

Small Business Growth in Europe:

Digitization is Enabling EU SMEs to
Expand Globally



Contents

Executive Summary	4
SMEs, the Engine of the EU Economy	8
Digital Tools Fueling Growth and Strengthening the Single Market	10
Small-Medium Enterprise (SME) Case Study	14
Leveraging the Internet to Expand Beyond the EU	15
Barriers to Globalization & Growth	20
Business Environment	21
Access to Finance	21
Shipping & Customs	22
Language & Finding Customers	23
Policy Recommendations	24
Business Environment	25
Access to Finance	25
Shipping & Customs	26
Language & Finding Customers	26
Conclusion	27

Executive Summary

European small businesses play a central role in the EU economy. They add jobs, stimulate growth and build communities. Small and medium enterprises (SMEs) in the EU represent 99% of all businesses and employ two-thirds of the workforce.¹ In the past five years, they have created around 85% of new jobs and provided a path to prosperity for millions of families.² The growth of digital commerce provides more opportunities for entrepreneurs to expand across the EU and around the world. However, there remains untapped potential for small businesses as barriers still persist for full global expansion. Whereas the global marketplace used to be the purview of only the largest businesses, digitization is democratizing commerce and changing the calculus of who can fully engage in cross-border trade.

Research conducted by PayPal in 2017 demonstrated how U.S.-based small businesses were able to grow and trade with the help of digital technology. This paper builds upon the principles of that research, demonstrating that SMEs in the EU are also benefiting from the digital marketplace.³

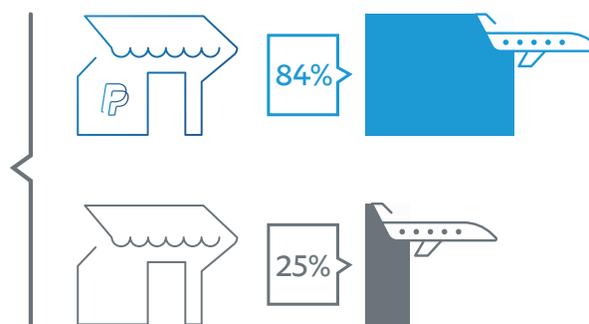
We have analyzed a sample dataset of 157,636 small businesses using PayPal to accept digital payments, across the 28 countries in the EU for a two-year period across 2015 to 2017. For the purposes of this paper, PayPal defines a small business as a merchant selling between \$30,000 and \$3 million per year. Our research demonstrates that ecommerce and digital enablers like PayPal are allowing small businesses to grow and trade more than ever before.

This paper demonstrates that SMEs in the EU are also benefiting from the digital marketplace.



The key findings from our research include:⁴

- Small businesses using PayPal are more likely to export than traditional small businesses. 84% of EU PayPal merchants exported in 2017 (compared to 25% of all EU-based SMEs).
- Small businesses that collect payments and support their business operations with PayPal are growing more quickly than non-PayPal businesses. Our research found that PayPal businesses grew 13% between 2016 and 2017 (compared to 3.3% for all SMEs in the EU).
- PayPal exporters are growing at quicker rates than traditional offline businesses. PayPal exporters grew at a rate of 14.3% in 2017 compared with just 2% growth for traditional offline businesses in Europe.
- PayPal is helping SMEs trade around the world. Merchants who exported using PayPal sent almost half (41.4%) of their international sales to non-EU countries, while 58% of their exports are intra-EU. In contrast, only 28% of traditional SME exporters in the EU have

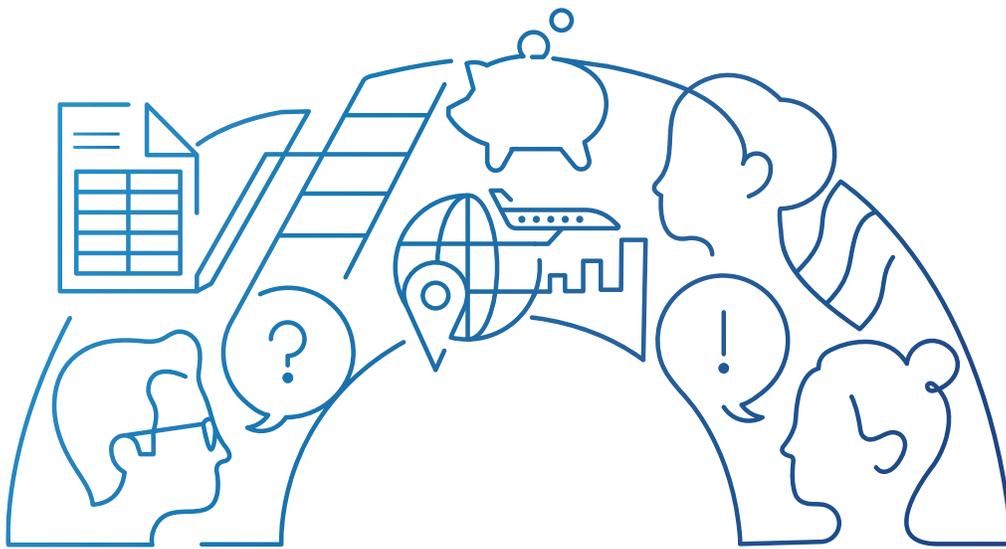


sold to a country outside the European Internal Market. Our data also found that there is significant growth for PayPal merchants trading extra-EU versus those solely trading intra-EU (15% and -10% respectively).

- Digital tools like PayPal are supporting growth for SMEs regardless of location. Urban-based PayPal merchants grew at very similar rates (14%) as merchants using PayPal located in rural areas (12%).⁵ Digital commerce is an especially helpful tool for SME 's in rural areas.

These findings are an encouraging sign that increasing innovation and adoption of digital tools can fuel small business growth and globalization. We are now seeing small businesses, regardless of their location, selling to customers from all over the world, creating more opportunity for their businesses and employees.

However, significant barriers still exist that prevent entrepreneurs from fully reaping the benefits of a global marketplace. While 79% of SMEs in the EU have a website, only 20% of those businesses reported conducting ecommerce sales.⁶ Furthermore, the International Aid Cooperation Organization reported that only 7.5% of EU SMEs engage in cross-border ecommerce.⁷



A number of factors contribute to the slow adoption of ecommerce and cross-border trade. The main pain points that many small businesses encounter include:

- **Business Environment:** A plethora of regulation and disparate tax codes can create a complex environment in which a small business struggles to succeed. Reducing some of the regulatory requirements and streamlining tax systems can have a direct impact on smaller and younger enterprises breaking through.
- **Access to Finance:** Small businesses consistently report accessing capital as one of the main sources of stress on growing their operation. Encouraging innovative solutions to providing financing and supporting the growth of small business is a key step in fostering the underserved community of entrepreneurs.
- **Shipping & Customs:** While ecommerce allows SMEs to access customers all over the world, the physical shipping of products can be a major hurdle in growing cross-border sales. Costs, customs rules like de minimis thresholds (DMT) and reliable shipping methods can deter entrepreneurs from expanding globally.
- **Language & Finding Customers:** Another major hurdle in engaging with customers around the world can be marketing products to and interacting with people who speak other languages. This can make it difficult to find customers and compete with larger firms.

