

CONTENTS

Intro

Dispelling myths about the internet and the high street

Online sales are a lifeline for high street shops, not a threat, argues eBay's Mark Lewis

2/3

Giving a helping hand to the high street

How high street shops are boosted by online sales

4/5

Strong sales as economic pressures ease

Online firms look forward to 2010 with confidence

6/7

Stocking up for Christmas

The festive period will be busier this year. But challenges lie ahead

8/9

Supporting the online economy

Sound business policies not faster broadband are the key to online success

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 508 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 28 August 2009 and Tuesday 15 September 2009.

On average, the businesses covered obtained 42% of their income from eBay, and 26% from other websites, including 10% from Amazon. 21% 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 at least £68,000 on eBay alone, excluding other sources of income. The largest group of respondents (44%) were small businesses with a turnover between £100,000 and £199,000.

All figures in this report have been rounded to the nearest percentage point. As a result, figures may not always add up to 100%.

DISPELLING MYTHS ABOUT THE INTERNET AND THE HIGH STREET



Following the explosion of online shopping in the past ten years, many have wrongly come to believe that the rise of the internet will spell the death of the high street. Online firms with lower overheads and the capacity to offer wider choice at lower prices would, it used to

be alleged, leave smaller high street shops struggling to compete while customers opt for the convenience of home shopping over a trip to their local high street. But the latest edition of the Online Business Index exposes this view as a myth. Indeed, the Index, which incorporates the views of hundreds of bricks-and-mortar businesses which also trade online, shows that an overwhelming majority see the internet as an opportunity, not a threat.

There is no doubt that the internet has transformed the way we shop and has challenged retailers, both online and offline, to raise their game to meet ever higher consumer expectations. But the simplistic, binary notion that the rise of the internet must mean the fall of the high street relies on a false portrait of online retail in Britain today.

The reality is that the internet is providing a huge boost to both the retail sector and the wider economy, not undermining it. Indeed, for many small high street retailers, online sales are not a threat but a lifeline. By trading online as well as on the high street, shops are able to make new sales to new customers, bringing new revenue into the business. Our research shows that a substantial proportion of online businesses are smaller high street shops which have adopted this strategy. As a result, there is a virtual consensus among online businesses that the internet makes bricks-and-mortar firms more financially sustainable, not less.

This entrepreneurial spirit shines through in the diversity of online businesses. Although the Online Business Index focuses on firms trading on eBay, those businesses also trade on a variety of other platforms, including other marketplaces, their own websites and bricks-and-mortar outlets. They are guided by customer needs, not bounded by a particular platform.

The internet is also breathing new economic life into parts of the country that previously struggled. In rural areas in particular, building a customer base can be a huge challenge for retail businesses. As a result, sustaining vibrant and thriving communities in rural areas is far from easy. But thanks to the internet, living in a remote community need no longer be an obstacle to economic success. As a result, a surprisingly high proportion of online firms are based in rural areas, boosting local economies and once again challenging perceptions of the role of the internet in Britain's economy.

This more nuanced picture of Britain's online economy is reflected in the expectations that online firms have of government. The key for online businesses lies not in commitments like universal broadband access set out in the Government's Digital Britain report. In reality, the needs of online businesses differ little from those of their offline counterparts. A lower tax burden, simpler consumer protection rules and high quality business advice are all crucial. Where the needs of online businesses differ, what they want is better postal services and more police action to tackle cyber crime and fraud.

What all of this illustrates is that the online opportunity is open to everyone. Many smaller high street retailers have defied predictions of their demise precisely because they have seized this opportunity and responded to the changing needs of consumers. The message from this is clear: to see the internet as a threat to the high street is a myth, but retailers need to rise to the challenge. As the Online Business Index shows, companies which understand these principles will continue to thrive, whether their heritage is online or on the high street.



Mark Lewis, Managing Director, eBay UK Ltd

Competing on a level playing field

Small high street retail businesses are able to match or beat the performance of other online firms when they set up on the internet, the Online Business Index reveals. The Index shows that shops perform at least as strongly as other online businesses on sales, prices and profit margins. The findings show that, far from being threatened by the rise of online shopping, high street shops are able to compete on a level playing field if they branch out online.

