

Services Promote the Competitiveness of U.S. SMEs

Sherry M. Stephenson, Senior Fellow, ICTSD

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The majority of firms in the U.S. economy are not big multinational corporations but small and medium-sized enterprises (SMEs), defined in the United States as businesses employing up to 500 workers. These small and medium-sized businesses are important for job creation and innovation. Most small and medium-sized businesses are services providers. Slowly but surely these firms are engaging more deeply in domestic and international trade using the Internet, digital platforms, and electronic payment systems. The possibilities for small and medium-sized businesses to export services are still unexploited, and international trade offers tremendous potential for these firms to gain from growing foreign demand, thereby contributing further to U.S. GDP and job growth.

➤ **Small businesses are important to the U.S. economy**

Small businesses are vitally important to the U.S. economy, particularly for their role in creating jobs and in absorbing new entrants into the workforce, as well as for their role in exporting. In the U.S., there are nearly 30 million small businesses with fewer than 500 workers, representing an overwhelming 99.7 percent of all U.S. businesses. SMEs employed nearly 57 million workers, or 48 percent of the private work force in 2013 (Small Business Advocacy Report 2016). Small businesses have created 1.1 million net jobs in 2013 and accounted for nearly two-thirds of new jobs created in the private sector since 2002, with the clear majority of these new jobs—over 80 percent—in the services sector (Brookings Institution).

SMEs are also major contributors to better standards of living and innovation. Over one-third (37 percent) of the new jobs created by SMEs were in high-tech industries with better paying jobs (National Small Business Association). Moreover, it is little known and appreciated that small and medium sized businesses produce 16 times more patents per employee than large firms (Small Business Association).

➤ **Most SMEs and most exporters in the U.S. are services firms**

Over two-thirds (68 percent) of small businesses identified themselves as a company within the services sector in a recent National Small Business Association survey. Comparatively, only 27 percent of small businesses work within manufacturing and 5 percent within agriculture and mining. Thus, the overwhelming number of small firms in the U.S. are actively producing services. As the services sector constitutes nearly 70 percent of U.S. GDP, SMEs are very important to the vitality of the services sector in the national economy.

Most small firms in the U.S. produce professional, scientific and technical services and other services. SMEs are also important in the sectors of real estate and rental services; construction; health care; transport; and arts, entertainment and recreation (Small Business Advocacy Report 2016). Many of these services are knowledge intensive and heavy in digital content such as music, films, computer software, computer games and specialized professional services. These human-capital intensive activities allow SMEs to have a competitive edge on a smaller scale, while digital platforms allow them to reach consumers around the world at minimal cost.

Generally, SMEs have a robust role in U.S. trade as well. Nearly 98 percent of the companies that exported from the U.S. in 2013 were small firms, generating one-third of U.S. export revenue (International Trade Administration). However, services SMEs are under-represented in U.S. exports; only 5 percent of high-skilled services companies export, compared to 25 percent in the manufacturing sector (Brookings Report). Services exports consistently generate a trade surplus for the United States (\$262 billion in 2015). The U.S. has a competitive advantage in high-skilled and high-paying services activities which also provide essential support to U.S. manufacturers. But there is much more potential that can be exploited by SMEs in these areas to reach the 96 percent of consumers that lie outside the United States.

➤ **Services and digital platforms are enabling U.S. SMEs to reach global markets**

Small firms can engage in international trade and grow their businesses through various avenues. They can act as direct entrepreneurs themselves, taking advantage of digital platforms to go into foreign markets; they can expand into foreign markets through completing tasks or providing components in global supply chains; they can engage in exports indirectly by providing services to local affiliates of multinational companies; or they can use franchise agreements with foreign firms to conduct their business locally abroad.

Services SMEs tap into the global market through digital platforms that allow creative individuals in small companies to reach consumers abroad in all corners of the world. One of the largest digital platforms is eBay, a company founded by one person in 1995 that today connects millions of buyers and sellers around the world, empowering people in their e-commerce transactions. In 2016 alone eBay digital platforms had 167 million global active buyers across 190 markets and enabled sales of \$84 billion gross merchandise volume, with a profit of \$9 billion. eBay research has revealed that 97% of eBay-enabled small businesses in the United States export. Additionally, nationwide, eBay-enabled small businesses that export reach an average of 18 foreign markets. eBay's vision is to support "...commerce-as-a-force-for-good that is enabled by people, supported by technology, and open to everyone."

Another good example of a company that provides a digital platform for individuals and small companies and that also started small but has experienced tremendous growth is "Etsy", the winner of the CSI Services Innovation Award for 2016. Established as an online marketplace in 2005, Etsy is a peer-to-peer (P2P) e-commerce website focused on handmade or vintage items and supplies covering a wide range, including art, photography, clothing, jewelry, food, bath and beauty products, quilts, knick-knacks, and toys. As of the end 2016 Etsy had nearly 60 million users and connected 1.7 million sellers with 26 million buyers. Importantly, one-third of its revenue was generated from exports and 30 percent of its sellers were located outside the United States (Etsy.com site). In 2016 individuals and companies sold \$2.4 billion on the Etsy platform. Most Etsy sellers are one-person businesses, but Etsy's digital internet platform allows the company to save time on administrative matters. For the price of only 20 cents, an Etsy seller can become an entrepreneur with access to buyers around the globe. Etsy's approach to trade is "global local".