The European Commission is prioritizing SME growth and trade by eliminating many of these barriers through policies aimed at addressing some of these issues. In the past few years, the Commission has launched a plethora of initiatives to improve SME's business environment, their access to capital and their access to markets outside of their home country. The EU for instance continues to implement and expand the Digital Single Market strategy which strives to enable the free flow of goods and services cross-border, providing opportunities for SMEs across the EU.

The public and private sectors must work together to find creative solutions to these barriers. While some laws & regulations can be passed or streamlined to reduce barriers, innovative technologies can also provide small businesses with the tools to succeed. For instance, PayPal Working Capital (currently offered in the UK, U.S., Germany & Australia) provides quick, transparent funding to small businesses, including those who may have struggled to access financing. A PayPal report released in 2017 found over 30% of PayPal Working Capital cash advances in the UK went to postcodes that have lost 50 or more banks since 2013.⁸ PayPal also offers a Global Sellers Solution program that attempts to help entrepreneurs navigate the complexities around language barriers, customs requirements and free return shipping.

With cross-border ecommerce expected to grow by 27% each year and projected to reach €1 trillion by 2020, small businesses need the tools to compete on a global scale which can lift-up underserved individuals, create jobs and build communities.



SMEs, the Engine of the EU Economy

Small and medium-sized enterprises in the EU play a vital role in the economy. There are over 20 million SMEs in the EU, which account for 99% of the total firms in the EU.⁹ SMEs also employ over 93 million people, playing a huge role in the overall employment percentage for the EU economy. SME employment in 2016 fully recovered from the 2008 financial crisis, and even slightly exceeded 2008 levels. Also, for the third straight year SMEs in the EU saw a continued increase in employment numbers and value added in 2016.¹⁰

SMEs are the engine that powers growth in the EU. They contribute 57% of value added in the EU overall and EU countries with higher SME prevalence experience higher economic growth.¹¹ High-growth SMEs in the EU are also on the rise, accounting for 9% of all firms, as entrepreneurship and start-up facilitation increases. These high-growth SMEs also tend to outperform large companies, exhibiting higher net job creation than big businesses.¹²

In 2016, 14% of total EU-28 employment (30 million individuals) were classified as self-employed

Micro small and medium sized enterprises are also an important part of the EU economy. In 2016, 14% of total EU-28 employment (30 million individuals) were classified as self-employed and 71.5% of those firms did not employ any other staff.¹³ These micro SMEs have traditionally had challenges with sustainability. While the survival rate of enterprises in the EU is quite high after a year of being in business (80%), less than half of businesses in the EU survive past five years.¹⁴ When observing businesses over a four-year period from 2008-2012, Europa found that survival rates for businesses in the EU are inversely related to the size of the enterprise.¹⁵

Successful SMEs are spread out across a range of different sectors in the EU. The highest rate of fast-growing firms come from 'information and communication' and administrative and support services' sectors. The sectors in which SME growth in employment has been most evident is goods and services businesses - those are also the most likely to be solo-operating

SMEs selling direct to consumers. Growth in these industries ranged from 1.7% to 2.8% in the past year compared to sub-1% growth in other industries. These businesses include 'wholesale/retail' and 'accommodation/food/business services' sectors.¹⁶

As digital tools and innovative products and services become more widespread, greater opportunity exists for micro SMEs to launch and compete. The Single Market enables these SMEs to access 512 million customers and compete with larger companies that have traditionally had scale advantages. The Internet enables SMEs of all sizes to access over 4.1 billion customers from every corner

of the globe.¹⁷ We are living in an era where SMEs have the potential to truly compete across the EU and around the world.

The growth of the digital economy will enable new opportunities for SME growth. More consumers around the world are moving to mobile and shopping online which is eliminating borders and reducing barriers like distance between the merchant and consumer. This trend is creating a unique opportunity for small businesses as they are able to reach customers from around the world regardless of their size or location. Global trade by SMEs spurs greater growth and a healthier overall economy.

Digital Tools Fueling Growth and Strengthening the Single Market



Technology is playing a central role in the lives of EU citizens. In 2016, 82% of EU citizens were Internet users while 85% of European households had an Internet connection in their homes.¹⁸ Mobile is becoming the device of choice through which people are accessing the Internet. 79% of Internet users went online via mobile/smartphone in 2016, the same percentage as Europeans who went online at least once per week (up 3% from 2016).¹⁹ As consumers adopt these mobile



85% of European households had an Internet connection in 2016.

technologies, opportunity grows for SMEs looking to sell internationally. Recent research from Ipsos, commissioned by PayPal, found U.S. shoppers spent an estimated \$12.5 billion on UK exports in 2017.²⁰

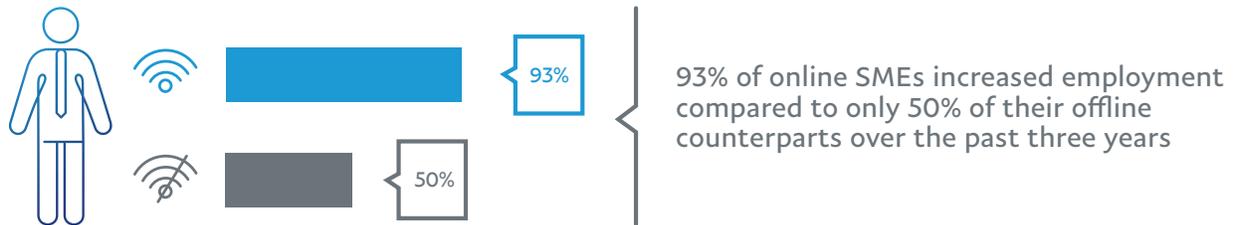
Two-thirds of Internet users in the EU shopped online for a good or service. In 2017, more than 67% of Europeans used a digital wallet, card-on-file service or mobile payment service according to research conducted by



more than 67% of Europeans used a digital wallet

Visa.²¹ Ecommerce in the EU increased by 11% in 2017, worth a total of €534 billion, and is expected to increase by 13% in 2018, which would bring the total value to €602 billion.²² Small businesses are growing their digital presence to access these digital customers by creating websites, optimizing for mobile, and adopting digital payment methods. However, a gap remains between small businesses and larger firms when moving online. While 95% of large enterprises had a website as of 2016, only 79% of SMEs could say the same.²³

SMEs that are moving their operations online are quickly realizing the potential of the digital marketplace and fully reaping the benefits of a global ecosystem. Chartered Trading Standards Institute found that online businesses grow six times faster than offline businesses.²⁴ They are also employing more people as we have seen in Germany where 93% of online SMEs increased employment over the past three years compared with only 50% of offline SMEs.²⁵



An examination of PayPal data supports the notion that online SMEs exhibit enhanced growth. Our research found that SMEs in the EU that used PayPal grew 13% between 2016 and 2017, compared to a growth rate of just 3.3% for the total SME population within the EU.²⁶ Digital tools, such as streamlining payment processing with PayPal, are allowing small businesses to break through some of the biggest traditional barriers to SME growth such as access to capital, finding customers beyond their locale, language barriers, and currency conversion. The removal of these barriers through the proliferation of digital tools is yielding enhanced growth.

