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SMALL BUSINESS: DRIVING EU GROWTH?

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Contents

Internet divide grips Europe's crisis-riven south: Report

Northern European countries are reaping more than twice the benefits than their crisis-riven southern counterparts from the internet as a contributor to their net GDP, according to a new survey.

Between 5.8% and 7.2% of total GDP in Denmark, Sweden and the UK can be attributed to the internet-based economy, but Spain and Italy are lagging on 2.2% and 1.9% respectively, according to the Boston Consulting Group report, called 'Sizing the digital economy'.

The calculations were made on the basis of the consumption, investment and exports attributable to internet activity and display wide varieties in performance across the continent as well as untapped potential.

Similar glaring disparities arose in a separate scale scoring 'e-intensity' in thirty-five countries across all continents, based on the availability of telecom infrastructure, total spending on the internet and the level of public activity on the internet.

North/south divide on 'e-intensity'

On this scale a clear geographical split was evident again with Denmark, France, Germany, Luxemburg, The Netherlands, Sweden and the UK all achieving a score well over 100 on the scale, which awards a maximum of 200 points.

Portugal, Italy and Greece – all suffering from the sovereign debt crisis in the eurozone – scored below 80 points on the scale, underlining poor internet infrastructure and engagement.

The report was carried out for Google and drew on international research produced by institutions including the United Nations and World Economic Forum.

Background research seen by EurActiv confirmed some underlying cultural trends to internet use. In the UK – where there are high levels of household debt – consumers are more willing to purchase items online without seeing them first.

In the Netherlands, where there are lower household debt levels, internet purchases are much less frequently made on credit.

Italians research on the internet, but buy in the shops

In Italy meanwhile, the research showed that consumers are more likely to buy goods physically on the high street after having carried out preliminary research online.

The findings have a direct impact on small businesses, the report finds, claiming that over the past three years the average growth was more than 4% amongst SMEs which use the internet most in Belgium and the UK, but only 1.2% in Italy.

David Dean, senior partner at Boston Consulting, said that the GDP figure deriving from the internet is imperfect, since it cannot fully capture the extent to which people research online before purchasing goods in shops.

In an interview with EurActiv, he said that more needs to be done to promote internet activity for SMEs' growth.

"Of course without the infrastructure nothing much will happen. But that's not sufficient – it's important also to encourage businesses, governments and consumers to go on-line and for policy makers to adopt a 'joined up' approach," Dean said.

Online business angels fly to SMEs rescue

A growing community of online investors with competitive interest rates is filling a funding gap for SMEs at a time when access to bank loans is drying up.

Social networks of investors are lending millions of euros' worth in loans to entrepreneurs and small businesses in a growing trend of peer-to-peer funding for companies online.

Funding for SMEs has begun to dry up as banks attempt to deal with the euro crisis and the pressure from both governments and markets to strengthen their balance sheets.

"The issue of financing is a pressing issue and it is not going to get better," Daniel Calleja-Crespo, the Deputy Director General for Industry and Entrepreneurship from the European Commission said at an event on SME financing yesterday (6 October).

Small businesses which have been turned away by banks have found funding through social lending, otherwise known as peer-to-peer or crowd lending, though in the EU the phenomenon is still not well established.

In France, Catherine Maugée, the founder of Be Bio, an organic foods supplier for companies, managed to clinch €3,000 from a group of investors from the online lender FriendsClear after she was turned down for a bank loan.

Maugée said she has never met the investors in person but that she had to supply them with elaborate business plans. All clients also undergo credit checks with the help of bank records.

Peer-to-peer lending: Business angels

Peer-to-peer lending started in the US but in the last two years different companies have begun to emerge in the UK, France and Germany.

According to a survey by the Association of Chartered Certified Accountants, entrepreneurs' lack of awareness about social lending is the biggest reason why peer-to-peer lending is still a niche enterprise in the EU; security concerns rank second.

In the US, where the industry is beginning to boom, investors are turning to peer-to-peer lending at a time when stock markets are fickle and predicted to remain volatile for many years to come. The level of risk can also be much lower as loans are often shared among a group of lenders.

The leading company in the US, LendingClub.com, issues nearly €30 million every month to start-ups and small businesses.

