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SMEs in the Era of Hybrid Retail

Evidence from an OECD D4SME survey

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Digitalisation has triggered a profound transformation of the retail sector, primarily composed of SMEs. While retail businesses are embracing more hybrid practices of managing online and brick-and-mortar channels, getting more traditional SME retailers fit for the hybrid era could open up new opportunities, with far reaching implications on the local economy. Through a novel survey conducted in six OECD countries (France, Germany, Italy, Japan, Korea, and Spain) in co-operation with e-commerce platforms, this report provides new insights to better understand retail SMEs' perceived advantages and challenges of operating online sales through these platforms, with a particular spotlight on hybrid SME retailers.

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Keywords: SME digitalisation, Hybrid retail, Omnichannel, E-commerce, Digital, SMEs, Online Platforms

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This paper is authorised for publication by Lamia Kamal-Chaoui, Director, Centre for Entrepreneurship, SMEs, Regions and Cities, OECD.

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The D4SME Global Initiative is a public-private platform focusing on SME digitalisation. It includes OECD governments, large businesses, associations, academia, industry experts and the SMEs themselves to identify, discuss, and analyse the global trends and key policies related to the digital transformation of SMEs.

The initiative places a specific emphasis on the diverse opportunities and needs for the large "missing middle" of "traditional" SMEs and entrepreneurs that are at different stages of their digitalisation path and on their role for an effective, inclusive, and sustainable digital transition of OECD economies.

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Executive Summary

Digitalisation has triggered a profound transformation of the retail sector. Retail businesses can access multiple digital sales channels, including online platforms, and/or their own virtual shop. Retail consumers' demand is also evolving, with increasing requests of online alternatives or complements to the offerings of traditional physical shops. The COVID-19 pandemic, and the introduction of social distancing measures, accelerated the on-going trend for increased online spending across all age groups. Across OECD countries, the share of online shoppers increased by 10 percentage points between 2019 and 2021. Although the lifting of COVID-19 restrictions has seen in-person shopping resume, with a corresponding reduction in the overall share of online shoppers, the impacts of COVID-19 on spending patterns appear to be long-lasting, with consumers making the best of both worlds and shopping in an ever more hybrid way.

The digital transformation creates opportunities for retail SMEs, but it also presents new challenges. The retail sector is composed mainly of SMEs who account for around 70% of employment in the sector across the OECD. Micro-firms, with less than 10 employees, account alone for 34% of total employment in the sector (OECD, 2023[1]). Consequently, getting SME retailers fit for the era of hybrid retail is critical and has far reaching implications. The easy access to online sales channels – with the potential to expand across borders – provides opportunities for SMEs to effectively broaden their customer base, as well as reduce operational costs, including delivery, payments, and marketing costs. However, smaller retailers, especially micro-retailers, face challenges in seizing these opportunities. The fact that any consumer with an internet connection has immediate access to goods that can be rapidly delivered to their door also exposes these firms to global competition, potentially reducing already limited margins. Moreover, digital readiness of SME retailers needs to be improved further for them to be able to use digital tools and services, including by managing digital marketing and online branding effectively. Increasing SME awareness of digital risks represents a priority, as most small businesses moving their operations online still do not perceive such risks as a direct threat to their business and thus do not take action.

This paper presents key trends unlocked by digitalisation in the retail market, based on original evidence from an OECD survey conducted within the OECD's Digital for SMEs (D4SME) Global initiative, in six OECD countries – France, Germany, Italy, Japan, Korea, and Spain. The survey was conducted in co-operation with three private sector partners of the initiative, namely Amazon, Kakao and Rakuten. It aimed to enhance understanding of SMEs' perceptions of key opportunities, barriers, and trends in e-commerce, as well as on the emergence of hybrid retail practices. The survey was addressed to self-entrepreneurs, micro-, small and medium-sized enterprises selling through the e-commerce platforms managed by the three partners. Accordingly, the results shed light on the digitalisation journey of SMEs selling on e-commerce platforms; thus, on a segment of retail SMEs engaging in digitalisation. Therefore, the results should not be considered as representative of the entire population of retail SMEs in the 6 OECD countries covered by the survey.

When beginning the journey of selling online, SMEs largely rely on internal resources to execute the shift. For example, when preparing for their online sales, a common practice among surveyed retail SMEs is to reassign the existing workforce to the new tasks. This highlights the importance of managing

and leveraging internal digital skills when starting to sell online, as well as capacities to upskill existing employees. Perhaps not surprisingly, given the sample of SMEs, the evidence shows that SMEs mostly consult e-commerce platforms or resort to self-learning when searching for information on selling online but a striking feature, unlikely to be affected by any survey design bias, is the limited uptake of training offered by governments and universities.

Facilitated management of digital payments and the broadening of domestic sales represent main advantages of selling on e-commerce platforms for respondent businesses. The high rate of respondents who report digital payments as one of the main advantages of online sales is consistent with studies on e-commerce, indicating that online payments allow for more efficient payment verification and lower transaction costs for capacity-constrained SMEs, access to readily integrated services can relieve some resource issues, such as financial and skills constraints. Managing delivery via platforms is also perceived by SMEs as a highly useful service, since efficient logistics becomes increasingly important for online retailers in meeting consumer expectations. The logistics dimension is particularly important for SMEs that – like the majority of survey respondents – sell through a combination of multiple e-commerce platforms and/or their own website.

Retail SMEs lack awareness about the broad range of policy programmes enacted by governments to sustain their digitalisation, including in response to the COVID-19 pandemic. Despite various government programmes conceived to assist the online activities of retail SMEs, only a small share (14%) of survey respondents report benefitting from such support. On the other hand, whilst only 25% of firms overall were aware of government support programmes, 57% of these firms took the support, indicating that there is high uptake for these programmes among informed businesses. Also, the rate of uptake varies across countries, with 49% of Korean respondents benefitting from policy programmes, compared to 4% of Spanish businesses. Increasing awareness of these programmes through information channels, such as government portals, SME associations and other key stakeholders in SME ecosystems, could lead to greater uptake of these supports by the SMEs in need.

Most respondents experienced an increase in online sales during the COVID-19 pandemic, but e-commerce also presents challenges beyond digital readiness, notably related to burdensome regulation, VAT requirements, and financing. Overall, complex e-commerce regulations stands out as the main barrier encountered by businesses when selling online, with 86% of respondents reporting it as a challenge. Results further point to the existence of a gap between reality and expectations, with 74% of respondent businesses indicating that online sales demand was below what they anticipated. A challenge of equal concern is finding the financial resources needed to begin online sales (e.g., purchase of software). In terms of exports, while surveyed SMEs, by and large, focus on serving their domestic customers, SMEs engaged in overseas sales indicate multiple VAT registration and reporting requirements as the biggest challenge they are facing. In addition, more than a third of respondents stated difficulties in finding the information they needed to sell online. Although most respondents plan to continue (51%) or expand (42%) their online sales, 7% of businesses expressed their intention to discontinue their digitalisation efforts. Country differences can also be observed, with Korean businesses (97%) being more optimistic than businesses in other countries, and 14% of Spanish businesses having negative prospects. The paper provides some insights into the barriers, knowledge gaps or regulatory bottlenecks that discourage businesses from continuing to sell online.

Starting online sales does not reduce the importance of physical sales for hybrid retailers that manage both brick-and-mortar and online sales channels. Physical sales account for more than half of total sales for 61% of respondents. The digital sales channel however offers a complementary growth opportunity. Around two-thirds of the hybrid businesses report that in-store sales remained stable or increased after going online, illustrating that e-commerce capabilities can complement the in-store sales.

Survey results indicate that hybrid business face unique or comparatively bigger challenges than retail SMEs selling exclusively online. Lack of digital skills, along with managing customer data,

represent a comparatively bigger problem for hybrid businesses relative to firms selling exclusively online. Whilst 84% of online-only businesses perceive online sales to contribute to a reduction in operating costs, only 64% of hybrid businesses agreed on this benefit. Hybrid retailers are more likely to perceive lack of digital competencies and managing customer data as challenges than online-only businesses. Hybrid businesses remain also more focused on their domestic market compared to retailers operating exclusively online, also because by definition they have at least one physical store in the country. These differences also relate to the scale of the online operations of respondent hybrid businesses, some of which have only limited online sales.

The findings suggest that measures to support the digitalisation of retail businesses should be targeted and tailored to their varying digital needs. Retail digitalisation support should go beyond offering the means to establish online presence and help SMEs address more structural challenges related with digitalisation processes to effectively respond to "hybrid" demands. Starting online sales requires fostering the acquisition of technical and non-technical skills in the workforce, implementing organisational changes, providing guidance on effective data management, including on how to incorporate data in decision-making processes and on how to protect customers' data. While some support to digitalise may be adequate for retail businesses in general (e.g., to manage international sales), policy programmes need to take into account recipients' particular needs. For example, compared to online-only businesses, hybrid businesses can benefit from guidance on effective management of sales across online and offline channels, and further assistance in acquiring digital competencies for their online activities.

The OECD D4SME Global Initiative will continue to explore this policy area, leveraging its public-private network. Areas of further work being explored include expanding the evidence base to additional countries, deepening the analysis of the dynamics of the "hybrid retail" trend for SMEs, and analysing its impacts on retail SMEs operating in towns and city centres. In particular, retail SMEs can help make town centres vibrant and dynamic, both from an economic and social perspective, while contributing to strengthening their unique identity. Further analysis might focus on identifying how digitalisation is impacting the presence and role of retail SMEs in town centres, raising challenges but also providing opportunities for urban and commercials districts to transform and thrive, with the support of local and national governments. In this context, future work would also include a comparative analysis of existing national and local government programmes and policies targeting e-commerce and hybrid SMEs.

1 Digitalisation of Retail SMEs': From single channel to omnichannel

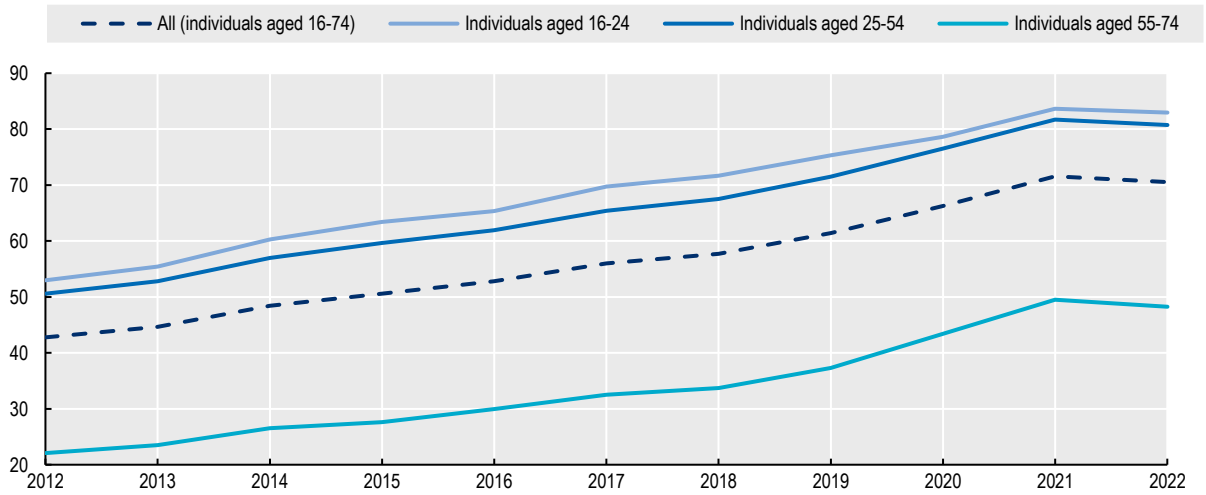
Recent changes in the retail environment

Retail consumers' demand for digital interaction has increased steeply during the COVID-19 pandemic. To cope with social distancing measures, many retail consumers have increased their usage of digital means when purchasing goods and services (Accenture, 2020[2]; McKinsey & Company, 2020[3]). Despite regional and product category differences, estimates point to a noticeable rise in online purchases since the pandemic's onset, with studies suggesting that the pandemic accelerated consumer digitalisation by a decade (Standage, 2020[4]). In the case of the EU-27 countries, retail sales through mail order houses or the Internet increased by 30% in April 2020 compared to April 2019 (OECD, 2020[5]).

Consumers across all age groups increasingly picked up online shopping habit during the first two years after the outbreak of the pandemic, with slight decline observed in 2022. Compared to 2019, the share of online shoppers in the OECD economies during the pandemic increased by 11 percentage points, from 61% in 2019 to 72% in 2021 (Figure 1). Particularly, there is a noticeable increase of older online consumers (aged 55 – 74), displaying a faster adoption rate than younger generations in this period. While the share of individuals engaging in online shopping decreased slightly between 2021 and 2022, from 72% to 71%, it remained above its pre-pandemic level.

Figure 1. Individuals who have purchased online

As a percentage of individuals in each age groups, OECD countries

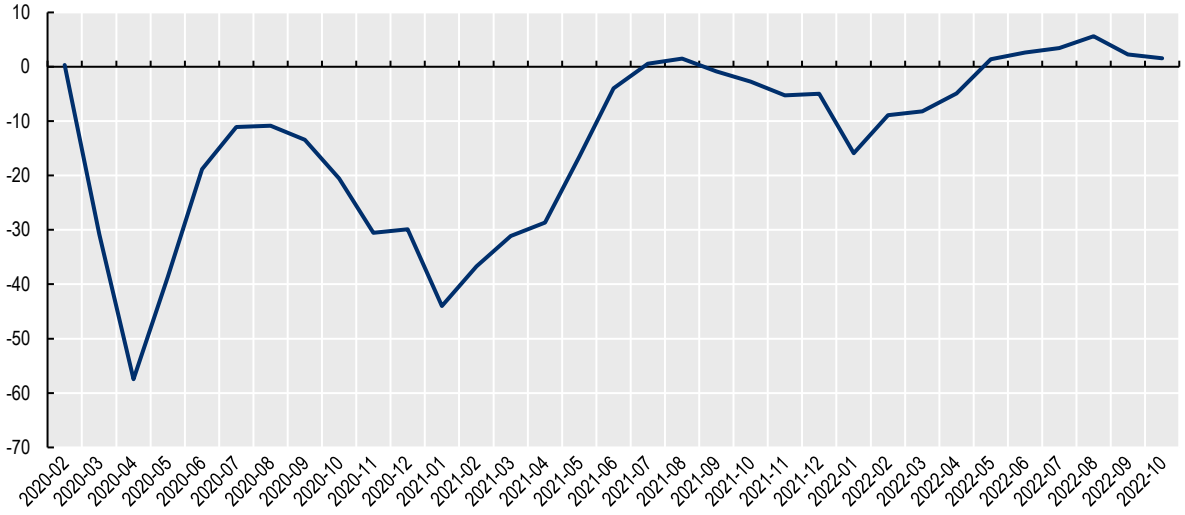


Source: OECD ICT Access and Usage by Households and Individuals (accessed on 14 June 2022).

At the same time, as restrictions imposed during the pandemic eased and vaccination rates increased, consumers gradually returned to brick-and-mortar retails. Figure 2 presents the change in mobility to retail and recreational areas in OECD countries since the beginning of the pandemic. Although the experience with the pandemic, as well as the level of stringency of the governments' measures, differed across the world, aggregate data of the mobility in this period across OECD economies show some common trends. The movement to retail areas contracted significantly at the beginning of the pandemic, and during the two winter seasons of 2021 and 2022. However, the foot traffic to the retail areas increased steadily since the beginning of 2022 and reached the pre-pandemic level by May 2022.

Figure 2. Mobility changes to retail & recreational areas

Monthly aggregate mobility changes compared to February 2020, OECD countries



Note: The baseline (0) is the median value observed during the 5- week period of Jan 3–Feb 6, 2020. Mobility trends shown for retail and recreational places like restaurants, cafes, shopping centres, theme parks, museums, libraries, and movie theatres. The graph is produced based on monthly aggregate mobility data across all OECD countries, except Iceland (data not available).
Source: Author's calculation based on the Google Community Mobility Reports (accessed on 17 October 2022).

In other words, retail consumers are shopping in an ever more hybrid way. Sales no longer happen either on site or online, and customers increasingly combine various online and offline channels in making purchase decisions (Alexander and Kent, 2022[6]; Grewal and Roggeveen, 2020[7]; Lemon and Verhoef, 2016[8]). For instance, a customer may find a product recommendation from a social media platform through their phone, search for video reviews on their computer to obtain more information of the product, make the purchase online using digital payment mobile app and pick up the product in-store a day after. In this regard, consumers' purchase journeys have become less linear and more complex. Customers that engage in multichannel shopping behaviour are important for the retail sector as they tend to spend more, shop more frequently, and enjoy shopping more than single channel shoppers (Konuş, Verhoef and Neslin, 2008[9]; Kumar, Bezawada and Trivedi, 2018[10]; Melis et al., 2016[11]).

While the changes induced by digitalisation in the retail sector offer businesses new opportunities to access a broader market, hybrid models also change retail landscape dynamics as local retailers compete with a much broader range of players. Shoppers can search products from online stores but then make purchases in another brick-and-mortar store. The opposite is also common, with consumers comparing products offline and making purchase from a different online business. As a result, brick-and-mortar retails are under pressure to compete with online retailers, with consumers increasingly able to

compare offers through digital platforms. In addition, expansion of online retail activities also means more competition for attracting shoppers. Brands incorporate direct-to-consumer (D2C) sales to their business models to establish a direct channel with their consumers, indicating that physical retails may also be competing for customers with the brands.

Retail SMEs are becoming more hybrid

Many retail businesses are adopting more hybrid practices, and SMEs are no exception. Operating multiple sales channels, both online and offline, presents various opportunities such as increased sales, broadened customer base, and improved relationship with customers (Cassab and MacLachlan, 2009[12]; Lewis, Whysall and Foster, 2014[13]). In particular, integrating online sales channels can lead to enhanced business resilience, especially for small businesses, as observed during the COVID-19 pandemic (Bianchini and Kwon, 2021[14]). To cope with stringent mobility measures and to accommodate the rise in consumers' demand for online interaction, many brick-and-mortar retail SMEs also integrated online models, including selling through e-commerce platforms, and offering "buy online, pick up in-store" option (OECD, 2021[15]; OECD, 2021[16]; OECD, 2020[17]).

Getting small and medium-sized retailers fit for the era of hybrid retail has far reaching implications, as they represent a large share of employment across the OECD. The new environment poses challenges to small retailers, including possible reductions in margins due to new online competitors, which can negatively affect their resilience. Understanding the opportunities linked to creating or enhancing their online sales channels can make a difference for both their survival and growth prospects. These dynamics have important implications at aggregate economic level, as in most of OECD economies the broader wholesale and retail sector is the largest sector in terms of SME employment. The retail sector is composed mainly of SMEs, where they account for around 70% of employment in the sector across the OECD economies. There is also a large share of micro-businesses in the sector, with the micro-firms responsible for 34% of total employment in the sector. In the EU, SMEs account for 99% of businesses in the retail sector, with 94% of the businesses being micro-retails employing less than 10 people (EuroCommerce, 2017[18]). Similarly, the share of micro-retail enterprises in the Korean retail sector is at 94% (KOSIS, 2021[19]). In Japan, 99% of the wholesale and retail trade sector is also composed of SMEs, which account for 54% of employment (OECD, 2019[20]).

Enhancing competitiveness of brick-and-mortar SMEs through digitalisation can also bring positive impacts at the local-level. The digitalisation of retail SMEs is an essential dimension of the revitalisation and modernisation of local retail sectors, which can contribute importantly to the reactivation of rural and urban areas (European Commission, 2017[21]; European Commission, 2018[22]). In fact, retail SMEs that operate brick-and-mortar stores contribute to the communities they are embedded in. For instance, locally-owned brick-and-mortar retails tend to spend their revenues back on the local economy, with evidences suggesting that their contribution to the community as a share of their revenue is greater than larger chain retails, thus creating a local multiplier effect (Civic Economics, 2012[23]; Rybaczewska and Sparks, 2020[24]; Paddison and Calderwood, 2007[25]). In this regard, digitalisation can help strengthen retail SMEs' business activities, and foster their continued contribution to the local economy.

There are many digital services provided on the market for the brick-and-mortar retail businesses to go digital. Increased affordability of digital tools, as well as facilitated access to consumer base via online platforms, present businesses various means of incorporating digital channels, which is especially important for smaller retails. As SMEs generally face resource constraints, therefore lacking the capacity to commit large upfront IT investments, availability of subscription-based and commission-based digital tools and services enhances their digital accessibility (OECD, 2021[26]; OECD, 2019[27]). In terms of sales channel, for instance, small retailers can utilise platforms, such as promoting and selling their products via social media platforms or listing their products on e-commerce marketplace. On the other hand, businesses

that seek more tailored solution can also explore digital service providers that offer e-commerce website templates or set up their website while integrating digital payment services.

E-commerce platforms provide SMEs with important channels for growth. Platforms facilitate small businesses' access to new markets and enable them to leverage network effects, boosting competitiveness and productivity with an increased scope for economies of scale and capacity building. In fact, leveraging online platforms can help SMEs overcome size-based challenges (OECD, 2021[26]) and smaller firms have been found to benefit the most from productivity enhancing effects (Bailin Rivares et al., 2019[28]; Costa et al., 2021[29]). Platforms provide SMEs with wide-ranging complementary services contributing to lower transaction costs (e.g., payment or logistic services) and access to advanced analytics (e.g., targeting, impact analysis) that would have otherwise remained unavailable to them due to their limited internal capacity (OECD, 2021[26]). However, there are also drawbacks for SMEs in conducting online sales via e-commerce. Box 1 underlines some of the key issues, as well as the current efforts by governments - and through international co-operation - to level the playing field.

