
A world of opportunity for every American Small Business
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 :: Usman Ahmed, Counsel & Head of Americas :: Hanne Melin, Counsel & Head of Europe :: Sassoon Grigorian, Head of Asia-Pacific
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Nearly twenty years ago, eBay was founded with a simple idea. An open and fair marketplace can create immense value and become a force for good in society.

That simple, yet profound idea is one of the main reasons that I joined eBay. We’ve created a level playing field for all sellers on our platform, regardless of size. Whether it’s realizing the value of those shoes collecting dust in your closet or the ability to keep your main street business open because you now have access to customers around the world – eBay is enabling commerce, fostering economic opportunity and making an impact on society with each transaction.

The impact of our technology on small business is great, and that excites me. In fact, our data shows that more than 90 percent of U.S. small businesses on our platform export. And of those exporters, 190,000 are exporting to four continents or more. Compare that to overall small business trade activity, where less than five percent of businesses export, according to U.S. Census data. Talk about creating economic opportunity.

In this report, we analyzed eBay trade data to understand the way U.S. small businesses are using technology to scale and trade globally. We will use this information to help us refine our platform and better serve our sellers. And, as champions for small business, we will continue to work with our industry peers, government and development agencies to help break down trade barriers.

Small businesses are part of what make this company uniquely eBay. I am inspired each day by them and their ability to drive an amazing commerce experience for millions of customers around the world. And I am proud of the role we can play to help make their success possible.

After all, when small businesses win, we all win.

Devin Wenig, CEO
Executive Summary

Globalization has no doubt resulted in tremendous economic benefit for the world, but there is an underlying tension that not everyone has fully benefited from the integration of the global economy. This tension is magnified in the US where some feel that globalization only helps large companies and harms local small and medium sized businesses [SMB]. Traditionally, large businesses have been able to take advantage of having access to the world’s customers because of the tremendous capital investments and infrastructure required to directly engage in global commerce. Technology is changing all of this.

Small businesses, for the first time in history, are utilizing the Internet and the services built on top of the Internet to go beyond their local consumer base and reach out to the world. These *micro-multinationals* are able to compete in the global market, while maintaining a local physical presence. The economic and social benefits that are being created as a result of this new trend are astounding.

At eBay, we have witnessed this phenomenon take shape first hand. We have studied the data from 10 years of transactions on eBay Marketplaces and found four trends about US-based micro-multinationals:

1. **Exploring the World as Global Traders**. Data from eBay demonstrates that 95% of the US SMBs on our platform [those selling $10,000 or more] engage in exporting. This is not a niche phenomenon as over 190,000 of these tech-enabled SMBs reach customers on more than 4 continents, which is remarkable when compared with Census bureau data, which reports that less than 5% of businesses in the US export.

2. **Surviving and Thriving**. The complexity of exporting tends to lead to low survival rates for businesses. World Bank data demonstrates that only 15% of exporting businesses are still exporting after 3 years. But, eBay data demonstrates that 74% of SMBs that were exporting in 2011 were still exporting after 3 years. Moreover, the ability provides meaningful growth benefits. Businesses focused on the domestic market on the eBay platform grew 58% between 2010 and 2014; whereas export-oriented businesses grew 91% during that same time frame.

3. **Creating a More Inclusive Economic Model**. Startups and SMBs have typically struggled to compete in the global market, but technology helps to level the playing field. World Bank data demonstrates that 82% of total exports are sold by the top 5% of businesses (by size). But, eBay’s data shows that the top 5% of US-based businesses only account for 55% of the total exports. Moreover, newcomers on eBay have a significant market share after just one year on the platform. In 2014, newcomers on eBay had over 12% of sales on the platform whereas World Bank data demonstrates that newcomers only made up 5% of total sales.

4. **Benefiting from Reduced Barriers to Trade**. Small business global trade has been held back by barriers such as language and customs. Over the past decade, eBay
has launched innovations to mitigate these pain points with great results. For example, the development of machine translation technology has resulted in language as a barrier to trade over eBay being lowered by 66% since 2004.

The evolution of micro-multinationals is good economics because it means more growth and wealth creation; it is good global politics because it responds to questions about the current state of globalization; and, it is good for society because it is a more inclusive global economic model.

