



# FRENCH 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 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 France. It will also show how economic activity of small online businesses is emerging across the country. Sidley economists have measured the “Digital Density” of French 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 France. 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 businesses<sup>1</sup>. Sometimes, for short they are referred to as eBay SMBs.

The research results show that technology is opening up tremendous opportunities for SMBs across France. Technology is breaking down 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, our analysts estimate trade costs to be four to five times lower on the online marketplace compared to the traditional marketplace, and this is something French small businesses are taking advantage of.

A massive 97% of SMBs on eBay in France export – far higher than businesses that have not embraced online – and they reach on average 14 different countries annually. They are effectively Small Global Traders, and they operate from almost anywhere. Thanks to technology, businesses do not need to be located in France’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 France.

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.

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## 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>1</sup> 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.

“I opened my professional French cosmetics store BeautyFrench75 on eBay in 2011. Today, I sell to 90 countries across Europe, the United States, Asia, Africa and Australia! Thanks to eBay, I discovered that the internationalisation of my young company could be simple, with low investment, and without the necessity to have a heavy infrastructure. I export now to more than the double the number of countries than I did a year ago! This means my business has not suffered from the current crisis.”

*Monim Khiari  
Beauty French 75  
Sells cosmetics*



## 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%.<sup>2</sup> 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%.

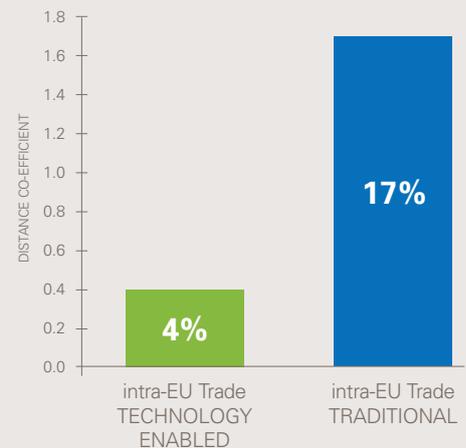
In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80 per cent lower for SMBs in the online marketplace.

## FRENCH 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 taking down the barriers that prevented SMBs going into new markets. And this is something that French SMBs are taking advantage of.

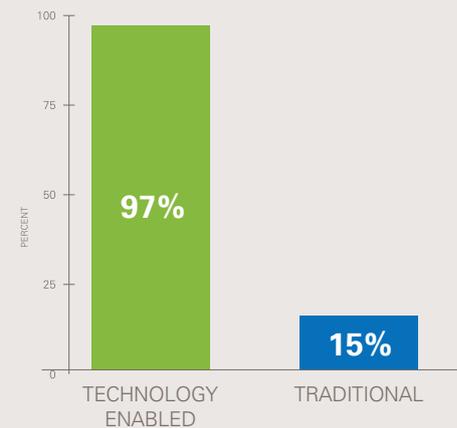
eBay Marketplaces data demonstrates that 97% of France-based “Commercial Sellers” sell to customers in foreign countries. In short, almost all of them export. This is in stark contrast to traditional businesses in France, of which only about 15% export. Our assessment shows that the French online marketplace fosters Small Global Traders: half of France’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 FRENCH FIRMS EXPORTING

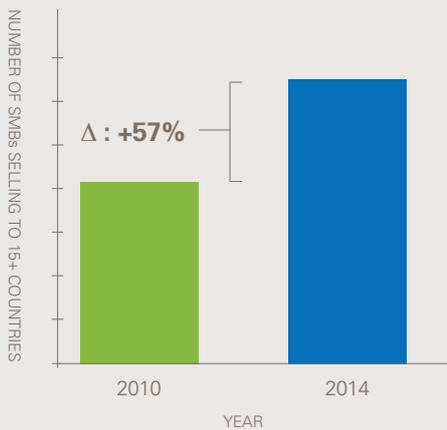


Source: Sidley Austin LLP analysis based on eBay data; World Bank Enterprise Survey.

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%
FRA	1	Continental	12.4%
FRA	2	International	16.5%
FRA	3	Multinational	20.5%
FRA	4+	Global	50.6%

<sup>2</sup> 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 FRANCE



Small online businesses in France are truly global businesses, exporting off the eBay Marketplace to nearly every corner of the world.

In 2014, SMBs on eBay in France exported to 203 markets. On average these SMBs reach 17 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 French SMB is a growing phenomenon. The number of SMBs in France on eBay selling to 15 or more countries grew by about 57% over the period 2010 to 2014.

