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METHODOLOGY

The Online Business Index is eBay's quarterly survey of companies trading on the internet. The index focuses on the attitudes and business performance of hundreds of online businesses operating on eBay. **It is based on a major survey of 458 online retailers.**

The survey was conducted by independent research consultancy FreshMinds, using seller information provided by eBay. Survey fieldwork was carried out online between Friday 1 May 2009 and Sunday 17 May 2009.

On average, the businesses covered obtained **37% of their income from eBay, and 32% from other websites**, including 10% from Amazon. 20% of their income came from their bricks-and-mortar businesses.

All survey respondents are registered as businesses on the eBay site and have an annual turnover of between £100,000 and £3.4 million on eBay alone, excluding other sources of income. **The average turnover for survey respondents is £242,000 and the average number of employees is eight.**

WILL ONLINE BUSINESSES LEAD US OUT OF RECESSION?



Online businesses are demonstrating how to succeed in a recession with three in four achieving their revenue targets and confidence increasing quarter by quarter. That's the clear message from the latest Online Business Index, eBay's quarterly report tracking the

attitudes and performance of hundreds of online entrepreneurs. What can we learn from these businesses, and will their success help lead the economy out of recession? And if so, what more can we do to help them?

The Online Business Index demonstrates the huge contribution these businesses make to the UK's wider economic health, creating revenue, employment and opportunities for people to purchase goods at lower prices.

Despite the continuing economic gloom, the outlook for online businesses is brightening. Over the past three months, confidence is up, pressure on profit margins and prices has eased, and more businesses expect stronger sales.

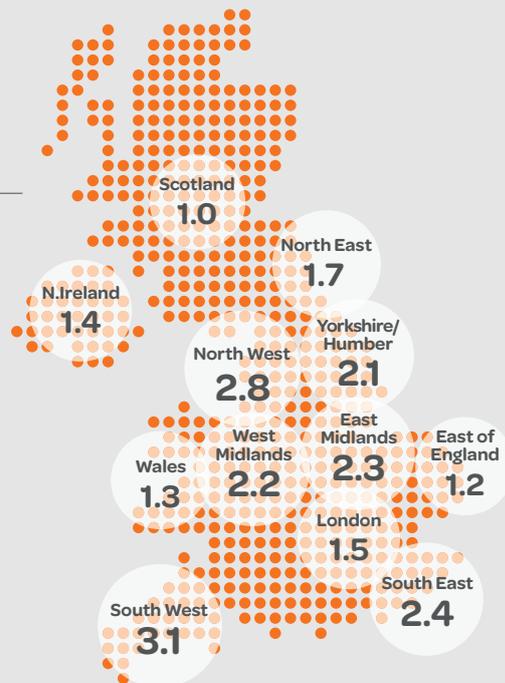
As a result, the overwhelming majority of online businesses, many independently owned, expect to expand. Many are creating new jobs. Two in five expect to hire new staff over the next three months, and staff numbers are expected to rise by a quarter. With these businesses employing an average of eight people each, the online economy is becoming an important engine for job growth.

The hotspots of online entrepreneurship are found up and down the country. The South West is Britain's top location for online businesses, with twice as many per head of population as London. On eBay alone, there are over 123,000 online businesses generating wealth for the nation's economy.

The success of online businesses holds lessons for the wider economy. For many, the key to surviving the recession lies not in cutting jobs or staff benefits. Rather, it lies in their ability to move quickly and

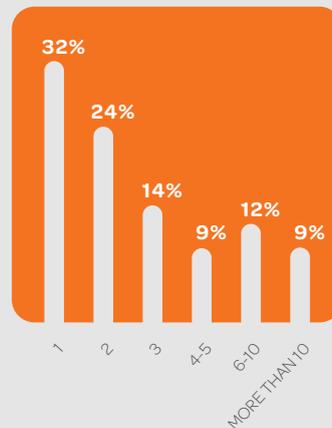
Hotspots of online entrepreneurship

How entrepreneurial is your region of the country? The Online Business Index has mapped the number of online firms per thousand of population up and down the country.



Online firms creating jobs

Online businesses are a growing force in the jobs market. 44%, mostly small businesses, now employ three or more people. Some larger firms employ hundreds. The average number of full time employees is eight.



adapt to changing consumer demands – stocking new and different products, while squeezing non-essential costs. These businesses believe that customer insight, rather than knowledge of the intricacies of running a business, is what makes them thrive.