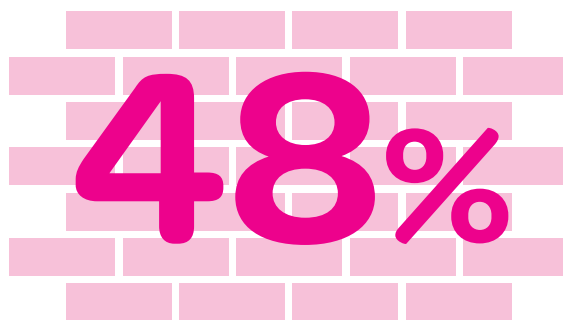


GIVING A HELPING HAND TO THE HIGH STREET

Online businesses are often viewed as direct competitors to the high street, harming its survival. However, the latest Online Business Index reveals this is far from the truth. Many online businesses in fact have a strong bricks-and-mortar presence and online sales play a vital role in boosting the success of these high street businesses. The findings challenge perceptions of online firms by showing that they operate from a variety of business premises and that a significant proportion are based in rural areas, providing a much needed boost to these rural economies.

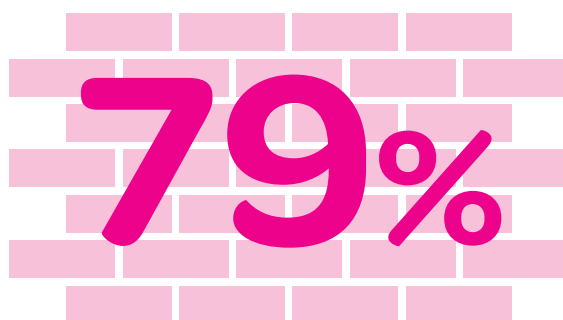
Online sales boosting bricks-and-mortar businesses

Far from undermining the high street, the online economy is increasingly propping up struggling bricks-and-mortar businesses, new evidence from the Online Business Index shows. Entrepreneurial high street retailers are joining savvy online entrepreneurs by setting up their businesses online to support their offline income. Half of all online businesses also have a bricks-and-mortar presence, with four-fifths overwhelmingly seeing an online presence as making their offline business more sustainable.



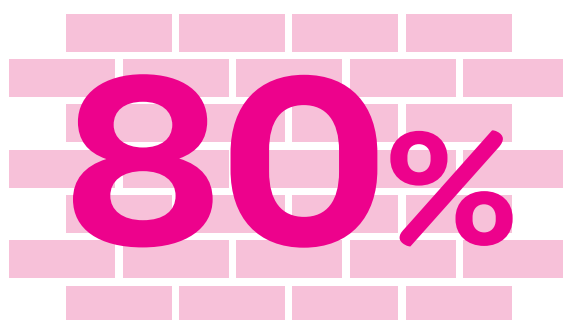
Almost half have a bricks-and-mortar presence

48% of online firms also have a bricks-and-mortar presence according to the Online Business Index.



Bricks-and-mortar firms think online trading makes more them sustainable...

79% of bricks-and-mortar companies with an online presence think that trading online makes their businesses more sustainable.