Growth performance: PayPal SMEs vs. traditional offline businesses in EU for 2016

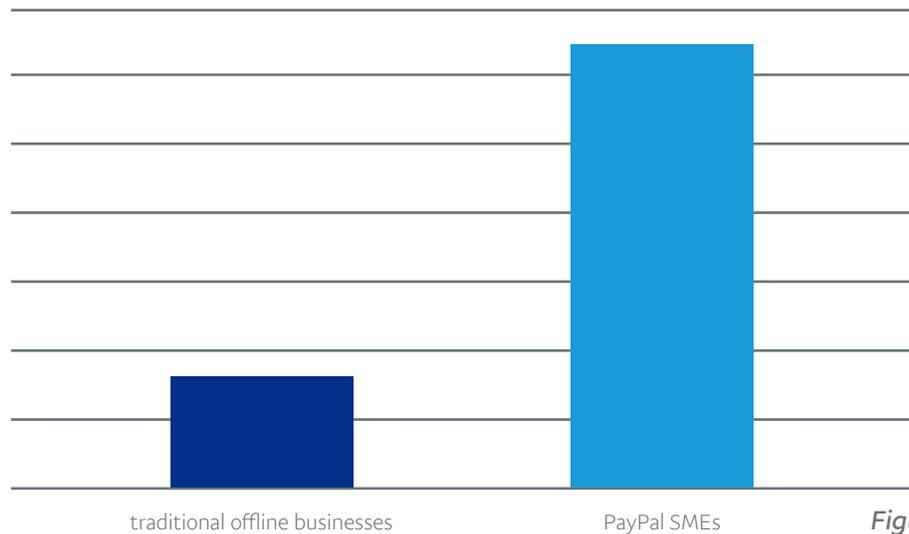


Figure 01

Source: Eurostat and PayPal

The digital marketplace is also providing an equality of opportunity for entrepreneurs regardless of where they are located. SME growth and opportunity has traditionally been focused in urban areas and city centers where greater resources and more customers exist. SMEs based in cities have traditionally grown at faster rates because of the environment and access that tends to be unavailable for rural entrepreneurs. Indeed, four in five rural small business owners surveyed in the UK agreed that digital tools and services were important to their growth potential.²⁷

Using Eurostat data on rural/urban/intermediate locales within the EU,²⁸ we analyzed growth rates of rural-based and urban-based SMEs. Our research indicates that rural and urban small business in the EU using PayPal actually grew at very similar rates (14% and 12% respectively). This demonstrates how digital tools are democratizing opportunity for entrepreneurs and enabling SMEs to succeed regardless of location.

Growth comparison between rural-based- and urban-based PayPal merchants for 2017

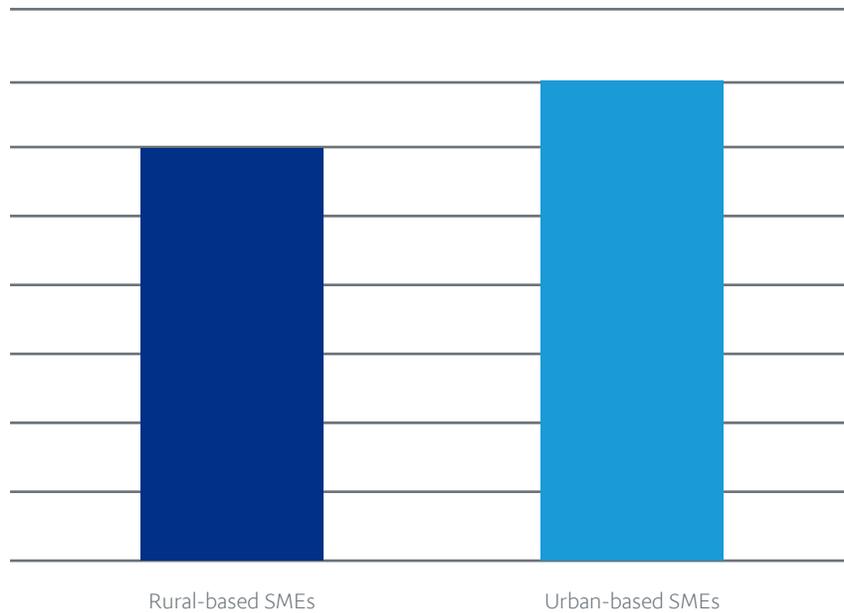


Figure 02

Source: PayPal

Small businesses are swiftly adapting to the changing landscape of the market by adopting digital tools, to modernize and grow. Research demonstrates that this growth from digitization can be amplified when combined with cross border trade.²⁹ Within the EU, 51% of the value-added from cross-border trade to other EU countries is contributed by SMEs and 98% of the

companies trading intra-EU are SMEs.³⁰ SMEs that are internationally active within the EU grow more than twice as fast as those selling purely to their domestic market.³¹ Trade within the EU is on the rise, however, the growth that results from global trade remains a bit of an untapped opportunity in the EU.

Small-Medium Enterprise (SME) Case Study

Spox Sox, a small business based in Poland, started with a simple enough idea: selling colorful socks with the aim to make everyone's life brighter. Co-founders Konrad Fajferek, Stanislaw Drobisz and Bartek Balcarek noticed the boring monotone colors that dominated the drawers of the average guy in Poland and decided there was a need for more interesting options. The three friends set out to offer a cheaper alternative to the expensive brands dominating the market. With that simple idea, they launched a website and today Spox Sox, Polish slang for "cool socks" offers more than 35 unique sock designs. After initially selling to a Polish customer-base, e-commerce allowed the company to quickly expand globally, now selling to more than 30 countries on five continents. The owners credit their ability to expand so quickly to digital tools. "Go global as soon as you can," the founders agreed. "Choose international partners, like PayPal, to help develop your e-commerce business. It is convenient, quick and problem-free." International sales account for roughly half of the small business' revenue.



SME in Poland exports
unique socks to more than
30 countries



Leveraging the Internet to Expand Beyond the EU

Prior to 2016, the main driver of SME recovery from the 2008 financial crisis was exporting (general macro-economic environment overtook exports in 2016).³² Nearly half (44%) of total GDP in the European Union comes from exporting.³³ Cross-border commerce is being fueled by the increased digitization habits of both consumers and businesses. In 2017, cross-border ecommerce in the EU accounted for 3% of the total GDP, with the highest share in the UK (8%).³⁴ Cross-border ecommerce is expected to grow 27% each year to more than \$1 trillion by 2020.³⁵ This digitization of globalization is resulting in new opportunities for SMEs to sustain and grow their businesses.