"They are kind of business angels," Jean Christophe Capelli, the founder of the French outfit, FriendsClear said at a presentation to the European Parliament yesterday.

Lower interest rates

Capelli said that the immediate nature of the internet was propelling peer-to-peer funding because investors are compelled to compete with each other.

For example, British company Zopa allows lenders to specify their interest rates and allows other lenders to join in with potentially lower interest rates, driving rates down even lower.

"Peer pressure is the magic of social networks," Capelli said.

Lenders can also easily register on multiple sites and can see that the same businesses are looking for finance elsewhere, in some cases forcing their hand to invest.

Abuses

As with any lucrative business, however, it is open to abuse. In the UK established group online financiers have set up a self-regulatory body to create a higher level of protection for both the investor and the consumer.

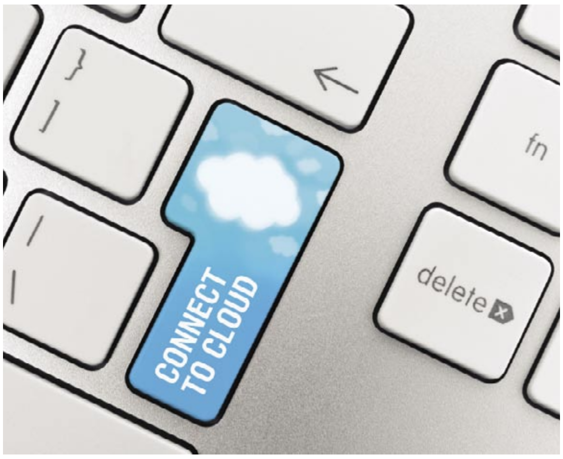
In Britain this year, peer-to-peer finance will account for more than £100 million of loans to individuals and small businesses.

"We've seen some new entrants over the last year or so and the way a couple of people might be operating their platforms and not investing in risk is concerning," Zopa founder, Giles Andrews, told British media last month.

Security fears hampering SME's cloud lift-off

European SMEs could scoop up additional profits of €1.2 billion if they set aside their persistant security fears over cloud computing and adopt the new technology, claimed participants at a round table yesterday (October 4).

The cloud – infrastructure, software, data or applications held off companies' premises and accessed via the Internet – can hone economies of scale by cutting out hardware costs and reducing SMEs costs per unit as demand increases.



"Talking to SMEs in many member states we know they are afraid about what will happen to their data, there needs to be a form of education about the extent to which third parties may be privy to their data," said Maurice van der Woude, the general director of Eurocloud Europe, a trade group supported by Microsoft and other companies.

SMEs can gain savings from conversion to cloud

The problem lies in the lack of business awareness of the opportunities, van der Woude said, adding: "It would be beneficial for SMEs to educate them about this because it's happening way too slowly."

Nigel Gibbons, the managing director of technology SME Unitech, claimed that €1.2 billion was being wiped off the profits of SMEs each year – money that they would otherwise be able to invest – if they transferred their computing to the cloud system.

He said the figure had been achieved on the basis of savings calculated to UK SMEs if they migrated to cloud and then extrapolated across the EU.

Efforts are under ways to allay SME fears through education and creating a controversial new pan-EU regulation of the cloud however, policymakers and industrialists at the Microsoft hosted symposium in Brussels heard.

André Richier, an official at the European Commission's Enterprise directorate, acknowledged that SMEs were cautious in their approach to the cloud. He said that the solution was to embark on effective education schemes which DG Enterprise had already undertaken, targeting business school students in Europe.

On regulation, Richier said: "Where are the cyber cops? We have problems with fraudsters and we need to think about the regulatory regime and enforcement, because for companies this is very important."

Parliament keen to legislate

Referring to the possibilities for formulating specific regulation relating to the cloud, Rainer Zimmermann, the head of software at the Commission's Infosociety department, warned that if no proposals were forthcoming, the European Parliament would attempt to impose impractical legislation as soon as the opportunity comes.

He said: "If no solutions are offered then we will get a bureaucratic solution of the worst kind. There will be a monster of bureaucracy if from the start these issues of general public interest are not addressed."

Hungarian socialist MEP Edit Herczog, a member of the Parliament's industry, research and energy committee, said that the Parliament should not be seen as the problem.