But online businesses are no strangers to sacrifice on the road to success. Indeed, many took cuts in income in order to get their businesses off the ground, and many had to make sacrifices in their family lives.

It is this commitment, rather than support from the banks or the Government, which sustains online businesses. Indeed, one in six now accuse the banks of endangering their growth through their reluctance to lend. And only a minority of online businesses are even aware of most of the help available from the Government, while even fewer think it's making an impact. The changes online businesses would really welcome are a loosening of the purse strings on loans, and cuts to business rates, corporation tax and VAT.

eBay is committed to campaigning on behalf of these new economic powerhouses. That is why this latest edition of the Online Business Index includes a special investigation, exposing how some manufacturers and suppliers are using a range of underhand tactics to block online trade. To unlock the full potential of online businesses, it is essential that these and other barriers to success are removed.

By championing Britain's online entrepreneurs, we can help them to generate greater prosperity for many years to come.

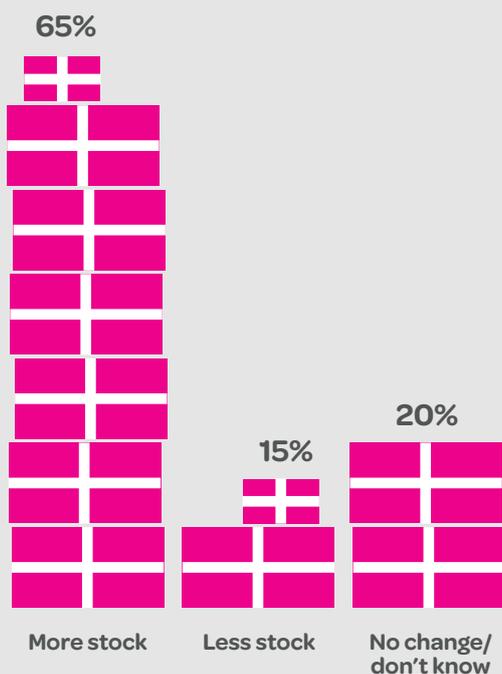
Mark Lewis, Managing Director, eBay UK Ltd

OUTLOOK BRIGHTENS FOR ONLINE FIRMS DESPITE ECONOMIC GLOOM

Despite receiving comparatively little assistance from either the Government or the banks, many online businesses are finding alternative ways to lift themselves out of the recession. This can-do spirit is resulting in an improved economic outlook for online firms, even as the rest of the economy continues to suffer the effects of the downturn. Compared with three months ago, the Online Business Index reveals a clear upturn in confidence as businesses look to help themselves.

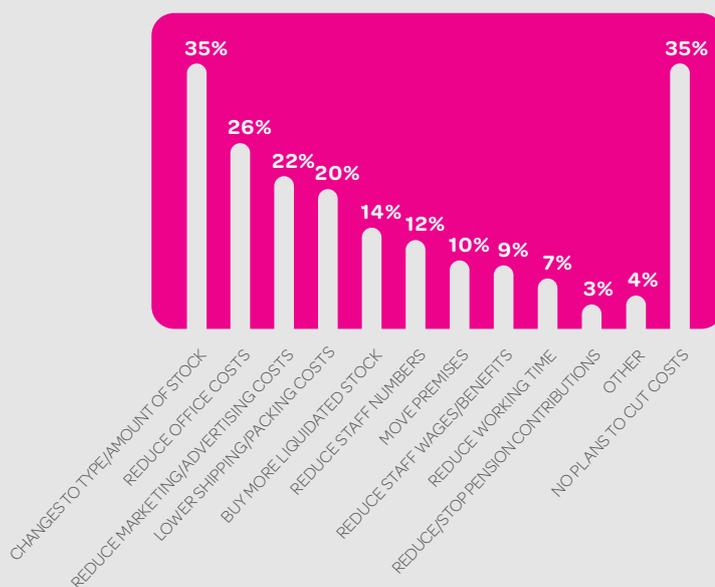
A merry Christmas in sight

With online retailers already laying plans for the winter season, a clear majority are confident of festive cheer this Christmas. According to the Online Business Index, two thirds of firms expect to submit stock orders up to 30% higher than last Christmas. Only 15% of businesses expect stock orders to be any lower.



