During the pilot phase, a total of 84 different countries were served out of Mönchengladbach. This suggests that a program for close liaison between a city, town or region; its businesses; and an online commerce platform can make a successful foundation for export support and promotion.

Such a structure will introduce the workings of an online commerce platform to a group of merchants, thereby create social ties between the participants; it will connect them with similar businesses that are already engaging in platform-based exporting; and, it will effectively provide a network for sharing of knowledge about export opportunities and practicalities. This three-legged structure would also be able to quickly identify external barriers.

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<sup>27</sup> ECSIP identified 1,156 support services for EU SMEs, “Study on Support Services for SMEs in International Businesses”, ECSIP (2013). <sup>18</sup> Annual Report on European SMEs 2013/2014 and 2014/2015.

<sup>28</sup> “Internationalisation of European SMEs”, European Commission (2010).

<sup>29</sup> In terms of awareness of SME internationalization support programs, the European average is only 16%, (European Commission, 2010).

<sup>30</sup> The OECD has suggested there to be “persisting low user-level perceptions of the effectiveness” of these programs, (OECD, 2009).

<sup>31</sup> In the same survey, a large group of 37% stated that the support was welcome but it only facilitated operations, (European Commission, 2010).

<sup>32</sup> See <http://www.ebay.de/rpp/mg>