Box 1. Levelling the playing field between SMEs and platforms

Online platforms offer relevant benefits to SMEs willing to sell on them, but they also pose some challenges. These include risks of competition distortions preventing SMEs from operating on a levelled playing field (OECD, 2021[26]).The strong network effects in these multi-sided markets, which bring together different groups of consumers, are conducive to the emergence of dominant players who may engage in different anti-competitive practices such as refusal to deal, predatory pricing or tying and bundling, amongst others (OECD, 2020[30]). Furthermore, the emergence of new technologies, including Artificial Intelligence (AI) and machine learning, has facilitated the adoption of algorithms, which allow businesses to optimise their business operations whilst raising new concerns regarding the spread of anti-competitive practices (OECD, 2017[31]). The use of algorithmic competition mechanisms, such as algorithmic price setting, represents an example in this regard, as it gives firms more leeway to sustain tacit collusion (OECD, 2017[31]; OECD, 2021[26]).

Policymakers around the world have started taking action to address these distortions. The 2022 OECD Handbook on Competition Policy in the Digital Age (2022[32]) outlines the work of the OECD on digital competition and includes key insights from the organisation on misconduct in digital markets as well as recommendations for adapting competition policy to the digital era, including raising awareness about competition issues specific to the digital sphere amongst businesses but also capacity building by competition authorities to better monitor potential misconduct (OECD, 2022[32]).

The European Union's Digital Markets Act (DMA), which entered into force in 2022 and is expected to move into its implementation phase in May 2023, provides an example of international co-operation in this field. Its main objective is to monitor potential anti-competitive practices by online platforms, for example through the implementation of transparency enhancing measures, namely on the algorithms used for recommendation as well as provisions to increase businesses' access to data (European Commission, 2022[33]). Transparency in the use of SME data by platforms is increasingly becoming a priority for SMEs and regulators alike. At the national level, countries have introduced ex-ante regulations to enhance transparency. For instance, under Japan's Act on Improving Transparency and Fairness of Digital Platforms, digital platforms have the obligation to disclose information about the scope of data use as well as basic matters that determine search ranking to their users (OECD, 2021[34]).

Governments across OECD countries have also taken action to sanction anti-competitive practices in the digital platform economy. The Korea Fair Trade Commission (KFTC) acted in 2020 against one of the most influential online platforms in Korea, for abusing its market dominance by manipulating its

shopping search algorithm to favour the products sold in their own online stores (Kim et al., 2022[35]), a practice otherwise known as "self-preferencing". The KFTC further sanctioned the platform for preventing multi-homing in the real estate information platform market, as they had banned content providers from sharing data on properties up for sales to its rival platform.

Limited data portability between platforms is in fact behind other challenges faced by SMEs on digital platforms such as risks of technology lock-ins associated with high switching costs which in turn prevent market contestability. To avoid this, some countries have implemented ex-ante regulations to protect businesses' rights to data portability. In the US, the American Choice and Innovation Online Act addresses this issue by explicitly prohibiting designated platform operators from establishing contractual or technical restrictions to data portability (OECD, 2021[34]).

Barriers to digitalisation for retail SMEs

Albeit the opportunities brought forward to the sector by accelerated digitalisation, small retails, especially micro-retails, face challenges in seizing the emerging opportunities. The smaller a business is, the less likely for the business to pursue digital adoption. Furthermore, SMEs often lack both financial and human resources that are necessary in understanding and realising the potential benefits of digitalisation. Lack of skills to effectively use digital technology is a main barrier for a large share of SMEs. This is even more relevant as the new "hybrid normal" demands organisational changes and distinct management strategies. In addition, while online sales channels provide opportunity for small businesses to tap into new markets and internationalise part of their businesses, SMEs also face challenges pertaining to cross-border parcels trade, such as complex customs requirements and legal uncertainty of consumer protection laws (López González and Sorescu, 2021[36]).

For hybrid retails, harmonising and creating synergies among the sales channels is as important as establishing and maintaining a multichannel presence. Having different sales channels should not be interpreted as operating independent channels in siloes. Rather, synergies across the channels need to be sought in ways that can streamline operation and deliver optimised customer service, which is commonly referred to as "omnichannel strategy" (Park and Kim, 2019[37]; Piotrowicz and Cuthbertson, 2014[38]; Verhoef, Kannan and Inman, 2015[39]). In other words, the omnichannel retail strategy emphasises dismantling online and offline channel barriers and seeks to augment advantages of each channel (Gao et al., 2021[40]). Consolidating real-time and accurate data, such as on inventory management and customer data, is the first step in managing channels (Cassab and MacLachlan, 2009[12]).

Retail SMEs too can embrace the omnichannel practices. Although SMEs do not have the resources to pursue active omnichannel strategy at the same scale as their larger peers, they can still strive to build their online presence and further streamline their online and offline channels. Increased online footprint of businesses translates into more data being produced. Such data, whether generated from internal business processes or from consumer interaction, represents a source of opportunity for retail SMEs, which is however often largely untapped (OECD, 2022[41]). While most SMEs may not have the awareness or skills on how to interpret data, they can acquire cloud-based digital tools. Updated over time, these tools can allow SMEs to aggregate and process the data from both online and offline stores and offer them access to AI-embedded features (OECD, 2021[26]).

Centralising operational data across channels represents a first step towards omnichannel strategies. For example, businesses can obtain better understanding of their inventory level using a single inventory management system that tracks across the various channels. The inventory data can be further used to inform customers of stock availability in their brick-and-mortar store. Introducing a customer loyalty system and sending personalised communications based on their previous online and offline purchases is another example of how small businesses can create added value across channels. SMEs can also offer

"buy online and pick up in-store" service to their local consumers. Furthermore, managing different channels is not just about making a choice between online and offline. Channel harmonisation can also be made across the online channels, such as having consistent product image and description, and fine-tuning pricing across the channels to avoid sales cannibalisation.

However, there is no one-size-fits-all approach to hybrid retail. Given the heterogeneity of the retail sector, a hybrid retail strategy needs to be based on the understanding of characteristics of different sales channels, the customer groups, as well as the products the businesses are selling. Each sales channel has its own distinct features. For consumers, shopping at brick-and-mortar stores is associated with fun, leisure, and experience (Kokho Sit, Hoang and Inversini, 2018[42]). Although it is costly to operate a physical store, sales through a brick-and-mortar store can be more profitable than online channels that incur costs related to additional last-mile delivery. For example, McKinsey & Company's (2021[43]) study on margin structure for apparel shows that net margin of store pickup purchases is 10 – 15% higher than delivery from distribution centres. In fact, delivery is an important dimension of online retail, where businesses need to configure their fulfilment options to deliver their products to customers in a short time (KPMG, 2022[44]). On the other hand, online channels can meet the needs of customers more efficiently than brick-and-mortar retails, as they allow customers to compare a larger range of products across stores, easing the "screening" of available offers (Laroche et al., 2005[45]). However, online customers can easily switch to other businesses and tend to display less loyalty (Horáková et al., 2022[46]; Ketzenberg and Akturk, 2021[47]). Furthermore, reviews of both the product and business are important factors especially influencing consumers' online and offline purchase intentions (Agrawal and Mittal, 2022[48]; Laroche et al., 2005[45]).

Profiling consumers to understand their needs and wishes is ever more important. Understanding customers' characteristics is key, as channel preferences differ between customer groups, even among the online channels (Baxter et al., 2021[49]; Kondo and Okubo, 2022[50]). Consumers who are risk-averse and less enthusiastic about innovation are more likely to shop in-store than others (Gupta, Su and Walter, 2004[51]; Jebarajakirthy et al., 2021[52]). This is because customers are able to test the products before making a purchase and obtain assistance depending on their needs. Although developments in virtual reality and augmented reality are intended to make the online experience as close as possible to an on-site store, the option to try the product remains limited in online channels. On the other hand, greater transparency and capacity to compare offers online has made consumers more price sensitive (Chiou, Wu and Chou, 2012[53]).

Moreover, some products may be more suitable for one channel than the others. For instance, consumers largely feel more uncertain about purchasing higher-priced products through online channels (Ketzenberg and Akturk, 2021[47]). Consumers' channel preference can further differ between products within the same category. As a case in point, findings from Jebarajakirthy et al. (2021[52]) on fashion retail suggest that consumers are more inclined to shop regular-use clothing online, while purchasing clothes for special occasions in brick-and-mortar stores.

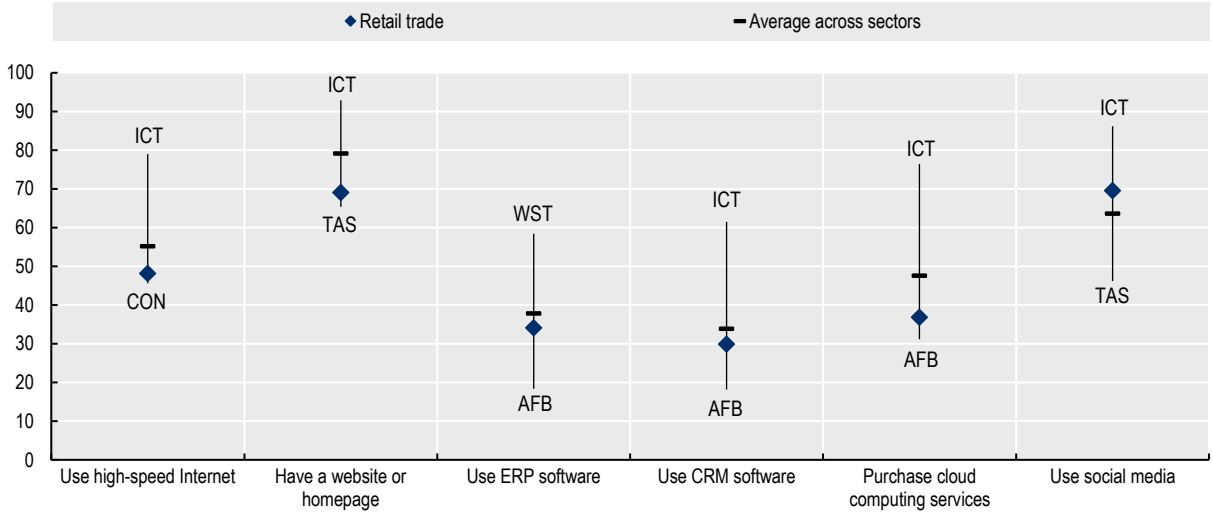
Managing hybrid retail adds to the complexity of SMEs' business operations. With each sales channel having its own characteristics, including different cost structures, making decision on which channel to pursue and how can be challenging. This is especially the case of resource-constrained small businesses, whose decision to adopt hybrid practices need to be based on strategic calculations (Kim et al., 2022[54]), which not every retail SME is capable of doing. In addition, establishing and managing multiple sales channels is costly compared to single channel retail (Lewis, Whysall and Foster, 2014[13]). For small businesses that are already operating a traditional brick-and-mortar store, adopting new digital tools or opening an online sales channel means investing time and money on the top of their day-to-day activities. There is also the possibility that digital technology might not work as intended despite the business's investment and commitment (Zhu, Cohen and Ray, 2021[55]).

Digital readiness of SME retails needs to be improved further for the businesses to be able to use digital tools and services effectively. Overall, digitalisation in the retail sector lags behind other sectors (Figure 3). This reflects a low level of digitalisation among retail SMEs, which account for a significant share of businesses in the sector. Across OECD countries, in 2021, 48% of retail businesses were using high-speed Internet, which is 7 percentage points lower than the average across sectors. Given that high-speed Internet is a prerequisite for business digitalisation, the low level of high-speed Internet diffusion in the sector represents a main barrier for retail SMEs to pursue digital practices. Similarly, retail businesses are below business sector average in using Customer Relationship Management (CRM) software and purchasing cloud computing services. However, simple uptake of digital technologies is just the basic step for business digitalisation, and SMEs need to engage further in intangible investments, such as digital skills and digital mindset, to be able to reap the benefits of digitalisation (Gal et al., 2019[56]).

SMEs operating online are for instance increasingly pushed to develop a digital marketing strategy to extend their customer outreach, access new markets and improve branding. Establishing a strong social media presence is a way to accomplish this and recent findings by Tajvidi and Karami (2021[57]) suggest that it positively affects firm performance by enhancing branding and innovation. However, SMEs can be confronted with a number of limitations when designing their digital marketing strategies including unfamiliarity with or the perceived irrelevance of using social media platforms (Michaelidou, Siamagka and Christodoulides, 2011[58]). Literature findings further suggest that despite the take up of these strategies by SMEs (Eggers et al., 2017[59]; Saura, Palacios-Marqués and Ribeiro-Soriano, 2021[60]), there is room for improvement in a number of areas including the effective use of the commercial data they generate (Mohd Selamat, Prakoonwit and Khan, 2020[61]; Packianather et al., 2017[62]).

Figure 3. Business use of selected digital tools and services in the retail sector

As a share of businesses with 10 or more employees across sectors, 2021



Note: Retail trade here refers to "Retail trade, except of motor vehicles and motorcycles". For each digital tool, top of the adoption line indicates the sector with the highest adoption rate, with the sector at the bottom of the line being the lowest. Abbreviations of other sectors are as follows: Accommodation and food and beverage service activities (AFB), Construction (CON), Information and communication (ICT), Transportation and storage (TAS), and Wholesale trade, except of motor vehicles and motorcycles (WST). High-speed Internet refers to a broadband download speed at least 100 Mbit/s. ERP and CRM are abbreviations of Enterprise Resource Planning and Customer Relationship Management, respectively.
Source: OECD ICT Access and Usage by Businesses (accessed on 14 June 2022).

2 Opportunities and challenges for SMEs selling online: Evidence from an OECD D4SME business survey

In 2022, the OECD D4SME Global Initiative launched an international survey to gather original evidence on the integration of online sales and hybrid retail practices by SMEs. The OECD developed a survey on e-commerce and hybrid retail, engaging with partners of the OECD Digital for SMEs (D4SME) Global Initiative.[1] By enquiring about the advantages and challenges associated with online channels, the survey intends to build a better understanding of SMEs' experience in selling online, including a focus on "hybrid retail", and of the policies that can have an impact on them.

The results presented in this paper refer to a survey conducted in six OECD countries: France, Germany, Italy, Japan, Korea, and Spain. The questionnaire was developed by the OECD and was distributed by Amazon, Kakao and Rakuten, large online e-commerce platforms and partners of the OECD D4SME Global Initiative, to their seller network (i.e., SMEs selling products on their platform) in the six countries. The survey was conducted between September and December 2022, in different time frames depending on the geography. A total of 931 responses were collected from the survey, with 74 from France, 25 from Germany, 57 from Italy, 645 from Japan, 37 from Korea, and 93 from Spain. Due to differences in the number of responses in each country, the average across countries is used to analyse the results in this study. Detailed methodology and the list of questions can be consulted in Annex A.

It should be noted that the survey sample only includes SMEs that are already selling online through e-commerce platforms. As indicated in Annex A, the survey targets SMEs that have at least a basic level of acquaintance with digital tools and processes as they sell through online platforms, and that also decided to use these platforms for at least part of their online sales. Therefore, the results of the survey should not be considered as representative of the entire retail SME population in the surveyed countries.

Sample profile

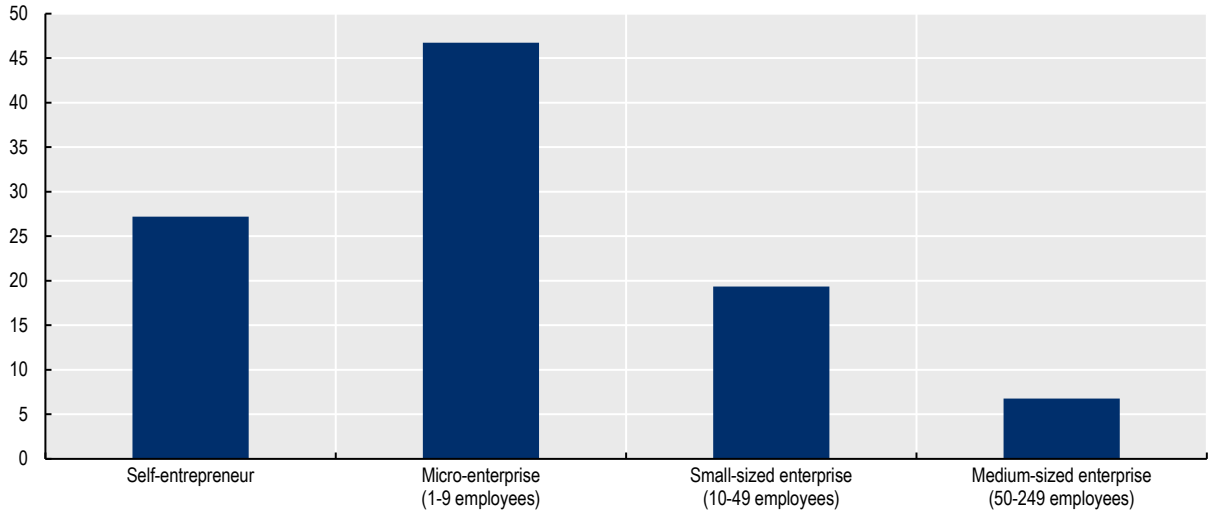
Micro-businesses and self-employed entrepreneurs constitute a large share of responses. Among the surveyed respondents, 253 (27%) describe themselves as solo entrepreneurs without employees. Micro-enterprises employing between 1 and 9 employees represent 435 (47%) responses. Small-sized businesses (10-49 employees) and medium-sized businesses (50-249 employees) account for 180 (19%) and 63 (7%) of responses respectively. By and large, the distribution of the sample resembles that of the SME population in the surveyed countries, where the responses are more weighted toward self-entrepreneurs and micro-enterprises, which account for about 89.5% of the retail business in 2021 or the

[1] More detailed information of the initiative can be found at https://www.oecd.org/digital/sme/.

latest year available across the surveyed countries. However, it is important to note that the share of medium-sized businesses in the sample (7%) is larger than that in the retail sector across the surveyed countries (1.7%) (KOSIS, 2021[19]; Ministry of Internal Affairs and Communications, 2021[63]; OECD, 2023[1]).

Figure 4. Size of respondent businesses

As a percentage of the total number of responses

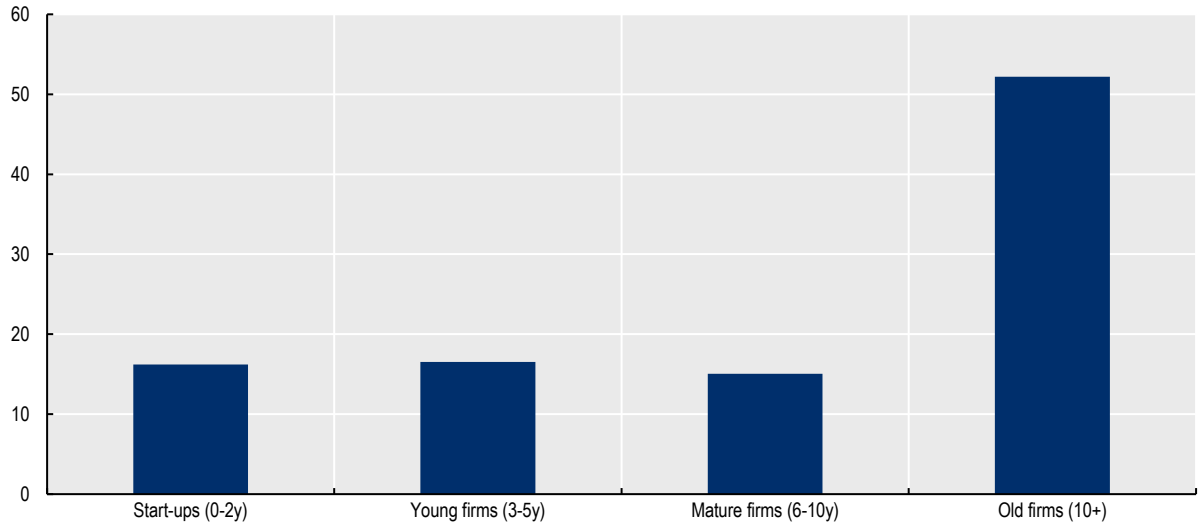


Note: Elaboration based on 931 responses.
Source: OECD D4SME E-commerce Survey.

More than half of the businesses were founded at least ten years ago. Start-ups, established between 2020 and 2022, account for 16% of total responses (Figure 5). Young firms that have been operating for more than three years but less than five years represent around 17% of the responses. Another 15% of the respondents can be categorised as mature firms, with the rest (52%) being old firms with more than ten years of operation. In addition, 71% of the businesses indicated that they were selling online prior to the COVID-19 pandemic (before 2020).

Figure 5. Age group of respondent businesses

As a percentage of total number of responses

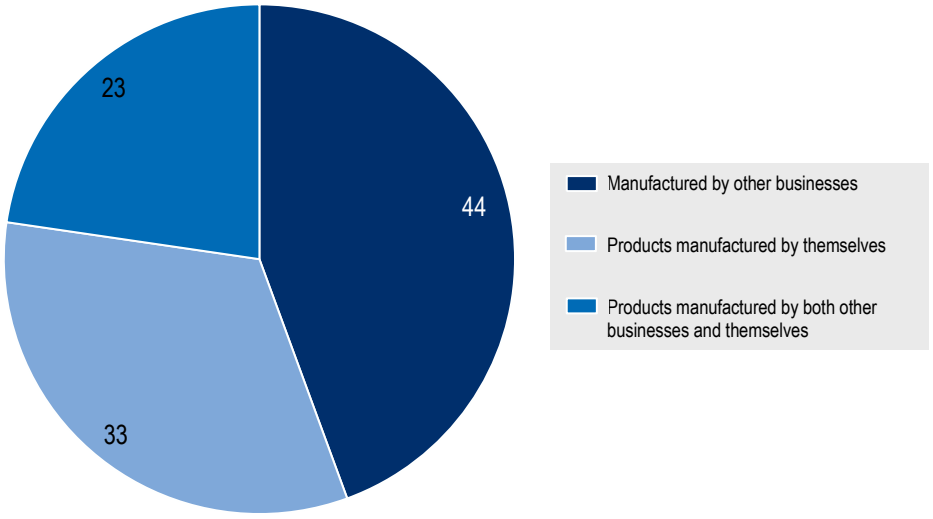


Note: Elaboration based on 931 businesses' self-declared year of establishment.
Source: OECD D4SME E-commerce Survey.

