



SPANISH 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 globalization and technology is liberating the ambitions of SMBs.

This report presents new findings coming out of this collaboration, exploring what is nothing short of a trade revolution and the impact this is having in Spain. It will also show how economic activity of small online businesses is emerging across the country. Sidley economists have measured the “Digital Density” of Spain’s 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 Spain. To ensure that the community of small commercial enterprises on eBay was fully captured, the data was limited to transactions by sellers with sales of more than \$10,000, approximately €9,000 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 Spain. Technology is reducing barriers to global markets by allowing SMBs access to products and 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 Spanish small businesses are taking advantage of.

A massive 95% of SMBs on eBay in Spain export – far higher than businesses that have not embraced online – and they reach on average 21 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 Spain’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: less dominated by a few “superstars”, welcoming to startups, and encompassing the whole of Spain.

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 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,
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Director & Head of Europe

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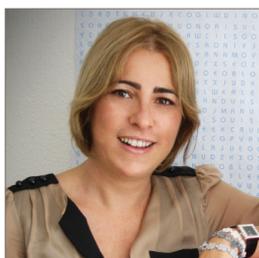
Sassoon Grigorian,
Head of Asia-Pacific

Sidley
economists
estimate trade
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marketplace

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.

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

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



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%.

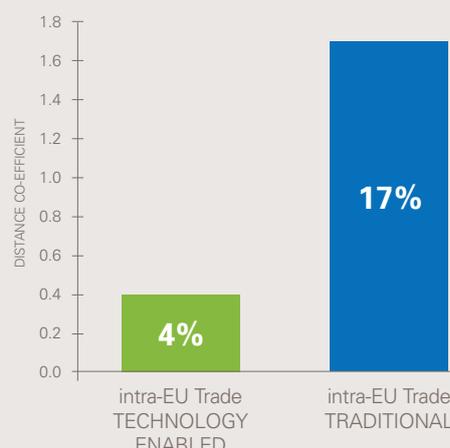
In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80 per cent lower for SMBs in the online marketplace.

SPANISH SMALL BUSINESSES EXPLORE THE WORLD

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

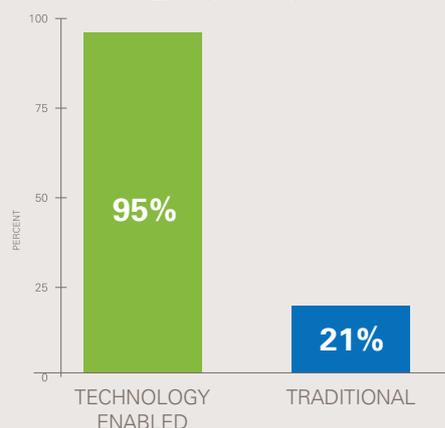
eBay Marketplaces data demonstrates that 95% of Spain-based “Commercial Sellers” sell to customers in foreign countries. In short, almost all of them export. This is in stark contrast to traditional businesses in Spain, of which only about 21% export. Our assessment shows that the Spanish online marketplace fosters Small Global Traders: just short of 42% of Spain’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 SPANISH FIRMS EXPORTING

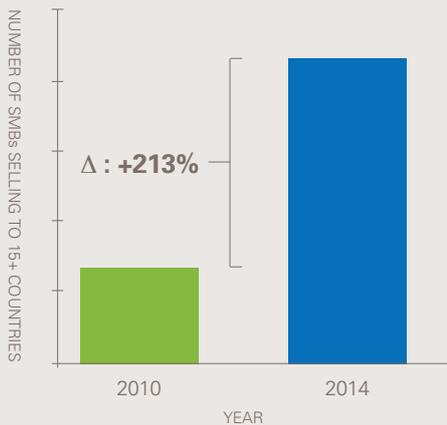


Source: Sidley Austin LLP analysis based on eBay data; World Bank Enterprise Survey.

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%
ESP	1	Continental	14.8%
ESP	2	International	23.9%
ESP	3	Multinational	19.5%
ESP	4+	Global	41.9%

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 SPAIN



In 2014, SMBs on eBay in Spain exported to 198 markets. On average these SMBs reach 21 different countries annually.

In contrast, the World Bank's Exporters Dynamic Database suggests traditional firms in Spain export to an average of only four different countries.

The global Spanish SMB is a growing phenomenon. The number of small businesses in Spain on eBay selling to 15 or more countries grew by an amazing 213% over the period 2010 to 2014.