Looking forward, not cutting back

Online businesses are looking forward by adapting to changing consumer demands and becoming more efficient. In doing so, they are not contemplating serious cutbacks. More than a third of online businesses are changing the way that they trade, selling different stock to meet changing consumer needs. And more than a quarter are squeezing office costs. At the same time, they continue to value their employees. Comparatively few (12%) are considering lay-offs, and only 9% would be willing to cut wages. Pensions too are safe, with only 3% contemplating cuts. More than a third of businesses consider all cutbacks to be unnecessary.



Multi-code question – respondents could offer more than one response. Percentages may add to more than 100%.

Profit margins stabilise

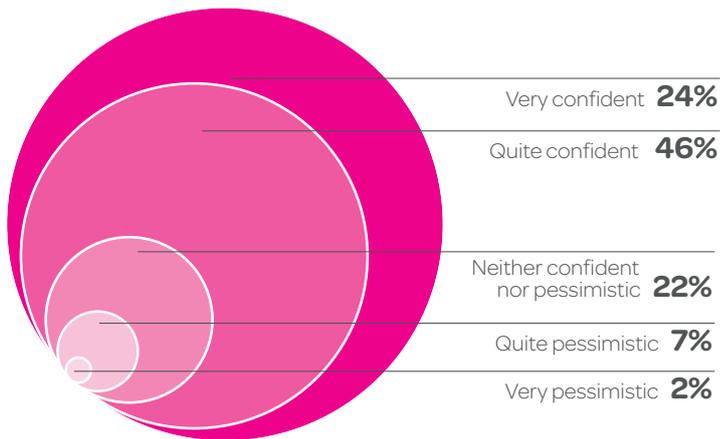
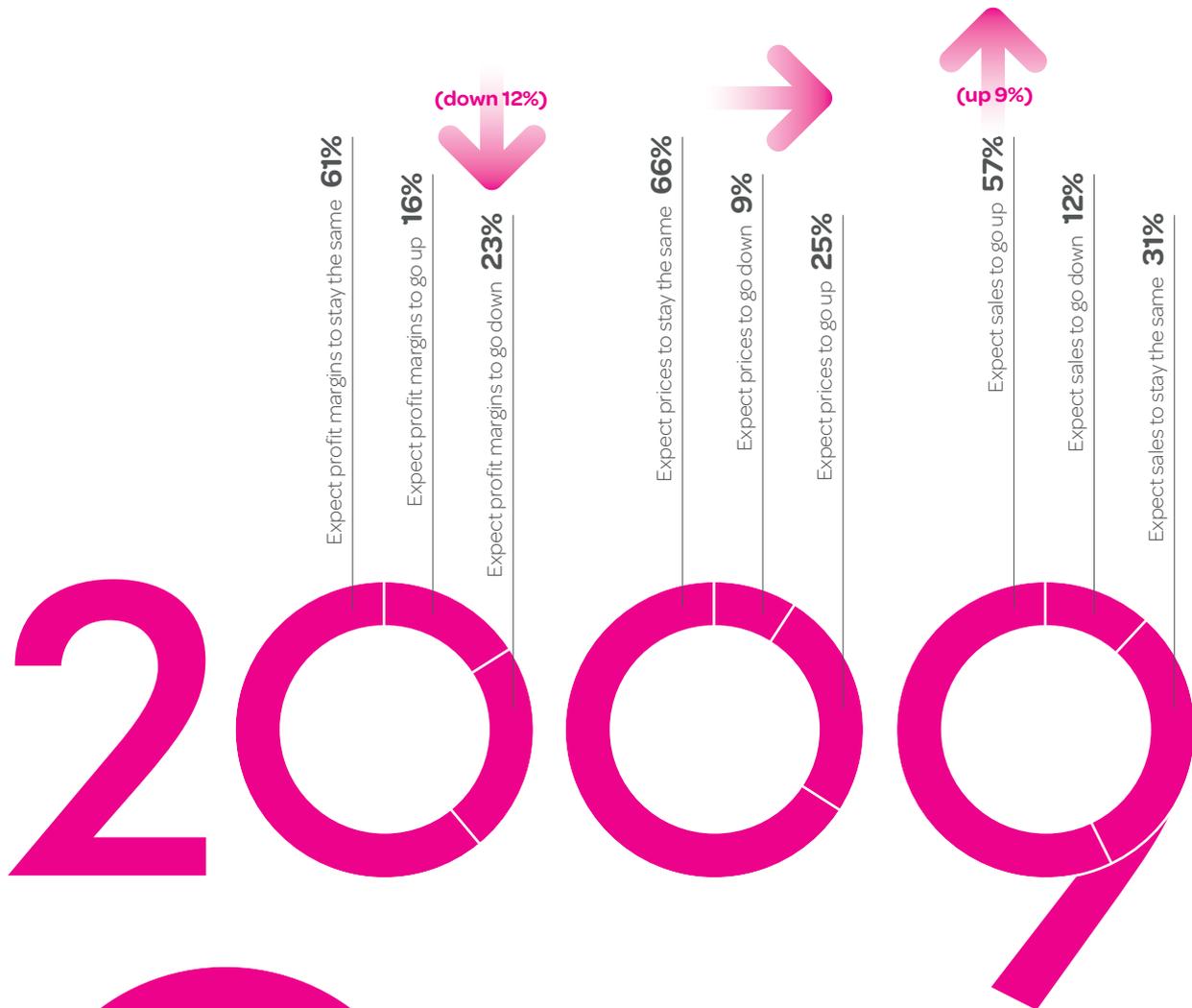
In the past three months, the number of online firms expecting profit margins to be squeezed has dropped by 12%. Three in five (61%) now expect margins to remain stable.