But, more work needs to be done to make global commerce truly frictionless. While technology has done wonders to change the trade landscape, government actions domestically and abroad have a significant impact on the global success of micro-multinationals. Governments should take the following steps to remove frictions in the trading system and benefit micro-multinationals:

- **Raise de Minimis Levels** – The de minimis is the threshold below which imported goods are exempt from duties and payments. US Micro-multinationals are harmed by low de minimis levels in foreign countries and even by the low de minimis in the US when accepting returned goods. Raising the de minimis will remove customs frictions from trade by micro-multinationals.

- **Modernize and Harmonize Postal Regimes** – Micro-multinationals increasingly utilize posts for cross border transactions. Postal services have largely been developed for domestic letter transmission. Modernizing postal services to meet the needs of micro-multinationals engaging in package trade directly with consumers could greatly help to grease the wheels of modern trade.

- **Protect Intermediaries Against Third Party Liability** – The principle that intermediaries are not held liable for the unlawful actions of their users has been engrained in US law. Unfortunately, foreign legal regimes do not have these important protections. Trade policy is an ideal vehicle for the US to push other countries to adopt stronger intermediary liability protections.

- **Tailor Government Programs to Fit the Needs of Micro-Multinationals** – The US government has many excellent programs designed to help US businesses. Many of these programs are tailored to small businesses and to exporters. Yet, largely because this is a new phenomenon, the programs are not tailored to the needs of micro-multinationals. This paper recommends revisiting exciting government programs to address the concerns of micro-multinationals.

These changes will enhance the economic and societal benefits that come as a result of micro-multinational trade. We are excited to report on the positive trend of micro-multinationals engaging in global commerce. And, we hope that readers will join us in working hard to open up new opportunities for micro-multinationals to grow.
Introduction

In 2005, former University of California, Berkley economist Hal Varian wrote a groundbreaking piece in the New York Times about a new trend whereby small businesses were leveraging technology, particularly the Internet, to locate employees and access customers around the world. Professor Varian coined the term “micro-multinationals” to describe this new phenomenon. But, notably, Professor Varian’s article did not have much data to back it up and instead relied upon case studies, describing a future where this emerging trend would become commonplace.

The data analysis contained in this report is the realization of Professor Varian’s 2005 prediction. Micro-multinational exporters are now a widespread phenomenon. The Internet creates a truly global digital network. When the Internet is combined with commercial services and efficient logistics, small businesses can connect with consumers and establish trust across national and cultural borders. We have coined the term Global Empowerment Network to describe this model. It runs alongside the traditional internationalization archetype for SMB participation in trade known as the Global Value Chain model.

This is the latest in a series of reports from the eBay Public Policy Lab that examine the impact of globalization and technology on small business commerce around the world. This report focuses on the United States, looking at how SMBs from across the US have embraced technology to grow their businesses globally. As in our previous reports, the eBay Marketplace provides the illustration of a new model for technology-enabled trade that is taking shape. Importantly, we believe our findings to be applicable generally to the nexus of trade and technology.

A team of economists at Sidley Austin LLP supported our efforts by conducting the economic research contained in this report, which is based on a global dataset of eBay Marketplace transactions from 2004 to 2014. The report compares findings from eBay Marketplaces with “traditional” trade flows between the US and other countries that have been gleaned from US Department of Commerce and US Census data as well as World Bank data.

This report will walk through the major findings that have come to light from our research. The first finding is that businesses leveraging technology export around the world at unprecedented rates compared to traditional SMBs. Secondly, this exporting leads to better survival and growth outcomes. Third, technology is helping to create a more inclusive economic model by bringing small businesses into the tent of beneficiaries from global trade. Fourth, technology can help reduce the effect of traditional barriers to trade.

The report will also lay out illustrative case studies that serve to ground the data in the real world. Finally, the report will describe key policy actions that enhance the ability of technology-enabled businesses to more effectively reach world markets. Legal rules and administrative procedures have a key role to play in ensuring that the Global Empowerment Network provides increasing opportunities for technology-enabled SMBs to directly participate in global commerce.
Exploring the World as Global Traders

Traditionally, small businesses have been limited by distance in terms of their ability to explore foreign markets since most customers had to physically enter a business to transact. Reaching a customer in a different state, let alone in a different country, seemed like an impossible task for most SMBs. The Internet has changed the calculus.

eBay Marketplaces data demonstrates that 95% of US-based SMBs on the eBay platform sell to customers in foreign countries. In short, they export. This is in stark contrast to traditional businesses in the US, of which only about 4% engage in exporting.\textsuperscript{ii} (Figure 1).

