

Rise of the Global iStreet



Research by Cebr for WorldFirst
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WORLDFIRST

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Foreword by Jonathan Quin, CEO of WorldFirst

I know from experience that there is never a 'right time' to turn an entrepreneurial idea into a revenue generating business.

But for UK entrepreneurs considering the first step in forming an e-commerce business there may also never have been a 'better time'. The growth in online marketplaces have made reaching a global customer base possible, acting as a gateway to the world's high street.

And despite the uncertainty brought about Brexit, the devaluation of Pound sterling has meant UK online sellers have never been more competitive, as the 'Made in Britain' tag continues to resonate across the globe.

As the UK moves towards a new trading relationship with the rest of the world, this growing army of dynamic, online sellers have the potential to play an important part in making it a success.

The purpose of this report, produced by The Centre for Economics and Business Research (Cebr) and commissioned by WorldFirst, is to shine a light on the online selling economy, showcasing the new breed of agile businesses selling their goods and services across the world and supporting thousands of jobs across the UK.

The conclusions are also drawn from a wide range of economic datasets as well as exclusively commissioned SME research by YouGov.

We work with businesses like these worldwide, who are adapting easily to a changing business environment and powering a global supply chain. Businesses like Isabella Queen, Geckota, and Hello Baby who have turned their big ideas to big business offering customers across the world access to their quality products in just a few clicks.

The British high street has always been one of our unique characteristics defining us as a proud nation of shopkeepers. While the digital age may be reshaping how the British high street looks, that entrepreneurial spirit remains and it is important that the traders who are defining the new British 'iStreet' are recognised for their contribution to the economy.

Key Terms

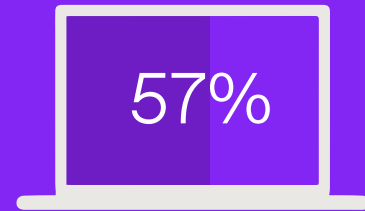
In this report, the following terms have the corresponding definitions:

- **UK SMEs:** UK SMEs are UK based small and medium sized enterprises who have fewer than 250 employees with a turnover of under £25.9 million
- **Online sellers:** UK SMEs with under 50 employees who sell online who predominantly sell their goods and services online
- **iStreet:** Online marketplaces that host sellers trading goods and services online e.g. Amazon, eBay, Rakuten, Etsy
- **iStreet sellers:** UK SMEs with under 50 employees who sell online who trade on marketplaces



Executive Summary

UK SMEs are more digital than ever. **57% or 3 million businesses** now sell goods and services online



Collectively these businesses generated **£53 billion in online sales revenues** in 2015.

This report forecasts that online sales from UK SMEs could be worth £106 billion to the UK economy by 2020 – effectively **doubling in just five years**.

The rise of the iStreet: **A quarter of SMEs that sell online – that's 714,000 businesses** – use an online marketplace like Amazon or eBay as a sales channel.

Online marketplaces are increasingly offering a real alternative to the traditional British high street.

eBay and Amazon are the preferred marketplace platforms of choice for iStreet sellers – **61% of marketplace sellers use eBay and 44% use Amazon**.

A fifth of all small businesses also plan to expand their presence on marketplaces in the next year.



iStreet sellers contributed around **£11 billion to UK exports** last year via sales made on marketplaces.

Forecasts are that this could rise to £21.3 billion by 2020.

Online sellers report a number of challenges which need to be addressed in order to support their growth.

These include:

- Logistics and shipping
- Tax laws
- Government regulation
- Currency risks
- Geopolitical uncertainty