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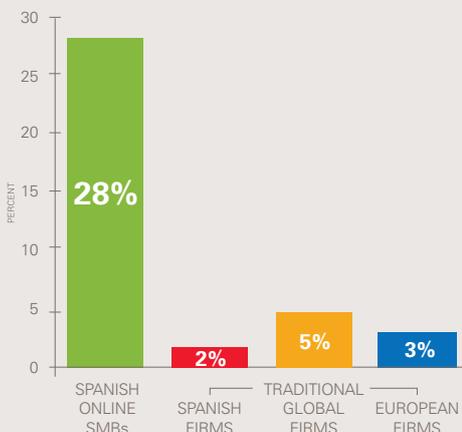
A MORE INCLUSIVE MODEL FOR SPANISH TRADE

In the past, the benefits of global trade have almost exclusively been shared out amongst large established firms. Small businesses could not afford the infrastructure, marketing, and capital costs required to engage in global trade. As the research findings presented in this report show, the internet now enables SMBs to "go global" instantly. This translates into a commercial environment supportive of newcomers and not tilted in the favour of a few "superstars".

Startup businesses, or newcomers, on the eBay Marketplace are able to capture 28% of the export market in just one year, whereas newcomers only make up 2% of the traditional Spanish export market.³

What does this mean for the traditional economy? It means the largest traditional companies capture most of the market share. In Spain, the top 5% of traditional exporters account for 86% of the export market.

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 Spain using the eBay Marketplace. The top 5% only account for 44% 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 Spain'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 the capital region, 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 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.

We have studied two indicators of the level of small online business uptake found in Spain's 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 Spain to be fairly equal. Ranking the regions in relation to each other on Digital Density, one finds that the regions that rank high are not necessarily the ones with the highest GDP per capita or the largest population.

For example, the region Pais Vasco has the highest GDP per capita in Spain but comes in second lowest in Digital Density ranking: number 18. The region Andalusia is the most populous region in Spain but only number 9 in Digital Density. By contrast, while Comunidad Valenciana is number 2 in Digital Density, it is one of the regions in the second lowest half with regard to GDP per capita. It is also worth calling out the region Principado de Asturias with its fourth position in Digital Density even though in terms of both GDP and population its national ranking is below par.

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



Position	Region
#1	Comunidad de Madrid
#2	Comunidad Valenciana
#3	Cataluna
#4	Principado de Asturias
#5	Illes Balears
#6	La Rioja
#7	Castilla-La Mancha
#8	Region de Murcia
#9	Andalucia
#10	Castilla y Leon

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, Spain has 19 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

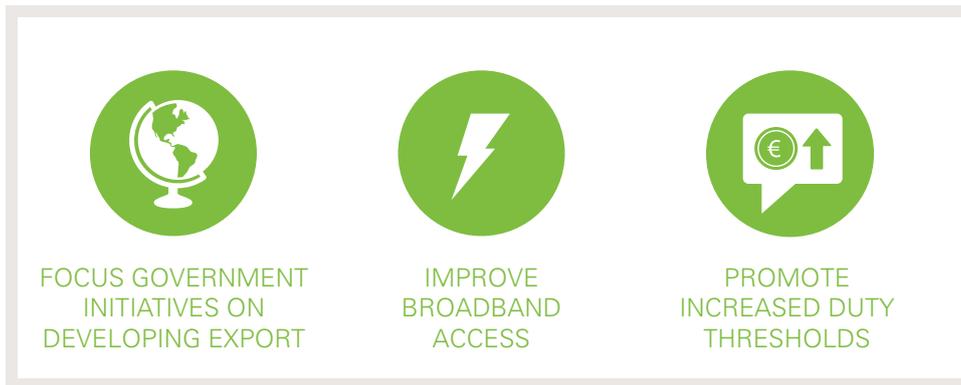
⁵ The "Digital Density" score is a weighted combination of indicators 1 and 2. The weighted average puts more emphasis on the sales per small online businesses, as starting up a business is the first step to selling

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 Spanish small businesses to serve customers in the EU and globally.



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- 1 Focus Spanish government initiatives supporting SMBs on developing export activity:** The Spanish e-commerce sector grew by more than 22% per quarter in 2014. However, studies show that Spanish SMBs still have huge untapped growth potential in cross border trade. We applaud Spain's government support programs for SMBs, such as the recent €98 million initiative by the Ministry for Industry, Energy and Tourism and the National Innovation Agency funding over 600 projects. At least 30-50% of these projects should specifically focus on unlocking the export potential of Spain's SMBs through education and stimulation packages.
- 2 Improve access to broadband Internet:** The share of Spanish households with Internet access at home (74%) is much lower than that of countries appearing in Spanish firms' top exporting destinations, such as Germany, France or the UK (around 85%). There is a role for the Spanish government to play in the development of Internet access and broadband, especially in the most remote areas. This is crucial to allow Spanish SMBs all over the country to seize business opportunities offered by technology-enabled trade in these top exporting destinations.
- 3 Promote increased duty free thresholds:** We call on the Spanish government to support efforts at EU level to 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. This will allow the EU to negotiate similar thresholds at bilateral and multilateral level, thus stimulating overseas private importation of products sold by Spanish SMBs online, in particular but not limited to Latin and South American markets.

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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