Near half of the respondents (44%) are retailers, exclusively reselling goods manufactured by other companies. The rest of respondents are manufacturers involved in business-to-consumer (B2C) operation, with 33% selling only goods they manufacture directly to consumers and 23% selling goods manufactured by themselves as well as by others (Figure 6).

Figure 6. Type of products sold by businesses

As an average percentage of responses from the surveyed countries

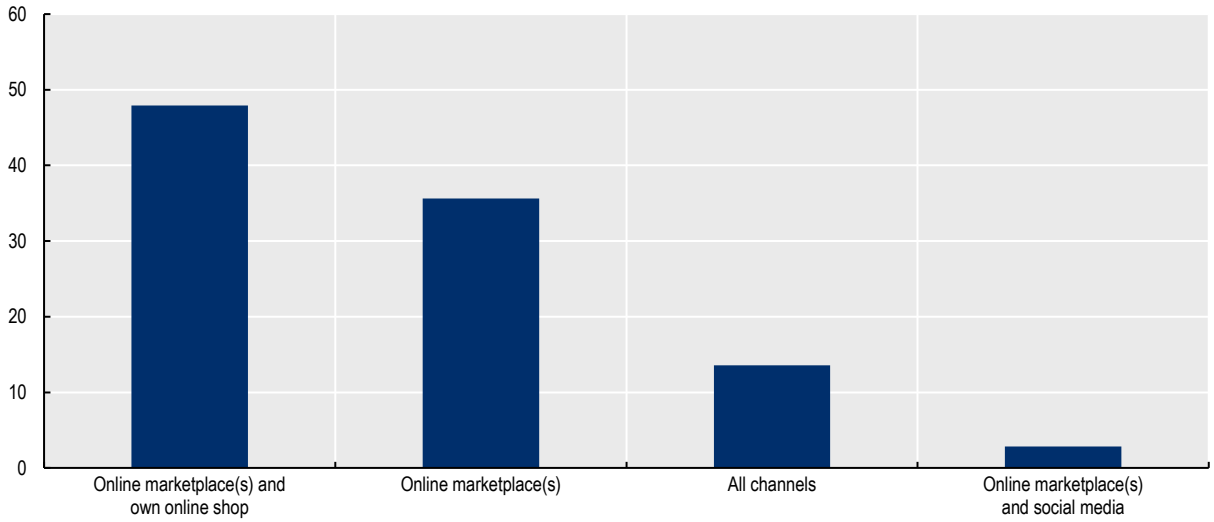


Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Respondents prefer using a mix of online sales channels. Since the survey was distributed to the seller network of online marketplaces, the respondents are assumed to be selling via one or more online marketplaces. The responses on the use of online sales channels show that 36% of the surveyed businesses across the countries only use online marketplaces for their online sales. On the other hand, this indicates that the majority of respondents engage in multichannel sales activity (Figure 7). Managing both online marketplaces and own online shop is the preferred online sales channel combination, with another 48% of the respondents also selling from their own web page and as much as 14% of respondents indicating that they additionally sold their products through social media, making use of all three channels. Finally, 3% of respondent businesses declared they sold their products through social media and online marketplaces.

Figure 7. Use of online sales channels

As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain. Elaboration based on businesses' self-declared use of online sales channels. Respondents were given the possibility to select multiple answers among "online marketplace(s)", "own online shop", and "social media" (see Annex 1). "All channels" indicate businesses using all of the three channels mentioned. The sum of percentages does not add up to 100% due to rounding of numbers.
Source: OECD D4SME E-commerce Survey.

Results: A glance at retail SMEs' digitalisation journey

The survey illustrates patterns and perception of the businesses conducting online sales in the following four areas: "preparation to sell online", "benefits and opportunities", "challenges" and "obtaining information about selling online".

Preparation to sell online

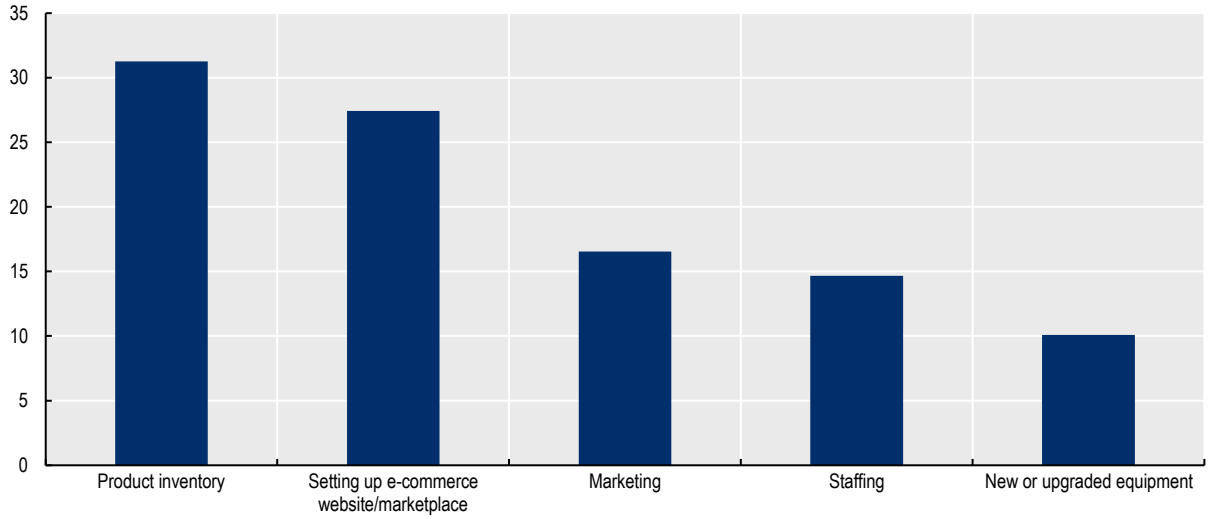
For small businesses, starting online sales requires mostly a change in product management habit and investment in setting up online presence, involving the development of both technical and non-technical skills. On average across countries, 31% of respondent firms indicate product inventory as the most significant investment aspect in preparing for e-commerce sales, which could imply that businesses increased their level of inventory in anticipation for more sales from online channels (Figure 8 Panel a). Aside from acquiring inventory, 27% of respondents report that setting up an e-commerce website

or marketplace was their top investment. These include fees associated with listing products on marketplace, fulfilment services or cost for developing webpage, which are unavoidable costs for retail businesses that seek to establish their online presence. Other relevant costs associated with the transition to online sales also include marketing (17%), such as costs related to advertisement and search engine optimization for better online visibility, and staff-related costs (15%), for example in providing training to their employees or cost associated with hiring new staffs. These results underscore the importance for SMEs to cultivate their "hard" or technical skills when setting up their online for example, in conjunction with the acquisition of "softer" interpersonal or managerial skills enabling SMEs to adequately restructure their operational processes or design an effective marketing strategy. Box 2 expands on the relevance of these different types of skills for SMEs embarking on their digital transformation.

While firms in Korea invested more in marketing, in France or Japan they focused on setting-up their online shop. When comparing responses across countries, 32% of Korean businesses indicate marketing as their biggest investment, ahead of the share of respondents stating that acquisition of inventory (19%) or setting up an e-commerce website or marketplace (24%) were more significant (Figure 8 Panel b). On the other hand, the cost of setting up online retail presence weights more on French and Japanese respondents, as 38% of businesses in each country report it as their largest investment.

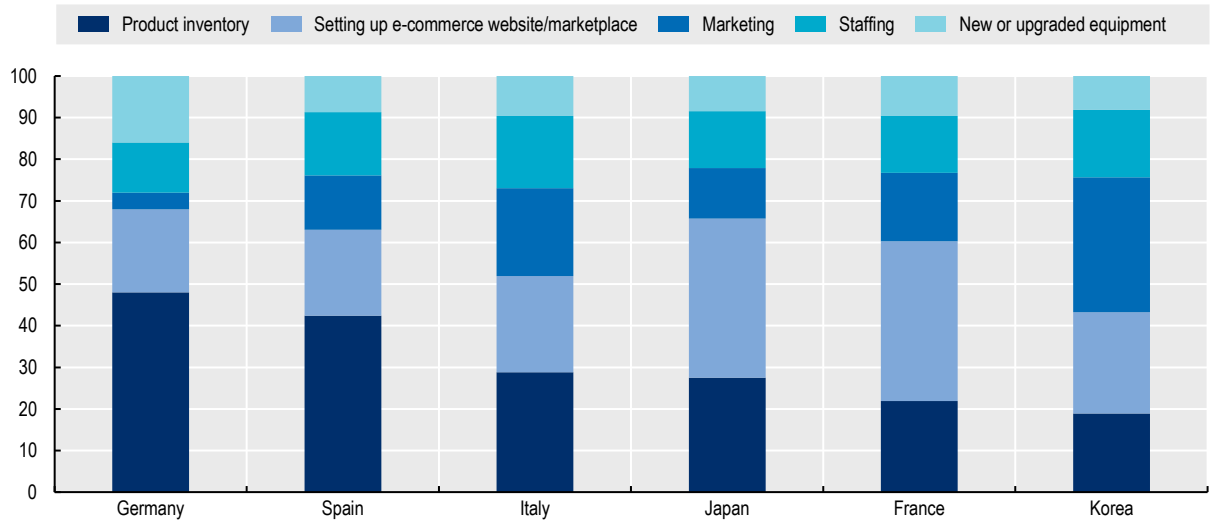
Figure 8. The biggest investment in preparing for e-commerce sales

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain. Marketing includes advertisement and search engine optimisation (SEO). Staffing includes training cost of employees or hiring of new staff. Equipment refers to devices for needed for online sales and enhanced internet connection, such as computers and wi-fi routers.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country



Note: Marketing includes advertisement and search engine optimisation (SEO). Staffing includes training cost of employees or hiring of new staff. Equipment refers to devices for needed for online sales and enhanced internet connection, such as computers and wi-fi routers.
Source: OECD D4SME E-commerce Survey.

Box 2. Digital skills for SMEs

For SMEs to navigate digital environments and seize digital growth opportunities, the acquisition of a broad range of competences is necessary. These competences include technical or "hard" digital skills, that can be classified in three categories: 1) fundamental abilities such as understanding basic ICT concepts or managing computer files, 2) intermediate digital skills defined as those enabling individuals to use technologies in a meaningful way (e.g., use work related software or online content creation) and 3) advanced abilities that are usually required from ICT specialists (e.g., programming or app development) (Broadband Commission for Sustainable Development, 2017[64]). Complement to the "harder" skills described above, the acquisition of "soft" skills, which include interpersonal and cognitive skills such as communication, critical thinking, problem-solving capabilities, and creativity. Managerial skills can also prove crucial, as the implementation of digital technologies often requires a reconfiguration of business processes and organisational structures (OECD, 2021[26]).

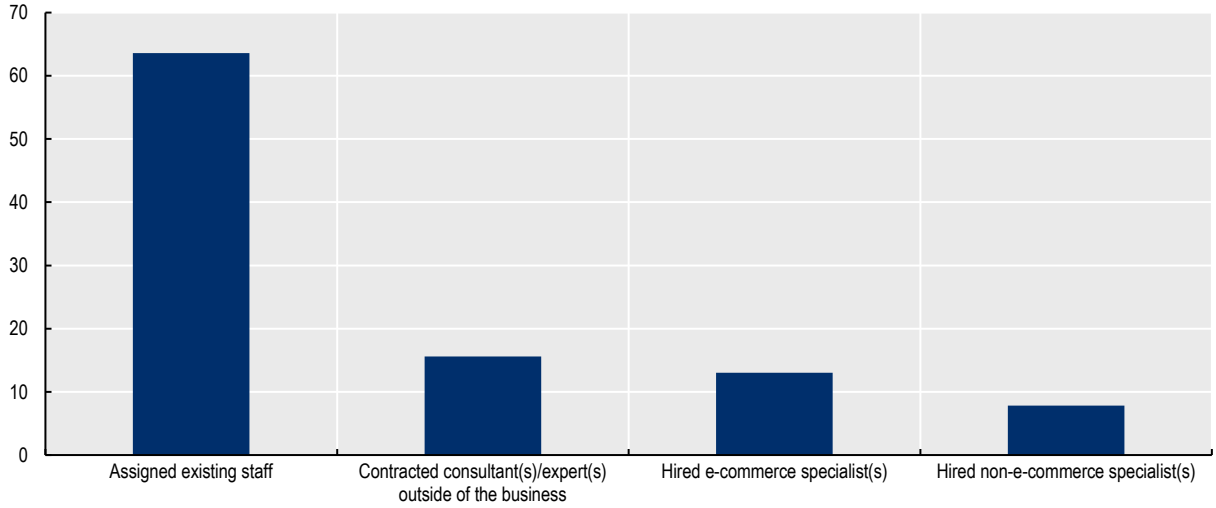
SMEs continue to face barriers in accessing different types of key resources, including knowledge and skills, contributing to the digital divide between small and large firms. In fact, digital technologies tend to amplify the returns of small variations in skill, effort, or quality (OECD, 2015[65]). As digitalisation continues to bring about rapid changes in work environments, relevant digital skills continue to evolve too, highlighting the importance of acquiring soft skills, such as adaptability and self-learning, that enable lifelong learning of technical and non-technical competences. Training programmes covering different content, including technical and soft skills, can promote workforce upskilling and reskilling; however, SMEs have also been found to be more likely to experience barriers in accessing relevant trainings. These may range from a lack of awareness about their own skills needs to time-related or financial barriers preventing them from organising or paying for these courses (OECD, 2021[66]). To overcome these barriers, governments can directly provide trainings for SMEs and develop information services about training opportunities or financial support options amongst others (OECD, 2021[66]).

The large majority of respondents indicated that they just reassigned existing staff to manage online sales. To prepare their workforce for online sales, around 64% of respondent firms mention assigning their existing staff to the task (Figure 9 Panel a). In 21% of the cases, SMEs report new hires when preparing for online sales, with 13% hiring employees knowledgeable in e-commerce, and the rest 8% hiring non-e-commerce employee(s). Outsourcing the tasks to external consultants or experts was pursued by 16% of the businesses. These results show how retail businesses turn to their existing pool of employees when undertaking online activities, rather than seeking skilled experts or hiring additional employees. This further highlights the importance of the businesses' capacities for managing and leveraging internal digital skills. However, it is also worth noting that around 21% of the total number of respondent businesses did not provide a precise answer by responding "I am not sure", which can be also interpreted as a lack of digital talent strategy when engaging in e-commerce. This is specially the case for self-entrepreneurs, with 42% responding in this way.

There are differences across countries in preparing the workforce for online sales, with a higher share of Korean SMEs re-assigning staff already knowledgeable of e-commerce practices with respect to other surveyed countries. Cross-country comparison shows that 43% of Korean respondents report new hires against 39% who mention assigning existing staff to the task (Figure 9 Panel b). In fact, 32% stated that they hired staff that are knowledgeable in e-commerce which is noticeable when compared with respondent businesses in other countries. This can be attributed to the Korean government's policy efforts to encourage SMEs' hiring of young employees with digital skills, including the recent temporary COVID-19 measure provided under the co-operation of the Ministry of SMEs and Startups and the Ministry of Labor and Employment (Bianchini and Kwon, 2021[14]). On the other hand, businesses in France, Japan and Germany preferred to hire employees not necessarily knowledgeable about e-commerce over hiring e-commerce specialists to manage their online sales.

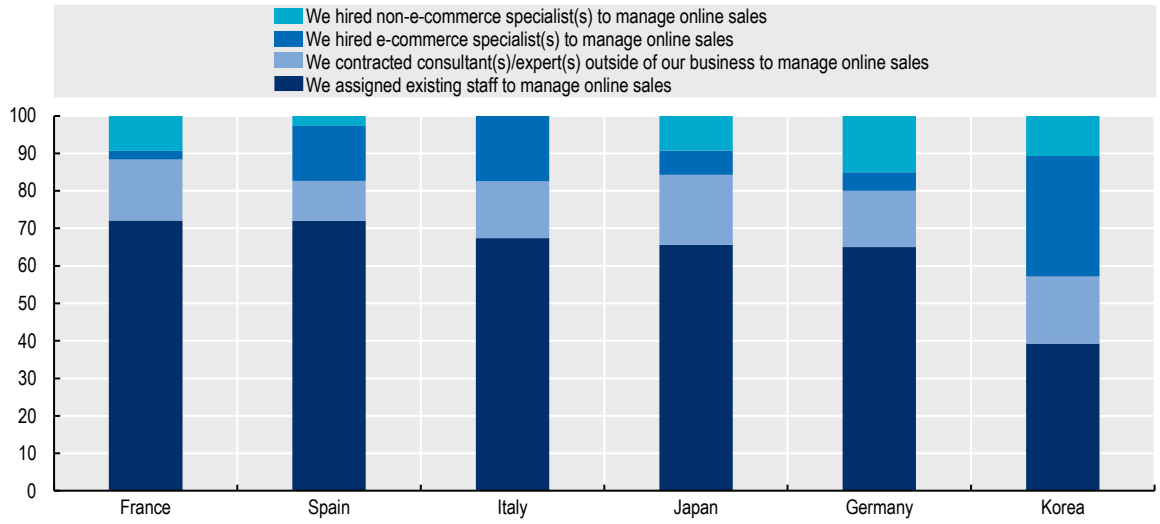
Figure 9. Preparing workforce for managing online sales

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain. The sum of percentages does not add up to 100% due to rounding of numbers.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country



Source: OECD D4SME E-commerce Survey.

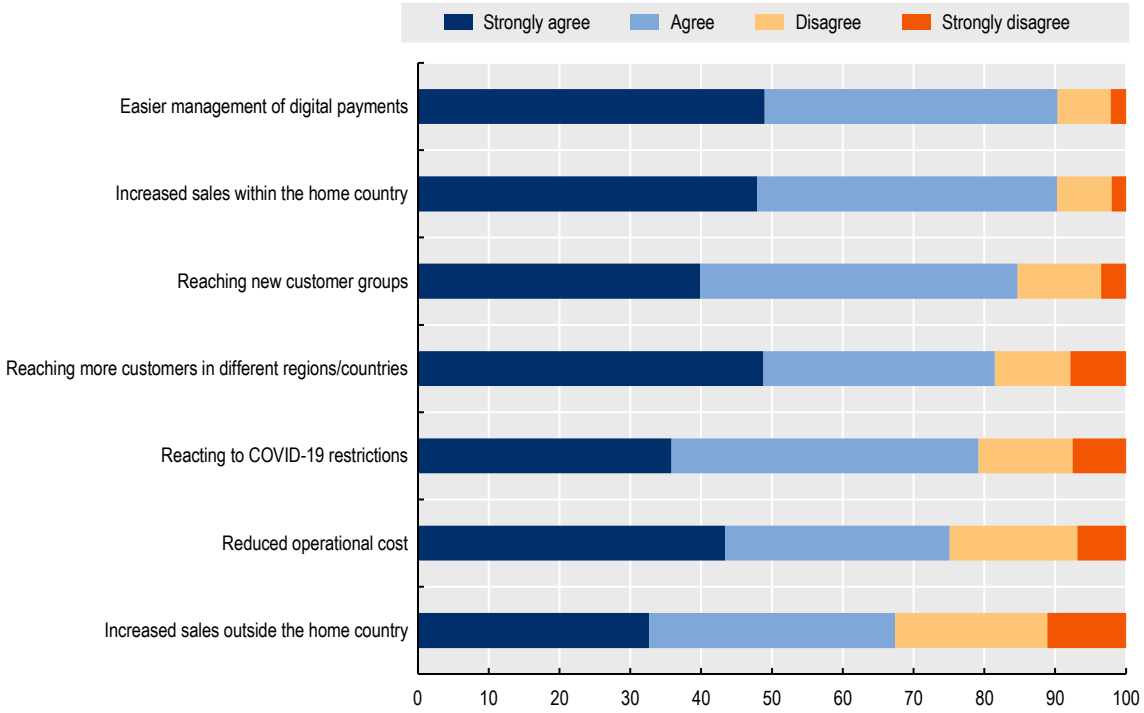
Benefits and opportunities

Facilitated management of digital payments and broadening the domestic sales are cited as two of the most important benefits when selling online. 90% of respondent businesses agree that easier management of digital payments and increased sales within the home country represent some of the main benefits of online sales (Figure 10). Online payments have supported the rapid take up of e-commerce by large and small businesses alike, allowing for more efficient payment verification and lower transaction costs (OECD, 2012[67]). The high rate of respondents who agree on facilitated digital payments as one of the main advantages of online sales is consistent with findings suggesting that online payment transactions offer several conveniences and security-related benefits for businesses in the retail sector (Khan et al., 2017[68]). Compared to more traditional transaction methods, including cash-on-delivery, the digital payment providers offer enhanced user experience and transparency. However, there are also underlying concerns of using online payment systems, such as the security of payments, as well as protection of transactional data.

Further, respondents have high regard for increased customer outreach across customer groups, such as younger generations, but also beyond borders with respectively 85% and 82% of respondents indicating them as main benefits. Overall, the respondents convey positive perception of the benefits associated with online sales. However, while most respondent businesses consider that selling online allows them to increase their sales outside their home country and bring down their operational costs, as for instance the payment of rent and salaries, respectively 33% and 25% disagree with this statement. Further, businesses undertaking hybrid operations express their reservation more than retailers that are selling exclusively online (see Figure 26 in Chapter 3 for further explanation).