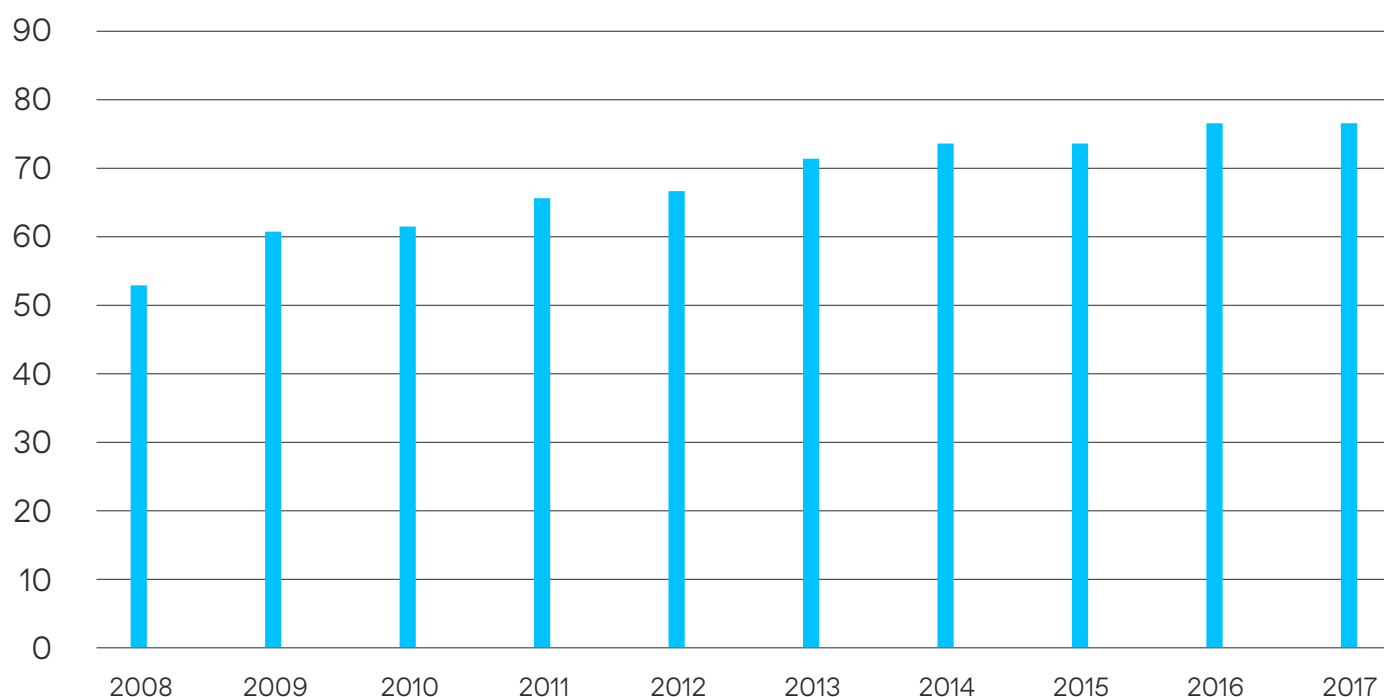
1. The move online

In recent years it has become almost unthinkable for a company to operate successfully without an online presence – in 2016, 83% of internet users in the UK alone shopped online.¹

This will only rise as consumer habits are increasingly driven by a generation that has grown up in a mobile-first era in which smartphones are the norm. Almost a fifth of online sales are done through mobile devices and 79% of smartphone users have made a purchase via their devices' browsers.²

Figure 1: Proportion of individuals (aged 16+ making an internet purchase in the last 12 months, in %

Source: Office for National Statistics, Internet Access - Households and individuals, 2017



Being constantly connected to the internet has changed purchasing behaviour and has driven huge growth in UK e-commerce sales: latest data from the Office of National Statistics (ONS) indicates growth of 60% since 2008 with total sales standing at £554 billion in 2015.³ In 2015, one in five UK businesses sold online, up from just 14% in 2008 and above the EU average of 17%.⁴

¹United Kingdom B2B E-commerce Report 2016.

²United Kingdom B2B E-commerce Report 2016.

³ONS Annual e-commerce survey, cebr analysis

⁴E-commerce sales [isoc_ec_eseln2].

Added flexibility of selling online

An online presence provides companies with a number of benefits, including the flexibility to do business 24 hours a day and provide unrivalled access to consumers and markets across the world.

There are also numerous cost-advantages. An online only business can serve businesses worldwide without the costs and upfront commitments associated with an office or shop floor in the locations they serve.

These savings can be essential, especially in the early stages of a business's lifecycle.

As technology, logistics and communications have developed over the past decade, the online-only business has emerged. Whilst behemoths like Amazon and ASOS come to mind as prime examples, in the UK we've seen the growth of this kind of business particularly in the smaller end of the market. As retailers move online, powered by digital marketplaces, we've seen the birth of the British iStreet.

Case Study:

Isabella Queen, Isabelle Ugochukwu, Founder & Creative Director

As an emerging luxury leather accessories 'Made in Britain' brand, we were always aware that we would be more appealing and gather more momentum abroad before the UK market caught up. And so it was that we concentrated our efforts appropriately from the start. We could have chosen to manufacture anywhere in the world, but the passion for being part of the movement re-establishing the manufacture of luxury goods in the UK and the benefits of manufacturing here informed our decision.

Manufacturing is a-go all year round and across the globe 'Made in Britain' is rightly synonymous with unparalleled quality. And by far the most important of all the benefits - the integrity of the supply chain is fully transparent and accountable.

One thing that has definitely changed our outlook more than we had anticipated was the Brexit decision. I was naturally disappointed with the outcome of the vote. Like all other SME owners benefiting from key relationships across the EU, I am keen to avoid any potentially challenging downstream impacts of this decision for the business.

In order to stay ahead, we need to pro-act. We need to ask ourselves: how can we change the way we deal with FX, currency fluctuations, importing and exporting and the supply chain management post-Brexit? I also think Brexit offers the potential to maximise what is now the heightened exclusivity of 'Made in Britain'. I think there could be a real positive effect for our 'homemade' products for those businesses that respond to the current political climate with strong product positioning, savvy marketing and innovative solutions to cross-border trade challenges.

2. Online sellers and the birth of the iStreet

With e-commerce sales rising, what contribution are online sellers making to this growth?

Recent analysis clearly indicates that they are playing a growing part in the UK's e-commerce sector and have the power to play an increasingly important role.

As illustrated in figure 2, while the share of total e-commerce sales made by businesses with less than 50 employees stood at just 4% in 2009, this share has more than doubled to 9% in 2015, accounting for £53 billion in sales. Moreover, findings from YouGov highlight that online sales (both UK and internationally) among online sellers grew at an average rate of 7.3% over the past year alone.

Figure 2: UK e-commerce sales by business sales by business size, % of total.

