

EDiMA's statement in response to the Commission's consultation under the start-up initiative

The European start-up community is the bedrock for Europe's digital economy and the future for growth and innovation within the EU. In light of the European Commission consultation under the start-up initiative, EDiMA would like to take this opportunity to take stock of what the current online landscape offers for start-ups and SMEs.

In the recently-launched consultation the Commission states that its goal is to create serial entrepreneurs who will try again when they fail, reinvest when they succeed, and support a healthy entrepreneurial ecosystem throughout. The questionnaire follows the life cycle of a company which is divided into three primary phases: *stand-up phase*, *start-up phase* and *scale-up phase*.

Although Europe's SMEs have created approximately 85% of new jobs in the EU in the past five years, and now account for two-thirds of the total private-sector employment,¹ many start-ups face various barriers to growth, particularly when entering new markets. EDiMA would like to highlight how online intermediaries have helped start-ups and SMEs to overcome such barriers, in all three of the phases outlined above.

Simply put, SMEs most notably benefit in three key aspects: *Lower costs of starting and growing a business* - online intermediaries facilitate low cost access to markets and running business in the digital age, which includes for instance lower costs of selling; *Reaching more customers* - online intermediaries enable SMEs to reach more potential buyers, which reduces the need for new capital investments and resources required to grow to scale; *Building trust* - online intermediaries help SMEs build a trusting relationship with their customers.

Lower costs of starting and growing a business

Online intermediaries help existing companies improve their business and help entrepreneurs starting their business by reducing a range of key cost components, including examples below:

On the sales-side (e.g. marketing, selling, payments, and logistics):

- Social networks, recommendation engines, and search engines help small sellers, who lack the resources to build broadly recognised brands, to discover customers.
- Merchant platforms such as eBay and Etsy take small businesses' products to the market.
- Payment facilitators such as PayPal and PayU provide access to cheaper, secure and more convenient payment services for merchants, who can benefit from access to thousands of potential buyers. SMEs can also benefit from more flexible financing and credit opportunities provided by payment intermediaries, with a view to develop and to grow their businesses.
- Logistics platforms link small merchants to a global network of one- and two-person shipping companies.

On the input-side (equipment, workforce, IT and investment):

- Peer-to-peer business platforms (sharing economy) such as 3Dhubs.com connect SMEs to more than 20.000 local 3D printers, or sharing marketplaces like floop2 allow SMEs to share all kinds of excess capacity online, from specialised machinery, tools to secretary assistance.

¹ EDiMA's CE Study Online Intermediaries, Impact on the EU Economy
<http://www.europeandigitalmediaassociation.org/pdfs/EDiMA%20-%20Online%20intermediaries%20-%20EU%20Growth%20Engines.pdf>

- Online workforce marketplaces such as upwork.com provide platforms for companies to hire and work with independent professionals around the world.
- Cloud computing has enabled small merchants to enjoy hardware and software benefits once limited to companies who could afford such large investments. SMEs can now rent professional data services, as needed, such as storage, software, platforms, and test environments.
- Brokerage platforms such as Funding Circle link investors to those who need capital.

Online intermediaries reduce the cost of selling by lowering the operational, accessibility, marketing and transportation costs of doing business; the amount of capital required to start and grow a business is therefore reduced in such a way that SMEs become more competitive. SMEs typically do not have the required size with regards to turnover to bear many of fixed costs required for entering a new market. For this reason, SMEs are often not able to set up the required infrastructure to service clients in new markets – from building a web-shop, to accepting payments or shipping products cross-border. High transportation costs add to the comparative disadvantage of SMEs and pose an important barrier to SMEs growth. Online intermediaries provide different types of platforms for the exchange of goods, services and information, which in turn reduces the fixed upfront cost of online selling and marketing (see the bullet points above).

Today, thanks to intermediaries, SMEs can save these large upfront investments and instead pay a fee per transaction, per click or per view, which allows SMEs to scale up and down depending on fluctuation in demand.

