



GERMAN 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 Germany. It will also show how economic activity of small online businesses is emerging across the country. Sidley economists have measured the “Digital Density” of German 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 Germany. 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 shorthand they are referred to as eBay SMBs.

The research results show that technology is opening up tremendous opportunities for SMBs across Germany. 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 German small businesses are taking advantage of.

A massive 94% of SMBs on eBay in Germany export – far higher than businesses that have not embraced online – and they reach on average 14 different countries annually. They are effectively multi-country exporters, and they operate from almost anywhere in the country. Thanks to technology, businesses do not need to be located in the Germany’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 Germany.

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,
Executive Director

Hanne Melin,
Director & Head of Europe

Usman Ahmed,
Counsel & Head of Americas

Sassoon Grigorian,
Head of Asia-Pacific

Sidley
economists
estimate trade
costs to be 4 to
5 times lower
on the online
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.

"After serving as a sales manager in an international company for ten years, I turned my hobby into a profession in 2004. Since then, our team and I deal with antiques, arts and design.

From the beginning, eBay played a vital role in our distribution strategy.

Today, we generate about one third of our turnover with our eBay shop. eBay is of special importance for us when it comes to cross border trade – it enables us to make our offerings available to a global target group. We send parcels abroad every day, especially to the US / Canada and several European countries."

*Marcus Müller
eBay Store design-and-arts, Germany
Sells antiques*



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%.

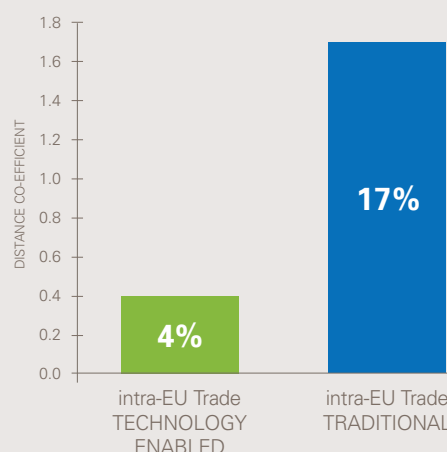
In the online marketplace, geographical distance matters much less. An increase in distance by 10% between a buyer and a seller in the EU would only decrease cross-border trade by 4%. In other words, trade costs are up to 80 per cent lower for SMBs in the online marketplace.

GERMAN 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 German SMBs are taking advantage of.

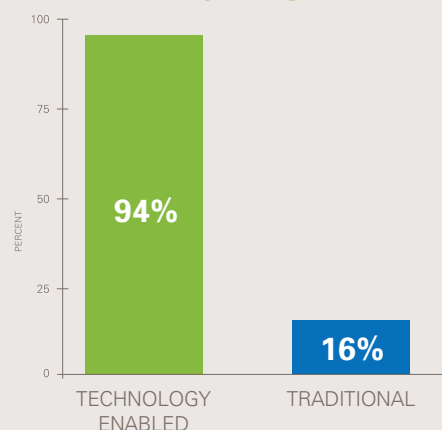
eBay Marketplaces data demonstrates that 94% of German "Commercial Sellers" sell to customers in foreign countries. In short, almost all of them export. This is in stark contrast to traditional businesses in Germany, of which only about 16% export. Our assessment shows that the German online marketplace fosters multi-country exporters with 41% of Germany's "Commercial Sellers" focusing on serving consumers in the EU.

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 GERMAN FIRMS EXPORTING

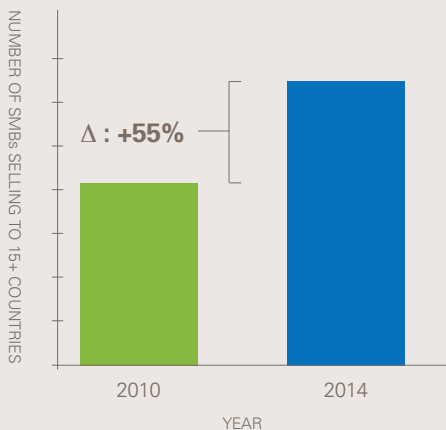


Source: Sidley Austin LLP analysis based on eBay data; World Bank Enterprise Survey.

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%
DEU	1	Continental	41.0%
DEU	2	International	23.7%
DEU	3	Multinational	15.7%
DEU	4+	Global	19.6%

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 GERMANY



Germany's 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 Germany exported to 208 markets. On average these SMBs reach 14 different countries annually. In contrast, the World Bank suggests traditional firms in EU countries export to an average of only four different countries.

The exporting German SMB is a growing phenomenon. The number of small businesses in Germany on eBay selling to 15 or more countries grew by about 55% over the period 2010 to 2014.

In 2014, SMBs on eBay in Germany exported to **208** markets. On average these SMBs reach **14** different countries annually.