Source: ONS Annual e-commerce survey, Cebr analysis

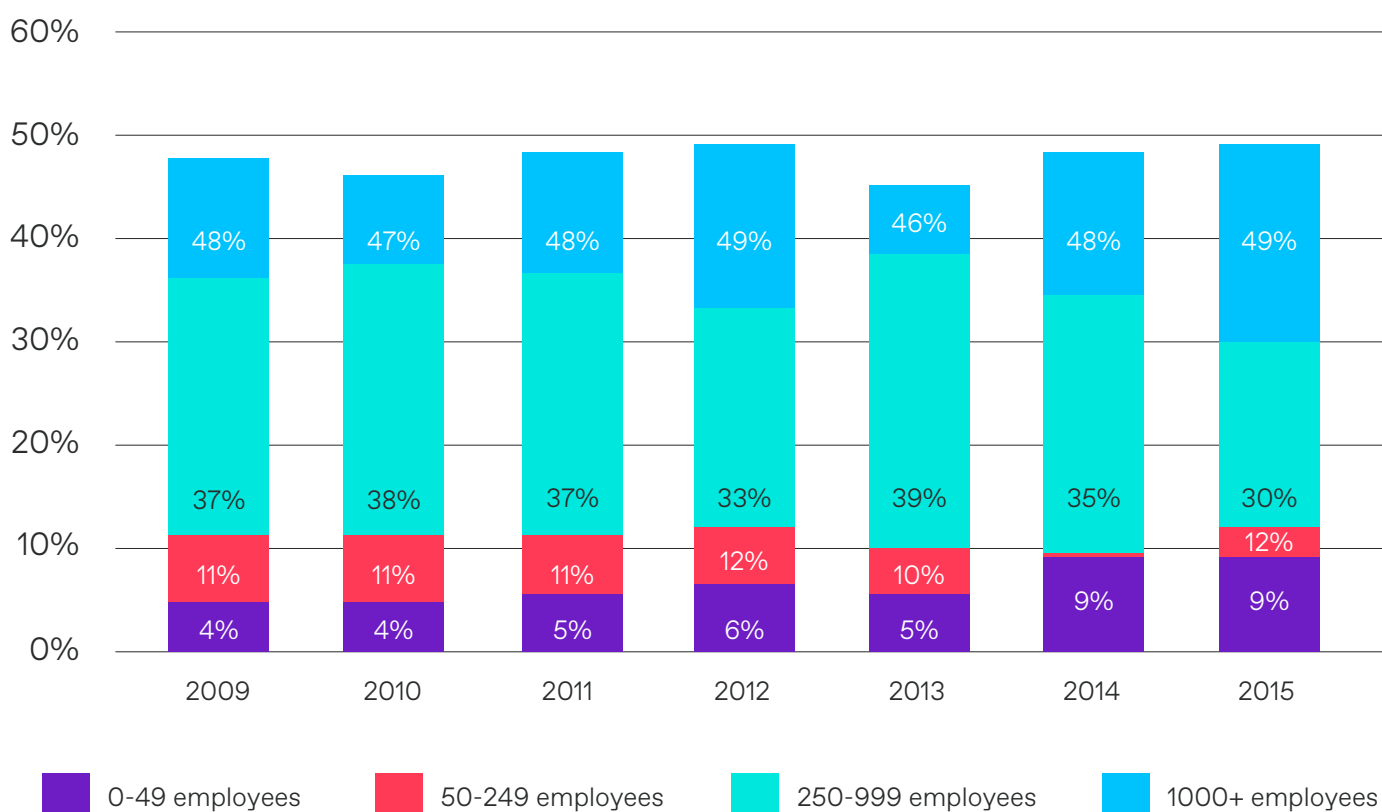
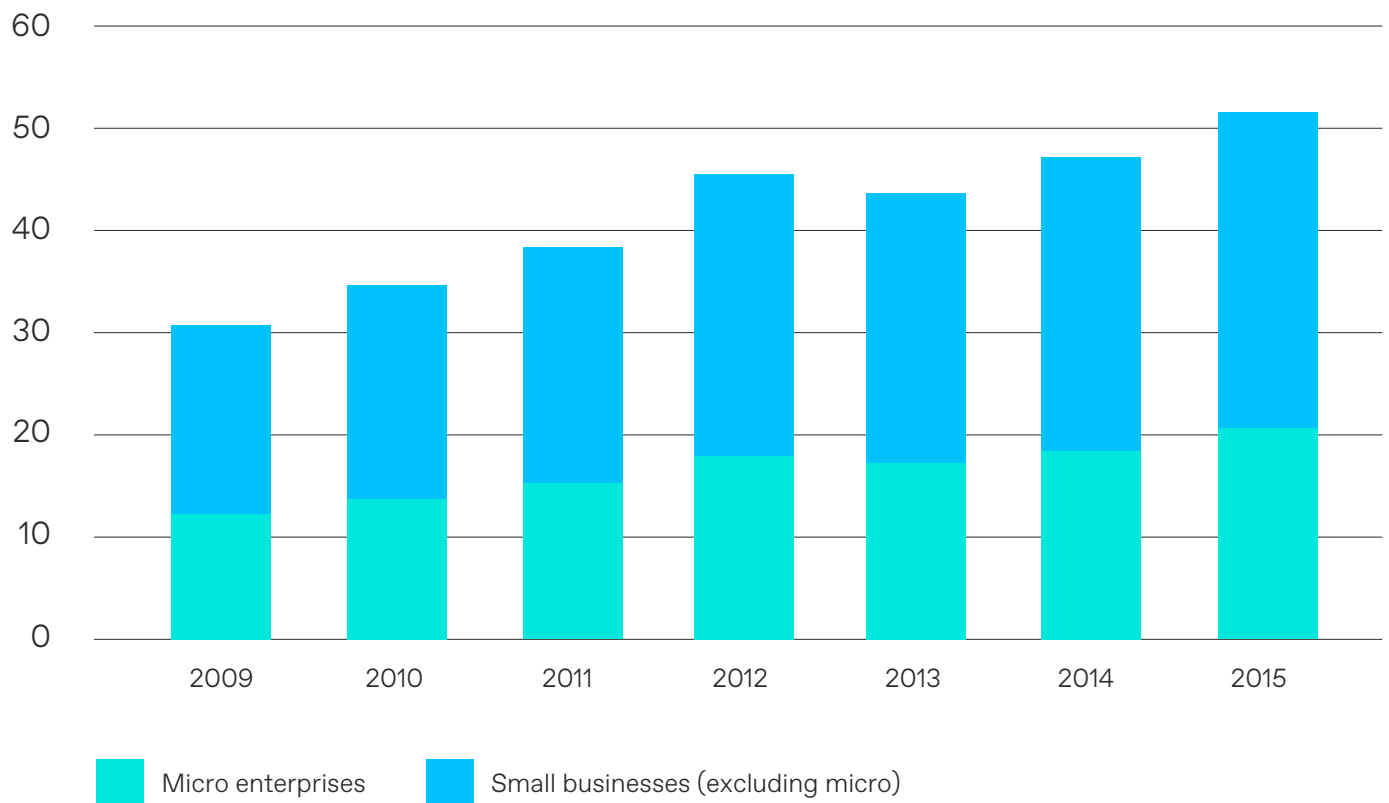