A gap exists, however, between big businesses and SMEs taking advantage of the opportunity in cross border trade (CBT). A survey conducted by the European Commission found a direct correlation between the size of a firm and the likelihood of them engaging in CBT. Large

enterprises in the EU accounted for 67% of the total value of extra-EU trade whereas SMEs accounted for only 16% of the value of exports outside the EU28.³⁶ In addition to the gap between small and large firms, there is also an evident gap between small and medium-sized businesses engaging in CBT (31% vs. 53%).

Digital tools are helping to close that gap by enabling SMEs to access consumers from all over the world. For all internationally active SMEs in the EU, 75% conducted ecommerce sales.³⁷ According to research from UPS, EU SMEs are more likely to sell internationally online than through any other channel. Over one third (38%) of SMEs surveyed by UPS said selling via their own website was their most important sales channel.³⁸ Our research found that small businesses using PayPal were more likely to export than traditional EU SMEs. 84% of EU-based PayPal merchants exported in 2017, compared to just 25% of traditional EU small businesses.³⁹

Share of SMEs that are exporting: Comparing SMEs using PayPal vs. traditional SMEs in EU

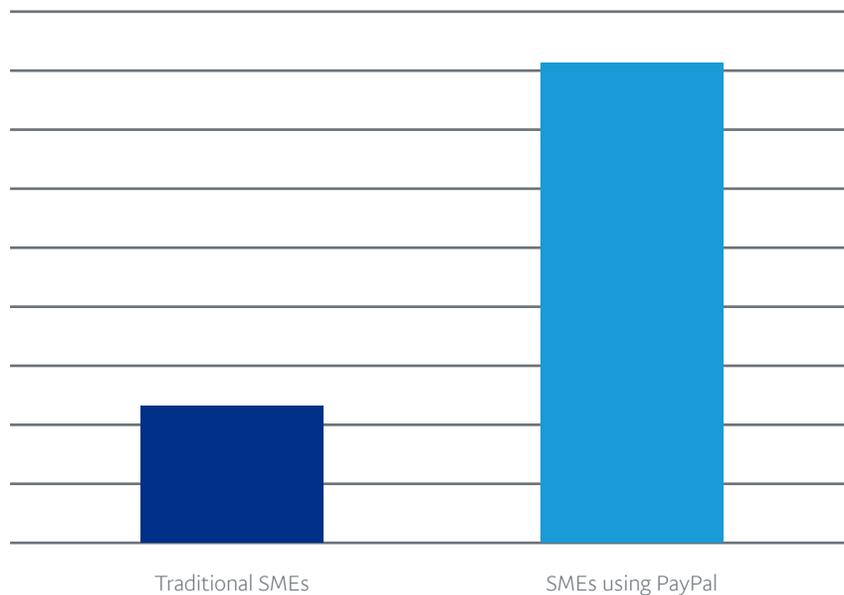


Figure 03

Source: Eurostat and PayPal

The European Commission continues to prioritize more trade through the Single Market strategy which aims to eliminate borders within the EU for SMEs. However, while SME exporting within the EU28 has grown, traditional businesses have struggled to break out and engage in trade with countries outside the EU. Over 64% of total trade across the EU is done with other countries in the bloc.⁴⁰ While the opportunity to trade, even within the EU is valuable, the growth opportunity when factoring in extra-EU trade can help SMEs as well. Our research found that PayPal small businesses in the EU exporting to countries outside the bloc grew at 15%, while export-

ers solely trading within the EU28 actually experienced negative growth.

Merchants who are digitizing and moving online are in a much better position to trade globally. Our research found that SMEs who exported using PayPal sent nearly half of their sales to countries outside the EU28 (41.3%), while less than a third (28%) of traditional EU exporters have engaged in trade outside the EU [according to Eurostat]. Conversely, 58.7% of EU PayPal merchants' export sales stay within the EU28. By adopting digital tools, SMEs are capturing the opportunity to reach customers outside of the EU.

*Non-EU export share comparing small business using PayPal
with traditional SMEs in the EU*

