



OXFORD
ECONOMICS



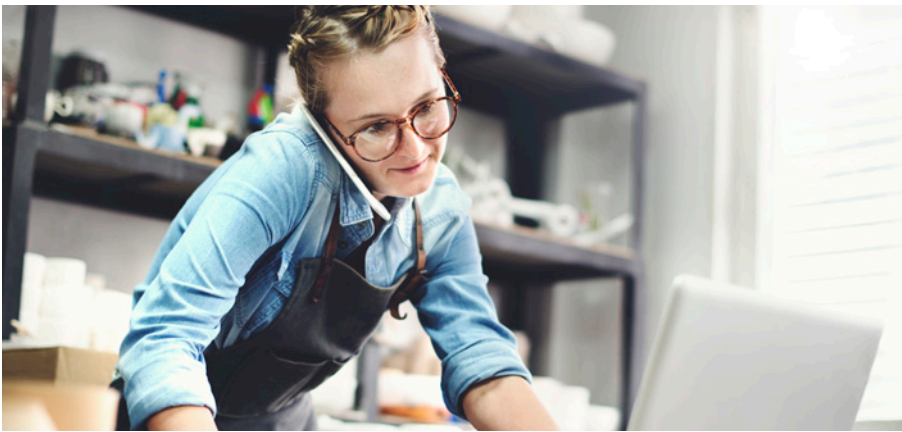
LOCAL BUSINESS GLOBAL AMBITION

HOW THE INTERNET IS FUELLING
SME EXPORTS IN NEW ZEALAND

Executive Summary

Our research finds small businesses that are online are more likely to export. In fact, small businesses that have a website are almost four times more likely to export than those who don't. And small businesses that export, create **more jobs, higher wages** and **additional revenue**.

And if every SME in **New Zealand** with five or more staff went online, this would add up to **1,400 jobs** and **\$500 million** to **New Zealand's** export sales.



SMEs in New Zealand

New Zealand's SME sector is the beating heart of its economy. There were 135,101 SMEs with one to twenty employees operating in New Zealand in 2014, employing 30% of the country's business sector workforce and generating revenues of \$56.8 billion.¹

Until now, high transaction costs meant these businesses struggled to get a foothold in export markets. But the internet has dramatically lowered the cost of accessing export markets - and small businesses across the region are taking advantage.

Fifteen years ago, if a small business owner wished to export, they might spend vast sums of money on research, translating materials, joining a trade mission, buying local advertising, or paying a distributor. Today, a small business can be found online by customers all over the world for a fraction of the cost.

Everyone stands to benefit from this quiet revolution: international research shows that SMEs that export have higher sales, hire more employees and pay higher wages than non-exporting SMEs.²

Micro-multinationals: the new exporters

Small businesses that are heavy web users find more overseas customers³ and use online reviews to build a reputation that can be seen by potential customers across the world - whether they are a dog equipment business in Central Otago, or an animator in Hamilton. In other words, the internet lets them compete with big companies that spend millions on their brand.

The global e-commerce market was worth \$31.6 billion in 2015.⁴ And it is growing faster in Asia-Pacific than anywhere in the rest of the world.⁵ Around the region, small businesses are taking advantage.



Real Dog
Equipment
Company

From Maniototo to the world

Rose Voice is a dog lover and owner of Real Dog Equipment Company, a family business that sells dog sled equipment based in Maniototo in Central Otago. When Voice began racing sled dogs over a decade ago, she initially imported all of her harness equipment from Alaska, and found it didn't meet her needs. She set out to create her own equipment that wouldn't break with her team of Alaskan Malamutes. Armed with an industrial sewing machine and a satellite internet connection, Voice started an online business that would grow to sell equipment for more than just sledding, such as lifting strops for search and rescue dogs, and prosthetic devices for dogs with injuries.

Online sales now make up more than 70% of the Real Dog Equipment Co.'s business, as Voice relies heavily on online advertising to bring in customers miles away from Maniototo, including a large base in Alaska. Voice is deeply passionate about sled dogs, and through the internet, is able to share her love and experience with customers around the globe.

The link between the internet and exports

Our research found that there is a clear positive relationship between website ownership and export incidence.⁶ On average, across over 130 countries covered by a World Bank survey,⁷ SMEs with five or more staff that operated a website were 3.9 times more likely to export.