She said: "If we do not act together at EU level there is a danger that each country will start to address the issue alone."

EU has cautious approach

Despite the EU's best efforts, laws to protect and store data are outdated and cannot cope with the legal problems presented by cloud computing, such as determining who owns data which is no longer handled in situ.

When a company processes data in the UK, stores it on a server in Ireland but sends it via France – as it may have a subsidiary there – it is not yet clear which country's law would prevail in a legal dispute.

Regulators who have recognised this maze of unanswered questions are busy consulting industry and data protection authorities, while industry is busy trying to make its mark on an as yet unformed legal framework.

In November 2010, EU Digital Agenda Commissioner Neelie Kroes called for cloud-computing providers to build data security into their services and products. And at the 2011 World Economic Forum in Davos, she said the EU was working post-haste to update its data protection rules.

Cloud computing is highlighted in the Digital Agenda for Europe, and EU Commissioner and Vice President Neelie Kroes announced early this year the launch of a cloud computing strategy for Europe.

She wants to make Europe not only 'cloud-friendly' by providing the right regulatory framework but also 'cloud-active' which means that she wants European IT industry – and especially SMEs – to take the opportunity to become leaders in the area.

To this end Kroes has initiated a number of private and public consultationswith industrial stakeholders looking both at the supply and demand side.

DG Information Society has been researching cloud computing and how it differentiates from other IT systems and its opportunities for European industry over the past two years.

This research culminated in two reports, one by the expert group on the future of cloud computing and another by the European Network and Information Security Agency (ENISA) on cloud security.

MEPs urge encouragement for female web entrepreneurs

Women are under-represented in SME-funding despite being best positioned to exploit internet technology and social media to create 'local' SMEs, according to MEPs.

UK Conservative MEPs Marina Yannakoudakis and Vicky Ford called for more support to allow working mothers and other women to start up or grow their SME at their party's annual conference in Manchester yesterday, echoing similar calls made in the European Parliament.

Yannakoudakis recently drafted a report adopted by the European Parliament calling for seminars and training sessions to help women exploit the European Progress Microfinance Facility, a fund designed to help women and other under-represented groups.

The call came as new data supported the view that women – and especially those in rural areas – are better placed than men to exploit social media and the internet to set up businesses.

Women better placed to exploit social-media marketing

The data revealed this week by Boston Consulting Group and commissioned by Google suggested that the key to successful entrepreneurship in internet-based business requires a combination of far-flung marketing combined with tight 'local' sales offering, better suited to women.

Examples include Scotweb, a company that sells Scottish tartan fabrics successfully to a large foreign clientele with direct or distant roots in the UK country.

Wiggly Wigglers – a rural on-line service based in the UK selling sustainable gardening services – is an example of a business that has exploited social media to boost its online sales products including garden worms, which it sends by mail to customers.

Founder Heather Gorringe says that in farming and rural communities women are taking the lead in creating entrepreneurial business because the marketing skills required to use social media are well suited to female 'gossip' culture.

She told EurActiv that among farming communities "it is the women in the family who are using Facebook and Twitter, and it is easier for women to handle sales in this environment than in the traditional face-to-face sales model."

Do not favour some businesses over others, cautions entrepreneur

The internet also makes it easier for them to create businesses and deal with sales to their own time schedules, she said.

She cautioned against 'preferential treatment' for women's internet businesses, however, saying that favouring businesses disproportionately could endanger existing companies.

But Yannakoudakis told EurActiv that women were among the first wave of pioneers who started up their own on-line businesses and their numbers are are steadily increasing.

"The EU needs to encourage growth and jobs by bringing women into more diverse job sectors, including IT," she added.

New EU sales law to boost eCommerce

If retailers had just one set of contract laws across the bloc, eCommerce would take off exponentially, the European Commission will argue in an upcoming proposal next week. But disgruntled businesses are gearing up against the draft regulation.

While businesses argue that the EU's draft Common Sales Law will make matters more complicated for cross-border trade, the EU executive argues that the regulation's beauty lies in their estimation that it will cut out expensive legal costs.