**Figure 1. Share of Firms Exporting**

![Graph showing the share of firms exporting](image)

In many cases these are truly global businesses, exporting to nearly every corner of the world. In 2014, SMBs on eBay exported to 215 markets around the world. Moreover, this is not a niche trend, but instead a growing phenomenon. To demonstrate the pervasiveness of the unprecedented geographic reach and scale of these technology-enabled SMBs, we have placed them into 3 categories: [International = export to two continents; Multinational = export to 3 continents; Global = export to 4 or more continents]. (Figure 2). Most notably, over 190,000 SMBs reached global reach, exporting to 4 or more continents in 2014.

**Figure 2. Number of SMBs Reaching 2, 3, and 4+ Continents**

![Bar chart showing the number of SMBs reaching different levels of export](image)
Surviving and Thriving

The idea that trade leads to firm growth is one that most economists hold almost as self-evident. Chairman of the Council of Economic Advisers Jason Furman stated, “[T]he ability to sell to a larger world market allows firms to take better advantage of increasing returns to scale.” But, the complexities involved in exporting can often lead to high failure rates [ceasing to export] among firms. The World Bank collects data on exporting firms from around the world. This database does not contain information on the US, but the 3-year export survival rates in developed European countries [Sweden, Spain, Portugal, Estonia, Bulgaria, and Belgium] is just 15.7%. In stark contrast is 2014 data from eBay Marketplaces demonstrating that 74% of micro-multinationals are still exporting after 3 years. (Figure 3).

Figure 3. Survival Rate for Exporters

Exports on the eBay platform increased nearly 300% between 2004 and 2014, while overall exports in the US only increased less than 100% over the same time frame. It is also useful to track the growth of export-oriented firms to demonstrate the economic principle that exporting firms grow because of increasing returns to scale. We looked at SMBs on eBay from 2010 to 2014 and found that domestic-focused firms [those with >50% of sales going to international consumers] grew 58% over that time frame, whereas export-oriented firms [those with <50% of sales going to international consumers] grew 91%. (Figure 4). Export-oriented firms grew 57% faster than their domestic-focused counterparts.

Figure 4. Growth of Export Oriented Firms
**SpeedOutfitters**

Elkhart, IN

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<td>SpeedOutfitters has 10 employees</td>
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<td>The business uses eBay, Amazon, and <a href="http://www.speedoutfitters.com">www.speedoutfitters.com</a></td>
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<td>SpeedOutfitters operates out of a 7,000 sq. ft. brick and mortar store.</td>
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<td>The business exports 41% of its products.</td>
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### About SpeedOutfitters

Motorcycle enthusiast and economist Travis Baird started SpeedOutfitters shortly after finishing college in 2004. The business was started with a mere $3500 and Baird as the sole employee.

Baird founded SpeedOutfitters as a traditional retail store named Baird Motorcycles, before expanding to online sales. With a combination of hard work and determination and the help of platforms like eBay, Travis expects to continue expanding operations to employ 12-15 full-time workers by the end of 2015.

Over the past two years Baird chose to take heavy losses in order to reinvest in technology. He will forgo a salary in 2015 in order to maximize reinvestment in the business. Selling internationally is absolutely vital to the business, with roughly 41% of total sales to consumers from outside the United States. Baird has sold to consumers in 131 different countries.
Seamless Development
Cherry Hill, NJ

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<th>Seamless Development has 30 employees.</th>
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<td>Seamless Development operates out of a 150,000 sq. ft. warehouse</td>
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<td>The business exports 30% of its products.</td>
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About Seamless Development

In 2004, Mathew Keister and his business partner, Erin Marchon, started a consulting company for online entrepreneurs. They developed eCommerce inventory management and shipping software for online retailers seeking to maximize sales.

With the help of a loan from the Small Business Administration, Seamless created a cloud-based eBay operations platform to make it affordable and accessible for all types of online retailers and bring true enterprise-grade technology to small businesses. Seamless Development, Inc. is now growing at an incredible rate.