Figure 10. Benefits of selling online

As an average percentage of responses from the surveyed countries

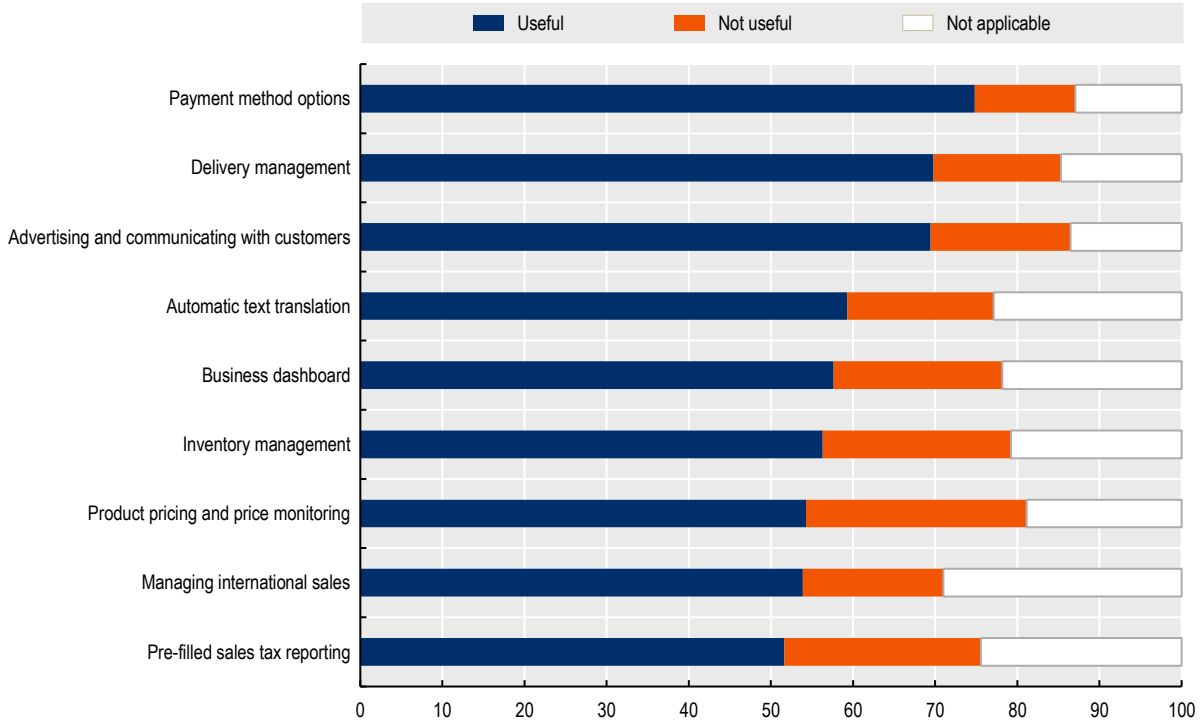


Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Payment methods offered by e-commerce services is cited as the most useful function, followed by managing deliveries. E-commerce platforms provide functionalities to assist vendors in conducting sales and understanding their sales details, which can especially help SMEs selling online. In line with the above presented results, payment method options offered by e-commerce platforms is considered useful by 75% of respondent businesses (Figure 11). Delivery management being at the centre of business-to-consumer (B2C) online transactions, efficiently handling the logistics associated with delivery is becoming increasingly important for online retailers amidst rising consumer expectations in terms of tracking and flexibility (Kawa and Swiatowiec-Szczepa, 2021[69]). This is in line with the high rate of respondents (70%) who indicate delivery management as a useful function of e-commerce platforms, as having access to these readily integrated services is expected to be beneficial for capacity-constrained SMEs. Conversely, respondents are more divided over pre-filled sales tax reporting, as it is only considered useful by 52% of respondent businesses.

Figure 11. Useful third-party e-commerce services

As an average percentage of responses from the surveyed countries

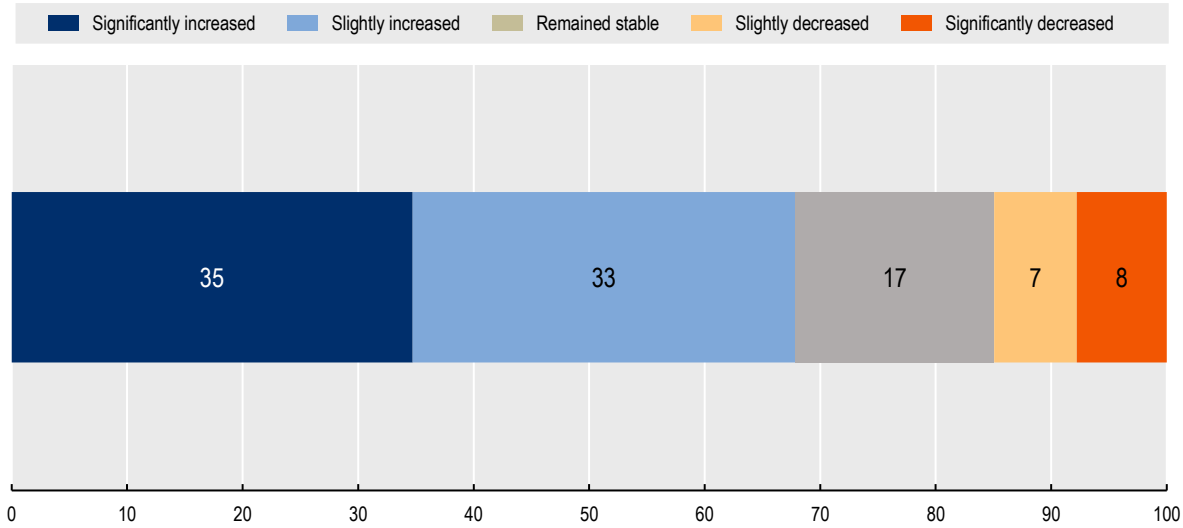


Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source : OECD D4SME E-commerce Survey.

Most respondent businesses experienced an increase in online sales during the COVID-19 pandemic. As brick-and-mortar retail shops closed due to sanitary restrictions, online channels allowed retailers to pursue their activities and stay afloat. 68% of respondent businesses that began their operation before 2020 witnessed either a significant (35%) or a slight (33%) increase in in their online sales, against 15% who report experiencing either a significant (8%) or a slight (7%) decrease in sales (Figure 12). On the other hand, 17% of respondents report that their sales remained stable.

Figure 12. Changes to share of online sales during the COVID-19 pandemic

As an average percentage of responses from the surveyed countries



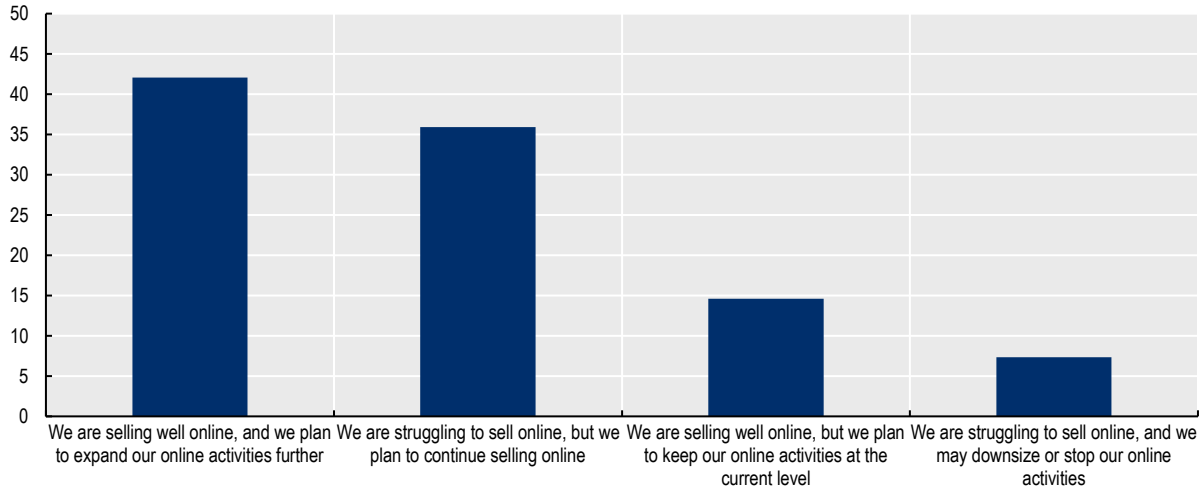
Note: Average of the responses from businesses that operated online prior to COVID-19 (before 2020), from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Most respondents plan to continue or expand their online sales, but several are struggling regardless of their plans. When asked to self-assess on how they are faring in selling online and what the future looks like for their online businesses over the next year, 57% of the respondent businesses report that they are selling well online, with the remaining 43% communicating that they are struggling to sell online (Figure 13 Panel a). These results can be associated with the large share of respondents who considered that lower than expected online sales demand was one of the main challenges they encountered when selling online (Figure 14 Panel a). Within the businesses struggling with their online sales channels, 36% state their intention to pursue selling online despite the difficulties they are facing, on the contrary to 7% which plan to downsize their online activities. These results illustrate the perceived potential of online channels for respondent firms, and their intention to stay digital. Despite the lower share of businesses intending to discontinue their digitalisation efforts, it is also important to understand what worked and what did not for these 'discouraged' businesses. Further analysis of this group at the aggregate level shows that, compared to the total sample, they are more likely to perceive "less than expected online sales" as a major challenge (90% compared to 70% of total responses), along with "understanding e-commerce laws and regulations (89% against 66% of total responses)".

Cross-country comparison reveals differences in the surveyed businesses' state of online sales and their prospects. In Japan, Germany, Spain, and Italy, most of the businesses state that they are doing well online (Figure 13 Panel b). On the contrary, the share is around half or below in Korea (54%) and France (37%). Although the share of retail businesses planning to decrease their online sales is low in France, there is a noticeable share of French businesses (58%) indicating that they will continue their sales online despite having difficulties in online sales. This conveys confidence and resilience of respondent French retailers and further suggests there may be scope to better support struggling but determined businesses in realising the benefits of digitalisation.

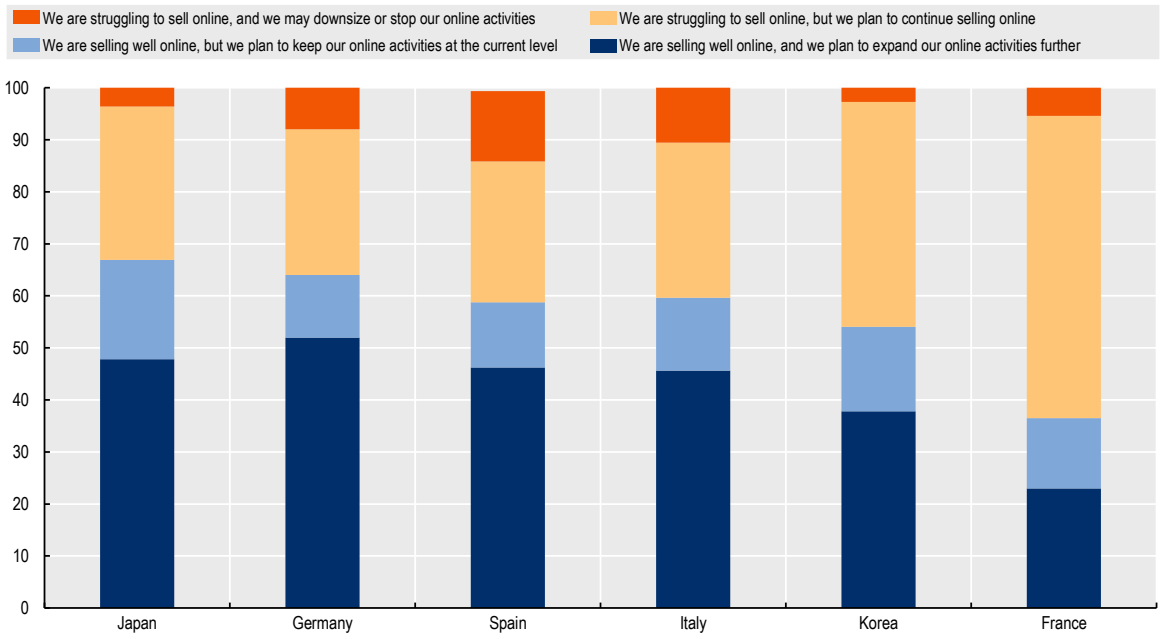
Figure 13. Assessment and future prospect of online activities

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country



Source: OECD D4SME E-commerce Survey.

Challenges

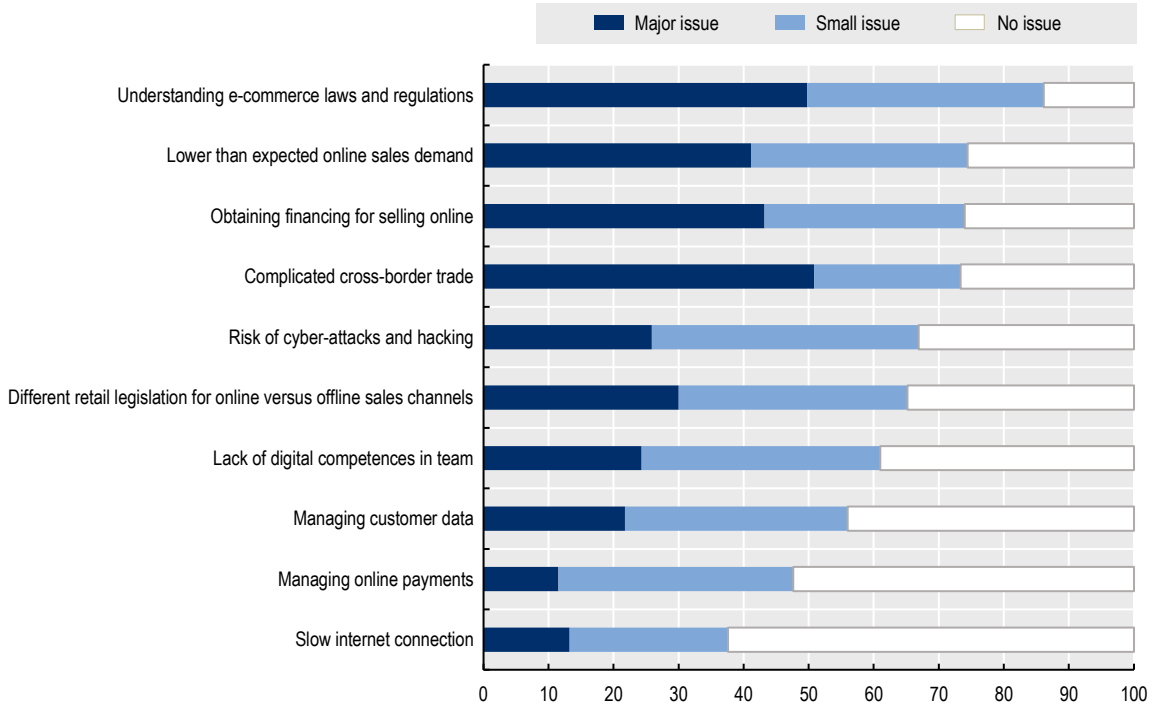
Complex e-commerce regulations and lower than expected sales demand pose challenges to businesses selling online. As discussed in the previous section, taking up e-commerce can help SMEs increase their customer base by expanding their outreach beyond their national borders. However, SMEs may not always be able to reap these benefits due to a range of regulatory and resource-related barriers

(Figure 14 Panel a). To illustrate, 86% of respondent businesses indicate “understanding e-commerce laws and regulations” as an issue when selling online. There is also an expectation-reality gap regarding sales demand, with 74% stating lower than anticipated sales from online channels to be an issue. Obtaining financing to embark on online sales is specified as an issue by another 74% of the businesses, which implies demands for financial supports. Two out of three businesses indicated that the “risk of cyber-attacks and hacking” is a challenge, but only 1 in 4 considered it a major issue. This could point to a need to raise awareness about the potentially very harmful effects of a cyber-attack, especially considering that one out of three respondents did not consider it an issue at all. Finally, and despite it being the least selected issue amongst respondents, slow internet is still a problem for 37% of them, though a major issue for only 13%, this result can be related with the low diffusion rate of high-speed internet amongst retail SMEs illustrated in Chapter 1 (Figure 3). In fact, several businesses operating in urban areas also report slow internet connection as a challenge, indicating that this is an issue beyond suburban or rural areas.

Challenges for businesses differ across regions in Japan with some encountering more difficulties than others. In the Japanese version of the survey, more granular information was obtained, making prefectural level comparison possible (Figure 14 Panel b). For instance, the share of respondents experiencing slow internet in Hokkaido (70%) is much higher than the average of Japanese responses (46%). When crossed with median internet speed, Hokkaido’s connection is the slowest across the prefectures with speed below 100Mpbs. Alternatively, prefectures with fast connection (e.g., Kanagawa and Saitama) have a lower share of businesses perceiving slow internet as a challenge. However, findings show how expectations and perceptions play a role, as no clear positive correlation between internet speed and satisfaction is observed. For example, Aichi prefecture has one of the fastest median speeds across the regions (159 Mbps) but almost half (47%) of respondents indicated that “slow internet” was as an issue.

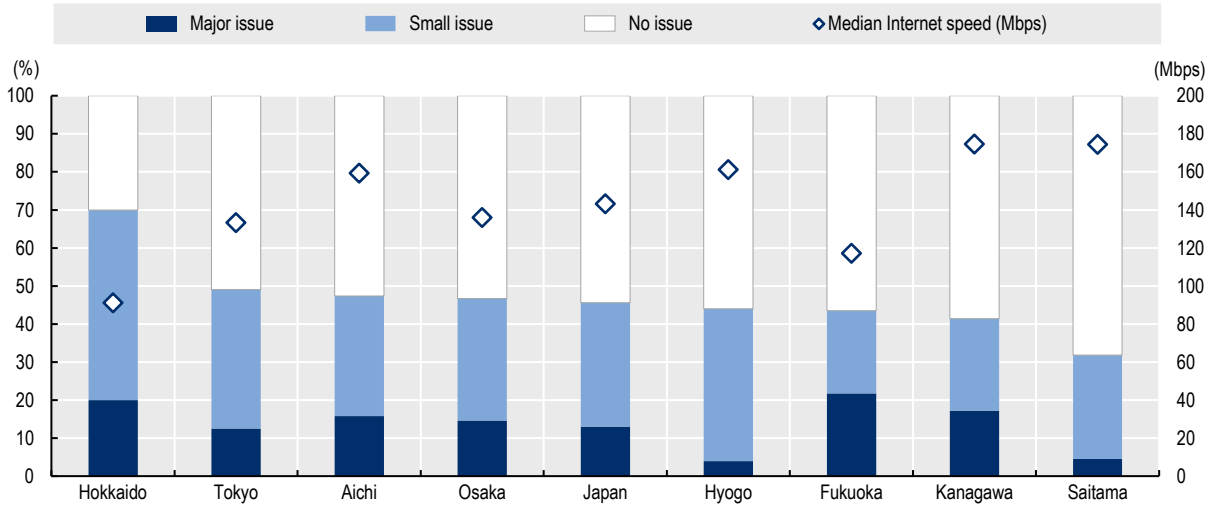
Figure 14. Challenges when selling online

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses indicating slow internet as a challenge and internet speed, selected Japanese prefectures



Note: The prefectures listed above are selected based on the number of responses obtained that allows for cross-province comparison. Internet speed here refers to median download speed of fixed broadband connection recorded in the respective Japanese prefectures as of December 2022.
Source: OECD D4SME E-commerce Survey, Ookla Speedtest (accessed on 25 January 2023).

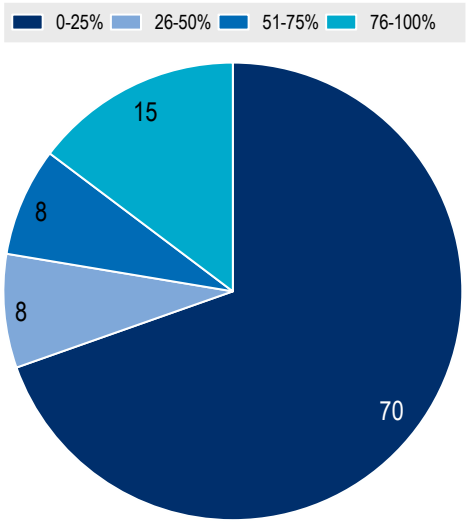
By and large, most of the online sellers are focusing on serving their domestic customers. Approximately 70% of respondent businesses indicate that less than 25% of their online sales are generated from customers abroad (Figure 15 Panel a). Despite the perceived benefits associated with online sales, namely expanding to new markets, and tapping into new pools of consumers, findings suggest that still only a minor share of firms is able to seize the opportunity of undertaking overseas transactions. This result is in line with "complicated cross-border trade" being one of the important challenges for online retailers (Figure 14). A closer look at the responses reveals that the complexities of cross-border trade is seen as a challenge across the different groups of businesses, regardless of the share of online sales to foreign customers.

Across the countries, German businesses seem to focus on exporting much more than Korean or Japanese SMEs. When looking at cross-country differences (Figure 15 Panel b), Korean and Japanese businesses are noticeably more focused on their domestic markets, with respectively 97% and 96% of businesses making less than 25% of sales to customers abroad.[2] This is considerably higher than in the case of businesses in France (75%), Italy (70%) and Spain (66%). At the other end of the spectrum, 71% of German businesses indicate that 76-100% of their online sales are made to customers abroad. These differences in results can be related with European countries being part of the larger EU single market, where free movement of goods is enhanced by the removal of technical and physical barriers, such as custom duties. Given their more isolated geographical location, it can also be expected that selling abroad in Korea and Japan involves relatively high shipping costs, which might put burden on the SMEs seeking to sell overseas.

[2] In case of Japanese businesses, more refined answer options were provided (refer to Appendix A). Further detailed breakdown of the responses from Japan shows that 77% of the businesses do not engage in overseas sales at all, while the remaining 19% sell between 1-25% of their online sales to customer abroad.