Price pressures drop

Fewer online businesses expect to be forced to raise prices. Only a quarter now expect prices to go up, compared to a third three months ago. Two thirds now expect prices to hold steady.

Sales outlook bright

Only 12% of online businesses expect to see their sales slide, down 5% in the past three months. A clear majority (57%) expect sales to rise, while a further third (31%) expect their sales to remain stable over the coming months.



Confidence up

Online businesses are more confident than they were three months ago, with 70% now expressing optimism about the business outlook. Only 9% of firms say they are pessimistic, down 6% on last quarter.

Sales targets met

More than three quarters of online firms met their sales targets for the past three months, despite the difficult economic backdrop. Only 8% failed to meet their targets by a wide margin, while 38% met their targets easily.

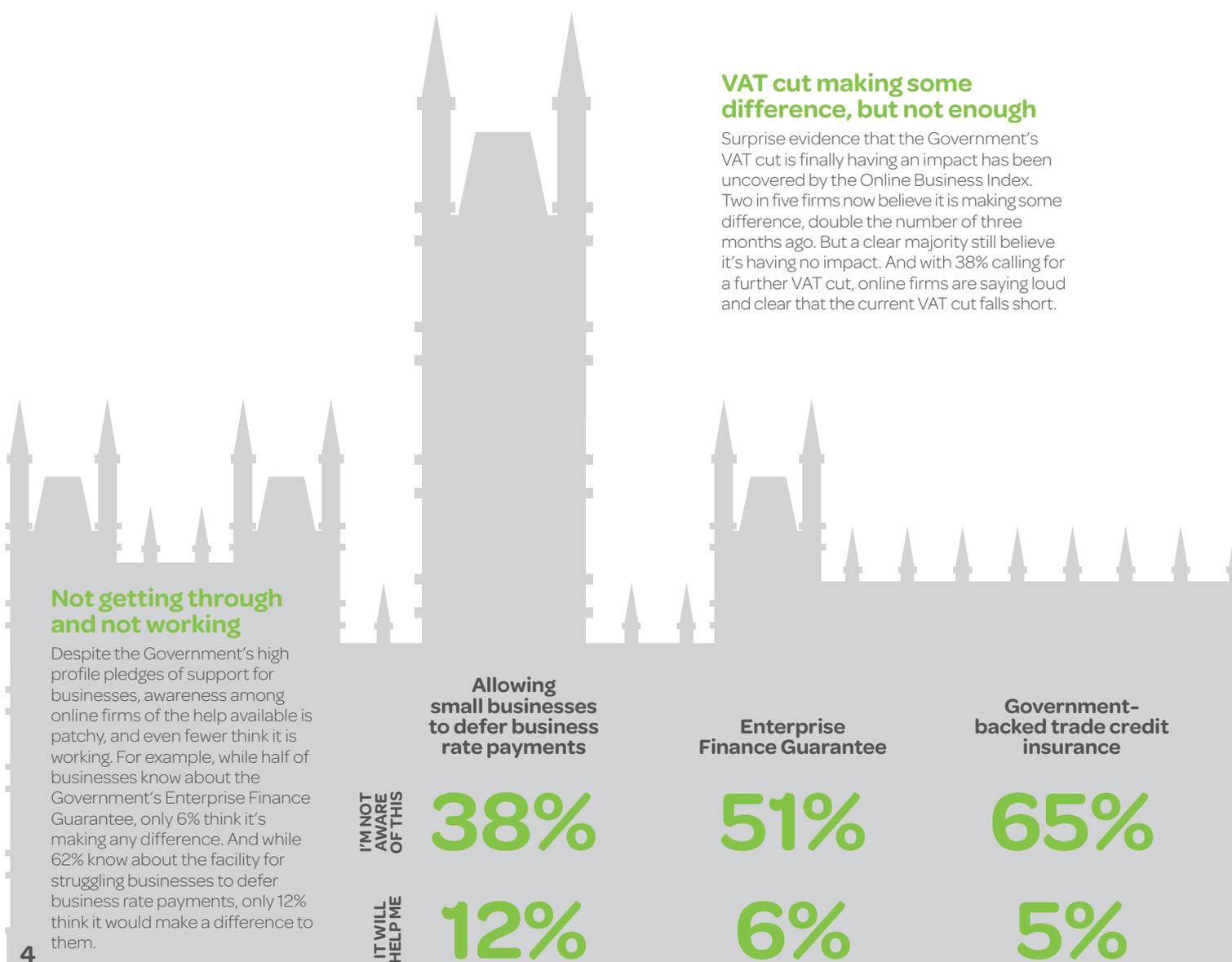


Andrew Rowson, owner of Towequipe