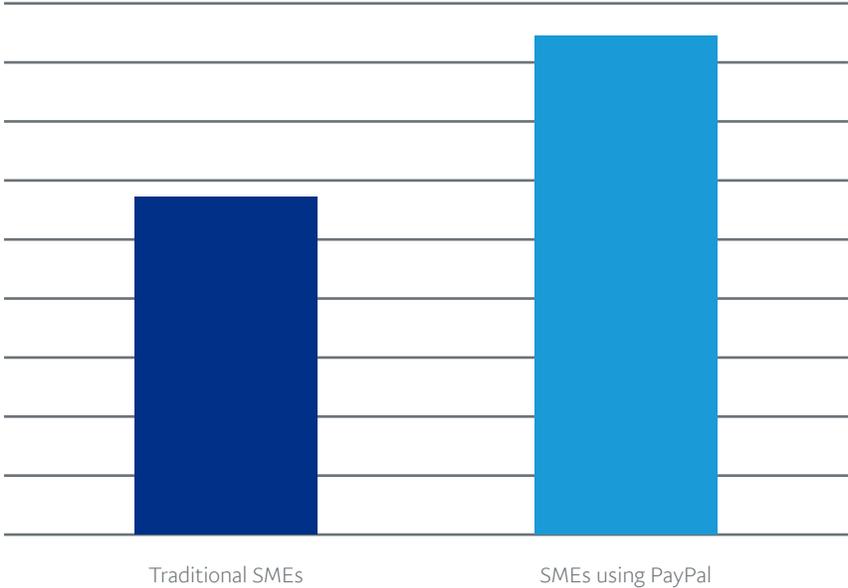


Figure 04

Source: Eurostat and PayPal

SME trading extra-EU versus SME trading intra-EU

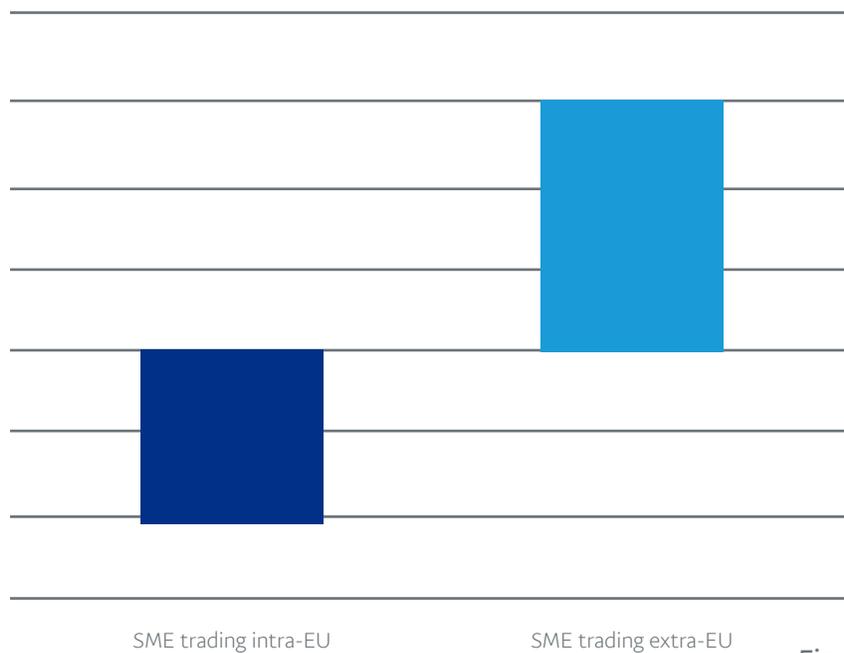


Figure 05

Source: PayPal

Cross-border trade is important to the overall health of a business as well. Companies which export see a 34% increase in productivity within their first year and are 11% more likely to survive.⁴¹ In an annual study conducted by UPS, over half of SME exporters reported an increase in revenue in the previous 3 years compared with 31% of non-exporters.

PayPal's research supports the notion that exporting SMEs in the EU experience higher growth rates than traditional businesses. PayPal merchants based in the EU who engaged in cross-border trade grew at a rate of 14% while traditional (non-exporting) EU businesses grew at only 2%. Digital tools are encouraging SMEs to trade which in turn is creating more growth and generating more value for the overall economy.

Growth comparison: Exporting PayPal SMEs vs. tradition offline SMEs in the EU for 2016

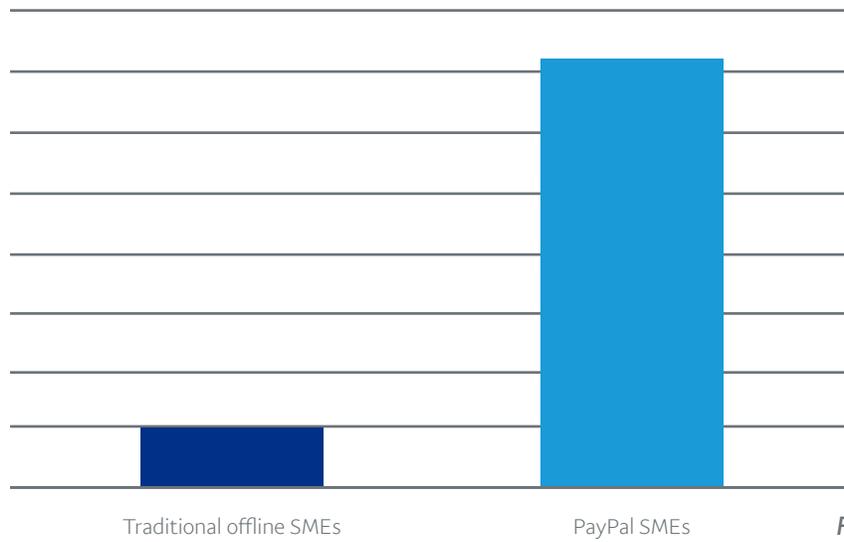
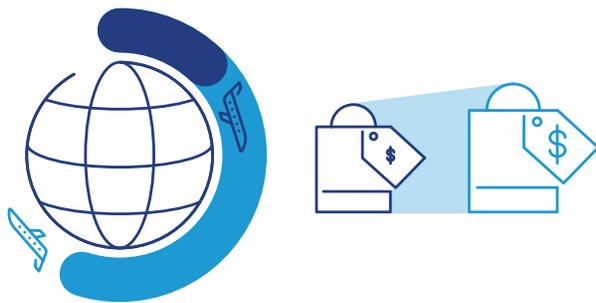


Figure 06

Source: Eurostat and PayPal

Barriers to Globalization & Growth



Cross-border sales cost, on average,
11% more than domestic sales.

The Internet continues to democratize opportunity for small businesses and create opportunities to expand sales internationally. However, many barriers still exist for SMEs looking to sell cross-border, impeding entrepreneurs from fully reaping the benefits of globalization. The European Commission, in 2016, reported that cross-border sales cost, on average, 11% more than domestic sales.⁴² SMEs tend to operate on razor thin margins, and they often cannot absorb these additional costs associated with international sales.

SMEs also face unique difficulties due to their size that prevent them from navigating the sometimes-intimidating process of expanding internationally. Fewer employees, less backend support, and smaller margins can exacerbate issues like administrative hurdles, language barriers and access to financing.

In a 2015 Eurobarometer survey, SMEs cited administrative procedures and complicated tax regimes, shipping costs, and access to financing as the major barriers to launching or expanding cross-border sales.⁴³ As a result, few entrepreneurs have the confidence to internationalize their business. A survey conducted by the European Commission found that only 4% of SMEs not currently exporting plan to start selling cross-border.⁴⁴

While the European Commission is working to eliminate some of these barriers preventing intra-EU trade, there are also unique challenges faced when trading outside of the European Union. A recent International Trade Centre survey found that the proportion of barriers to exporting in the EU vs. outside of the EU is 20% to 80%.⁴⁵ This can largely be attributed to some of the policies that tear down complexities such as customs.

Business Environment

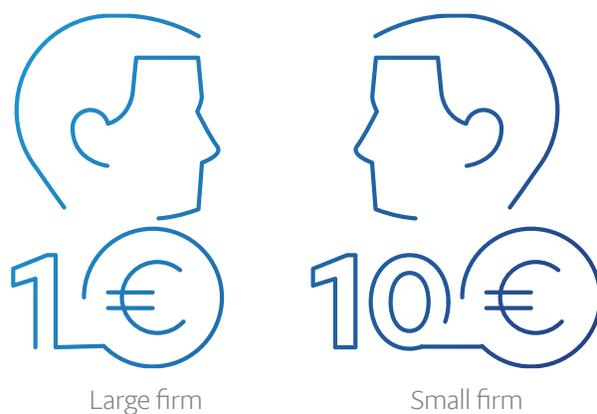
Creating a regulatory and administrative framework that fosters a healthy environment for small businesses to grow and innovate is a critical factor in SME success. Burdens in the form of administrative costs can come from disparate tax codes, industry-specific obligations or simply attempting to navigate the global marketplace.