...and online-only firms agree

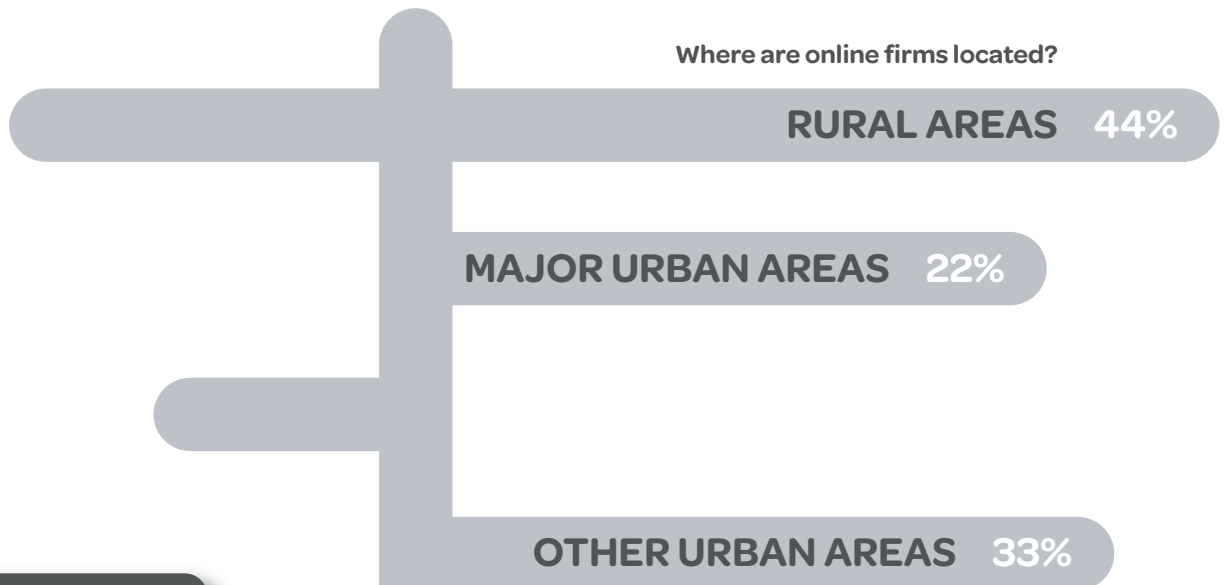
80% of online-only businesses think that trading online makes bricks-and-mortar firms more sustainable.

Snapshot: business premises of online firms

Online businesses operate from a diverse range of business premises. Reinforcing a strong bricks-and-mortar presence, 23% of online retailers also run a high street shop. 38% run some or all of their business from an office at home. A large proportion (46%) have significant enough stock levels to operate a warehouse, with 15% using a commercial office, and 12% operating out of a garage or lock-up.



Where are online firms located?



Jill Swingler, owner of Beautiful Beanbags

Jill has been selling beanbags online through her successful family business for four years, and has expanded to employ five full time members of staff. Living in a rural location, she believes she would not have been able to attract customers if she had set up a bricks-and-mortar shop. Selling online makes it easier to run a business from the countryside, as well as significantly reducing overhead costs, and allowing her the flexibility to enjoy her family life.

Online entrepreneurs boosting the rural economy

Setting up online not only allows entrepreneurs instant access to a global market, but also enables those in remote rural locations to develop businesses and generate income in a way that would have been impossible without the internet. A surprisingly large proportion of online businesses (44%) are based in rural areas, providing a sizeable and welcome boost to the economic development of rural economies across the UK. This finding demonstrates the ability of the internet to help revitalise and generate employment in these areas. But rural firms still need reliable services and infrastructure if they are to provide a top class service to their customers, particularly postal services. The Online Business Index reveals that 47% of rural online firms want improved postal services compared to only 38% of urban businesses.

STRONG SALES AS ECONOMIC PRESSURE EASES

With the UK experiencing the worst recession since the 1930s, 2009 has been a tough year for British businesses. The Online Business Index has demonstrated that online firms have fared better than most. But it has nonetheless been a year of stark challenges for online businesses. Now, with clear signs that consumer confidence is on the rise, the Index shows the clearest sign yet that online firms are benefiting from an upturn in the economy.

Online firms reap rewards from upturn

The Online Business Index was launched earlier this year to track the performance of Britain's online economy. Despite the difficult economic outlook, the Index has shown how online firms are outperforming the rest of the economy. The latest edition of the index records their strongest performance to date, and shows how online firms are reaping rewards from the gradual upturn in the economy.

Sales

69% of online firms expect sales to rise over the next three months, with only 9% expecting a fall.



Up 12%

Expect sales to go up **69%**

Expect sales to go down **9%**

Expect sales to stay the same **22%**

Prices

Three quarters of online firms expect prices to remain stable, with only 17% expecting them to go up in the next three months.