In 2012 Seamless started the ChopRetail eBay business as a way to test the new eCommerce cloud platform, which became an instant success; sales have increased at a rate of around 100% per month, and the business continues to grow. Keister and Marchon are hoping to double, or even triple the number of employees in the next few years.
Creating a More Inclusive Model for Global Commerce

The benefits of global trade have traditionally been captured almost entirely by large established firms. Small businesses could not afford the large infrastructure, marketing, and capital costs required to engage in global trade. The Internet now enables an SMB to “go global” instantly. This explains why startup (newcomer) businesses on the eBay Marketplace are able to capture 12.7% of the export market in just one year, whereas, globally, new enterprises only make up 5% of the traditional export market. (Figure 5).

Figure 5. Market Share of Newcomers

The reciprocal factor of startups struggling to gain market share in the traditional economy is that largest traditional entities maintain much of the market share. Globally, the top 5% of exporters account for 82% of the export market. This is not the case for SMBs using the eBay Marketplace. The top 5% of micro-multinationals only account for 55% of the exports on the eBay platform, underscoring how the online marketplace is a more inclusive venue for SMBs. (Figure 6).

Figure 6. Market Share of Top 5% of Businesses
**Breaking Down the Barriers to Economic Opportunity**

Small businesses continue to face disproportionate barriers to trade, despite the positive effect that the Internet has had in reducing marketing and communication costs. One of the major barriers that has inhibited micro-multinationals has been language. This has been an area of focus for eBay; the company has created machine translation technology that can help reduce the challenges associated with language. Over the past decade, language as a barrier to trade has been reduced by more than two-thirds for micro-multinationals. In 2004, trading with a buyer from a country with English as the official language used to boost exports of US-based sellers by 150%, but in 2014 it “only” increased exports by 44%—that’s a 2/3 reduction within a decade. (Figure 7)

**Figure 7. Reduction in Language as a Barrier to Trade**

![Graph showing reduction in language coefficient over years](image)

There are several other barriers to trade that continue to inhibit micro-multinationals. Customs, in particular, is noted by micro-multinationals as a particularly onerous barrier to trade. Trade agreements are one of the most effective methods for improving customs processes and reducing fees and paperwork. eBay has served as a platform for micro-multinationals to organize and demonstrate their support for policy issues that would reduce business frictions. In early 2018, micro-multinationals using eBay sent over 50,000 emails to members of the United States Congress expressing support for the Trans-Pacific Partnership (TPP). The TPP is a trade agreement between the US and 11 other markets that represents more than 35% of the exports from US-based micro-multinationals on eBay.

Micro-multinationals have struggled to present a voice on policies that limit their ability to access international markets. But, their issues are of tremendous importance as they represent an entrepreneurial exporting class of businesses that the US should seek to promote.

The final section of this report will lay out specific policy recommendations for the US government to consider in order to facilitate the continued growth of micro-multinationals.
Fashionphile

Carlsbad, San Francisco & Beverly Hills, CA

| ![people] | Fashionphile has 18 full time and 29 part time employees |
| ![computer] | eBay, www.fashionphile.com |
| ![building] | Fashionphile has 3 boutiques in California |
| ![globe] | The business exports 20% of its products |

About Fashionphile

Founded by Sarah Davis in 1999, Fashionphile has worked hard to become the leading online reseller of pre-owned luxury handbags. The business’ online success has enabled Davis to open three boutiques across California.

The business has been recognized by: CBS KCal, Good Day LA, Fox 11, Good Morning America, The Today Show, E! Entertainment TV Live from the Red Carpet at the Academy Awards, and The Wall Street Journal.

In 2014, a Brazilian blogger had a Fashionphile handbag shipped to a New York hotel where she was staying and shared her experience on the popular Brazil fashion blog Garotasestupidas (or Stupid Girls). Word about Fashionphile spread throughout the country, pushing Davis to find ways to safely expand its international sales to Brazil, a country she previously avoided.
The Music Farm
Canton, OH

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<td>🎵</td>
<td>The Music Farm employs 11 people.</td>
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<tr>
<td>📡</td>
<td>eBay, Amazon, Sears, Newegg, Reverb, <a href="http://www.themusicfarm.com">www.themusicfarm.com</a></td>
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<td>The Music Farm operates</td>
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<td>The business exports 30% of its products.</td>
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About The Music Farm

Brian Robinson has lived in the Canton, Ohio area for most of his entire life. He earned his first job in the area when he was just 15 years old. Robinson started in the music business in 1992, and when the company he was working for went under in 2004, he started to look for a new job. Ultimately, he decided to follow his entrepreneurial aspirations by starting his own business. In 2004, The Music Farm was born.