These costs are often felt more acutely by smaller firms. A 2015 study covering 25 EU Member States indicated that in most countries, the smaller the size of an entity, the higher the perceived administrative burden.⁴⁶ It is estimated that, while a large firm may incur a per employee cost of €1 for regulatory compliance, a small business may have to spend up to €10 per employee.⁴⁷

Access to Finance

Access to finance for small businesses to grow is a problem not unique to the EU. SMEs around the world consistently rate the need for additional capital as one of the major barriers to growing their business.⁴⁹

According to the European Commission's annual SAFE report (Survey on Access to Finance of Enterprises) bank loans remain the most popular form of SME financing for 48% of SMEs surveyed. However, only 26% of SMEs actually applied for a loan because of fear of rejection. 17% of those that were successful, did not receive the full amount of funds requested.⁵⁰



The same trend is found in taxation policy, which many SMEs state as the most burdensome policy affecting them. Within the EU alone, there are 28 different VAT regimes to navigate. While Member States are allowed to exempt SMEs with an annual turnover below a certain threshold, the policies differ greatly country to country which creates an unlevel playing field.⁴⁸



There also remains a gap between large firms and SMEs in accessing capital. A study conducted by the European Commission in 2013 found the SME financing gap for the EU was within a range of €20 to €120 billion per country based on the average SME loan size compared to the proportion of SMEs that faced problems accessing capital.⁵¹

The gap can be explained through a number of factors including information asymmetries and financial risk/reward for low-value loans sought by SMEs. New and innovative digital solutions are beginning to address these issues and providing the capital SMEs need to grow and expand globally. Research conducted by PayPal in 2017 found that

30% of PayPal Working Capital cash advances in the UK went to postcodes areas that had lost 50 or more bank branches since 2013. Additionally, 64% of the cash advances went to low income regions.⁵² Innovative (digital) solutions to this common barrier for small business growth can help SMEs around the world.

Shipping & Customs

Costs and confusion around shipping is another major hurdle for SMEs looking to grow their cross-border sales. These challenges can be manifested in a number of ways, from purely administrative confusion around customs and regulations to monetary impact such as damaged/lost shipments, de minimis thresholds and distance. Simply within the EU, for instance, rates for shipping to another EU country can be five times higher than domestic price, even if the package is only traveling half the distance.⁵³

An annual survey conducted by UPS found that SME exporters in the EU cite the risk of damaged or lost items as the number one concern whether they are shipping inside or outside of the EU.⁵⁴ SMEs trading outside the EU cited customs clearance as the major issue when exporting, demonstrating the value of the Single Market, but also highlighting the need for an increased focus on customs reform in EU trade negotiations with other countries/regions.

De minimis thresholds, the level below which customs and duties are exempt for cross-border sales, can also add costs for small merchants, especially those who sell



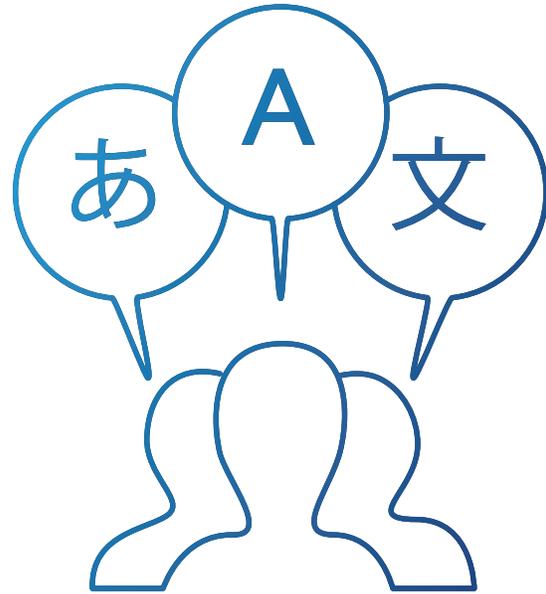
low-value items. Ecommerce shipments containing goods of a total intrinsic value of €150 or more are subject to import duty for European countries. However, de minimis limits can vary country to country which in turn can confuse small business owners and discourage entrepreneurs from selling to certain countries.⁵⁵ While the European Commission is eliminating VAT de minimis on trade between EU countries, there are no current proposals to remove or raise the de minimis thresholds on value of goods.⁵⁶ As for extra-EU trade, countries with low de minimis thresholds, such as Canada (\$20) create additional burdens for small business owners attempting to internationalize.

In the end, total added costs can be too great of a hurdle to overcome. Particularly if the SME offers free returns (which most do to remain competitive), the business takes too great of a loss to absorb.

Language & Finding Customers

More than 90% of EU Internet users prefer to use sites that are presented in their native language. Language barriers, and the costs associated with managing this, can make finding customers in other countries difficult for SMEs, i.e. creating a local language website, producing marketing in that language, providing customer services in the local language, etc. Moreover, navigating a complex business and legal environment in another language is no small feat. In the European Union alone SMEs face 23 official languages. A 2006 ELAN study found that a lack of foreign language skills can result in an average loss of €325,000 per company over a three-year period.⁵⁷ SMEs with limited resources are thus losing out on customers and sales by not being able to present their virtual store in multiple languages.

Yet, investing in Language Management Strategies (LMS) can significantly increase a small business' chance to grow. The 2006 ELAN study also found that an SME with



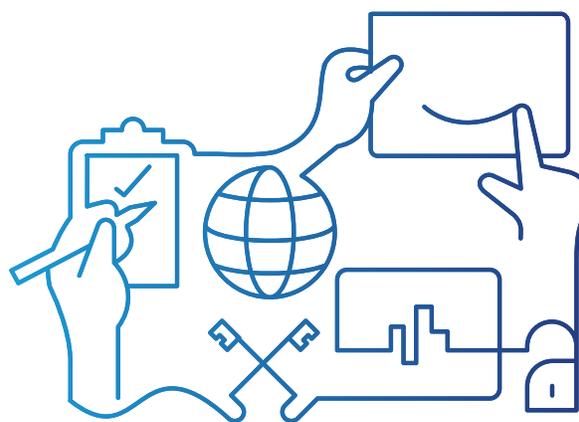
language management skills achieves an export sale proportion 44% higher than an SME that does not invest in these skills. A PIMLICO study conducted in 2010, found that 76% of SMEs surveyed who invested in LMS saw a sales increase of at least 16%.⁵⁸ This is, in part, due to consumer preference. A survey conducted by PayPal found half of online shoppers feel uncomfortable buying from a website in a different language.⁵⁹

Policy Recommendations

As businesses and consumers move online, it becomes vital to create an environment that encourages innovation. The barriers commonly faced by small businesses need to be addressed by the public and private sectors working together.