"The common sales law will introduce a self-standing and complete set of rules. This will in particular be useful for the online supply of goods," reads a draft report obtained by EurActiv to be released on 12 October by the Commission Vice-president Viviane Reding.

According to the Commission's findings two of the principal deterrents to cross-border trade, including e-commerce, are the fear of stepping into an unknown legal regime and the cost of hiring different lawyers to debug each regime separately.

'Not a Priority'

However, business and consumer groups are confused about the origins of the Commission's findings and argue that eCommerce has many more tricky obstacles, like language and VAT rules, hampering its growth.

"We don't know where they are getting any of this from," Dora Szentpaly-Kleis, a legal adviser to a lobby group for SMEs, UEAPME, told EurActiv.

"The major reasons for a lack of cross-border trade are practical - 62% of consumers cited fears of fraud, 59% feared what to do if problems arose and 49% were concerned about delivery. The '28th Regime' would not address any of these," Ursula Pachl, Deputy Director General of European Consumers' Organisation (BEUC) said.

"It is a unanimous position among our members that this is definitely not a priority," Szentpaly-Kleis continued.

The proposal has curried some favour among other EU legislators in the parliament who argue its costs savings come just on time.

"In difficult economic times, the Optional Instrument in European Contract Law is a real example of justice for growth. Of course it has to be the right optional instrument. In this case 'right' means a high level of consumer protection, an easy and user-friendly system for SMEs (…) and most importantly no adverse effects on national law," Diana Wallis, a British Liberal Democrat MEP said in a statement.

Practice makes profits

An impact assessment due out alongside the draft regulation next week aims to prove that common sales laws have in practice boosted trade in different regions.

"It has been demonstrated that bilateral trade between countries which have a legal system based on a common origin, such as common law or the Nordic legal tradition, is 40% higher than trade between two countries without this commonality," the draft states.

Under the draft, the set of rules will form a second regime alongside the national consumer law and traders can opt-in or out of the EU code.

One of the provisions of the code will be higher protection for consumers. Consumers unhappy with a service or a good will have a free choice of remedies, including the immediate termination of a contract, according to the draft paper outlining the regulation.

The Commission's impact assessment boasts huge growth potential of eCommerce if companies take up the common sales law. Under half of online consumers would save €380 million in total if they made just one more online purchase than they already do.

The Commission came up with this cost saving in a calculation involving the cost of average online credit card transactions and the average saving made on a cross-border purchase.

"Currently 33% of consumers above 15 years of age shop online, but only domestically. Assuming that 44% out of this group would make at least one cross-border purchase on average of €52 divided by volume of credit card transactions, and that at least half of these consumers would find the product on average 24% cheaper than in their own these consumers would save around €380 million."

Boston Group head: Bridge gap in internet economy with policy for growth

New data shows that Europe's most crisis-riven countries are suffering from a deficit of internet connectedness. There is no simple solution, but governments need to encourage better infrastructure and engagement, says David Dean, because without the web, growth will not come easily.

David Dean is the Munich-based senior partner of the Boston Consulting Group, whose report – 'Sizing the digital economy' – has been carried out for Google. He spoke with EurActiv's Claire Davenport.

ICT is boosting countries' GDP, that much is clear. But what about job creation? And what kind of jobs are being created predominantly?

It's not easy to estimate how many jobs are being created by the Internet as so many different kinds of jobs are resulting from an increased dependence on the Internet across many sectors. A large share of jobs is at established companies – supermarkets, airlines and banks, etc - as they increasingly use the Internet for marketing and selling their products and services.

The strongest ICT economies, the UK, Sweden, Hong Kong, Denmark and the Netherlands, all have something in common: they have a reputation for highly skilled labour with excellent English. Does language make a difference in how successful ICT is in a given country?

The wide presence of English undoubtedly helps those countries with strong English-language skills as their companies can access a very broad global audience. English has become the lingua franca of the Internet, but with the likely availability of simultaneous translation tools in the next few years this advantage will not necessarily be a lasting one.

If language and wealth are not principal factors, then what are? A solid infrastructure? Competitive markets? Tech savvy consumers?

Language and wealth certainly play a role, but a competitive, not necessarily leading-edge, "good enough" infrastructure clearly helps as does a willingness of consumers to experiment and use the medium. Having secure payments systems helps too. Acceptance of credit cards is also a strong driver.