Andrew has been selling tow bars, cycle carriers and roof bars online for six years and has an annual turnover of £1.2 million. He was previously a retail manager for Sainsbury's before taking over the family business in 2003. He is making the most of the current economic environment as more people save money by embarking on caravan holidays in the UK.

ONLINE BUSINESSES: DOING IT BY OURSELVES

Online businesses are growing despite the efforts of the Government and the banks, not because of them. That's the clear message from the Online Business Index, which reveals the banks are refusing to give successful businesses the resources they need to grow. Likewise, few online businesses are aware of the help on offer from the Government, and of those that are, even fewer think it is doing any good.

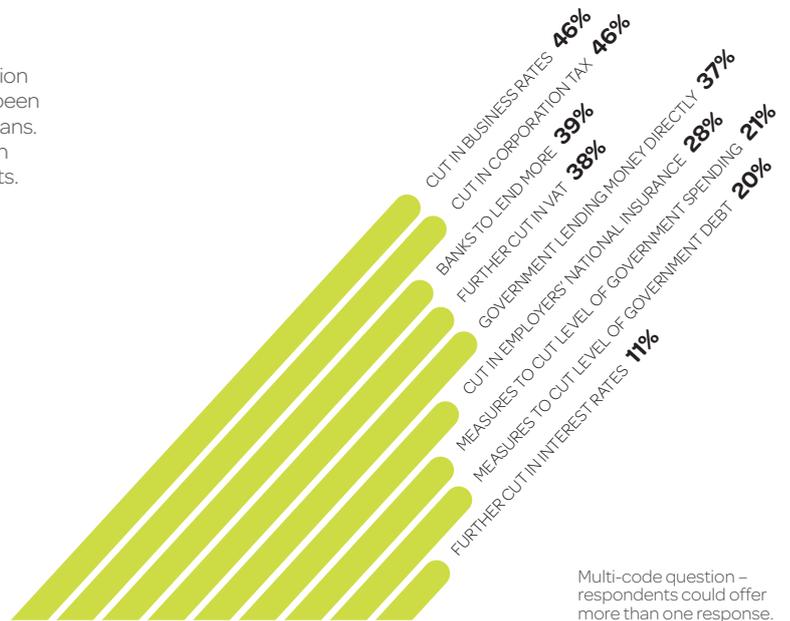


Personal price of business success

Online entrepreneurs pay a high personal price for their business success. Two thirds (64%) don't see their family or friends as much as they'd like, and half (50%) had to take a cut in income to get their business off the ground. Two in five (40%) began by using their own homes as business premises, while one in 12 (9%) had to put their homes at risk in order to borrow money from the bank.