The European Union has long prioritized the growth of SMEs, understanding the value that they bring to the economy, job creation and social integration. The 2014 Competitiveness of Small and Medium-sized Enterprises (COSME) programme aims to spur growth through better access to financing, access to markets and an environment that encourages innovation and growth. The Capital Markets Union Strategy, launched in 2015, is focusing amongst other on cross-border investments, financing entrepreneurship and making it easier for companies to raise capital.⁶⁰

The Digital Single Market Strategy, launched in 2015, is a fundamental initiative of the Juncker Commission (2014-2019) that has the potential to create more opportunities for the EU's SMEs by making cross-border trade within the EU easier, cheaper and more seamless. The Single Market Strategy, also launched in 2015, is furthermore helping to streamline administrative hurdles and complex regulation across regimes, for instance with the creation of the Single Digital Gateway.⁶¹



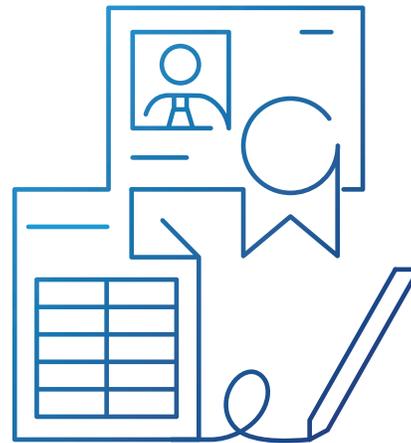
More recently in 2018, the Commission announced a new investment programme, Digital Europe, that will invest 9.2 billion in developing and increasing Europe's digital competitiveness and capacity. The program will focus on areas such as computing, AI, cybersecurity and development of digital skills.⁶²

These programmes and policies are making significant progress in addressing the barriers to SME growth and globalization. Yet, barriers remain, and additional efforts are required to ensure SMEs can fully take advantage of digitization and globalization. Many of the Digital Single Market's proposals remain blocked in inter-institutional negotiations. The Commission acknowledged that pace had to pick up during its mid-term review in July 2017; only 1 out of the 35 proposals had been signed off on.⁶³ Beyond the completion of the Digital Single Market Strategy, there are a number of other initiatives that both the public and private sectors can take to enable SMEs to compete on the world stage.

Business Environment

In an effort to create a business environment where all entrepreneurs can thrive, regardless of size or location, it is important for the EU and national governments to push back on the trend of localization policies as a reaction to data privacy concerns. Data localization limits the ability of the Internet to provide an open platform for innovation and content creation, particularly inhibiting the ability of the digital economy to empower small entrepreneurs to scale globally. Small businesses do not have the technical, legal or compliance functions needed to comply with localization mandates. These practices are a barrier to economic growth driven by the digital economy and hence job development. SMEs need an environment and framework where they are free to fully reap the benefits of a global digital economy.

In addition, while the Single Digital Gateway, once rolled-out, should go a long way



in simplifying access to legal, taxation and procedural information for SMEs, the actual regimes will remain national, complex and full of red tape. Harmonizing VAT rates across the EU, to take one example, would provide a much-needed boost for SMEs to scale up faster and more efficiently. The European Council adopted new rules to take force in 2019 that facilitate easier collection of VAT for intra-EU sales of goods online and extend the EU-wide portal to allow VAT registration of distance sales.⁶⁴

Access to Finance

To address the issue of access to capital for small business owners, public and private sector organizations should create a portal for entrepreneurs to find an alternative financing solution that fits their unique business. This would enable greater funding while also ensuring that SMEs are being guided to fair and transparent services.

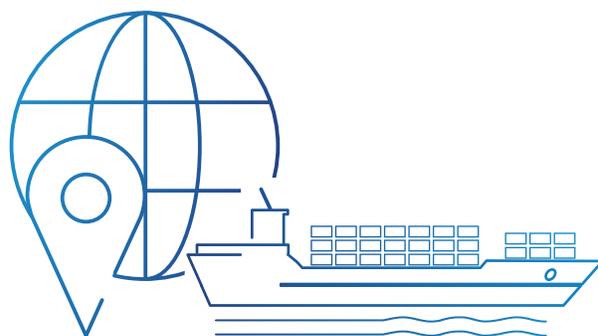
In addition, ensuring that the Capital Market Union's efforts to diversify the sources of financing available to business in Eu-

rope will be crucial. Related to this, the EU should enable alternative sources of financing – such as non-banks – by providing an enabling legislative framework for these providers to develop new financing products geared towards SMEs. To take one example, harmonizing credit rules across the EU would spur the development of alternative sources of financing.

Shipping and customs

Shipping difficulties are a notoriously complex barrier to solve but can be improved by prioritizing a number of areas. In the EU, more affordable quality delivery services would contribute to reducing costs for SMEs, as well as enhance cross-border intra-EU trade by building trust. Beyond fostering the interoperability of delivery services, the EU should aim to harmonize the framework to truly create a single market for deliveries across the EU. The newly-adopted rules on cross-border parcel delivery services are a step in the right direction.⁶⁵

For shipping outside of the EU, the de minimis thresholds should be raised in other countries, and the EU should make this a key aim in its negotiations of future trade



agreements. A higher DMT reduces costs, paperwork and shipping delays for SMEs selling low-value goods online. While the EU de minimis is €150, the thresholds for other countries vary, and lower DMTs can disproportionately impact EU SMEs. By encouraging higher DMTs, EU small businesses can ensure a full realization of the economic benefits of cross-border trade.

Languages and finding customers

Finally, public and private sectors should work together to build a tool that creates easy access to translation software, developed by private firms, to navigate the language barriers that are unavoidable in cross-border trade.

All of these solutions can bring innovators in the public and private sectors together to democratize opportunity and reduce the burdens that small business owners face when attempting to grow their business



Conclusion

Small and medium-sized enterprises in the European Union are the engine for economic growth. Entrepreneurs are creating jobs, impacting their communities and driving positive social change.

The changing landscape of the marketplace is creating new opportunities for small businesses to reach new customers and compete around the world. Adoption of digital and mobile technologies by consumers and businesses is enabling SMEs to access new markets, which were previously only accessible for larger firms with the resources to sell internationally.

This international opportunity is driving growth for SMEs and in turn benefiting economies across the EU. Many of these opportunities are being driven by the digital age and innovative solutions that are allowing SMEs to grow regardless of where they are located.

Despite these positive changes, there remains a plethora of barriers for small busi-

nesses to engage in cross-border trade. Barriers such as administrative costs, access to capital, shipping difficulties and language barriers, can stifle the growth of SMEs who are often too small to absorb the additional costs and complicated regulations.

These barriers can be resolved through private and public-sector partnerships. Governments and regulators can create an environment that encourages SME growth and globalization through legislation and initiatives that address these barriers. Private sector companies should continue to innovate new products that enable SMEs to internationalize. SMEs can use these solutions along with a positive regulatory framework to compete with big businesses and expand their sales all over the world.