Down 8%



Expect prices to stay the same **75%**

Expect prices to go down **8%**

Expect prices to go up **17%**

Profit margins

77% of online businesses expect to be able to protect or grow their profit margins in the next three months. Only 23% expect them to be squeezed.



Up 3%

Expect profit margins to stay the same **59%**

Expect profit margins to go up **19%**

Expect profit margins to go down **23%**



Jitters subside as online firms ride out recession

Although online businesses have escaped the worst of the recession, it was a jittery start to 2009. Many online firms feared a slide in sales, pressure on prices and a squeeze on profit margins. Now, with consumer confidence on the up, those jitters are subsiding and online firms are looking with confidence to 2010.

Sales

More than two-thirds (69%) of online firms now expect sales to rise compared to only half (53%) in January 2009. The number expecting sales to fall has almost halved (down from 17% to 9%).

% expecting sales to go up



Prices

Pressure on prices has eased, with the number of online firms expecting prices to rise having halved since January (down from 34% to 17%). The number expecting them to remain stable has gone up from just over half (55%) to three-quarters (75%).

% expecting prices to remain stable



Profit margins

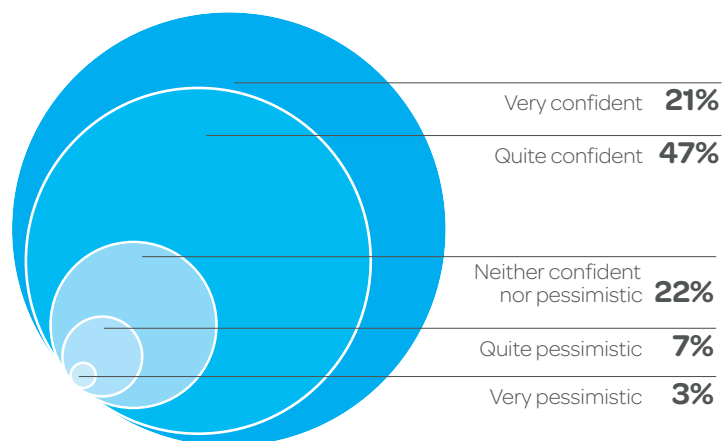
The number of online firms expecting to maintain or grow their profit margins has increased from fewer than two-thirds (65%) to more than three-quarters (77%).

% expecting to grow or maintain profit margins



Tayyab Akhlaq, owner of My1stWish

Tayyab was inspired to start his business after selling some items of clothing for a friend. He now runs a successful online retail business selling clothes, shoes, accessories and beauty products, with a monthly turnover of £180,000. Starting as a sole trader, Tayyab has built up his team of 10 – a number which increases on average by one new employee per week to deal with the continuous rise in demand for his on-trend items. My1stWish is based in a safe storage building, which allows the business premises to expand in line with his business growth.



Online firms express confidence about the next three months

Online businesses will enter 2010 with optimism, with 68% of online firms expressing confidence about the next three months. Only 10% are pessimistic. The findings mark a slight improvement since the beginning of the year, when 6% more online businesses were pessimistic about the future.

STOCKING UP FOR CHRISTMAS

Christmas is a crucial time for retailers, accounting for a significant proportion of their annual sales. With the economy deep in recession, Christmas 2008 was a gloomy time for many retail businesses. Now, with the economic outlook brighter, online firms are preparing for a busier and more profitable festive season than last year, laying the foundations for sustained growth in 2010. But significant challenges remain. The national postal strike means online retailers are lining up alternative postal carriers. And the proposed increase in VAT on New Year's Day threatens to cause massive disruption at a time when few can afford it.

Online firms stocking up for Christmas

More than half (51%) of online businesses expect a stronger Christmas in 2009 than last year and are ordering more stock as a result, the Online Business Index reveals. Of those, 29% expect to order at least 15% more stock than a year ago. Only 17% of online firms expect Christmas sales to slide.

Why Christmas matters to online retailers

The festive period is a crucial time of year for all retailers, online firms included. According to the Online Business Index, Christmas accounts on average for 19% of annual turnover for online businesses. Analysis of sales data in the run-up to Christmas supports this finding.