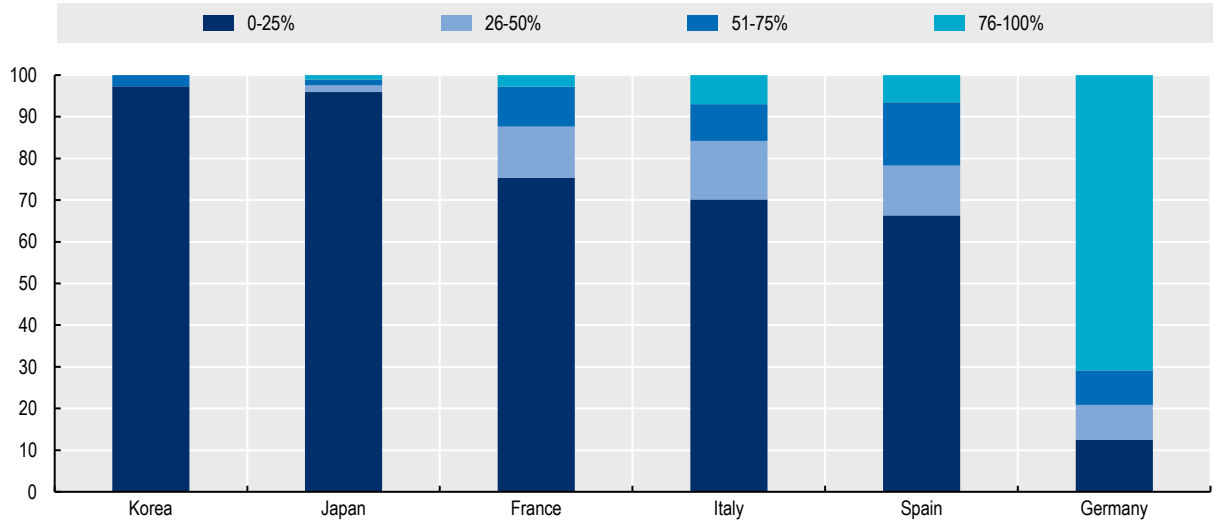
Figure 15. Share of online sales to customers abroad

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain. The sum of percentages does not add up to 100% due to rounding of numbers.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country

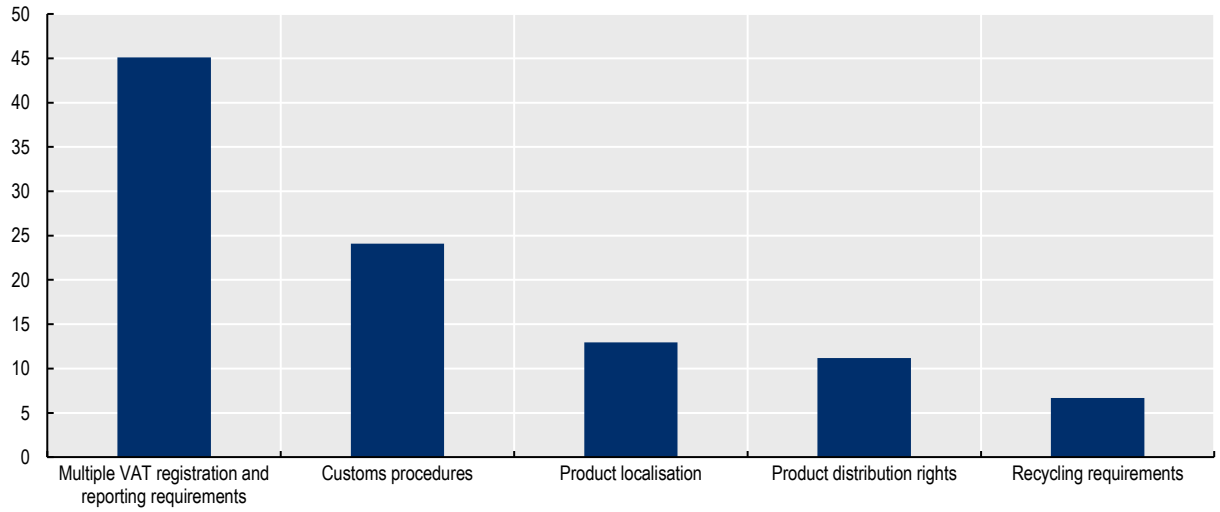


Source: OECD D4SME E-commerce Survey.

With regards to cross-border trade, VAT reporting requirements is seen as the most significant issue, followed by customs procedures. VAT registration and reporting requirements is ranked by 45% of respondents as the most pronounced issue when selling abroad (Figure 16). Customs procedures comes at second with 24%, followed by localisation of products at 13%, such as preparing translations of product descriptions, and meeting packaging specifications. Conversely, product distribution rights, which concerns distributer agreement for sales in a particular region, and recycling requirements represent less important challenges amongst the respondent firms.

Figure 16. Challenges when selling products abroad

As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

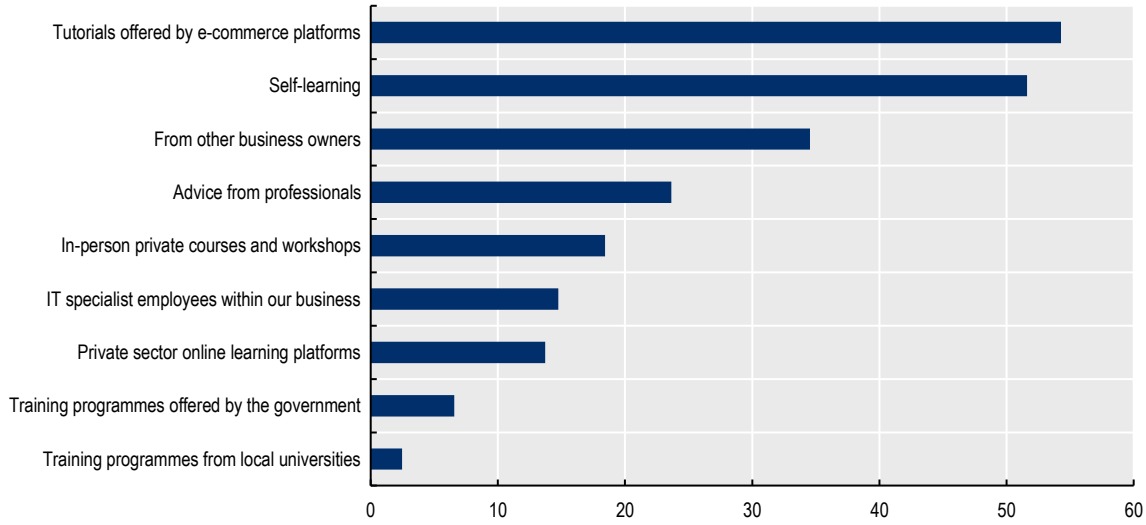
Obtaining information about selling online

When looking for information, businesses mostly consult e-commerce platforms or resort to self-learning, while trainings from local universities are the least used form of access to information. More than half of respondent businesses indicate that they made use of tutorials offered by e-commerce platforms when looking for information about selling online (Figure 17 Panel a). This relatively high reference can be explained, in part, by the fact that respondents are vendors on e-commerce platforms, and that the tutorials offered by the platforms themselves serve as a starting point in learning e-commerce functionalities. The second most used channel is self-learning, which includes learning-by-doing, searching for information on the Internet, and referring to social media posts, with 52% of the respondent businesses learning on the go. When comparing between different business size classes, small-sized businesses are more likely to interact with other business owners for getting online sales information than self-entrepreneurs and micro-enterprises, indicating that larger businesses have more capability in connecting and exchanging with other similar businesses in their ecosystem. On the other hand, training programmes, whether offered by the government or by higher education institutions, are the least sought out method for obtaining information, only used by respectively 7% and 2% of the respondents. Understanding the reasons behind this low take up rate is crucial. Potential explanations include low service convenience due to location or time-related constraints, and a lack of awareness of the existence of such training programmes.

Across countries, differences are observed in the use of information channels. Korean businesses resort more to learning-by-doing (Figure 17 Panel b). As for Japanese businesses, there is active interaction within the SME ecosystem, with retailers sharing information with various actors, including suppliers, customers, chamber of commerce, as well as engaging in peer-learning with other like-minded entrepreneurs. Although government-provided training is among the least used information channel, remarkable differences are observed across countries: 32% of Korean businesses indicate this as their preferred source to obtain more knowledge on online sales, against 3% of businesses in Spain indicating they took part in such programmes.

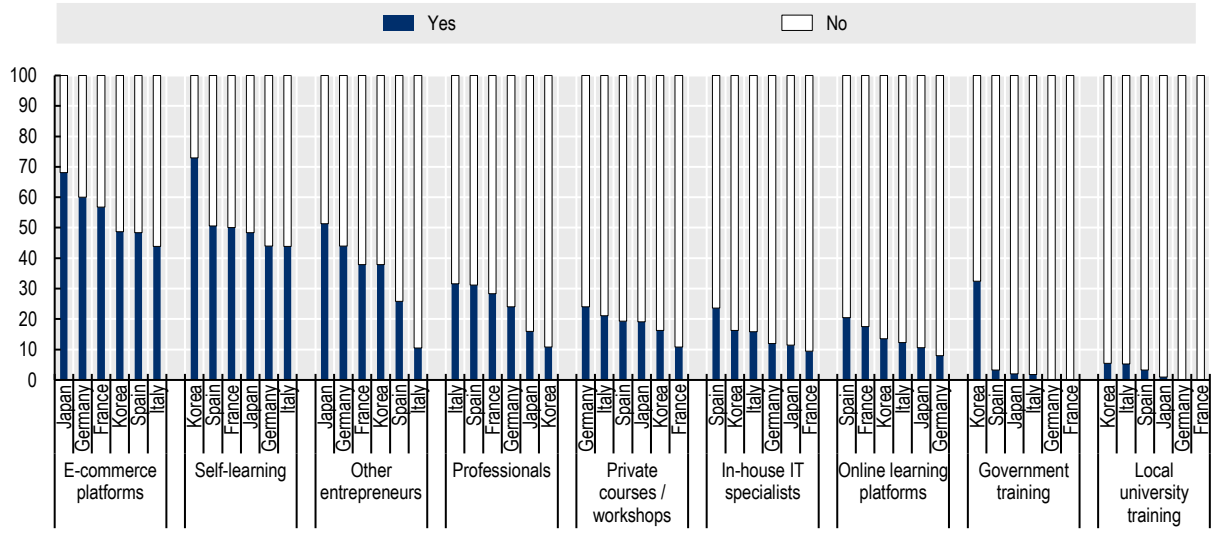
Figure 17. Source of information on selling online

Panel a. As an average percentage of responses from the surveyed countries



Note : Average of the responses from France, Italy, Germany, Japan, Korea, and Spain. Respondents were given the possibility to select multiple answers.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country

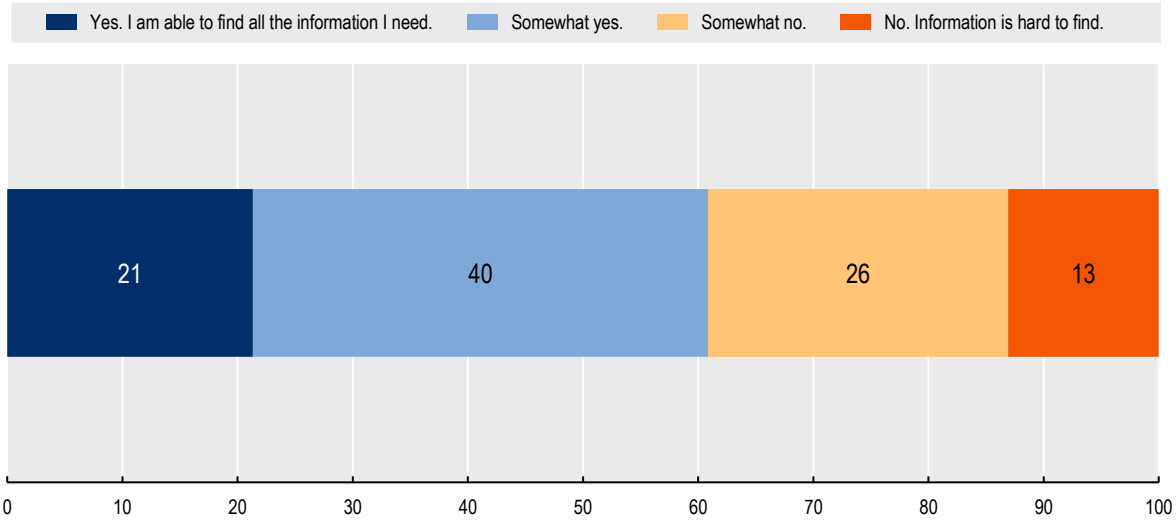


Source: OECD D4SME E-commerce Survey.

While most respondent businesses are at ease with finding information about selling online, there are still several firms struggling to find the information they need. 61% of respondents state it is overall easy for them to obtain useful information about selling online (Figure 18), with 40% somewhat agreeing with the statement. On the other hand, more than a third of respondents (39%) state it is difficult, with 13% finding it particularly hard.

Figure 18. Ease of finding useful information on selling online

As an average percentage of responses from the surveyed countries



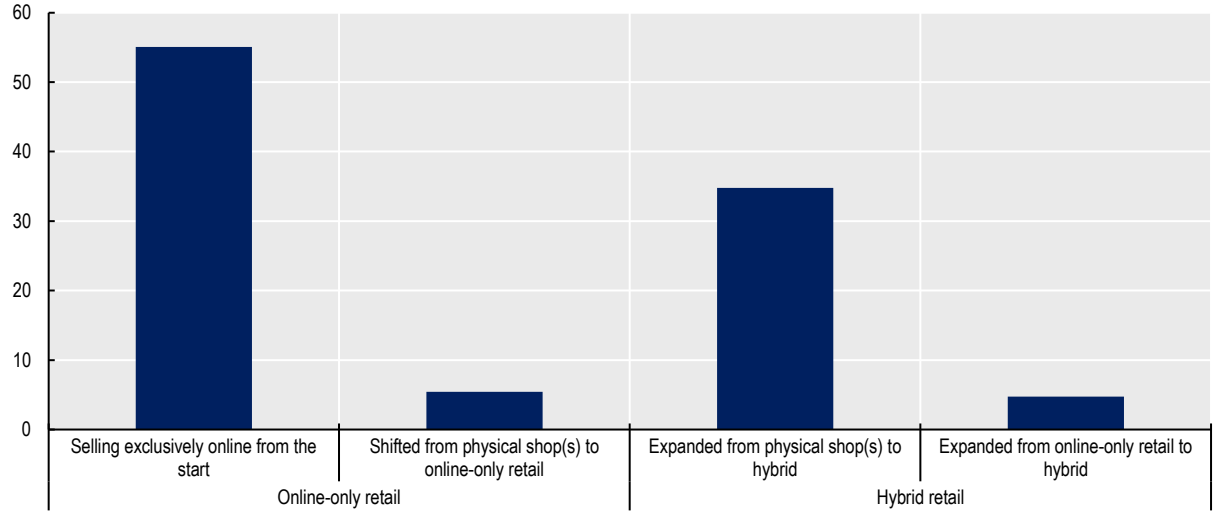
Note: Average of the responses from France, Italy, Germany, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

3 Embracing the "new normal": Spotlight on hybrid retail

This section dives deeper on hybrid retails that operate both physical and digital sales channels.[3] Hybrid retailers' responses are compared with responses from businesses selling exclusively online. Hybrid retails constitute 40% of the surveyed sample, with the vast majority (35%) having expanded their business from physical to digital and only 5% having started online before opening a physical shop. Online-only businesses constitute the remaining 60% of respondents (Figure 19). Among them, 55% of the businesses describe themselves as digitally native, meaning that they have been selling exclusively online from the beginning, and the other 5% having transitioned from a brick-and-mortar business model to a fully digital one.

Figure 19. Businesses' online and offline presence

As a percentage of the total number of responses



Note: Elaboration based on 906 responses.
Source: D4SME E-commerce Survey.

A large portion of hybrid retail firms consist of old firms, compared to more diverse age profiles of online-only businesses. Across surveyed countries, 73% of hybrid businesses were founded more than ten years ago while start-ups, with less than two years of operation, only make up 5% of this category of

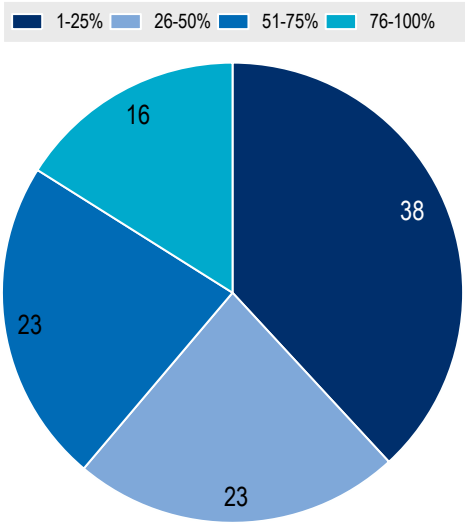
[3] Responses from German businesses are omitted in this section of the analysis, due to insufficient size of the respondent group.

respondents. Mature firms with between six and ten years of operation make up 11% of hybrid retailers and the remaining 11% are young firms, three to five years old. Online-only respondent businesses, on the other hand are composed of start-ups (23%), young firms (20%), mature firms (18%) and old firms (39%).

For two thirds of hybrid businesses, physical sales remain the main business model. An average of 38% of hybrid businesses across the surveyed countries indicate that less than 25% of their sales come from online channels, followed by 23% which ascribe between 26% and 50% of their sales to this category and another 23% which declare making 51% to 75% of their sales online. About 16% of hybrid businesses declare more than 75% of their sales through online channels (Figure 20).

Figure 20. Share of online sales, hybrid retail

As an average percentage of hybrid businesses in the surveyed countries

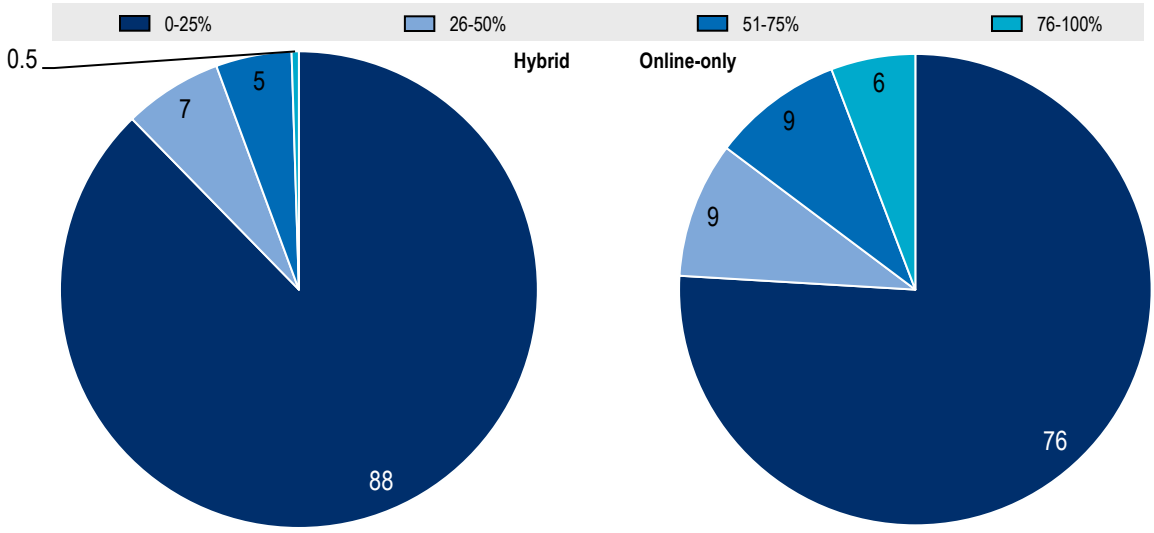


Note: Average of the responses from France, Italy, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

In line with the aggregate trend, most businesses, both hybrid and online-only, are mainly serving their domestic market, although online businesses tend to engage more in transactions across borders. A majority of online and hybrid business make less than 25% of their online sales abroad. However, this tendency is much stronger among hybrid retails (88%) than among online-only retailers (76%; Figure 21). Inversely, 6% of online businesses make between 76% and 100% of their online sales to foreign customers, while only 0.5% of hybrid businesses do.

Figure 21. Share of online sales to customers abroad

As an average percentage of hybrid and online-only businesses in the surveyed countries



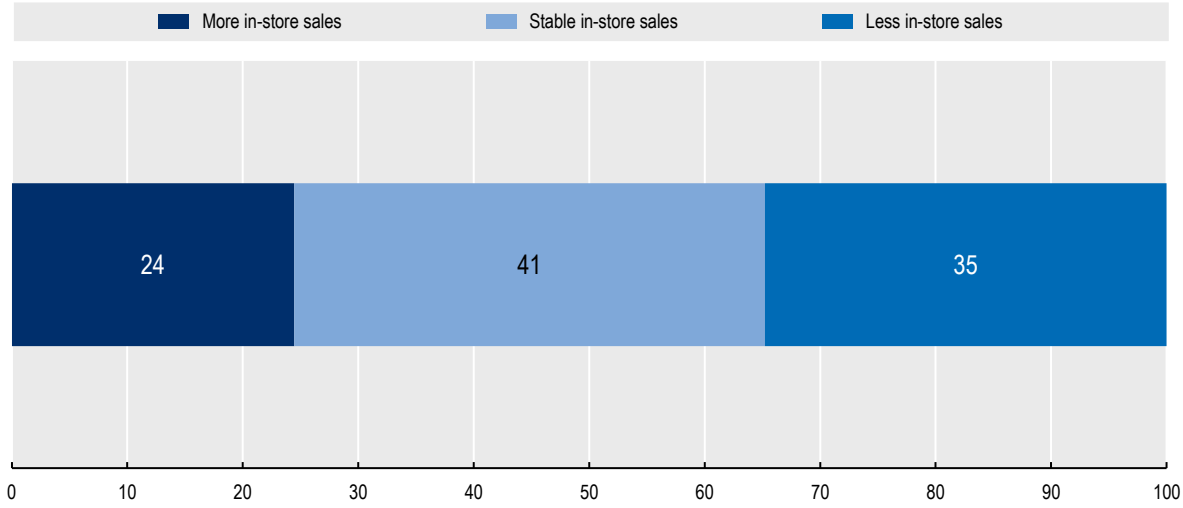
Note: Average of the responses from France, Italy, Japan, Korea, and Spain. The sum of percentages does not add up to 100% due to rounding of numbers.
Source: OECD D4SME E-commerce Survey.

Hybrid businesses are as likely as online-only retails to consider that selling online allows them to expand their reach outside their home country. Around 2 out of 3 businesses consider that selling online contributes to increase sales abroad, with similar responses for online-only (67%) and hybrid (64%). Similarly, there is no sizeable difference between hybrid and online-only businesses when asked about whether online sales could help them reach more customers in different regions or countries, with 77% of hybrid businesses agreeing with this statement compared to 83% of online-only businesses.