Figure 3: Small businesses total e-commerce sales⁵

Source: ONS Annual e-commerce survey, Cebr analysis



Growing importance of marketplaces

While websites remain an important channel for online sellers, with Cebr estimating that more than three quarters of small business e-commerce sales are done via this channel, the YouGov findings uncovered the growing importance of online marketplaces. Overall a quarter (25%) of online sellers sell goods or services on marketplaces, with a fifth (20%) of all businesses saying it is likely they will expand their presence on marketplaces over the coming year. Marketplaces are coming to represent the new British iStreet.

Of those businesses that sell through marketplaces, 61% use eBay and 44% sell on Amazon. Other popular marketplaces include Gumtree, Etsy and Facebook. (Figure 4 presents the top five online market platforms).

The use of these platforms can make it easier for online sellers to sell globally, especially in the early life stage of a business. For example, British businesses are able to offer their products to customers on all of Amazon's European websites – Amazon.co.uk, Amazon.de, Amazon.fr, Amazon.it and Amazon.es – and to customers across all 28 European countries from a single seller account⁶.

⁵The 2009 to 2013 values for micro businesses are Cebr estimates.

⁶<http://www.telegraph.co.uk/sponsored/business/amazon-entrepreneurs/10895541/what-is-amazon-marketplace.html>.

Moreover, According to Amazon⁷, 2016 was a record-breaking year for sellers on the platform, with UK-based businesses achieving export sales of more than £1.8 billion in 2016, up 29% year-on-year. The number of UK-based iStreet sellers exporting to European customers also increased by more than 40%.

Spotlight on online marketplaces

An online marketplace is simply a website or app that facilitates selling and shopping from many different sources. The marketplace itself does not necessarily sell or own any stock but instead offers a platform for seller to meet buyer and then facilitates the transaction.

eBay is the prime example of an online marketplace, a public forum to sell and buy anything.

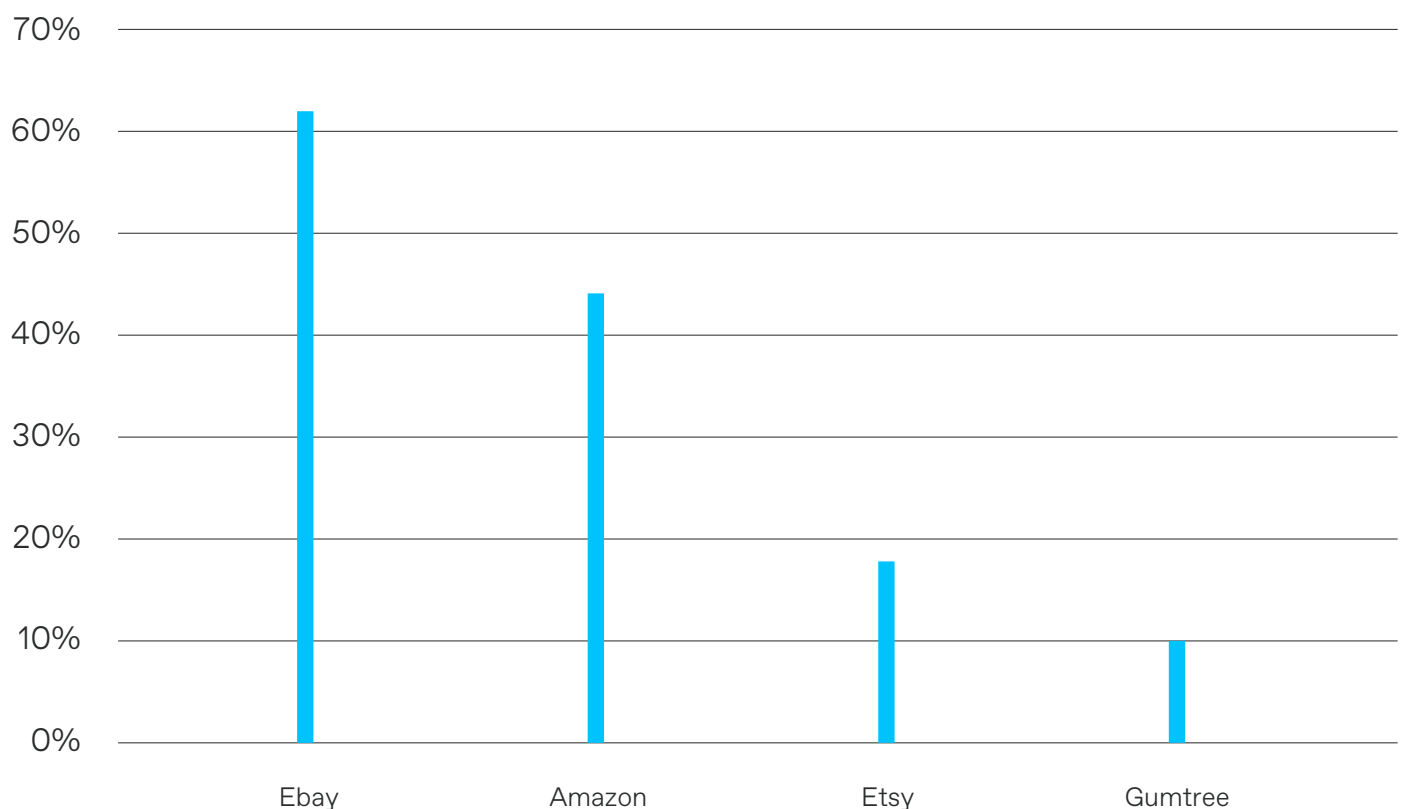
Since the birth of Amazon and eBay in the mid-nineties, online marketplaces have grown to be ubiquitous trading destinations all over the world.