51%
ordering more
stock than
2008

32%
the same

17%
less

Christmas
sales
19%
of annual
turnover

Online firms face New Year VAT nightmare

Online businesses face a New Year nightmare when the VAT rate goes back up from 15% to 17.5% on 1 January. The change will mean that firms will have to change hundreds of prices at one of the busiest times of the year, and at a time when many firms are already lowering prices to clear stock. As a result, they will face both an administrative quagmire and a financial hit. Sales data for online firms shows that January, the month when the change comes in, is 10% busier than a typical month for internet retailers.



Keeping deliveries on track

To ensure customers receive their Christmas orders despite the national postal strike, many online businesses are using alternative postal carriers. eBay has negotiated alternative providers and special rates on behalf of its sellers.



Keep VAT at 15%, online firms say

An overwhelming majority of online businesses want VAT to remain at 15% in 2010, the Online Business Index has found. Three-quarters (75%) of online firms are opposed to the proposed increase, and more than half (52%) are strongly opposed. Only 2% of online businesses are in favour of the tax hike.

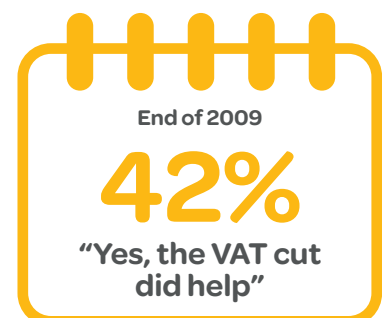
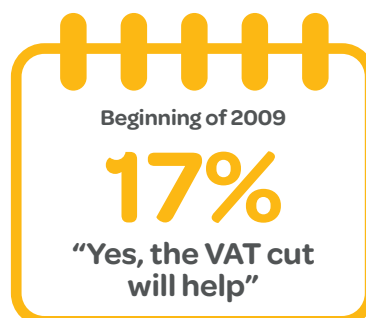


Joanne Lydon, owner of The Fragrance Counter

Joanne began her online business four years ago after starting out selling her children's unwanted clothes. Joanne has seen significant growth over the last four years of online trading, and is ordering extra stock in the run up for what is expected to be a busy Christmas. Joanne anticipates an increase in demand this year and puts it down to people looking for good value during the current tough economic climate.

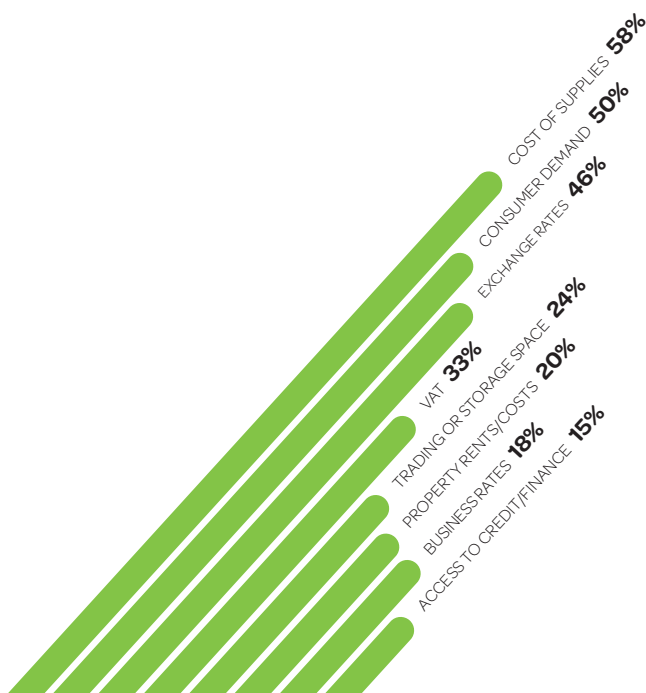
Did the VAT cut help?