For more than 6 hybrid businesses out of 10, in-store sales remained stable or increased after going online, meaning that online sales provided a complementary growth opportunity to almost two thirds of the sampled firms. 41% of hybrid businesses across the surveyed countries report that the level of their in-store sales remained stable when they began selling online, against 35% that witnessed a decrease and 24% that observed an increase (Figure 22). Among the 35% that experienced decline in their physical store sales, 19% attribute the decline to “cannibalisation” from the online channel, with a decrease in demand for in-person sales due to their products being available online. A deep dive on the subgroup respondents' challenges shows that these businesses are experiencing more pronounced challenges across various dimensions compared to other respondents, especially on adapting to digitalised business models. For example, around 80% of these businesses report lack of digital skills as a challenge, compared to 61% of the total sample. As for businesses that have seen an increase in their brick-and-mortar store sales, 20% indicate an increase in customers as they learn about the businesses online, and 4% mention that they are offering exclusive in-person shopping experiences, such as gifts, personalised suggestions and loyalty programmes.

Figure 22. Sales from physical shop after selling online

As an average percentage of hybrid businesses in the surveyed countries

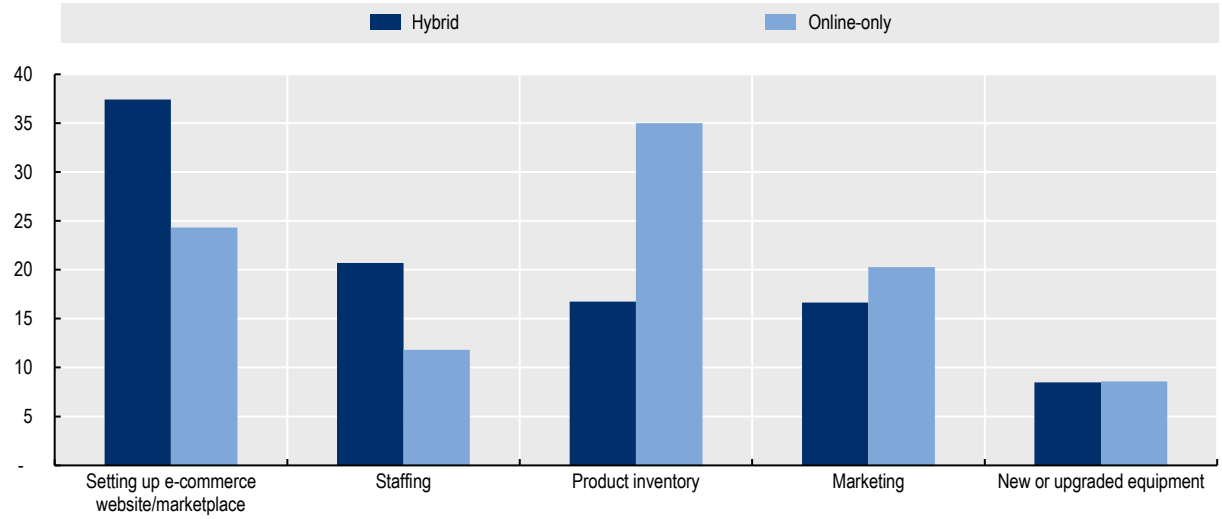


Note: Average of the responses from France, Italy, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

While the biggest investment in preparing for e-commerce sales for hybrid retailers was setting up their online presence, online-only businesses spent more on their inventory. The differences in the biggest investment category for online sales show that some challenges, such as setting up an e-commerce website and ensuring employees have the necessary digital skills, weigh more for businesses with a physical presence than for online-only ones. In more detail, while 37% of hybrid retailers across the surveyed countries indicate that setting up an e-commerce website or marketplace was their most significant investment in preparing for online sales, only 24% of online-only retailers do so (Figure 23). Instead, 35% of online-only businesses indicate that product inventory was their biggest investment, compared to 17% of hybrid retailers. Staff-related costs rank second for hybrid businesses (21%), but are less significant for online-only businesses, with an average of 12% of the businesses mentioning it as their top investment.

Figure 23. The largest investment in preparing for e-commerce sales, by type of presence

As an average percentage of hybrid and online-only businesses in the surveyed countries

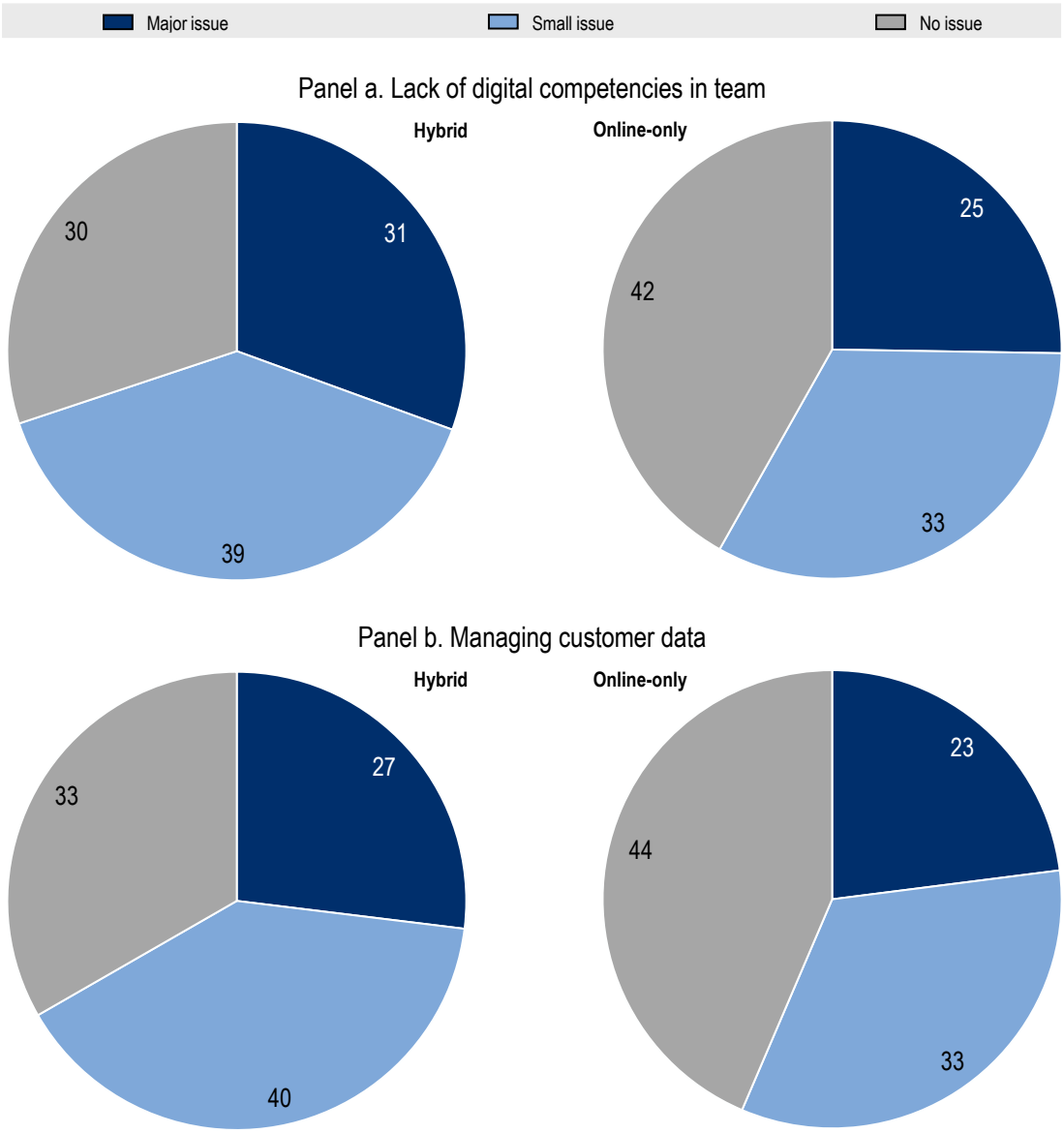


Note: Average of the responses from France, Italy, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

In terms of challenges, lack of digital skills, along with managing customer data, represents a comparatively bigger problem for hybrid businesses. 70% of hybrid retails consider lack of digital competencies in the organisation an issue with 31% indicating it is a major one (Figure 24 Panel a). Online retails are more divided on the matter, as 58% of them consider it problematic, with 25% still indicating it as a major issue. Similarly, hybrid retails are also more concerned about managing their customer data than online-only businesses, with 67% and 56% respectively considering this as a challenge (Figure 24 Panel b). These differences can be traced to the initial physical profile of hybrid retailers, which demanded them to acquire a set of skills that online-only businesses had from the onset.

Figure 24. Selected examples of challenges when selling online, by type of presence

As an average percentage of hybrid and online-only businesses in the surveyed countries



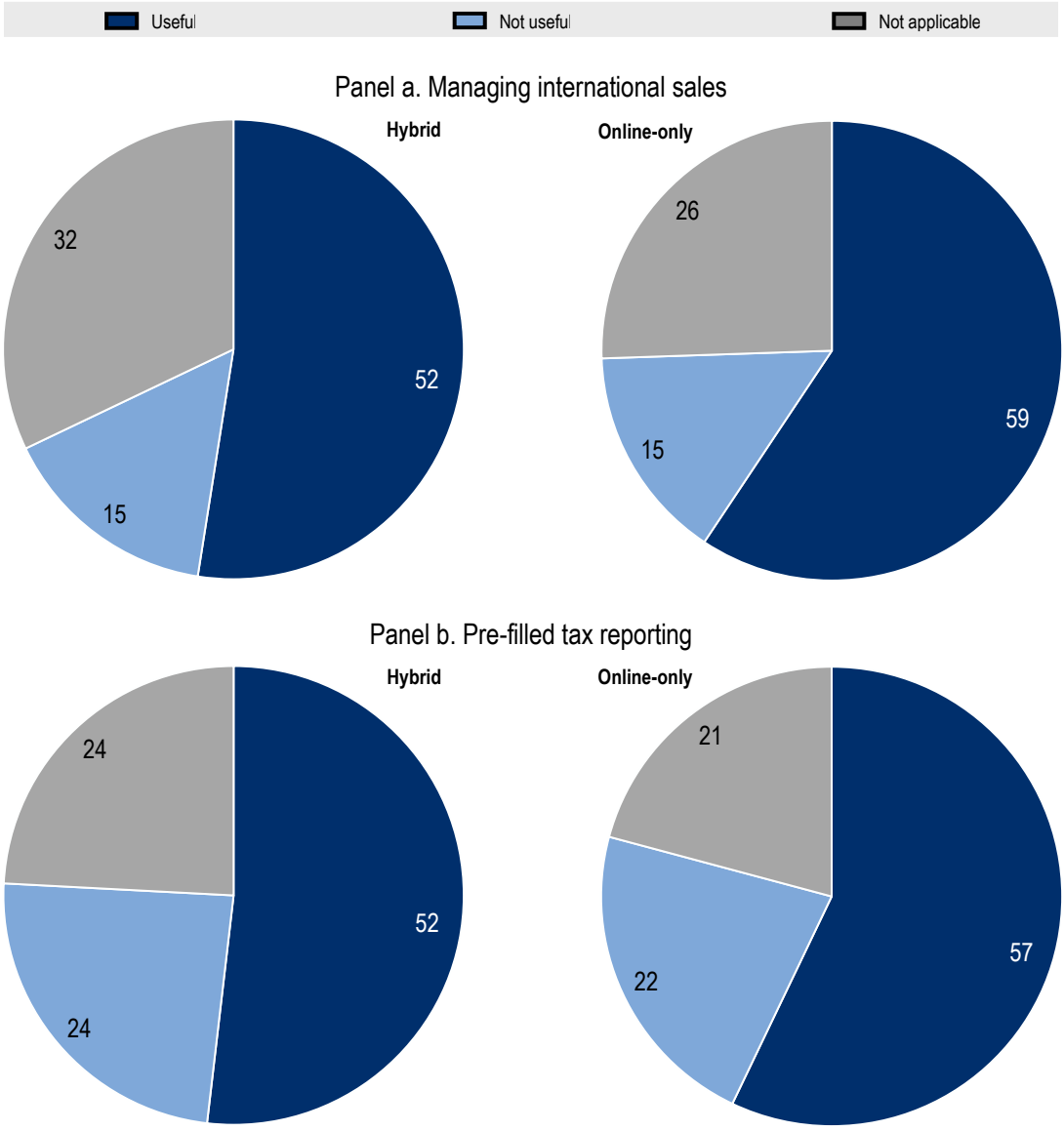
Note: Average of the responses from France, Italy, Japan, Korea, and Spain. The figure illustrates findings with the largest differences between hybrid retails and online retails.
Source: OECD D4SME E-commerce Survey.

With regard to third-party services, online-only businesses find international sales management and pre-filled sales tax reporting more useful than hybrid businesses. Managing international sales, such as assistance on customs declaration, clearance procedures and currency conversion, and pre-filled tax reporting are where distinct differences in share of responses can be observed. Services for managing international sales are deemed useful by 59% of online retailers, compared to 52% of hybrid businesses (Figure 25 Panel a). Similarly, pre-filled tax reporting is considered to be a useful e-commerce service by 57% of online businesses (Figure 25 Panel b) while hybrid retailers are more shared in their assessment with 52% considering it to be of relevant use. These differences can in part be attributed to hybrid business profiles being older than their online-only counterparts. Since hybrid businesses are likely to have had their

business systems already set up in place before beginning their online sales, it is plausible that they were utilising less of the services offered by online marketplaces.

Figure 25. Selected examples of useful third-party e-commerce services, by type of presence

As an average percentage of hybrid and online-only businesses in the surveyed countries



Note: Average of the responses from France, Italy, Japan, Korea, and Spain. The figure illustrates findings with the largest differences between hybrid retails and online retails.
Source: OECD D4SME E-commerce Survey.

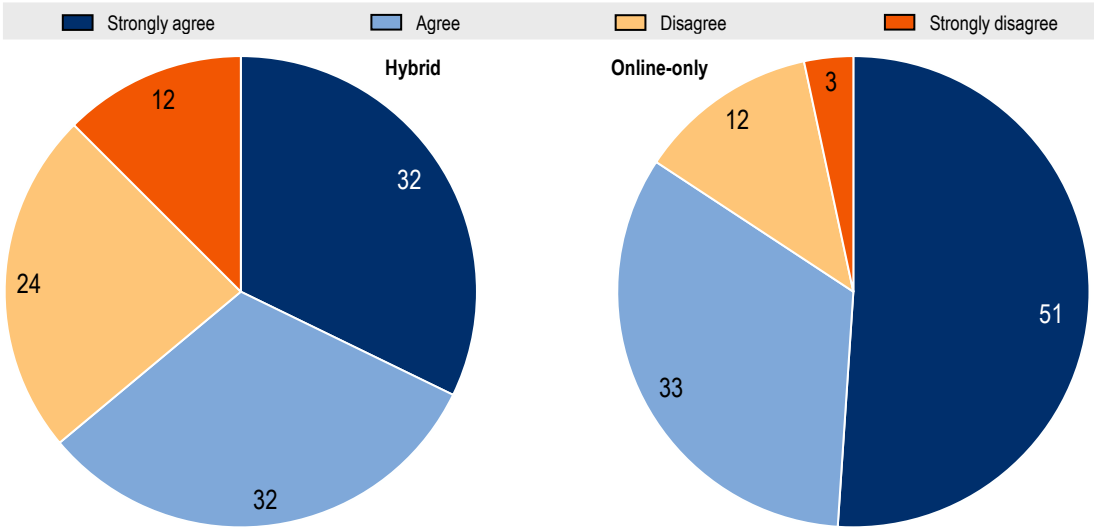
For hybrid businesses, reducing operational cost is less likely to be a motive in pursuing online sales as adding online sales channels to their business operation can pose an additional cost burden. A large majority of online-only businesses (84%) consider that one of the main advantages of selling online is "reduced operational costs" but views are more divided among hybrid businesses, with 36% indicating that having online sales channels did not contribute to reduced operational costs, with as

much as 12% even strongly disagreeing (Figure 26 Panel a). These results convey the complexities associated with pursuing a multichannel strategy, which are especially pronounced for SMEs, as discussed in the previous section.

French businesses, both hybrid and online-only, see reduced operational costs as benefit for selling online more than their peers in other countries. A noticeable share of online-only businesses (97%) responded this way (Figure 26 Panel b). On the other hand, France is also the country with the largest share of hybrid respondents strongly disagreeing with this statement (33%). While differences in terms of perceived benefits can be observed between hybrid and online-only retailers across countries, Korean businesses are the least divided in their assessment. 83% and 88% of hybrid and online-only retailers respectively agree with online sales leading to reduced operational costs, with 50% of the Korean hybrid businesses strongly agreeing with this statement, ahead of 44% of the Korean online-only retailers responding in the same way.

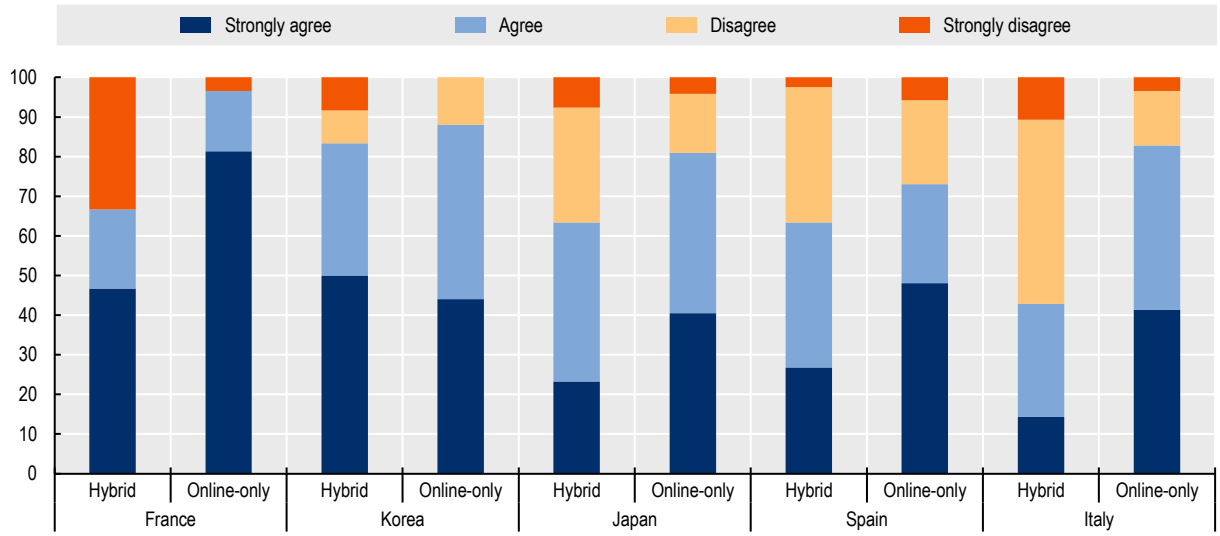
Figure 26. Reduced operational cost as a benefit of selling online, by type of presence

Panel a. As an average percentage of hybrid and online-only businesses in the surveyed countries



Note: Average of the responses from France, Italy, Japan, Korea, and Spain. The figure illustrates findings with the largest differences between hybrid retails and online retails.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country



Source: OECD D4SME E-commerce Survey.

4 Government supports for SMEs' online sales: Policy examples and survey findings on the uptake

Policies supporting SMEs' online sales

Over the past decade, across OECD countries, governments have stepped up efforts to assist SMEs in becoming more digital, with a strong acceleration during the pandemic. It is increasingly acknowledged that supporting digitalisation of SMEs and entrepreneurs through a holistic policy framework can facilitate the transition and resilience of the small business population (2022[70]). In the case of the retail sector, many OECD governments have introduced measures to help retail SMEs explore and adopt digital practices, including through online presence. This was especially the case in response to the COVID-19 pandemic. As many physical retail businesses resorted to e-commerce to adapt to social distancing measures, several OECD governments put in place plans to support this transition, such as by lowering barriers to e-commerce and, more in general, by introducing measures to accelerate business digitalisation. Box 2 presents some of the recent government efforts to support SMEs in the retail sector to digitalise. The examples complement the policy measures introduced in the surveyed countries, presented in the following section.

Box 2. Selected policies to support the digitalisation of retail SMEs in OECD countries

Grow Your Business Online, Canada

The "Grow Your Business Online" grant programme is provided by the Innovation, Science and Economic Development Canada, a department of the Government of Canada. It is part of the broader SME digitalisation initiative "Canada Digital Adoption Program" provided for in the government's budget for the year 2021. With the aim to assist up to 90 000 Canadian small businesses in seizing e-commerce opportunities, the programme provides business-to-consumer (B2C) retails a micro-grant of up to CAD 2 400 to help them cover costs associated with initiating or refining e-commerce plans. Eligible expenses include subscription fees for using e-commerce platforms, costs related to e-commerce website search optimisation, social media advertising costs, and service fees for hiring e-commerce consultants.

Source: (Government of Canada, 2021[71]).

Digital Commercial Neighbourhoods, Portugal

Under the framework of the national Recovery and Resilience Plan, Portugal's Agency for Competitiveness and Innovation (IAPMEI) seeks to provide digitalisation packages at the level of

commercial districts. The programme "Digital Commercial Neighbourhoods" (*Bairros Comerciais Digitais*) is designed to provide supports to relevant local stakeholders, with municipalities and business associations as examples. EUR 52.5 million has been earmarked for the project in 2022, with the goal to create 50 Digital Commercial Neighbourhoods by 2025. Recipients are selected based on their project proposal to reinvigorate their commercial districts, with the budget of each project required to be between EUR 50 000 – 2 million. Eligible types of investments include both district regeneration-related costs, including acquisition of urban furniture, as well as digitalisation-related costs, such as installation of digital infrastructure and digital equipment that can enhance customers' in-store experience. Interestingly, the project further supports district-wide hybrid retail efforts, e.g. implementation of a logistical system to offer product delivery or "buy online and pick-up in store" options to consumers. The programme presents an example of how retail revitalisation and urban regeneration can go hand-in-hand. It also shows how local conditions, such as connectivity and attractiveness, are especially relevant for retail SMEs.