There are hundreds around each with their own niche be it geographical or product based. For example, Etsy focuses on handmade or vintage items and supplies while TradeMe currently only sells in New Zealand.

Amazon and eBay remain the market leaders in the West and Alibaba's recent rise makes it the number one destination for Asia and the Far East controlling over 90% of the Chinese market.

Figure 4: Which, if any, of the following online platforms does business ever use to sell its good/services?⁸

Source: YouGov, Cebr analysis



How the use of online channels varies across industry

Some industries naturally have more potential than others to explore the advantages of e-commerce, given the nature of the goods and services they sell.

Figure 5 presents an industry breakdown of which channels small businesses use to sell goods and services. The majority of small businesses across each industry use some form of online channel, with retail sellers the most likely to use marketplaces.

Case Study: Geckota.com. Jonathan Quinn, Founder

“I started selling watch straps as a hobby on eBay in 2009 under the account name “watchgecko”. I have always been interested in watches and saw a gap in the market for the sale of replacement watch straps via the Internet. I was fed up in my day job as a software engineer and I gave this up in October 2010 to concentrate on the business. I ran the business alone as a sole trader from home initially. With a mortgage, wife and two young children, leaving a stable and well paid job was a risky decision and I can remember the shocked expressions and looks of disbelief on the faces of my colleagues when I announced that I was leaving them to sell watch straps on the Internet.

One of the best things about setting up my own company is that it allows me to focus on aspects I believe are important like building skills. From the beginning I have tried to give opportunities to young people. Some of the first members of staff were students from the University of Gloucestershire who worked for us in their spare time. I feel that real work experience is invaluable for young people and we help to contribute in this way by employing apprentices and offering work experience placements to students from local schools.

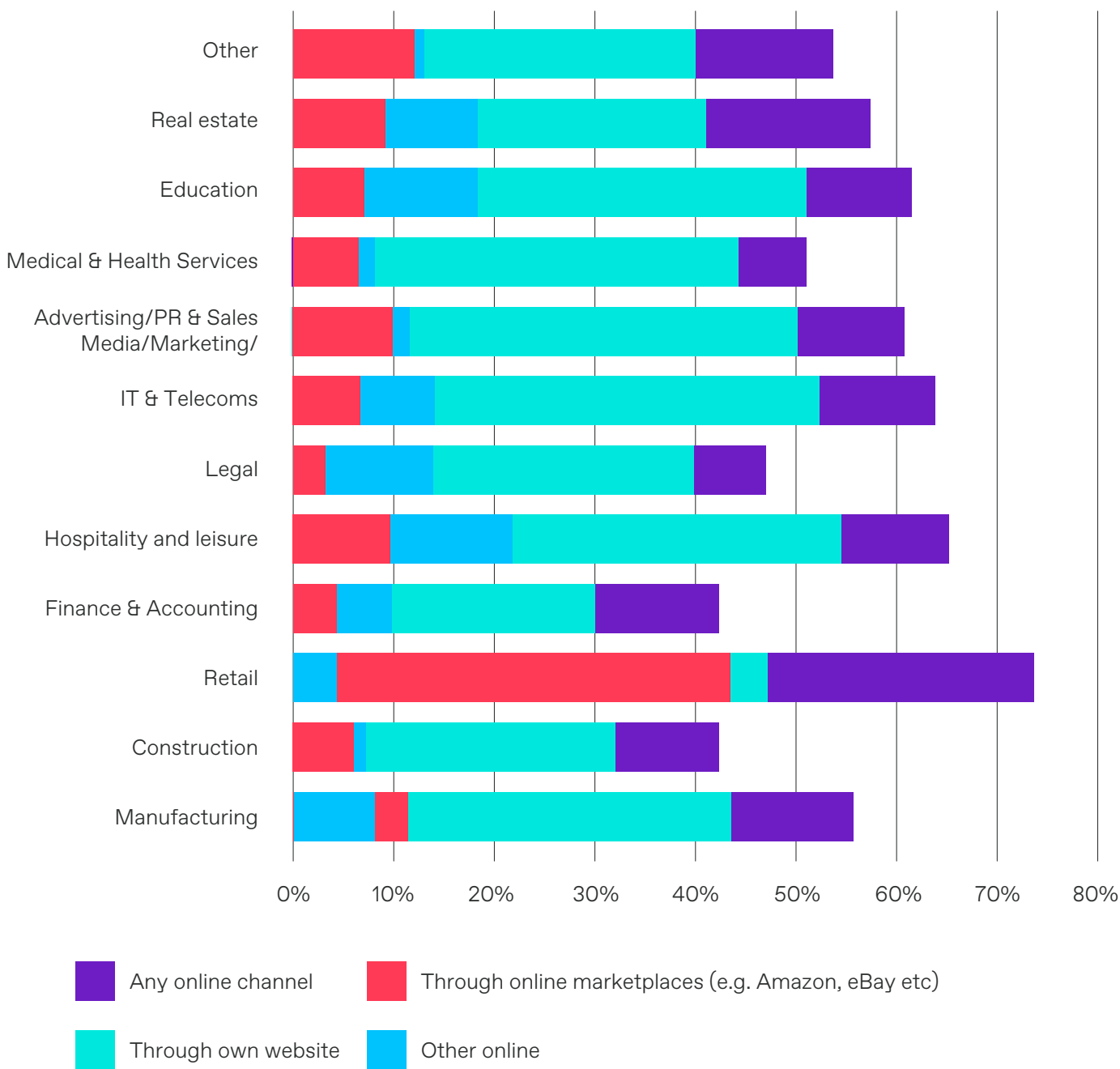
I started the business on eBay and without the ease of setting up an eBay account and the immediate access to the worldwide market that that provides it would not have been possible. Now we sell to the USA, Europe and Japan.”

