



ITALIAN SMALL BUSINESS ONLINE 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 Italy. It will also show how economic activity of small online businesses is emerging across the country. Sidley economists have measured the “Digital Density” of Italy’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 Italy. 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 Italy. 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 Italian small businesses are taking advantage of.

A massive 92% of SMBs on eBay in Italy export – far higher than businesses that have not embraced online – and they reach on average 15 different countries annually. They are effectively global small businesses, and they operate from almost anywhere. Thanks to technology, businesses do not need to be located in Italy’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 Italy.

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.

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Sidley
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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.

“Thanks to eBay we were able to start up our family business with low structural and management costs. Today, our business is becoming more and more successful and is growing in terms of turnover. For small and medium enterprises that, like us, have decided to focus on the excellence of Made in Italy products, it is important to note that many companies have found in eBay a partner that supports them and stays by their side offering them technological innovation and making international commerce increasingly simple”

*Maria Gabriella Russo and Vincenzo D’Aniello
eBay Store “Prodotti Tipici”, Italy
Sells Italian regional food*



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%.

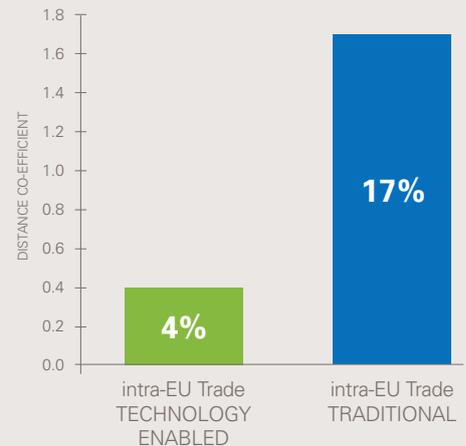
In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80 per cent lower for SMBs in the online marketplace.

ITALIAN 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 Italy’s SMBs are taking advantage of.

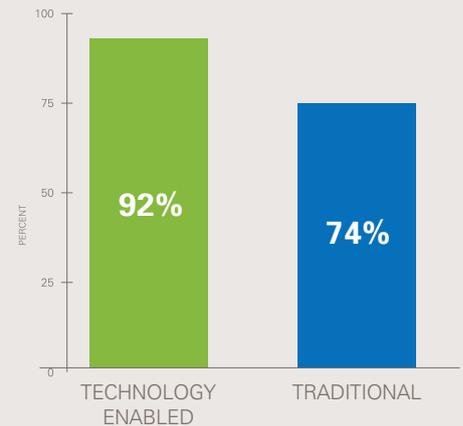
eBay Marketplaces data demonstrates that 92% of Italy-based “Commercial Sellers” sell to customers in foreign countries. In short, almost all of them export. This is in stark contrast to traditional businesses in the EU, of which only about a quarter export. Our assessment shows that the Italian online marketplace fosters Small Global Traders: just short of 35% of Italy’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 ITALIAN FIRMS EXPORTING

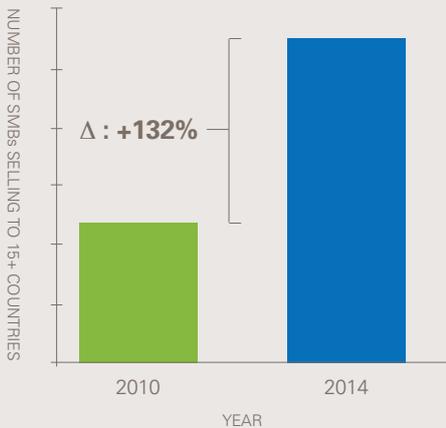


Source: Sidley Austin LLP analysis based on eBay data; World Bank Enterprise Survey.

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%
ITA	1	Continental	22.2%
ITA	2	International	22.1%
ITA	3	Multinational	21.2%
ITA	4+	Global	34.6%

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 ITALY



Italian 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 Italy exported to 200 markets. On average these SMBs reach 15 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 Italian SMB is a growing phenomenon. The number of SMBs in Italy on eBay selling to 15 or more countries grew by an amazing 132% over the period 2010 to 2014.