Source: (IAPMEI, 2022[72]).

As businesses, and in particular SMEs, become more hybrid and leverage both physical and online sales channels, policy, regulatory and financial incentives for sales diversification can make a difference. Most government programmes, including the ones running in the 6 OECD countries analysed in this study, focus on two types of measures: either providing financial support (such as loans, grants, vouchers) or trying to improve SMEs' digital skills (including training, mentoring and consulting). It can also be argued that more flexible regulation can allow businesses to experiment and adapt with less constraints, for example, by simplifying access to information for SMEs, by relaxing existing rules for physical stores (e.g. planning and zoning rules in city centres that could hinder the re-purposing of a store front in a warehouse or logistic hub) and by creating properly monitored and evaluated experimental regulatory waivers (e.g. regulatory sandboxes used to test drones or digital payment mechanisms), that have a positive track record in other policy areas (OECD, 2020[73]; OECD, 2020[17]).

Policy measures in support of SME online retails in the surveyed countries

All countries covered by the D4SME survey (France, Germany, Japan, Korea, Italy, and Spain) have policies in place to support SMEs' use of online sales channels. Due to their limited size and capacity, SMEs are disproportionately exposed to market failures and inefficiencies in the business environment, which can put them at a competitive disadvantage in the rapidly changing digital economy (OECD, 2017[74]). The following section outlines some of the online retail support policies implemented in the six countries covered in the survey, including those explicitly mentioned by respondents themselves, as well as additional examples of SME targeted digitalisation policies that also have implication for retail SMEs. The surveyed companies' perception of the public support they benefitted from is also presented.

In **France**, the General Directorate for Enterprises (*Direction générale des entreprises*), in partnership with regions, launched in 2018 "France Num" initiative for the digital transformation of micro-enterprises and SMEs. During the COVID-19 pandemic, the "France Num Cheque*"* (*Chèque France Num*)*,* a voucher programme, was provided to small businesses, where the beneficiaries could receive up to EUR 500 for integrating digital tools and services in their activities, including creating websites, acquiring inventory management software, and advertising online. In 2021, 78% of the 112 000 beneficiaries were either solo entrepreneurs or businesses with one employee, and 16% of the total recipients were from the retail sector (Ministere de l'economie des finances et de la souverainete industrielle et numerique, 2021[75]). The programme also includes grants for micro-businesses in financing online sales-related investments that cover up to 50% of the cost, with a maximum amount of EUR 7 500 per beneficiary (République Française, 2022[76]).

In **Germany**, the "Go-digital" programme, launched in July 2017 by the Federal Ministry for Economic Affairs and Climate Action (BMWK), targets SMEs in the commercial sector employing less than 100 employees with annual turnover or an annual balance sheet total for the previous year of less than EUR 20 million. The programme offers consulting and implementation services to support companies on their way into the digital future (BMWK, 2022[77]). In the context of the COVID-19 pandemic, the Federal Government introduced the "COVID Aid" (*Corona-Hilfen*) programme, designed to support SMEs and self-entrepreneurs experiencing severe sales losses during the crisis, where the companies can receive a temporary fixed-cost subsidy, as well as tax incentives (Bundesministirium der Finanzen, 2022[78]). While this programme was not specifically designed to help businesses "go online", a few respondents indicated that they leveraged it in order to set up their online sales channel. The "Digital Now" (*Digital Jetzt*) initiative by the BMWK, launched in September 2020 and set to run until the end of 2023, provides another example of a programme launched after the outbreak of the pandemic to bolster SME digitalisation. Upon the presentation of a digital transformation plan including investment in software, hardware or employee training, SMEs can obtain funding to cover a part of the required investment, including for instance the cost of setting up an online shop for SMEs operating in the commercial sector (BMWK, 2022[79]).

In **Italy**, the Ministry of Enterprises has launched incentives to foster the digitalisation of SMEs in the retail and manufacturing sectors, and/or to revamp economic activity in the aftermath of the COVID-19 crisis. For instance, following the COVID-19 crisis, the "Digital Transformation" subsidies could be used by SMEs operating in the commercial or tourism sector to finance the cost of setting up e-commerce and online payment systems (Ministero delle Imprese e del Made in Italy, 2020[80]) and the EUR 200 million Fund for the revival of economic activities in the retail sector (*Fondo per il rilancio delle attività economiche di commercio al dettaglio*) provided targeted support to retail SMEs severely affected by the pandemic (Ministero delle Imprese e del Made in Italy, 2022[81]). Support from *Sace Simest*, a state-owned credit agency, was also mentioned in the survey, where the agency provided subsidies to SMEs engaging in international sales. Running between 2019 and 2021, companies could obtain financing for expenses pertaining to e-commerce activities for sales abroad (SIMEST, 2019[82]). SMEs also received supports from business organisations active in their ecosystem. For example, the "Digital Excellence" (*Eccellenze in Digitale*) project launched by the Italian Union of Chambers of Commerce, Industry and Agriculture (*Unioncamere*), in co-operation with a private sector partner, offers free trainings at the Chamber of Commerce's "Digital Business Points" (*Punti Impresa Digitale*) to SME employees wishing to improve their digital skills (Unioncamere[83]). Between 2020 and 2022, a thousand seminars were organised throughout the country, with 43 000 entrepreneurs and collaborators receiving free training (Aliperto, 2022[84]). These included webinars covering e-commerce legislations relevant for SMEs, different types of transactions and online payments (Camere di Commercio d'Italia, 2022[85]; Camere di Commerci d'Italia, 2022[86]).

In **Japan**, SMEs engaging in e-commerce have access to a variety of support measures by national and local governments, chambers of commerce and e-commerce platforms. While not specifically targeted at online retails, a number of respondents mentioned having leveraged general COVID-19 related supports to develop their online sales channels. Namely, the Japanese Sustainability Benefit System (Japanese Ministry of Economy, Trade and Industry, 2020[87]) and the Japanese Government's Business Revival Support Fund (Business Revival Support Fund Administrative Business, 2022[88]). Some respondent businesses reported having benefitted from a subsidy provided by the Organization for Small and Medium Enterprises and Regional Innovation, SME Support Japan (SMRJ), operating under the Ministry of Economy, Trade, and Industry (METI). The measures typically cover half to three quarters of the total expenses in e-commerce, accounting, ordering and payment software (SMRJ, 2022[89]). While this was the only programme by the SMRJ mentioned by respondents, the Organization provides Japanese SMEs with other services at every stage of their business cycle. For example, Japanese SMEs engaging in e-commerce can benefit from online courses on developing sales channels and conducting cross-border e-commerce sales but also participate in matching events to meet other e-commerce businesses selling online and access advisory services (SMRJ, 2020[90]). Finally, respondents also mentioned the subsidy offered by the Chamber of Commerce and Industry to assist SMEs in their efforts to develop sales channels

and improve their productivity, covering between two thirds and three quarters of the costs required to develop sales channels, with caps raging from JPY 500 000 to JPY 2 million (EUR 3 530 – 14 130) depending on the type of quota (National Federation of Chambers of Commerce and Industry, 2022[91]).

In **Korea**, the government's retail digitalisation efforts have been spearheaded by the Ministry of SMEs and Startups (MSS), with a particular focus on helping solo-entrepreneurs and micro-enterprises open digital sales channels and nurture skills needed to engage in online sales. "*Fanfandaero*", a programme often mentioned by Korean respondents, is a government platform dedicated to supporting SMEs promote their products and find distribution partners. Operated by the Small Business Distribution Center (SBDC) under the MSS, the platform also provides comprehensive assistance to SMEs interested in selling online, where the small businesses can register their products for online distributors to view, and further receive marketing-related supports. In addition, the platform includes a one-stop online sales distribution solution, where businesses engaging in online sales can consolidate their sales data across various e-commerce platforms without charge, allowing small businesses to have a clear visibility over their inventory level, as well as obtain a detailed analysis of their sales activity. Similarly, the MSS operates "Value Buy" a one-stop portal dedicated to digitalisation of micro-retails, where the small businesses can receive a comprehensive support package in conducting online sales. The supports include trainings on using e-commerce platforms, content creation for promotional material, and influencer digital marketing. In addition, the MSS signed MOUs with e-commerce platforms, both domestic and abroad, to facilitate micro-businesses in selling online, as well as to promote their products.

In **Spain**, the thirteenth component of the government's "Recovery Transformation and Resilience Plan" (*Plan de Recuperación Transformación y Resiliencia*), approved in 2021 and financed by the European Union's Next Generation EU funds, targets SMEs in the commercial sector seeking to establish their presence on e-commerce platforms (Gobierno de España, 2021[92]). Leveraging these resources, the Spanish Ministry of Industry, Trade and Tourism has established the "Technological Fund" (*Fondo Tecnológico*), with a EUR 100 million budget for the years 2022 and 2023 to help SMEs adapt to the digitalisation of the commercial sector (Ministerio de Industria, Comercio y Turismo, 2022[93]). In addition, the *Activa Crecimiento programme* within the "National Strategy for Connected Industry 4.0" includes grants for companies to obtain personalised advisory services in the fields of digitalisation, commercialisation, marketing, and finance, among others and is intended to benefit 2 600 SMEs from all sectors (Ministerio de Industria, Comercio y Turismo, 2022[94]). Finally, one of the main objectives of the "Digital Toolkit" (*Kit Digital*), a Ministerial programme with a budget of EUR 3 billion developed in co-operation with large private sector companies willing to support SME digitalisation, is to effectively enable SME engagement in e-commerce (Gobierno de España. Ministerio de Asuntos Económicos y Transformación Digital, 2021[95]). With three open calls in 2022 to support the digitalisation of SMEs through digital vouchers (*Bono Kit Digital*) of up to EUR 12 000 depending on the business size and the required service, the programme includes a focus on SMEs wishing to set up their own website, online store or increase their sales in online marketplaces amongst others (ADN Digital, 2022[96]).

Beyond national policies, respondents mentioned a number of regional support programmes. These programmes are designed to assist SMEs in coping with pandemic-related difficulties or wishing to establish their online presence. The two programmes below from Italy and Spain were financed with funds from the European Regional Development Fund (ERDF) and the European Social Fund (ESF):

- Puglia region Microcredit *(Microcredito Regione Puglia)*: In order to meet the needs of micro- and the self-employed faced with the economic repercussions of the COVID-19 pandemic, the **Puglia region in Italy** adopted the "Public notice on MicroLoan" (*Avviso publico MicroPrestito*) which consists of mortgages granted at zero interest and without guarantees to finance micro-businesses' operational expenses between October 2021 and January 2022 and capped at EUR 30 000 per project (Regione Puglia, 2021[97]).

- *Extenda Marketplaces*: The programme was designed to provide businesses from the **Andalusia region in Spain** with low-cost consulting services to set up their online store in a marketplace. Eligible businesses need to pay a single fee of EUR 370. These services are provided within the wider "*Extenda*" initiative which aims to promote the internationalization of Andalusian companies (Junta de Andalucía, 2021[98]).
- *Fukushima Pride New Store and New Product Support Project*: The programme consisted of a partnership between the **Fukushima Prefecture in Japan** and different e-commerce platforms to promote the products of newly opened local food retailers, including the launch of a coupon campaign to earn discounts on specific products (Prefecture of Fukushima, 2022[99]).

Survey findings on the uptake of government supports

This section explores the surveyed retail businesses' awareness of the available government programmes for engaging in online sales, as well as their actual use of the support measures (some of which are mentioned in the previous section). In the section below we present information related to the share of uptake by surveyed businesses, along with common types of programmes utilised, and the sources for finding information on the available government supports[4].

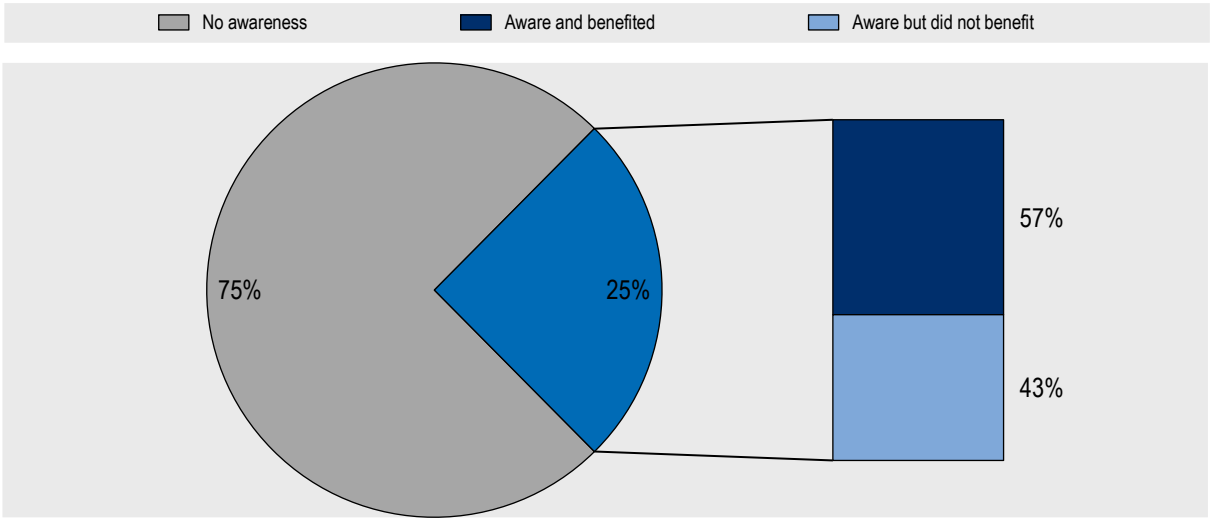
Despite various government programmes conceived to assist the retail SMEs' online activities, only a small share of survey respondents declared benefitting from such supports, also reflecting a general lack of awareness. Only 25% of the surveyed businesses stated that they are aware of public support programmes available for businesses engaged in online selling (Figure 27 Panel a). Amongst these, more than half (57%) indicated they benefitted from one. This rather high uptake rate amongst the informed businesses suggests that increasing awareness of these programmes could lead to greater uptake of these supports, thus contributing to ease challenges. For instance, considering that there is a noticeable share of respondents experiencing difficulty in obtaining financing for their online activity (Figure 14) and that the government supports, as presented above, are largely focused on providing financial resources to digitalise, there seems to be a gap between policy supply and policy demand that could be bridged with more effective awareness campaigns.

Cross-country comparison on both the awareness and uptake of government programmes paints distinct differences between jurisdictions. Korean businesses tend to be more aware of the government supports than businesses in other countries, with around two-thirds (68%) of businesses stating that they have heard of government supports for online retailers (Figure 27 Panel b). In case of Spanish businesses, they are more likely to be aware of targeted programmes (20%) than in other surveyed countries (12-13%), but even when aware, they largely did not access the support. Given the availability of a number of government programmes to help Spanish retailers digitalise, as identified in the previous section, the low share of uptake suggests other factors may hinder small businesses from accessing the supports.

[4] Responses from German businesses are omitted from this section of the analysis, due to insufficient size of the respondent group.

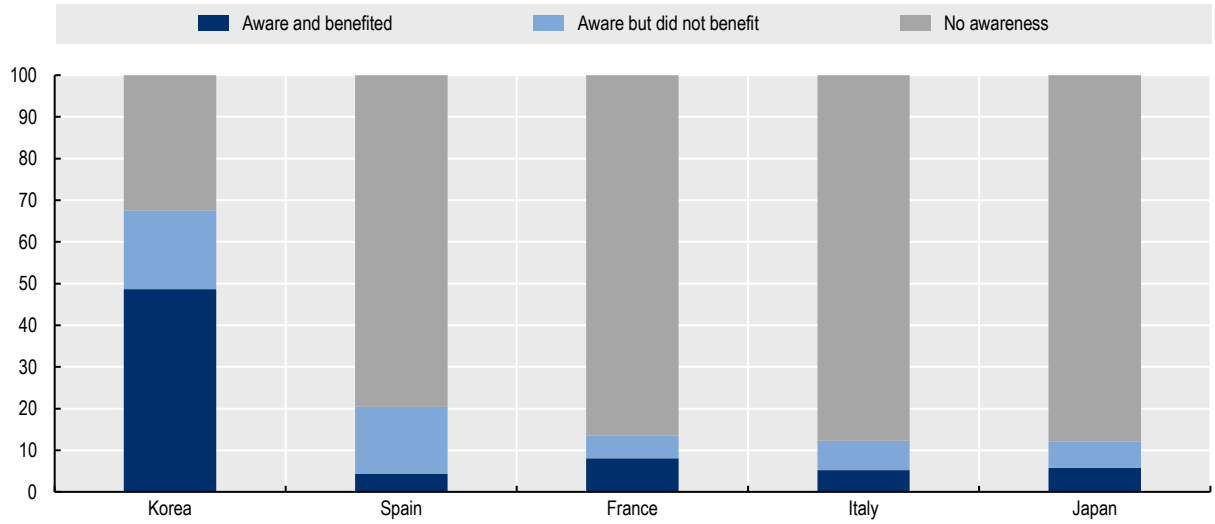
Figure 27. Awareness and uptake of government supports for selling online

Panel a. As an average percentage of responses from the surveyed countries



Note: Average of the responses from France, Italy, Japan, Korea, and Spain.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of responses from each country



Source: OECD D4SME E-commerce Survey.

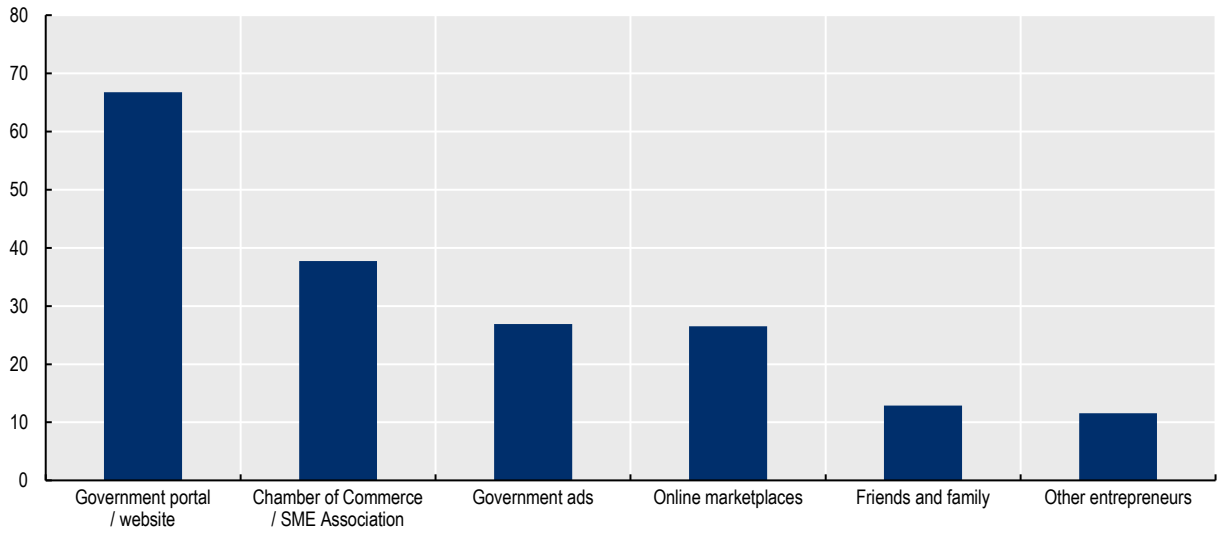
Most of the businesses who are aware of the government support programmes learned about them through their respective government websites or through business institutions. 67% of the businesses who were aware of the existence of government support for selling online learned about it through a government portal or websites operated by the government and around 38% through chambers of commerce or SME associations (Figure 28 Panel a). These results convey the proactiveness of SMEs in looking for available supports and the important role of business associations in the SME ecosystem. As the most impactful information channel, governments can promote their available policy supports to better reach their targeted groups, with online one-stop shop as an example. In fact, another 27% of

respondents indicated that they obtained information from government advertisements from various sources such as TV, social media, or newspaper. In addition to online marketplaces (26%), friends and family (13%), other entrepreneurs (12%), and professionals, such as accountants and business consultants, are also mentioned as sources of information.

The case for the promotion of available supports by governments on their websites is particularly effective in the case of Italy, as 100% of the Italian businesses knowledgeable about government support learned the information from the public administration portals (Figure 28 Panel b). Close to half of Spanish businesses that are aware of government programmes obtained information through government advertisements. These types of campaigns can be more expensive as they target the general public, but they have the important benefit of reaching businesses "passively", without the need for them to decide to look for information about government programmes in the first place. Finally, the role of business institutions and online marketplaces in diffusing information on government supports is particularly pronounced in Japan and Korea compared to businesses in other countries.

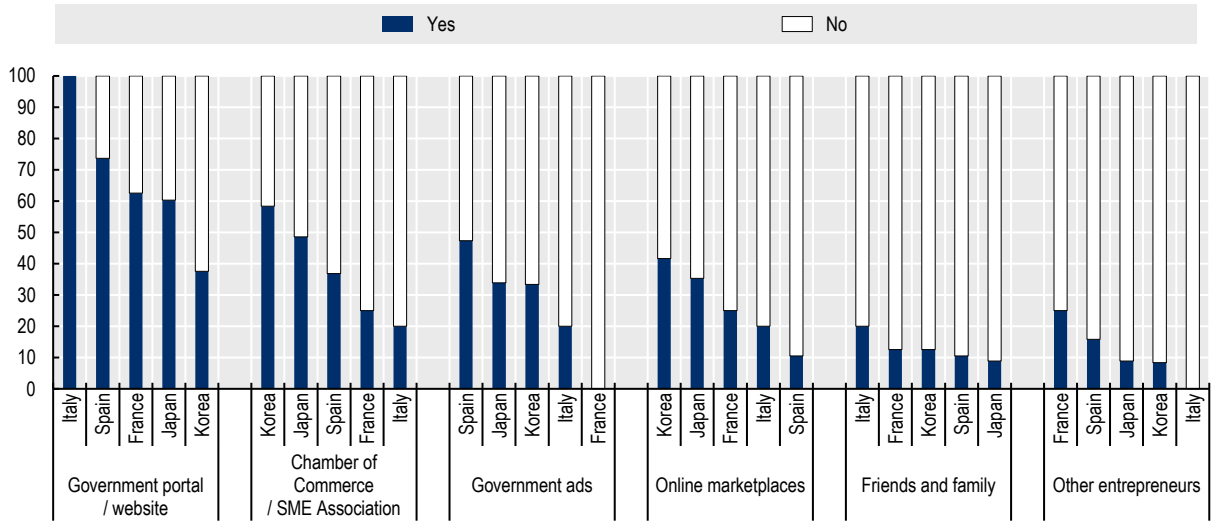
Figure 28. Source of information for government support programmes in selling online

Panel a. As an average percentage of responses from the surveyed countries



Note: Elaboration based on the respondents that indicated they knew about government support programmes. Average of the responses from France, Italy, Japan, Korea, and Spain. Respondents were given the possibility to select multiple answers.
Source: OECD D4SME E-commerce Survey.