⁷http://phx.corporate-ir.net/phoenix.zhtml?c=251199&p=irol-newsArticle&ID=2225441&ref=aa_lc_5&pf_rd_r=FK1Y98CRJ760038GHXGG&pf_rd_p=3eb4a980-d854-4e9e-8d07-30eb0ec76df1; <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2233730>.

⁸This only refers to those firms that sell their goods and services through an online market place.

Figure 5: Online Channels used to sell goods and services by small businesses, by sector

Source: YouGov



3 Opportunities and challenges

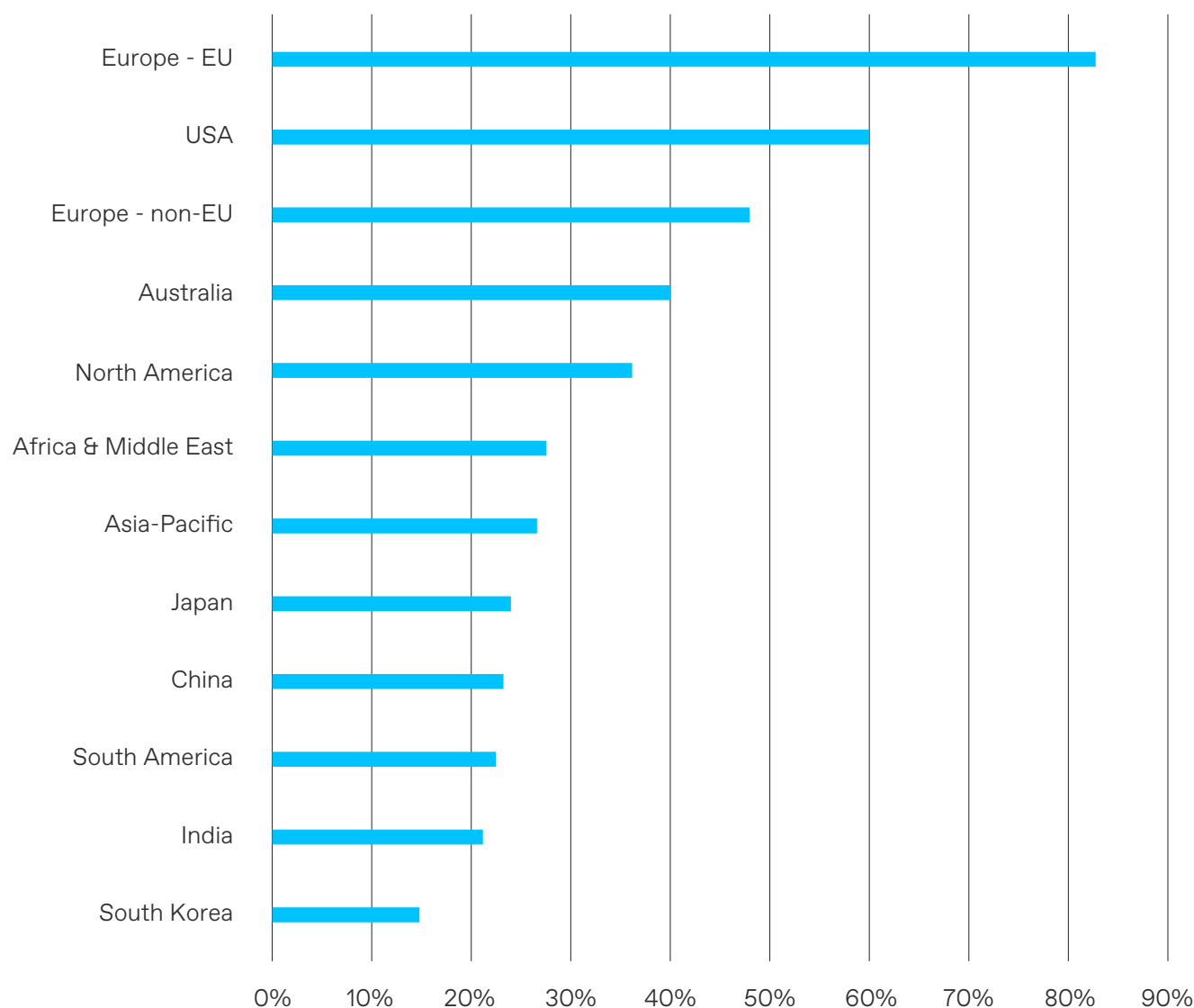
It is clear that online sellers are playing an increasingly important role in the overall UK e-commerce market but what opportunities lie ahead and what challenges need to be overcome in order to drive further growth?

Export opportunities

The YouGov findings highlight that two in five (40%) small businesses sell their goods and services to both the UK and foreign markets. The top two export destinations for small businesses are the EU (84%) and the U.S. (60%).

Figure 6: International markets small businesses export to

Source: YouGov, Cebr analysis



Data also shows that 9% of iStreet sellers saw their total revenues from exports increase by more than £500,000 during the last financial year.

In 2016, there were almost 1.3 million⁹ small businesses in the UK and based on the YouGov findings, Cebr estimate that 9.4% of these companies export their goods and services via online marketplaces.