When the Government announced its plans to cut VAT to 15% to boost the economy, many dismissed the measure as too little too late. But looking back, it seems to have helped more than expected. In January, only 17% of online firms predicted it would make a difference. Now, 42% say it has helped. But despite this dramatic shift, a majority (54%) still say it has made no difference. This suggests that resistance to the New Year's Day increase owes more to timing than to outright opposition.



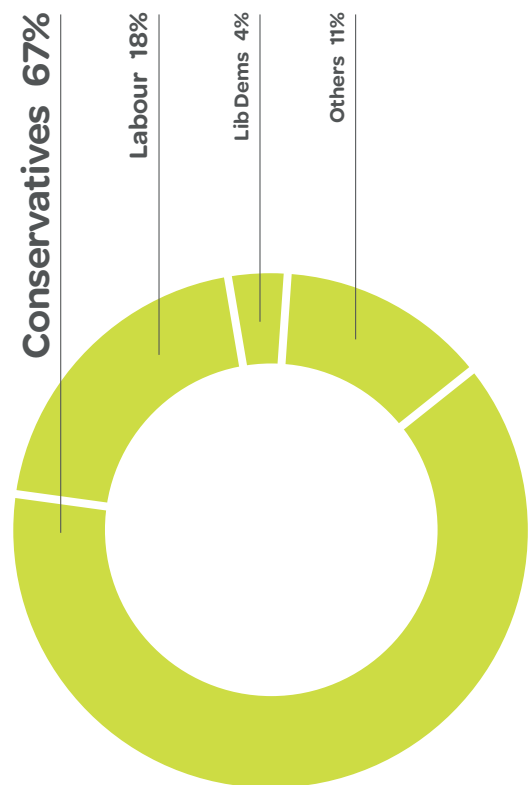
SUPPORTING THE ONLINE ECONOMY

With the economy showing fragile signs of improvement and a general election on the horizon, all political parties are vying to show who has the best policies to support businesses through the recovery. Online businesses will play a crucial role in sustaining the upturn, but the message they send is surprising. Far from endorsing the Government's vision for a Digital Britain with universal broadband access, online firms want more emphasis on traditional measures to support all businesses, online and offline.



Access to finance easing as economy picks up – what are the barriers to growth?

The number of online firms experiencing problems accessing credit or finance has halved since January, down from 30% to 15%. This provides further evidence that economic woes are abating. But not all economic pressures have eased. The cost of supplies remains a concern for 58% of online firms, up 8% since the beginning of the year. Although exchange rate worries have lessened slightly, they remain a concern for 46% of online businesses. And half of online firms continue to be concerned about the strength of consumer demand.

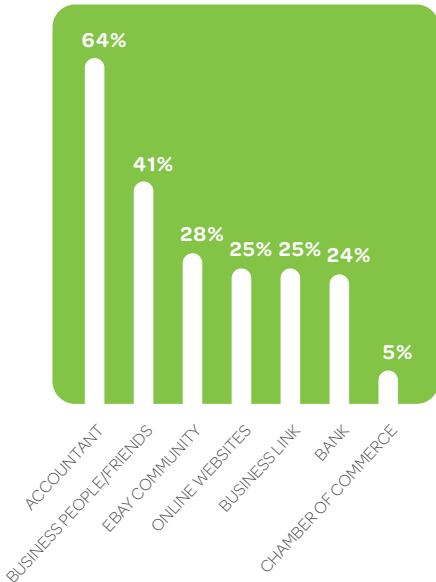


Conservatives best for business, online firms say – which policies matter most to online firms?

David Cameron's Conservative Party is the overwhelming choice for online businesses at the forthcoming general election, findings from the Online Business Index reveal. A massive 67% of online firms think that the Conservatives have the best policies for small businesses, while only 18% think that Labour is the strongest choice. And despite the high profile of Liberal Democrat Shadow Chancellor Vincent Cable, only 4% of online firms think his party is best for small businesses.