Which of the three factors in your study, enablement, expenditure and engagement, is the most influential in boosting a country's ICT economy or e-intensity, as you call it?

Of course without the infrastructure nothing much will happen. But that's not sufficient – it's important also to encourage businesses, governments and consumers to go online and for policy makers to adopt a "joined up" approach to addressing all three factors.

A recent study from the Economist Intelligence Unit voices concern that "labour rigidity" in some European markets could hamper technological innovation. Is this also your finding and if so, what should be done to make the labour market for ICT more flexible?

This is not something we've examined specifically, but as much of the growth is coming from smaller companies embracing the Internet, it is quite likely that labour rigidity could be a hurdle to adoption.

What about the cash strapped economies on the EU's periphery, like Greece, Italy and Portugal? Any advice on how they can improve their ICT landscape in a downturn?

These economies need to grow to recover. Promoting the use of Internet by the small and medium sized companies that characterise these economies could help.

Neelie Kroes has set out some very ambitious targets for broadband speeds and penetration in the EU? Do you think she jumped the gun?

If governments accept that the Internet can generate growth and create jobs, then it's important to have the infrastructure for companies to leverage. However, companies in many more rural areas are not necessarily looking for "blistering" speeds. They want "good enough access" at reasonable costs. Almost as importantly though, small and medium sized companies complain about the difficulty of attracting employees with the right talent to drive their Internet ambitions.

The EU is trying to write new consumer rules for internet shoppers because it believe consumers reluctantly shop from websites in different countries due to uncertainty on returns policies, etc. Meanwhile businesses argue that linguistic differences are keeping cross-border ecommerce slow. What do you argue?

Clearly linguistic differences play a role in consumer behaviour here, but as in the physical world there is much that can be done to encourage cross-border shopping.

Report: Big business doomed, the future is small

Policymakers should prepare for a future in which big manufacturing business no longer exists and has been replaced by a string of 'micro-multinational' SMEs, according to a policy brief from an influential European think tank.

The brief – launched in Brussels yesterday (6 October) by the Lisbon Council – claims that the 20th century logic that required large foreign talent pools to achieve a global reach has been 'stood on its head' and larger companies are now bogged down in bureaucracy and overstaffing, with slow decision-making processes.

"The result is that large companies are under pressure to deliver more with less – a fact which may well account for the jobless economic recovery we have seen in 2010 and 2011," the brief says, claiming such large companies will be incapable of delivering the jobs that politicians hope for.

By contrast, it claims that SMEs which utilise the internet and new business platforms can enter the global markets with a minimum of bureaucracy and overheads.

Local motors is an example of a 'micro-multinational'

Launching the brief, co-author Anthony Williams, the senior fellow of the Lisbon Council, said that Local Motors, an Arizona-based car company which uses an on-line design team of 12,000 freelance designers from 121 countries, is a good example of such a company.

Unlike larger rivals it requires no manufacturing premises or headquarters, instead relying on a network of micro-factories to produce custom-built, off-road vehicles.

Williams said that SMEs are now able to access a vast secondary market for global business services: from cloud computing, mobile-to-mobile connections, online sales and advertising platforms, and a growing army of freelance workers.

In Europe, 32.6 million people – 15% of all workers – are classified as self-employed, of whom 23 million are freelancers, meaning that they work for or in one-person companies. The brief claims this represents an unprecedented pool of talent that can be deployed by micro-multinationals.

New '3-d' printing will change the world

New technology in the pipeline will have a massive impact on this development, the report says, pointing to Chinese 'three-dimensional printing', a new type of copying process that can replicate goods.

The brief says: "Yesterday's factory is evolving into a global community of custom design and personal fabrication services that open up manufacturing to just about anyone with some ingenuity and a good idea."

Ad-hoc teams coming together and using technology to deliver specialised tasks will become the norm for business, the report predicts, laying waste to a swathe of big business models.

Ann Mettler, the executive director and co-founder of the Lisbon Council, another co-author, said that the implications of the brief for policymakers were huge.

The report makes eight policy recommendations including hastening the move to a digital economy, and creating services and incentive structures designed to foster freelancers.

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