Banks failing to support successful businesses

Some online firms are being left to help themselves out of recession due to the failure of the banks to lend. One in six businesses has been forced to delay investment because they cannot get access to loans. A similar number are paying more than they need to on their loan payments because banks have failed to pass on interest rate cuts.



Multi-code question – respondents could offer more than one response.

Cut taxes to restore business growth

The route to restoring business growth is to cut taxes, online businesses say. Asked what policy changes the Government should introduce to help businesses like theirs, the level of business rates is the top concern for online firms, with 46% calling for a cut. A similar number want to see corporation tax go down, while 38% want a further cut in VAT. But tax cuts aren't the only measure that online businesses are demanding. With access to finance a significant problem for the economy, two in five online businesses (39%) want to see tough action to force the banks to free up finance.



Bryan Melville, kilt-maker

Bryan has drawn on his Scottish heritage and talents with a needle and thread to set up a very successful online business selling hand-made Highlandwear to customers across the world. After ten years of selling his items in his own shop, he decided to move his business online. He believes that e-commerce is the solution to making a profit in the current climate.

EBAY INVESTIGATION: HOW SUPPLIERS ARE BLOCKING ONLINE TRADE

Over the past decade, the internet has become a major force in the economy, and is now the first place many consumers turn to when they are looking for bargains. But a new investigation by eBay reveals that some manufacturers are deploying an array of aggressive tactics to prevent their products being sold online. Many small sellers have no choice but to comply, for fear their supplies will be cut off. Our survey, the first of its kind, shows the problem is far more widespread than previously thought, and that the power wielded by manufacturers poses a serious threat to consumer choice online.

EXPOSED

The tactics used to restrict online trade

Half of online retailers have experienced pressure from suppliers trying to restrict the sale of their goods online. That's the remarkable finding of our survey, which examines the experiences of the 458 businesses participating in the Online Business Index. The survey reveals there is no single tactic employed by manufacturers to restrict consumer choice online. Instead, they use an armoury of restrictions to make it harder for retailers to sell their goods on the internet.



Telling sellers what price to charge

Many manufacturers and suppliers only allow online businesses to sell their products if they do so at a price stipulated by the supplier. 45% of online businesses have experienced this problem, limiting their ability to offer discounted goods to consumers.



Complicated display criteria

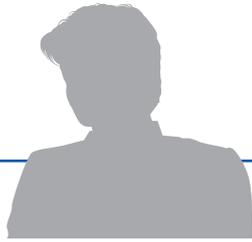
A third of online retailers report that suppliers make it hard to sell online by setting complicated conditions on how their goods are displayed. This may even include stipulating how many pixels there must be in each image.



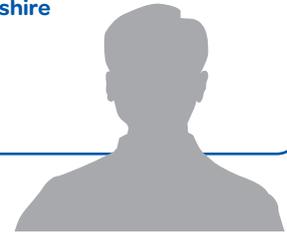
Banning sales on the internet

Half of online retailers (49%) have had suppliers trying to prevent them from selling their goods on the internet or certain websites. For example, some suppliers insert clauses into contracts explicitly banning such sales.

"I want to be able to offer my customers great deals without the fear of being bullied by suppliers who clearly just don't want me selling their goods online. I sell their goods at a lower price than they do on the high street, so they threaten small businesses like mine because they know we're limited in how much of a fight we can put up against them."
Health and beauty retailer, Home Counties