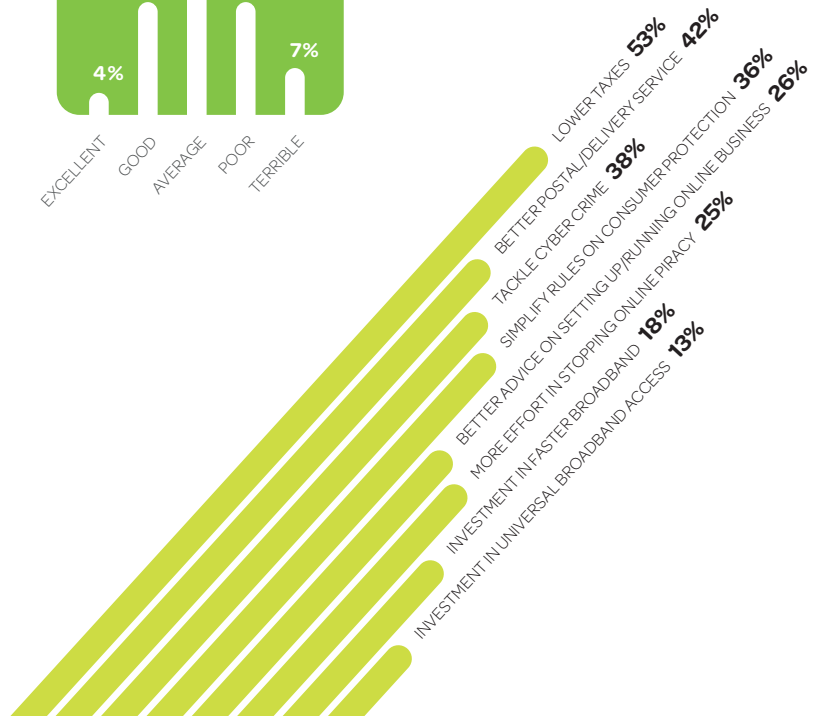
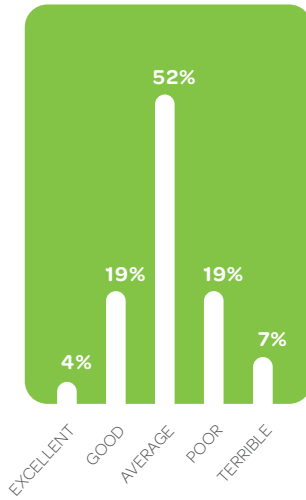
Online firms turn to accountants for advice

A clear majority (64%) of online firms turn to their accountants for advice on issues affecting their business, the Online Business Index reveals. Friends and personal contacts are the next most popular option (41%). Only a quarter (25%) regularly looks to the Government's Business Link service – but they are still more popular than the banks, which are trusted to deliver advice by only 24% of online firms.



Room for improvement at Business Link

There is significant room for improvement at the Government's Business Link advice service according to the Online Business Index. A majority of online firms (52%) with experience of using the service rate it only as average. Opinions among the remainder are split, with 26% rating it as poor or terrible and 23% rating it as good or excellent. Strikingly, many online firms have never used the service – 48% have no experience of Business Link.



David Brackin, owner of Stuffusell

David set up his online enterprise five years ago, using an innovative business model to act as a middle-man between owners of unwanted items and eBay buyers. His annual turnover has grown substantially from £160,000 to £1 million. David and his business partner now employ 10 full-time staff and three on a part-time basis. He believes the Government's Digital Britain agenda should concentrate less on issues like bandwidth and internet-for-all, and more on policies designed to grow the online economy.

Down on Digital Britain

The Government's pledge to provide universal broadband access by 2012 is one of their flagship policies – yet it appears at the bottom of the priority list for online businesses. Only 13% think it is needed to support the online economy. Far more important is the need to tackle the tax burden, according to 53% of online firms. 42% want improved postal services, and 36% want simplified consumer rules. Law-abiding online entrepreneurs are also saying no to the blight of cyber crime and fraud, with 38% calling for more police effort to tackle it.

Online firms call for dedicated Minister for online business

Online businesses believe that the Government should appoint a dedicated Minister with responsibility for unlocking the huge economic potential of the online economy. According to the Online Business Index, three in five online firms back the idea. The new Minister would be responsible for championing the interests of online firms and working to remove barriers to growth.