Therefore, Cebr estimates that iStreet sellers to have contributed to UK exports by up to £11 billion in 2015.¹⁰

Anticipated future growth

In order to estimate future e-commerce sales, Cebr also tested the correlation between growth in e-commerce sales (as provided by ONS) and various economic indicators. Based on these inputs, overall e-commerce sales will grow at an average annual rate of 5.7% between 2016 and 2020.¹¹ Given the estimated growth, total e-commerce sales would increase to £729 billion by 2020, up from the observed £554.2 in 2015.

Sales from online Sellers could therefore more than double from £53 billion in 2015, to £105.7 billion by 2020.¹²

Cebr also estimates future export contributions from online sellers to reach £21.3 billion by 2020. The YouGov findings also suggest that online Sellers are planning to raise employment levels over the next 12 months, with almost one third (30%) planning to hire up to five more members of staff. The e-commerce market is therefore set to continue expanding, not only by total sales values and turnover, but also in terms of employment numbers, thereby positively impacting the UK economy.

Barriers to growth

Despite the growth opportunities offered by selling online, businesses face a number of hurdles – especially when selling internationally – that need to be effectively navigated in order to scale. Of all small businesses asked by YouGov, one fifth (21%) cited difficulty with logistics and shipping as the leading barrier to selling online. Although this included some businesses who do not yet sell online, it highlights the potential issues that may be putting small businesses off from taking the next step into online selling.

Currency risk, such as fluctuating exchange rates, are identified by 17% of businesses as an issue highlighting the need for businesses to be aware of broader economic trends that could impact their bottom line when selling internationally. Currency fluctuations can be linked to geopolitical uncertainty which was also cited as a danger itself by 15% of small businesses.

Notably, 13% of small businesses also flagged lack of trust from financial service providers as a hindrance to selling online. This cynicism indicates the need for financial institutions to better support the growth plans of such businesses and highlights the potential for dynamic fintech providers to offer solutions more tailored to the needs of online sellers.

⁹Business population statistics for the number of small business in the private sector (excluding businesses with no employees). <https://www.gov.uk/government/statistics/business-population-estimates-2016>.

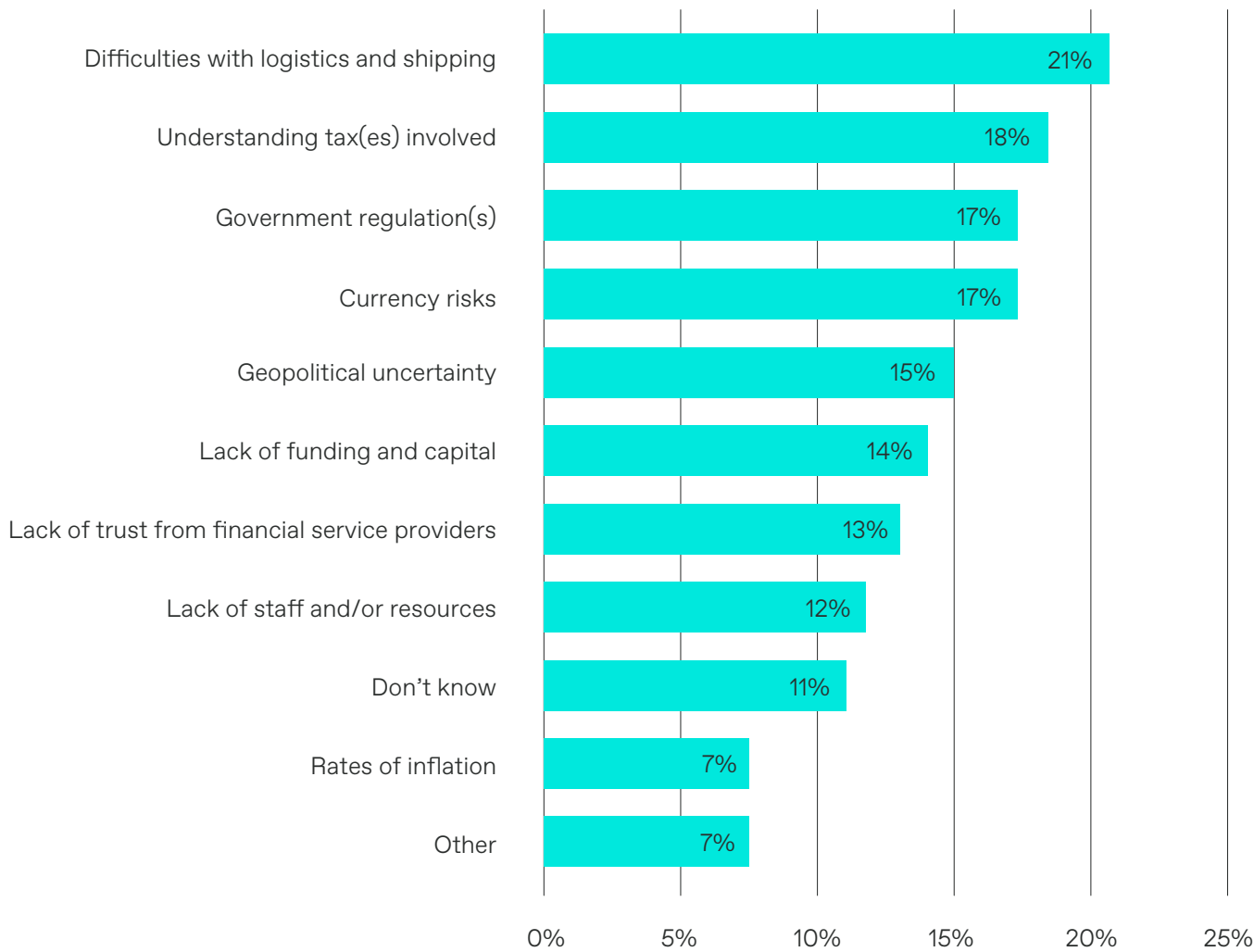
¹⁰Assuming that every small business exports the same (£90,336 from the YouGov survey). Note, Cebr estimates also take into account some businesses selling highly valuable goods or services.