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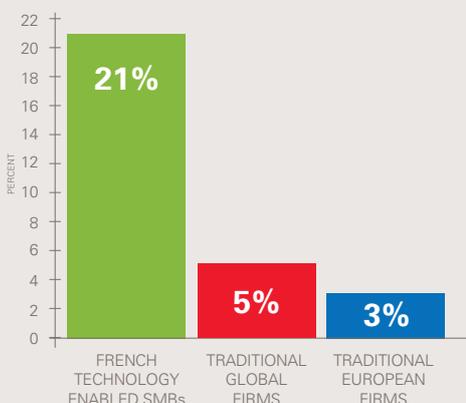
## A MORE INCLUSIVE MODEL FOR FRENCH TRADE

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 were able to capture 21% of the export market share in just one year, whereas traditional new European enterprises only make up 3% of the traditional 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”).

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

This contrasts hugely with the online economy. Take SMBs in France using the eBay Marketplace. The top 5% only account for 40% of all exports on the eBay platform. Simply put, an online marketplace is a more open marketplace that is arguably less likely to concentrate market share in the hands of a few. It is more inclusive.

<sup>3</sup> 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 French 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<sup>4</sup>, the most populous region or the richest region in order to be able to build thriving businesses.

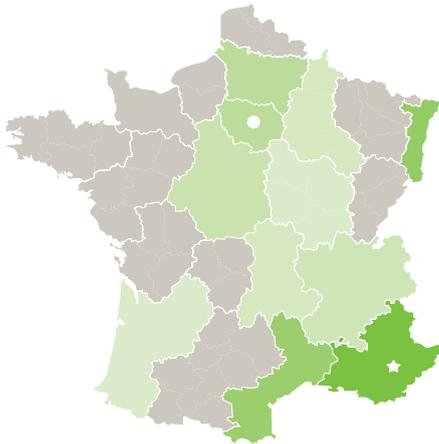
Of course, many small online businesses choose to operate in central regions. However what is clear from our research is that location is no longer a condition for commercial success: it is possible to run an international, prospering business from rural, perhaps remote, and sometimes less economically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

We have studied two indicators of the level of small online business uptake found in France'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"<sup>5</sup>.

On both these indicators, we find the level across the regions of France 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 Ile de France and Rhone-Alpes regions have the highest and second highest GDP per capita in France, though score lower in Digital Density: number 4 and 7, respectively. The region Nord-Pas-de-Calais is the fourth most populous region in France but only number 12 in Digital Density. By contrast, while Champagne-Ardenne is a region with a small population, it nevertheless comes in among the top 10 in Digital Density. It is also worth calling out the Languedoc region which places number 3 in Digital Density but is 19th in terms of GDP per capita in France.

## DIGITAL DENSITY: FRANCE'S TOP 10 REGIONS IN TERMS OF TECHNOLOGY-ENABLED BUSINESS UPTAKE



Position	Region
#1	Provence Alpes Cote d'Azur
#2	Alsace
#3	Languedoc
#4	Ile de France
#5	Picardie
#6	Centre
#7	Rhones Alpes
#8	Champagne-Ardenne
#9	Bourgogne
#10	Aquitaine

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.

<sup>4</sup> With "regions" we refer to NUTS2 region using the 2010 classification. Under this classification, France has 26 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

<sup>5</sup> 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 France's small businesses to serve customers in the EU and globally.



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- 1 Take concrete action to support French SMBs trading online and across borders:** The French government has expressed the political will to support the development of SMBs in their endeavors to compete and trade globally. The government should now translate this into concrete action. There is an urgent need for central coordination of support programs at Ministerial level, allowing platforms such as eBay to effectively channel and target their contribution and assistance to French SMBs in building capacity and expertise aimed at growing their export potential.
- 2 Protect Intermediaries Against Third Party Liability:** The regime for internet intermediary liability laid down in the e-Commerce Directive has been instrumental in the development of a strong and promising e-commerce environment in the EU. The current regime on liability is balanced, future proof and will ensure continued foreign investment in the online sector. It also allows EU start-ups to develop their services in a framework of legal certainty. France, with its vibrant and high-potential online and mobile sector, should strongly support this balanced liability regime, which sufficiently protects intellectual property rights while enabling platforms to grow. It should also encourage EU-level private sector initiatives to improve voluntary cooperation in the fight against illegal activity online.
- 3 Use Competition Law to Support Online Trade by SMBs:** We urge the French anti-trust authority (Autorité Nationale de la Concurrence) to take firm action against anti-competitive behavior by manufacturers, who exclude third party online and mobile commerce platforms from their distribution systems, thus harming consumer choice and access to competitively priced goods online. In addition, France should, together with the European Competition Network, recommend that the European Commission actively use EU competition law to promote intra-EU online trade by (1) opening a case aimed at abolishing 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.

# 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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