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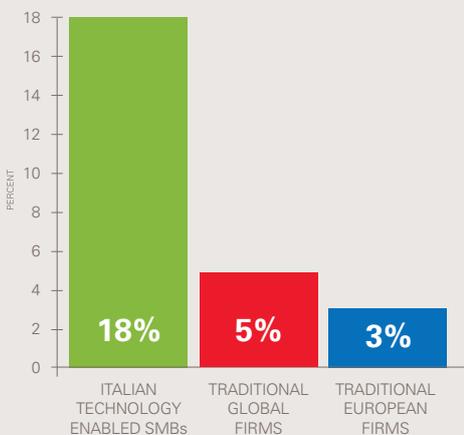
A MORE INCLUSIVE MODEL FOR ITALY'S TRADE

In the past, the benefits of global trade have almost exclusively been enjoyed amongst 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 18% of the market share in just one year, whereas newcomers only make up 3% of the traditional European 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").

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.

This contrasts hugely with the online economy. Take SMBs in Italy using the eBay Marketplace. The top 5% only account for 58% of all exports on the eBay platform. Simply put, an online marketplace is a more open and balanced 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 Italy'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 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 Italy'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 Italy 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 Provincia Autonoma di Bolzano and Lombarida regions have the highest and second highest GDP per capita in Italy but only come in at number 18 and 12, respectively, in Digital Density ranking. Instead it is the region with the country's lowest GDP per capita that tops the Digital Density ranking: Campania. Other regions standing out include Basilicata, which is among the regions with the lowest GDP per capita as well as smallest population but nevertheless scores as high as 6 in Digital Density. It is also worth calling out the Sicilia region, which makes it into the top 10 Digital Density ranking but is one of the bottom three regions in terms of GDP.

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



Position	Region
#1	Campania
#2	Marche
#3	Puglia
#4	Lazio
#5	Abruzzo
#6	Basilicata
#7	Umbria
#8	Sicilia
#9	Toscana
#10	Emilia-Romagna

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, Italy has 21 regions: <http://ec.europa.eu/eurostat/web/nuts/history>

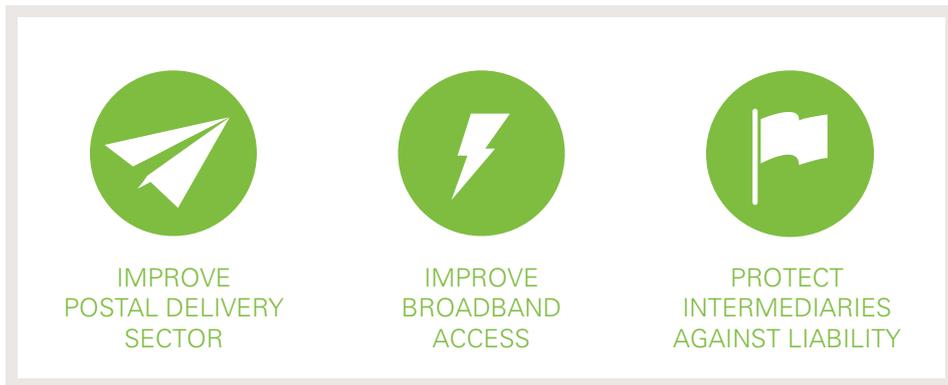
⁵ The "Digital Density" score is a weighted combination of indicators 1 and 2. The weighted average puts more emphasis on the sales per small online businesses, as starting up a business is the first step to selling

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 Italy's small businesses to serve customers in the EU and globally.



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- 1 Improve the postal delivery sector:** The Italian postal service is notoriously unreliable and expensive, thus representing a major barrier to the realization of Italian SMB's massive growth potential in e-commerce. The Italian government should bring pressure to bear on its postal sector to modernise and improve their services, whilst encouraging it to seriously review its pricing and cost structure. The postal and package delivery sector in Italy should create a competitive proposition aligned with the best-case examples in the EU and abroad.
- 2 Improve access to broadband Internet:** The share of Italian households with internet access at home (72%) is much lower than that of countries appearing in Italian firms' top exporting destinations, such as Germany, France or the UK (around 85%). Italy's remote regions urgently need to see their connection to online and mobile high-speed networks improved. We look at the Italian government to make this a key priority for immediate concrete action.
- 3 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. Italy is currently seeing increased growth of its high-potential online and mobile sector, yet there is still massive untapped potential. Therefore, Italy should strongly support maintaining the current balanced liability regime, which protects intellectual property rights while enabling its fledgling online sector to grow.

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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