Global platform services that harness the potential of the Internet provide marketing, enable trust, and facilitate transactions for even the smallest enterprises. The combination of the Internet, along with platform services and logistics providers (services firms), enable small and medium-sized businesses to engage directly with customers around the world, allowing them to enjoy the benefits of the global market in the same way as larger, more traditional firms. Small businesses that are enabled by Internet technology and digital platforms allow SMEs to export at a higher rate to more

customers abroad, and in a more inclusive marketplace, regardless of where they are physically located (E15 study on Digital Trade; World Economic Forum case studies on Digitization).

Because small firms can now enter the global market in myriad ways and on the same footing as large multinationals, Hal Varian, the chief economist of Google, wrote in *Foreign Policy* in 2011 that the 21st century belongs to the micro multinational (ICTSD-WEF Study on Services SMEs in International Trade). The potential for SME participation in trade is virtually unlimited.

➤ **Examples of micro and small services exporters**

Examples abound of small businesses that have been helped through digital platforms to expand and “go global”. Remn is a microbusiness of 10 employees that provides technology services in the real estate space. These services include predictive analytics and information and visualizations for agents, investors and brokers by locating and democratizing data from numerous records. To do this, the business draws upon the inputs of several other services SMEs, including scanners, mappers, etc. While created less than a year ago, Remn is already providing its services in Canada and some countries of the Pacific as well as the U.S. It is expanding at an extremely fast pace thanks to its use of digital platforms. Its goal is to “go global” immediately (Chad Menucci, CTO of Remn).

Cask is another service business that was created as a micro firm just eight years ago, offering professional project management and technology engineering services. The business provides an array of services to firms that wish to export and therefore require a combination of banking, accounting, marketing, logistics services, product management and tracking for either goods or services in order. Using digital platforms on the Internet, Cask now has grown to over 200 employees and exports services across the globe, with 18 percent of its revenue coming from overseas business. Its goal is to expand its work in several developing countries (George Judd, Vice President of Cask).

Trade associations also help services SMEs expand their businesses abroad. The Association for Technology is an “App” association representing over 5,000 companies that develop and produce Apps for all corners of the world. Most of these very small companies, many of them single individuals, use the association to help gain and maintain a foothold in export markets. Currently 25 percent of the top selling Apps in China are owned by American companies. Educational Apps created by Montessori are now sold in over 120 countries, generating \$5 million. These Apps are empowered by digital platforms such as cloud computing, that allow creative individuals to reach consumers abroad everywhere. Such micro and small service providers benefit from these platforms that allow for instantaneous access to everyone in the world with a smart phone in their hands. Around 100% of App developers have customers outside the U.S. (Morgan Reed, Executive Director, Association for Technology).

Electronic payments have made it faster, easier, and safer to exchange capital. These payments have also had a direct effect consumer spending, which has led to significant economic gains (and savings) to governments, consumers and business, large and small. For small business, increased acceptance of cards helps spur more sales revenue, with nearly one in every five small businesses experiences over \$20K per month in increased revenue, in addition to access to more consumers, both at home and abroad. (Perryman Group study). Andrew Cheung started Curated Basics as an online store designing and selling men’s dress socks. Within a few years, he has seen the business grow.

“Since we launched our website 3 years ago, sales have increased 35% year after year. Our growth is enabled by range of the digital services, their technology that blend seamlessly into our 3rd party POS system. Digital services like MasterCard eliminated barrier for small businesses to reach global audiences that are looking for our products. We currently have an international customers base from 11 different countries (UK, Canada, Italy, Australia, Spain, Germany, Belgium, France, Portugal, Norway and Ireland). Ease of global payment system have definitely contributed significantly to our business growth.”

Digital opportunities for SMEs exist more broadly in the U.S. than in other countries. However, there are still numerous opportunities for U.S. small businesses to take advantage of the opportunities that online access has to offer in accessing foreign markets. SME services exports in particular can be expanded much more dynamically to reach online consumers abroad.

Stronger efforts can help promote the participation of SME services providers in international trade through pursuing both trade agreements and trade cooperation. Because 98 percent of the companies that export services are small firms, open markets are especially vital to their ability to engage in global markets. Considerable barriers to entry of services providers exist, especially for services firms that provide inputs into products abroad. This is because more barriers block services exports than goods exports provided over Internet platforms, including cross-border data flows, excessively restrictive privacy and security rules, data localization requirements, open source technology requirements and a lack of information on foreign markets and customers. Trade agreements help to address these barriers as they lay down rules to ensure open markets through setting out legal guarantees for small and medium-sized services firms that digitized services exports flows can take place without barriers as they expand abroad.

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