¹¹Note: actual data only available until 2015.

¹²Under the assumption of linear growth in the share of SME e-commerce

Figure 7: Barriers to e-commerce

Source: YouGov

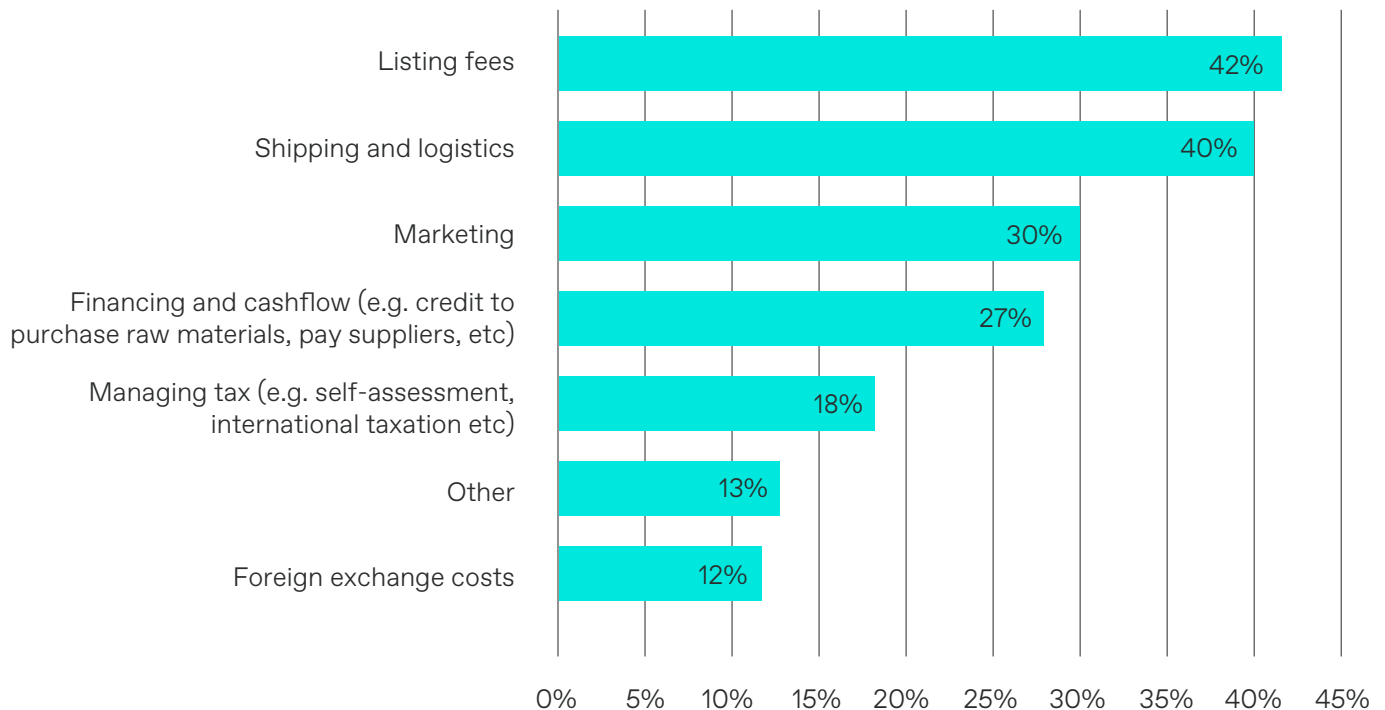


When it comes to the cost specifically of operating on online marketplaces, small businesses consider listing fees to be one of the biggest cost factors (42%), closely followed by shipping and logistics (40%).



Figure 8: Online Channels used to sell goods and services by small businesses, by sector

Source: YouGov



Case Study: Hello Baby, Steve Congrave, eCommerce Manager

As a successful British SME doing 90% of our business online, we have always concentrated on delivering our products to as many overseas markets as is practical. Of course this brings many challenges including shipping, currencies, returns, fraud protection and language - and we have implemented processes to each of these areas as technology has evolved to facilitate them. This has often involved selecting partners that have a clear “world centric” view.

Every problem has been identified, a solution found and we then discover the tremendous opportunity that it brings - and anyone in business today would be foolish to ignore these opportunities.

Many businesses are looking fearfully at Brexit as another challenge - but if you look further afield to the markets of North & South America, Asia, Australasia and China, then it brings an understanding that Europe is just one of many markets that are all within reach.

Looking ahead

In light of current trends uncovered within this report, it is clear online sellers are set to play an increasingly important role in the future makeup of the UK economy and have the potential to reshape UK exports in the years to come.

The iStreet sellers we have identified represent a new dynamic type of business that are able to operate across multiple digital channels and attract customers in every continent. Yet expanding internationally carries risk such as logistical issues, understanding local taxes or currency risk. As such there is key role for financial services providers to do more in order to make international trade simpler and thus support the mini-multinationals of tomorrow on their growth trajectory.

It is hoped, that in shining a spotlight on this type of business for the first time, it will provoke conversation on their economic value and, more importantly, ultimately inspire more entrepreneurs to turn their idea into a business reality.



About WorldFirst

We're WorldFirst, experts in moving money around the world. As a fast growing FinTech business, we specialise in making foreign exchange simple, fast and fuss free for people and businesses with global ambitions. By combining best in-class technology with award-winning customer service, we've helped over 120,000 people, small businesses and online sellers transfer over £60bn since 2004. Our clients never stop. And neither do we.

We operate all over the world and have over 600 employees based in 6 offices across London, Amsterdam, Austin-TX, Hong Kong, Singapore and Sydney.



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