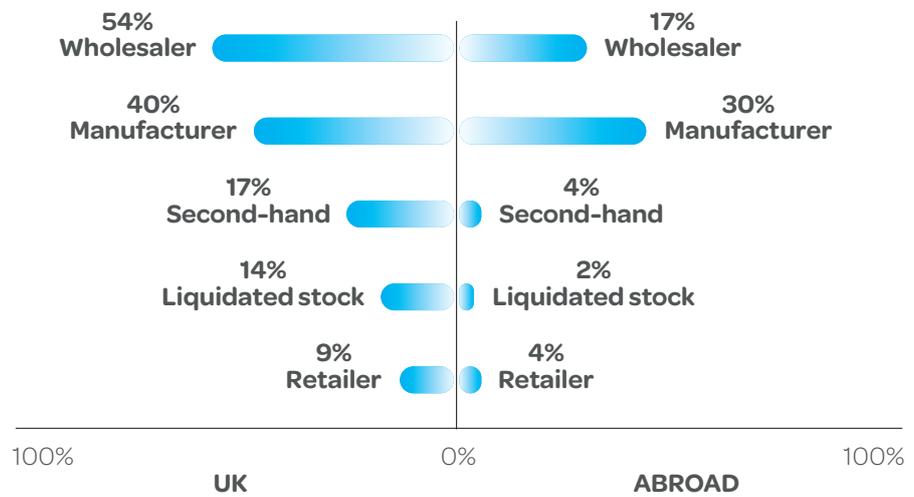


"We have 4 or 5 suppliers that would threaten future orders if we sold online. One company actually dictates a price to sell their products at, and if we are seen to sell lower, then supply has been restricted until we explain our position and resolve it. Others only allow us to sell on our own website, not on online marketplaces, which makes life a lot harder for consumers because they want to be able to shop around easily. Some suppliers can be pretty intimidating – they know the power they have over small companies like ours."
Sporting equipment retailer, Yorkshire



Snapshot: where online businesses get their supplies

Online businesses rely on a number of sources of supply to offer consumers the best deals. More than half buy their goods from a UK wholesaler, while two in five buy direct from a UK manufacturer. Many others obtain their goods from abroad – a third direct from manufacturers and a sixth from wholesalers. The vast majority of goods are new, but antique and vintage goods make an important contribution, with a fifth sourcing their goods second-hand. Liquidated stock is an important source of cheap deals, with one in seven online retailers obtaining their supplies through that route.



Typing up sales in red tape

Some suppliers make it harder for online businesses to sell their goods by tying them up in red tape. For example, some only allow their goods to be sold through a dedicated website. Others even say their goods must only be sold to customers with webcams. Two in five online businesses have experienced this kind of red tape.



Restricting overseas sales

Sometimes consumers find the best deal by buying from a seller overseas. But not all suppliers allow this. A quarter of online businesses have been restricted from shipping products to customers abroad.



Mysterious supply problems

Suppliers are not always open about their attempts to restrict online sales. Sometimes the supplies just dry up without explanation when a seller begins selling their products online. Two in five online businesses have experienced mysterious problems with suppliers or manufacturers which they suspected were due to selling their products over the internet.

JOINING UP THE WORLD ECONOMY: ONLINE BUSINESSES ACROSS EUROPE

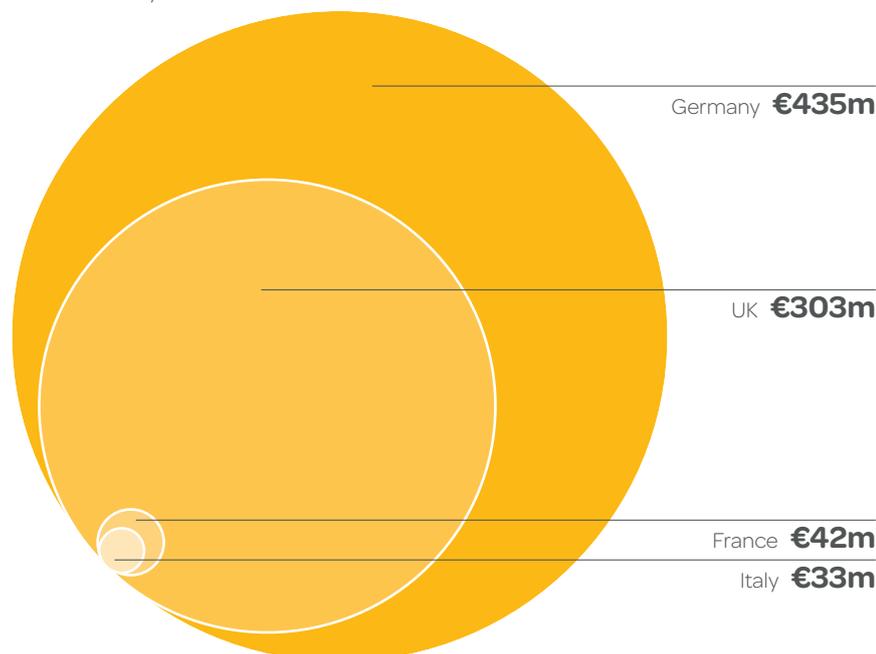
Online businesses are playing a crucial role in joining up the world economy and breaking down national economic borders, new data from eBay reveals. In an increasingly interdependent world, online businesses are at the forefront of linking up buyers and sellers and giving them access to new products and new markets. And because they are fleet of foot and able to operate at lower cost than traditional bricks-and-mortar businesses, online businesses are better placed to meet the changing demands of the market. As a result, online entrepreneurs are thriving across Europe.