References:

***White paper authored by Paul Disselkoen, Senior Associate, PayPal Government Relations*

- 1 https://ec.europa.eu/jrc/sites/jrcsh/files/annual_report_-_eu_smes_2015-16.pdf
- 2 https://ec.europa.eu/growth/smes_en
- 3 DISCLAIMER: This paper does not constitute financial or business advice and is intended for information only
- 4 All PayPal data points are based on analysis of internal data as described in the methodology
- 5 Urban vs rural analysis is based on OECD methodology NUTS (Nomenclature of Territorial Units for Statistics) 2 analysis
- 6 <http://ec.europa.eu/eurostat/cache/infographs/ict/images/pdf/pdf-digital-eurostat-2017.pdf>
- 7 <http://www.iacoop.org/2016/09/02/e-commerce-trends-in-europe/>
- 8 https://publicpolicy.paypal-corp.com/sites/default/files/policy/PayPal-Policy-Paper_Helping-Underserved-UK-Small-Businesses-Grow.pdf
- 9 https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises
- 10 <https://ec.europa.eu/docsroom/documents/26563/attachments/1/translations/en/renditions/native>
- 11 <https://www.degruyter.com/downloadpdf/j/aicue.2012.59.issue-2/v10316-012-0038-1/v10316-012-0038-1.pdf>
- 12 <https://www.oecd.org/cfe/smes/2493092.pdf>
- 13 <https://ec.europa.eu/docsroom/documents/26563/attachments/1/translations/en/renditions/native>
- 14 http://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics
- 15 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:Statistics_on_enterprise_survival_and_growth_prospects_between_2008_and_2012
- 16 <https://ec.europa.eu/docsroom/documents/26563/attachments/1/translations/en/renditions/native>
- 17 <https://www.statista.com/statistics/617136/digital-population-worldwide/>

- 18 <https://www.statista.com/topics/3853/internet-usage-in-europe/>
- 19 <http://ec.europa.eu/eurostat/cache/infographs/ict/images/pdf/pdf-digital-eurostat-2017.pdf>
- 20 https://www.paypal.com/stories/uk/britain-named-europes-top-online-exporter?utm_content=sf92230398&utm_medium=spredfast&utm_source=Spredfast&sf92230398=1
- 21 <https://www.visaeurope.com/newsroom/news/mobile-money-takes-off-as-77-of-europeans-use-their-phones-to-bank-and-make-everyday-payments>
- 22 <https://ecommercenews.eu/ecommerce-in-europe-was-worth-e534-billion-in-2017/>
- 23 <http://ec.europa.eu/eurostat/cache/infographs/ict/images/pdf/pdf-digital-eurostat-2017.pdf>
- 24 <https://www.tradingstandards.uk/media/documents/news--policy/lead-officer/e-commerce-crib-sheet-for-regulators-v-10.pdf>
- 25 <https://www.tradingstandards.uk/media/documents/news--policy/lead-officer/e-commerce-crib-sheet-for-regulators-v-10.pdf>
- 26 https://faster.ups.com/gb/pdf/European_SME_Exporting_Insights_Study_2017_GB.pdf
- 27 <https://www.computerweekly.com/news/252436637/Digital-for-rural-areas-worth-up-to-26bn-to-UK-economy>
- 28 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Urban-rural_typology&oldid=335872
- 29 PayPal, Democratizing Globalization (2017).
- 30 <https://ec.europa.eu/eurostat/documents/2995521/8467294/6-21112017-AP-EN.pdf/ab123dd2-0901-4c64-95b0-f071a5f235e3>
- 31 https://ueapme.com/IMG/pdf/151127_Internationalisation.pdf
- 32 [file:///C:/Users/pdisselkoen/Downloads/Annual%20Report%20-%20EU%20SMEs%202016-2017%20\(2\).pdf](file:///C:/Users/pdisselkoen/Downloads/Annual%20Report%20-%20EU%20SMEs%202016-2017%20(2).pdf)
- 33 <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>
- 34 <https://www.ecommerce-europe.eu/app/uploads/2018/07/Press-Kit-European-B2C-Ecommerce-Report-2018.pdf>
- 35 <https://www.pymnts.com/news/ecommerce/2016/cross-border-online-shopping-to-explode-by-2020/>

- 36 https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods_by_enterprise_size
- 37 <https://ec.europa.eu/docsroom/documents/10008/attachments/1/translations/en/renditions/pdf>
- 38 https://www.ups.com/media/news/en/gb/European_SME_Exporting_Insights_Study_2015.pdf
- 39 [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/568354/EPRS_BRI\(2015\)568354_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/568354/EPRS_BRI(2015)568354_EN.pdf)
- 40 https://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends
- 41 <https://www.tradingstandards.uk/media/documents/news--policy/lead-officer/e-commerce-crib-sheet-for-regulators-v-10.pdf>
- 42 http://europa.eu/rapid/press-release_MEMO-16-1024_en.htm
- 43 <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/67995>
- 44 <https://ec.europa.eu/docsroom/documents/10008/attachments/1/translations/en/renditions/pdf>
- 45 <http://www.borderlex.eu/paperwork-export-itc-eu-study-maps-key-trade-barriers-smes/>
- 46 http://ec.europa.eu/growth/content/accounting-guide-smes-sme-accounting-europe-insights-provided-desk-research-and-survey-0_en
- 47 [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/583788/EPRS_BRI\(2016\)583788_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/583788/EPRS_BRI(2016)583788_EN.pdf)
- 48 https://ec.europa.eu/taxation_customs/business/vat/action-plan-vat/sme-vat-proposal_en
- 49 https://www.oecd.org/cfe/smes/Financing%20SMEs%20and%20Entrepreneurs%202017_Highlights.pdf
- 50 https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html
- 51 <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>
- 52 https://publicpolicy.paypal-corp.com/sites/default/files/policy/PayPal-Policy-Paper_Helping-Underserved-UK-Small-Businesses-Grow.pdf

- 53 <http://www.europarl.europa.eu/news/en/headlines/economy/20180308STO99327/online-shopping-new-eu-rules-for-cross-border-parcel-delivery>
- 54 https://faster.ups.com/gb/pdf/European_SME_Exporting_Insights_Study_2017_GB.pdf
- 55 http://www.politico.eu/wp-content/uploads/2016/05/160503Europe-Shipments-study_May2_Copenhagen-Economics.pdf
- 56 <https://www.ipc.be/services/market-research/e-commerce-market-insights/e-commerce-articles/de-minimis-overview>
- 57 https://www.iabeurope.eu/files/5313/6852/1955/2012-12-06_eu20study_market_analysis_and_foresight_scenarios_report_final_3.pdf
- 58 <http://www.hippocampus.si/ISBN/978-961-6984-81-2/31.pdf>
- 59 https://www.paypal.com/stories/uk/britain-named-europes-top-online-exporter?utm_content=sf92230398&utm_medium=spredfast&UTM_source=Spredfast&sf92230398=1
- 60 https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union_en
- 61 <http://www.europarl.europa.eu/news/en/press-room/20180906IPR12125/single-digital-gateway-a-time-saver-for-citizens-and-companies>
- 62 https://www.lexology.com/library/detail.aspx?g=2c7dcf95-59ac-4ae7-a52f-667f2834b9f0&utm_source=Lexology+Daily+Newsfeed&utm_medium=HTML+email+-+Body+-+General+section&utm_campaign=Lexology+subscriber+daily+feed&utm_content=Lexology+Daily+Newsfeed+2018-06-14&utm_term
- 63 <https://www.politico.eu/article/digital-single-market-mid-term-report-card-tkkt-percent/>
- 64 <http://www.consilium.europa.eu/en/press/press-releases/2017/12/05/vat-on-electronic-commerce-new-rules-adopted/>
- 65 <http://www.europarl.europa.eu/news/en/headlines/economy/20180308STO99327/online-shopping-new-eu-rules-for-cross-border-parcel-delivery>