By applying the relationship found between website operation and exporting to the situation in New Zealand, we can illustrate the difference that embracing the internet could have for the sector's export potential, in turn unleashing a range of wider economic benefits. In order to understand the scale of the untapped potential that exists across the sector, we have used our modelling result to estimate what the sector might look like if all SMEs with five or more staff were operating a website. The methodology used is summarised at www.oxfordeconomics.com/google/local_global.

2,200
more SMEs selling abroad

In 2015, **82% of New Zealand's SMEs** with five or more staff operated their own website. And only **25.8%** of firms in that size group currently export. Based on our modelling, we estimate that if **every business of that size in New Zealand went online**, there would be an extra **2,200** small businesses selling abroad.

Data limitations prevent us from modelling these impacts in the case of firms of under five people, so the data likely underestimates the size of the benefit.

\$500 million
additional export sales

These new firms would raise the contribution of SME exports by 13%, resulting in an extra \$500 million in export sales. Selling into overseas markets is a vital channel through which SMEs can scale and grow, driving greater productive efficiency. As a result, these new sales are likely to support broader gains for these firms and the wider economy.

1,400
new jobs

Moreover, the associated increase in output would require these firms to take on new workers, spurring employment growth. Overall, the additional \$500 million of sales would support **1,400** new jobs in the SME sector.

\$9,000
extra earned on average

Past research has identified a strong relationship between whether a firm exports and its productivity.⁸ Economic theory suggests that higher productivity - as measured by gross value added per worker - should enable firms to afford higher wages. Assuming that this enhanced productivity translates into a proportionate increase in wages, workers at exporting SMEs are estimated to earn **\$9,400 more** on average than at a non-exporting company.

What can governments do to help SMEs export?

Across New Zealand, SMEs are gearing up to take advantage of the new export opportunity. However, they don't have the time or finances to commit to understanding complex regulations and policies in multiple overseas markets. They need regulations and policies to be simple, predictable and clear.

There are five key ways that governments can help SMEs to benefit from the new internet-fuelled opportunity:

1 Regulatory environment

Regulations that limit cross-border data flows inhibit the ability of SMEs to operate websites, process digital payments and reach users in other countries. So it's important that countries ensure widespread access to internet services and the free movement of data. To protect SMEs who may now be posting content and hosting third party comments and reviews, countries should embrace a balanced copyright framework, limited content regulation, and measures that protect an open internet.

2 Digital skills

Small business owners are not always experts in the internet. The private sector and the government can both play an important role in ensuring that SMEs have the skills they need to use the web to export. An understanding of export logistics is also important.

3 Access and affordability

SMEs need access to low-cost high-speed broadband in order to create and operate good web-based businesses. It is just as important that their customers have the same. While broadband penetration rates in some countries of Asia-Pacific are low, the region is still host to over half of the world's broadband subscribers⁹ - a great potential customer base. The more people with internet access, the more everyone benefits. This also means that online platforms should operate across multiple countries and in multiple languages.

4 Trade Facilitation and Services Liberalisation

In new trade agreements, countries should push for outcomes that reduce the barriers to SME exports and include commitments to market access and national treatment for e-commerce service providers. They should also work hard to implement existing commitments. Clear, flexible cross-border privacy principles can also help SMEs exports while protecting their consumers.

5 Transparency and Trust

Countries should implement regulations that increase business and consumer confidence in e-commerce. These means transparency around new regulations, and educational online tools that ensure SMEs have the information they need to access new markets.

1. Ministry of Business, Innovation & Employment, "[Small Businesses in New Zealand](#)", 2015
2. International Trade Commission, Small and Medium-Sized Enterprises: Characteristics and Performance, 2010
3. Boston Consulting Group, Greasing the Wheels of the Internet Economy, 2014
4. UNCTAD, 2016
5. UNCTAD, 2016
6. As measured by the share of firms where exports account for at least one percent of turnover.
7. [Enterprise Surveys](#), The World Bank
8. Riker, D, "Do Jobs in Export Industries Still Pay More? And Why?", International Trade Administration, Manufacturing and Services Brief, July 2010
9. ESCAP, 2016