Online entrepreneurs in an interconnected Europe

There are now a massive 322,000 online businesses trading on eBay alone across Europe's four biggest economies. With combined sales of €5.7 billion a year, these businesses are making a huge contribution to the economy of the EU. And with €813 million a year of combined export sales, these businesses are increasingly a force for European integration.

Internet sales drive exports

With the internet making it possible for SMEs to export around the world, overseas sales are big business. In cash terms, exports make up one in six sales for British online businesses, one in seven for Germany, and one in eight for France and Italy.



Al Gerrie, owner of Cablestar

Al has been selling computer cables and accessories since 2003, turning over £500,000 per year. He supplies customers with equipment to get their computers up and running and in just three years, his business has grown from a garden shed into four warehouses. His next move is to translate his inventory into French, German and Polish to expand into new markets.

Germany

- Germany has **159,000 online businesses** on eBay alone, generating sales of €3.1 billion a year.
- Germany's **top export markets** are (1) Austria, (2) USA, (3) Italy, (4) France, (5) Netherlands.
- Exports by German online businesses on eBay **generate sales** of €435 million a year.
- Germany's **top sales categories** are (1) Vehicles, (2) Car Parts, (3) Clothing and Accessories, (4) Sports, (5) Business and Industry.*
- *Did you know? One of Germany's top imports is whirlpool baths from Austria!*



United Kingdom

- The UK has **123,000 online businesses** on eBay alone, generating sales of €1.9 billion a year.
- Britain's **top export markets** are (1) USA, (2) Ireland, (3) Germany, (4) France, (5) Italy.
- Exports by British online businesses on eBay **generate sales** of €303 million a year.
- The UK's **top sales categories** are (1) Vehicles and Parts, (2) Home and Garden, (3) Clothes, Shoes and Accessories, (4) Sporting Goods, (5) Computing.*
- *Did you know? Clothing is a big export business for Britain, with France and Italy among the top buyers!*



France

- There are **22,000 online businesses** on eBay alone, generating sales of €341 million a year.
- France's **top export markets** are (1) Belgium, (2) USA, (3) Italy, (4) Germany, (5) Spain.
- Exports by French online businesses on eBay **generate sales** of €42 million a year.
- France's **top sales categories** are (1) Cars, (2) House, Garden and DIY, (3) Clothes, Shoes and Accessories, (4) Motorbikes and Scooters, (5) Art.*
- *Did you know? The second most popular imported item in France is garden umbrellas from Germany!*



Italy

- There are **18,000 online businesses** on eBay alone, generating sales of €273 million a year.
- Italy's **top export markets** are (1) USA, (2) France, (3) Germany, (4) United Kingdom, (5) Spain.
- Exports by Italian online businesses on eBay **generate sales** of €33 million a year.
- Italy's **top sales categories** are (1) Clothes, Shoes and Accessories, (2) Computing, (3) Mobile and Home Telephones, (4) Audio, TV and Consumer Electronics, (5) Home and Garden.*
- *Did you know? Many fashion-conscious Italians look to Britain for their style ideas, with men and women's clothes, shoes and watches from the UK among Italy's hottest imports!*



* Sales categories differ from country to country. Direct comparisons may, therefore, not be possible.
Source: Analysis of eBay sales data in Germany, the UK, France and Italy.