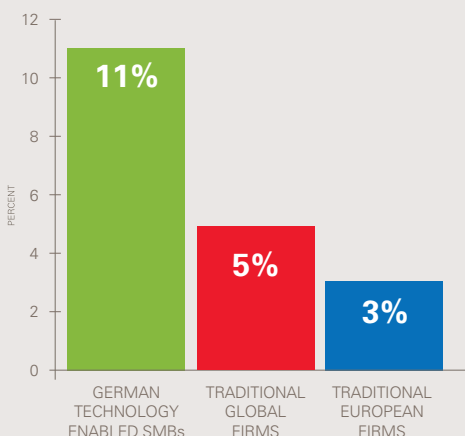
A MORE INCLUSIVE MODEL FOR GERMAN TRADE

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 show, 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 were able to capture 11% of the market share in just one year, whereas newcomers only make up 3% of the traditional European 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 capture most of the market share. Among European countries, the top 5% of traditional exporters account for 82% of the export market.³

This contrasts hugely with the online economy. Take SMBs in Germany using the eBay Marketplace. The top 5% only account for 61% 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 Germany'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 region⁴, the most populous region or the richest region in order to be able to build thriving businesses.

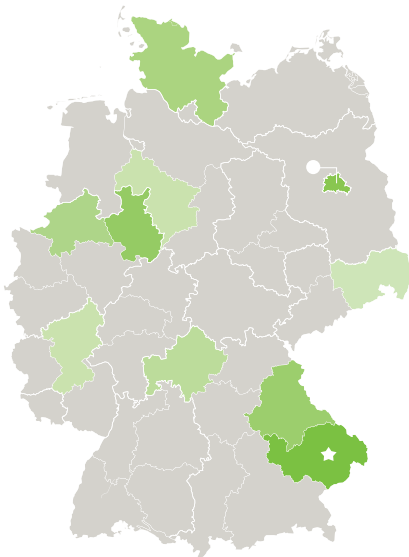
Of course, many small online businesses choose to operate in central regions. However, what is clear from our research is that a central location is no longer a condition for commercial success: it is possible to run an international, prospering business from rural, even remote, and sometimes less economically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

We have studied two indicators of the level of small online business uptake found in German 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 Germany 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 Hamburg and Oberbayern regions have the highest and second highest GDP per capita in Germany but only come in at number 12 and 30, respectively, in Digital Density ranking. The region Cologne is the third most populous region in Germany but only number 17 in Digital Density. By contrast, while Niederbayern tops Germany's Digital Density ranking, it is among the regions with the smallest population. It is also worth calling out the Schleswig-Holstein region, which ranks number 5 in Digital Density but is among the 10 regions with the lowest GDP per capita.

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



Position	Region
#1	Niederbayern
#2	Berlin
#3	Detmold
#4	Oberpfalz
#5	Schleswig-Holstein
#6	Münster
#7	Unterfranken
#8	Hannover
#9	Koblenz
#10	Dresden

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 multi-country exporting 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 German small businesses to serve customers in the EU and globally.

Small online businesses are a relatively new business phenomenon, which means they have never before been a meaningful part of trade negotiations.



SUPPORT ONLINE
TRADE OF AUTHENTIC
BRANDED GOODS



PROTECT
INTERMEDIARIES
AGAINST LIABILITY



FOSTER
EXPORTING BY
SMALL BUSINESSES

- 1 Support Online Trade of Authentic Branded Goods:** Some manufacturers impose restrictions on their licensed resellers when it comes to selling on the internet, including bans to use modern distribution channels like open marketplaces. This significantly harms not only the businesses of these resellers, but also consumers: They are not able to find the goods on the channels they use and prefer, which leads to less price transparency and ultimately ends in higher prices for consumers. Germany should make sure that such practices are effectively prevented and should help ensuring that there is legal clarity within the EU that Internet restrictions such as platform bans are prohibited.
- 2 Protect Intermediaries Against Third Party Liability:** The E-Commerce Directive as basis for the EU regime for Internet intermediary liability has been instrumental in leading to the development of a strong Internet services industry in Europe as well as the robust Internet-enabled economic activity. The balanced notice-and-takedown regime protects IP while enabling platforms to grow. However, some courts in Germany have come up with case law that deviates from the clear rules of the E-Commerce-Directive thus distorting this balance and thus endangering the growth of Internet intermediaries, such as open marketplaces. Germany should clarify the underlying German law to make sure it is in line with EU law and should refrain from altering the balanced regime for Internet intermediary liability.
- 3 Foster Exporting by Small Businesses:** Germany is "Exportweltmeister" when it comes to larger companies and traditional industries. However, in eCommerce, German sellers are lagging behind their potential. Germany should therefore simplify all rules relating to cross border trade (e.g. customs regulation). Moreover, as small online businesses face divergent barriers from the traditional SMB exporter, Germany should revisit export promotion programs and tailor them to meet the needs of small online businesses.

EBAY'S PLATFORM EASES THE BURDENS ON SMALL BUSINESSES



LANGUAGE

Improved machine
translations



SHIPPING

Aggregated shipping
programs



CUSTOMS

International
customs experts

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 :: Hanne Melin, Director & Head of Europe ::
Usman Ahmed, Counsel & Head of Americas :: Sassoon Grigorian, Head of Asia-Pacific