The Music Farm started exclusively as an online operation, but quickly grew in sales and inventory which allowed Robinson to open up a brick-and-mortar store and showroom. International sales are an integral part of the overall operation and make up nearly a third of Robinson’s business.
Policy Recommendations

Poor government policies can have a particularly powerful effect on SMBs. The International Organization of Employers finds that proportionate compliance costs can be 10 to 30 times greater for small firms than for larger firms. Moreover, micro-multinationals are a relatively new segment of trader, which means they have never before been a meaningful part of trade negotiations and thus the policy solutions needed to facilitate micro-multinational trade have not been proposed, let alone implemented within the traditional trade regime. This section will highlight four policy recommendations that would enhance the ability of US micro-multinationals to access the global market.

- **Raise de minimis levels**: The de minimis threshold is the monetary level below which an importer of physical goods is exempted from customs duty and paperwork requirements. Returns are an essential part of the retail experience. In the current environment, providing cross border returns is difficult for micro-multinationals because if a good is valued at a level above the de minimis threshold, then upon its return it may be subject to customs duty and paperwork requirements, with the burden falling on the seller. Legislation has been introduced in the United States to increase the US de minimis threshold from $200 to $800. Moreover, US trade negotiators should seek commitments from trading partners to raise their de minimis thresholds, thereby reducing customs barriers for micro-multinationals.

- **Modernize and Harmonize Postal Regimes**: Harmonization and simplification of policy and regulation, as well as increased technological investment and development of postal services are extremely beneficial for micro-multinationals that utilize the postal service to move their goods around the world. Multi-lateral harmonization is the most effective method for improving the global postal system, agreement on addressing mechanisms, customs clearance policies, and tracking would make cross border technology-enabled trade much more efficient.

- **Protect Intermediaries Against Third Party Liability**: The United States regime for Internet intermediary liability has been instrumental in leading to the development of the strongest Internet services industry in the world as well as the most robust Internet-enabled economic activity. The balanced notice-and-takedown regime achieved in the Digital Millennium Copyright Act (DMCA) protects IP while enabling platforms to grow. The blanket immunity for speech violations provided by the Communications and Decency Act (CDA) Section 230 enables free speech to flourish online. Unfortunately, very few nations have adopted a similarly balanced regime for governing intermediary liability. This creates a great deal of uncertainty for micro-multinationals. The US should seek to harmonize intermediary liability regimes through trade agreements in a manner that encourages countries to adopt balanced, pro-innovation liability regimes modeled after the DMCA and CDA.
Tailor Government Programs to Fit the Needs of Micro-Multinationals: The US has several trade-promotion programs designed to help educate, finance, and facilitate export-oriented businesses. Unfortunately, many of these programs are tailored to fit the needs of larger manufacturing and agricultural SMBs. The micro-multinational business faces divergent barriers from the traditional SMB exporter. The US should revisit export promotion programs and tailor them to meet the needs of the micro-multinational.

Conclusion

Pierre Omidyar, eBay’s founder, frequently says, “[E]veryone is born equally capable, but lacks equal opportunity.”xi The Internet has opened up a world of opportunity for businesses of all sizes throughout the United States. At eBay, we are committed to creating products and services that continue to enable new opportunities for businesses of all sizes. We are interested in partnering with private sector entities, governments, and non-governmental organizations to further clear the path for micro-multinationals to grow.

We believe that the micro-multinational trend is still nascent and is only going to grow. The growth of micro-multinationals will bring more wealth creation and will spread that wealth to entities that have traditionally been left out. We are excited about our role in helping these businesses to grow and advocating on their behalf to enable their global success.
Endnotes

i Hal Varian, Technology Levels the Business Playing Field, New York Times 2005


iv Average of similarly situated markets in World Bank Exporter Dynamics Database

v International Trade Center, Trade Map

vi Average of similarly situated markets in World Bank Exporter Dynamics Database

vii Id.


x S.489 "Low Value Shipment Regulatory Modernization Act of 2015"

xi Elanor Goldberg, eBay Founder Pierre Omidyar On Why He’s Dropped $1 Billion To Make The World A Better Place, Huffington Post (12/20/11)