Reaching more customers

European SMEs use many different online intermediaries to improve their marketing and sales efforts, in order to successfully reach customers and access new markets. Many SMEs use a range of online intermediaries spreading from social media such as Polish Nasza Klasa, Belgian Netlog and Facebook or general search providers such as Yahoo!, Bing and national variants such as Seznam in the Czech Republic.

In a recent report conducted for the European Commission, the role of social media on European SMEs is investigated. The analysis is based on survey data gathered from 600 SMEs distributed across different economic sectors and located in six different Member States². The study found that 61 per cent of European SMEs made formal use of social media, and that most users of social media primarily use them for external processes as, most notably, marketing. This picture is confirmed by a McKinsey study, which showed that 70 per cent of companies are using social media. The study further pointed out that companies have only recently started to use these forms of online intermediaries for marketing purposes.³

In the study for the EU Commission, the surveyed European SMEs using social media reported that their financial situation improved more than those who did not, as 29 per cent of users of social media reported an improved financial situation over the last 3 years compared to only 18 per cent of non-users.⁴ This suggests that social media brings economic benefits to the SMEs. The available studies, including the one for the Commission does however not fully quantify the effect.

² United Kingdom, Netherlands, Spain, Italy, Bulgaria and Latvia.

³ McKinsey (2012).

⁴ See European Commission (2013).

Preparing for online selling is costly for SMEs, and for some SMEs, online presence would not be possible without online intermediaries. To circumvent this issue, SMEs and start-ups make use of e-commerce platforms such as eBay and Allegro, which allow others to set up shops on their platforms in order to make their products and services available to Internet users in the broadest sense. Payment intermediaries such as PayPal allow small businesses to easily connect and transact with thousands of potential buyers in a fast, secure and convenient way. In this way, online intermediaries therefore provide advantages such as higher traffic and reach, which make it easier for SMEs to market their products and reach more potential buyers. Currently, there are more than 220 online marketplaces throughout Europe.

Building trust

Finally, online intermediaries and e-commerce platforms take the complexity out of selling across-borders and help SMEs build a trusting relationship with their clients based on professionalism and high-quality products that meet clients' needs.

Amazon, for example, has 28 fulfilment centres distributed across seven countries in Europe as well as Customer Service centres that are able to help customers in their local language. With the online intermediary also handling the shipping of the product, SMEs can ship their products to one of the centres, and the online intermediary will manage orders and manage customer service. The Service Centres therefore give SMEs the opportunity to service clients in near and faraway places in a professional way without having to train their own staff and spend scarce resources on returns and post-sales communication.

Online intermediaries also facilitate a more direct contact between small businesses and buyers. For example, online client feedback gives SMEs a cheap and quick testing ground for new products, and it helps build client trust. With online intermediaries such as RelayRides, eBay and Amazon, small businesses can easily connect to thousands of potential buyers, and trust is established through previous reviews of sellers and buyers. These reviews are easily accessible to the consumer, who can then compare and consider the products on offer and make purchases from Europe's SMEs online. Trust is also paramount in the provision of payment services, and SMEs can benefit from the safe and secure payments infrastructure provided by payment intermediaries such as PayPal to build consumer trust. Consumers and merchants know that the intermediary will help them if something goes wrong in their shopping experience – see for instance PayPal's Buyer Protection and Free Return Shipping policies.

Online intermediaries also help SMEs develop new competences and skills to run successful business in the digital age. Google, for example, runs across 25 European countries a program called Growth Engine, which builds on the experience of hundreds of thousands of SMEs present online and aims to support 2 million Europeans with digital skills by 2017.

In conclusion, the online platform business model has helped small businesses get access to the kind of support with marketing, traffic, delivery, translation, technology development, and payments that had previously been out of reach for firms of their size. That combination is proving a powerful model for connecting businesses with consumers across national and cultural borders, and helping them punch above their weight with larger competitors. These market opportunities are not remarkable or new to large, established corporations, but to those that are small, remote or located in challenged economic regions, they are in fact unprecedented and point to a far more inclusive economic model for growth.