Panel b. As a percentage of the businesses aware of government supports

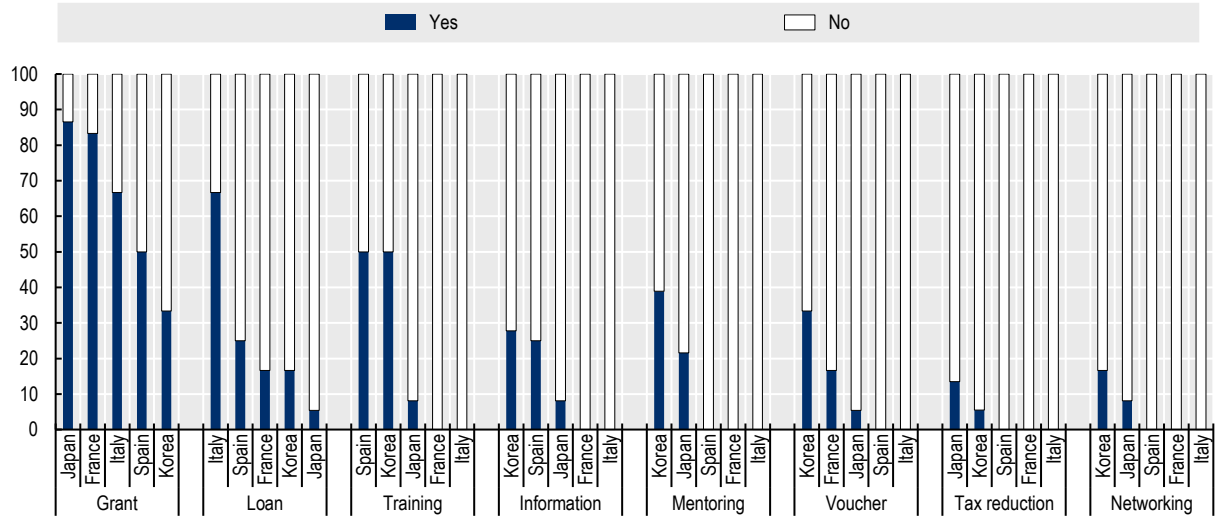


Note: Elaboration based on the respondents that indicated they knew about government support programmes. Respondents were given the possibility to select multiple answers.
Source: OECD D4SME E-commerce Survey.

Grants and loans are the most common forms of government support reported by the surveyed businesses. Grants (64%) was the most widely utilised support type by the businesses across the countries, followed by loans (26%) and trainings (22%). Significant cross-country differences can also be observed in the sample (Figure 29). The type of support most widely received by Japanese and French businesses is grants while Italian businesses benefitted from loans as much as grants, with 67% of supported Italian firms having received them. As for Korean businesses, they received mentoring and vouchers more than businesses in other countries. It is important to note that these results are based on the self-declared answers of the supports received, and that low or no uptake of a type of support measure does not indicate absence of such type of government support in the country. To offer a concrete example, although none of the respondent Spanish businesses indicated having received vouchers, the Spanish government does offer digital vouchers to SMEs as a part of their “Digital Toolkit” programme, as described above.

Figure 29. Type of supports received by businesses

As a percentage of the businesses benefitted from government supports



Note: Elaboration based on the respondents that indicated having made use of government support programmes. Respondents were given the possibility to select multiple answers. Low or no uptake of a type of support measures do not indicate absence of such type of government support in the country.
Source: OECD D4SME E-commerce Survey.

5 Conclusions

The pandemic has increased consumers' demand for digital interaction and the trend continues even as consumers return to physical stores. Data show that across the OECD all age groups are shopping more online. The acceleration was particularly marked among older generations, with a strong increase of online shoppers among the 55-74 age group. As the social distancing measures were lifted in many countries, consumers' visits to retail and recreational areas have returned to pre-pandemic levels. But the uptake of online shopping remains higher than it was before the pandemic, nonetheless.

SMEs are embracing a "new normal" of hybrid retail, where physical and digital channels co-exist, overlap, and interact. SMEs selling both online and offline can achieve increased sales, broadened customer base (both domestic and foreign), and improved relationship with customers, thus increasing their profitability and resilience to external shocks. They can do this autonomously, by opening their own online sales channel, or by leveraging the many online platforms offering access to their marketplaces. However, going hybrid or multiplying sales channels also brings challenges, such as increased competition, lower margins and increased operational complexity in order to manage multiple channels. In addition, there is still room to improve the digital readiness of SME retailers to effectively utilise digital tools and services, particularly in managing digital marketing and raising SME awareness regarding digital risks.

The OECD D4SME survey on hybrid retail has been launched to gather information on this transformation in the retail sector. While the evolution of the retail sector is quite apparent, the evidence base to analyse it is rather thin. To strengthen such evidence, in 2022 the OECD launched the survey in co-operation with the private sector partners of the "Digital for SMEs" Global Initiative. The pilot survey conducted during the fourth quarter of 2022 aimed to gather timely information from retail SMEs in six OECD countries that are experiencing and enacting these changes. To ensure relevance, the sample included, by construction, only businesses that are already selling online, as it was conducted among the retail SMEs selling through the online platforms provided by the D4SME private sector partners.

Online-only businesses are the most represented amongst the respondents across all age groups, while a large portion of hybrid retail firms consists of old firms. 3 out of 5 respondents indicate that they are operating only on online sales channels, most of them doing so from the beginning. The remaining respondents can be categorised as "hybrid retails", almost all expanding their business from physical to digital. Close to three fourths of these hybrid businesses have been operating for more than ten years. In terms of online sales channels, most surveyed businesses prefer using a mix, including social media and their own websites, in addition to online marketplaces (64% of respondent businesses reported that they engaged in multichannel sales activity with 48% selling from their own web page in addition to using online marketplaces).

The analysis illustrates a lack of skills investments, with most businesses opting for a "do-it-yourself" approach and reassigning existing staff without specific competences to manage online sales. 6 out of 10 respondents indicate that they just assigned existing staff to manage online sales, while only a small minority either hired new staff or reverted to external consultants. However, it is also worth noting that 21% of respondent businesses (and 42% among self-entrepreneurs) indicated that they were uncertain about their approach on this matter, which can be interpreted as a lack of digital talent strategy when engaging in e-commerce.

Most respondents plan to continue or expand their online sales, but several are struggling regardless of their plans. While a majority of businesses report they are selling well online in Germany, Italy, Japan, Korea and Spain, this was the case for just 37% of French retailers. Nevertheless, 6 in 10 of them indicated they would continue selling online despite the difficulties they are facing, suggesting there may be room to support these resolute enterprises in fully reaping the benefits associated with online sales.

Complex e-commerce regulations, lower than expected sales demand and access to finance pose challenges to businesses selling online. 9 out of 10 businesses indicate that "understanding e-commerce laws and regulations" was an issue when selling online, emphasising again how SMEs often lack the capacity to navigate through complex regulations. Further, 7 out of 10 businesses indicate "lower than expected online sales demand" as well as "obtaining financing" as key barriers when engaging in online sales, highlighting the resource constraints these businesses are faced with. Otherwise, and while respondent businesses largely report focusing on their domestic markets, those engaging in overseas sales report multiple VAT registration and reporting requirements as the most significant challenge. Finally, around one third of the respondents indicate slow internet as a problem, a result that can be related with the low diffusion rate of high-speed internet amongst retail SMEs.

At the regional level, differences in challenges faced by SME retailers can be observed in Japan, particularly in relations to different speed and availability of the Internet connection. Granular data on the geographical distribution of Japanese respondent businesses revealed that SMEs operating in prefectures with slower median internet speed (e.g., Hokkaido) were more likely to report slow internet connection as a challenge (70%) than prefectures with fast connection (e.g., Kanagawa and Saitama).

Most of online-only and hybrid businesses agree that selling online increases sales abroad. Data from the survey suggest that 67% of businesses selling exclusively online reckon that selling online increases sales abroad, and 64% of hybrid businesses think the same. When asked about whether online sales could help reach more customers in different regions or countries, both types of businesses are rather in agreement, with a slightly higher percentage of online-only businesses (83%) compared with hybrid ones (77%).

The D4SME survey also helps reveal some of the opportunities and challenges that are unique to hybrid retails. For the majority of the hybrid retails, sales from the brick-and-mortar store remain prominent, highlighting their focus on local customers. This being said, approximately two-thirds of respondent businesses indicated that their in-store sales remained stable or increased after going online, conveying that online sales channels represent a complementary avenue for growth. Hybrid businesses face a greater investment challenge when it comes to establishing an online presence compared to online-only businesses, many of which are digitally native. These businesses are also more concerned about maintaining their online operations, such as managing customer data and developing their digital skills. In addition, hybrid businesses are split in seeing online sales as a cost-efficient channel, with almost half of them indicating that selling online does not lead to reduced operational cost. For comparison, 8 in 10 online-only businesses considered selling online to be beneficial for cost reduction. This suggests that managing hybrid retail adds to the complexity of SMEs' business operations. Moreover, hybrid retails are less engaged in selling abroad through their online sales channels than their online-only peers.

The evidence suggest that, for retail digitalisation support measures to be effective, they should be targeted and tailored to the varying digital needs of businesses according to their online and offline presence. For instance, findings suggest that hybrid businesses could benefit more than their online-only counterparts from guidance on effective management of sales across online and offline channels or assistance in acquiring digital skills to sell online. In addition, retail digitalisation supports should go beyond offering the means to establish online presence, and help the businesses address more structural challenges related with digitalisation processes, such as the access and effective management of data, practical guidance on how to use data in their decision-making process or providing good practice on protecting customers' data.

Government programmes focus mainly on providing financial resources and digital skills, but businesses are often unaware of such programmes. Across the OECD, most government programmes at national level (sometimes delivered in co-operation with regions/municipalities) focus on either financial support, (e.g. loans, grants, vouchers) or on increasing digital skills, (e.g. training, mentoring and consulting), which is also the case of the countries covered by the OECD D4SME survey. Findings suggest that retail businesses that sell online are largely unaware of available government programmes, with just one-fourth of respondents indicating they did know about their existence. This is confirmed also by the fact that trainings provided by governments or higher education institutions are the least sought out methods when obtaining information on selling online. In addition, differences can be observed across the jurisdictions with 5 in 10 Korean businesses reporting that they knew about and benefitted from government support programmes against less than 1 in 10 businesses in case of the remaining countries.

However, when businesses do know about the existence of government programmes, they often enrol. Uptake of government support programmes amongst businesses that were aware is rather high, at 57%. This suggests that increasing the awareness of the policy programmes in the business population could lead to a large number of businesses receiving the needed supports. To do so, governments can further exploit a variety of communication channels. In our sample, SMEs indicate government portals and websites and chambers of commerce as the main channels to access information about available support programs. Barriers to access supports should also be considered, as illustrated by Spanish respondents, who largely did not access supports despite displaying a slightly higher degree of awareness.

The retail sector is transforming, and governments have diverse tools to support SMEs in the digital transition. SMEs are adapting to the new trend towards a more integrated “hybrid” world where physical and digital channels co-exist. This scenario of transformation, however, requires addressing gaps in connectivity, access to financial resources, skills and knowledge, which increase challenges SMEs face in managing complexity and can limit the benefits they can seize. A conducive regulatory environment is essential to reduce the barriers between physical and online operations that retail businesses have to overcome, but also the barriers they face when engaging in cross-border trade (e.g. complexity of customs procedures). Across these diverse policy levers, governments need to assess implications for different types of SMEs and entrepreneurs and target their interventions where necessary, keeping in due consideration the diversity of the retail population in terms of size, age, geographical location, type of products managed, level of digitalisation, and their ambition (OECD, 2022[70]).

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Annex A. Survey methodology and questionnaire

Methodology

The survey was designed to gather original data on how SMEs in the retail sector are adapting to the new era of "hybrid retail" where the interplay between digital and physical sales channels becomes ever more important. The OECD team has designed the survey to be delivered in co-operation with large private e-commerce platforms that are partners of the "Digital for SMEs" Global Initiative's (D4SME) network. This means that the target population was confined to the retail SMEs that are already actively selling online through these large e-commerce platforms, so it should not be considered representative of the (much broader) population of SMEs in the retail sector in the countries analysed.

The questionnaire is formulated in 6 thematic parts, which are: 1) basic business profile; 2) preparation for online sales; 3) benefits and opportunities; 4) challenges; 5) obtaining information about selling online; and 6) awareness of uptake of government supports. Across these dimensions, the questionnaire also allows to identify hybrid retails (i.e. retail businesses conducting sales both in physical and online shops) to distinguish them from online-only businesses.

To ensure anonymity of the responses, questions that could be used to trace back respondents were excluded from the questionnaire. The survey was prepared following the OECD data protection standards, with the OECD exercising stewardship of the meta data. The survey was distributed in the second half of 2022 in six OECD countries by three D4SME private sector partners, who shared the link to the survey with their network of SMEs selling on their marketplaces, namely: France, Germany, Italy, Spain (Amazon), Korea (Kakao), and Japan (Rakuten). The cooperating e-commerce platform, as well as period of response collection vary depending on the country, which are as below (presented in the order of survey distribution).

- France, Germany, Italy and Spain: Survey distributed by Amazon, between 08 September and 18 November 2022
- Korea: Survey distributed by Kakao, between 04 November and 01 December 2022
- Japan: Survey distributed by Rakuten, between 28 November and 02 December 2022

The list of questions distributed across countries is largely identical, with minor adjustments of answer options made for the Japanese version of the survey to allow for collection of more granular information. The modifications are marked with "(JP ver.)" in the "Questionnaire" section below.

While the survey was shared with all active "vendors" on each e-commerce platform, the retail businesses that received the survey do not necessarily represent the characteristics of the overall retail business population in the respective countries. This is mainly due to business size not being a required information when opening an account on the platforms. However, previous surveys conducted on the same population suggest similar size distribution of micro- small and medium-sized businesses compared to the whole retail business population.

A total of 931 responses are collected from the survey: 74 from France, 25 from Germany, 57 from Italy, 645 from Japan, 37 from Korea, and 93 from Spain. Due to differences in the number of responses in each country, the figures are presented with country average to analyse the results and conduct cross-country comparison, except for business profile-related data that are presented as a percentage of the total number of responses. In case of sections on hybrid retail and government support, responses from Germany are excluded due to insufficient size of the respondent group.

Questionnaire

- Question 1: When was your business established?
  - 2022
  - 2021
  - 2020
  - 2019
  - 2018
  - 2017
  - 2016
  - 2015
  - 2014
  - 2013
  - 2012
  - 2011
  - Before 2011

- Question 2: What is the size of your business as of today?
  - Self-entrepreneur (No employees other than yourself)
  - Micro business (1-9 employees)
  - Small business (10-49 employees)
  - Medium-sized business (50-249 employees)
  - Large business (more than 250 employees)

- Question 3: When did your business start selling online?
  - 2022
  - 2021
  - 2020
  - 2019
  - 2018
  - 2017
  - 2016
  - 2015
  - 2014
  - 2013
  - 2012
  - 2011
  - Before 2011

- Question 4: Which online sales channel(s) does your business use? (Multiple choice)
  - Own online shop

- Online marketplace(s)
- Social media
- Other (text answer)

- Question 5: Does your business have a physical shop(s)?
  - Yes, we began by selling from physical shop(s) and now we also sell online (go to question 6)
  - Yes, we began by selling online and now we also have physical shop(s) (go to question 7)
  - No, we began by selling from physical shop(s), but we are now exclusively selling online (go to question 6)
  - No, we have been selling our goods exclusively online from the beginning (go to question 7)

- Question 6: Did your business's sales from the physical shop(s) change after you started selling online?
  - Yes, we sell less from the physical shop(s) because we are focusing the business more on selling online
  - Yes, we sell less from the physical shop(s) because as people can buy our goods online, there is less demand from in-person sales
  - Yes, we sell more from the physical shop(s) as more customers learn about our business online.
  - Yes, we sell more from the physical shop(s) because we started offering experiences available only in person (e.g. gift, personalised suggestions, loyalty programme)
  - No, sales from the physical shop(s) remained similar

- Question 7: How did your business prepare for selling online?
  - We contracted consultant(s)/expert(s) outside of our business to manage online sales
  - We assigned existing staff to manage online sales
  - We hired non-ecommerce specialist(s) to manage online sales
  - We hired ecommerce specialist(s) to manage online sales
  - I am not sure

- Question 8: What was the biggest investment in preparing for ecommerce sales? Please rank the items from the biggest (top) to the smallest (bottom).
  - Staff (e.g. training employees or hiring new staff)
  - Product inventory
  - New or upgraded equipment (e.g. computers, Wi-Fi router)
  - Marketing (e.g. ads, SEO)
  - Setting up ecommerce website/marketplace

- Question 9: What challenges does your business face when selling online?
  - Complicated cross-border trade
    - Major issue
    - Small issue

    - No issue
  - Different retail legislation for online versus offline sales channels
    - Major issue
    - Small issue
    - No issue
  - Lack of digital competences in team
    - Major issue
    - Small issue
    - No issue
  - Risk of cyber-attacks and hacking
    - Major issue
    - Small issue
    - No issue
  - Managing customer data
    - Major issue
    - Small issue
    - No issue
  - Obtaining financing for selling online (e.g. for software purchase, inventory warehouse management)
    - Major issue
    - Small issue
    - No issue
  - Understanding ecommerce laws and regulations
    - Major issue
    - Small issue
    - No issue
  - Managing online payments
    - Major issue
    - Small issue
    - No issue
  - Slow internet connection
    - Major issue
    - Small issue
    - No issue
  - Lower than expected online sales demand
    - Major issue
    - Small issue
    - No issue

- Question 10: Where does your business get information about selling online? (Multiple choice)
  - From other business owners

  - Social media posts (e.g. YouTube, TikTok, Instagram, Medium)
  - Tutorials offered by ecommerce platforms
  - Private sector online learning platforms (e.g. Coursera, Skillshare, Alison)
  - In-person private courses and workshops
  - Training programmes offered by the government
  - Training programmes from local universities
  - Advice from professionals (e.g. accountant, strategic advisor)
  - IT specialist employees within our business
  - Other (text answer)

- Question 11: Do you find it easy to find useful information about selling online?
  - Yes. I am able to find all the information I need.
  - Somewhat yes.
  - Somewhat no.
  - No. Information is hard to find.

- Question 12: How useful are the following third-party ecommerce services for your business?
  - Delivery management
    - Useful
    - Not useful
    - Not applicable
  - Inventory management
    - Useful
    - Not useful
    - Not applicable
  - Product pricing and price monitoring
    - Useful
    - Not useful
    - Not applicable
  - Business dashboard
    - Useful
    - Not useful
    - Not applicable
  - Advertising and communicating with customers
    - Useful
    - Not useful
    - Not applicable
  - Pre-filled sales tax reporting
    - Useful
    - Not useful
    - Not applicable

  - Automatic text translation
    - Useful
    - Not useful
    - Not applicable
  - Payment method options (e.g. credit & debit cards, pay by invoice)
    - Useful
    - Not useful
    - Not applicable
  - Managing international sales (e.g. customs declaration and clearance procedures, currency conversion)
    - Useful
    - Not useful
    - Not applicable

- Question 13: Do you know of any government support(s) for selling online?
  - Yes (go to question 14)
  - No (go to question 15)

- Question 14: How did you find out about the government programme? (Multiple choice)
  - Ads from government on TV/social media/newspaper
  - Chamber of Commerce/SME Association
  - Friends and family
  - Other entrepreneurs
  - Online marketplaces
  - Searched for it on government's portal/website
  - Other (text answer)

- Question 15: Did your business make use of government support(s) for selling online?
  - Yes (go to question 16)
  - No (go to question 17)

- Question 16: What type of government support(s) did your business receive? (Multiple choice)
  - Grants
  - Vouchers
  - Tax deductions
  - Loans
  - Training
  - Information material or guidelines
  - Networking
  - Mentoring

- Question 16: What was the name of the programme?
  - Text answer

- Question 17: What are the benefits of selling online for your business?
  - Reduced operational cost (e.g. rent, employees)
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Increased sales within the home country
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Increased sales outside the home country
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Reaching more customers in different regions/countries
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Reaching new customer groups (e.g. younger people)
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Easier management of digital payments
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree
  - Reacting to COVID-19 restrictions
    - Strongly agree
    - Agree
    - Disagree
    - Strongly disagree

- Question 18: What percentage of your business's sales is from online channels?

  - 0-25%
  - 26-50%
  - 51-75%
  - 76-100%

- Question 18 (JP ver.): What percentage of your business's sales is from online channels?
  - 0-25%
  - 26-50%
  - 51-75%
  - 76-99%
  - 100%

- Question 19: What percentage of these online sales is to customers abroad?
  - 0-25%
  - 26-50%
  - 51-75%
  - 76-100%

- Question 19 (JP ver.): What percentage of these online sales is to customers abroad?
  - 0%
  - 1-25%
  - 26-50%
  - 51-75%
  - 76-99%
  - 100%

- Question 20: Did the share of online sales change during the COVID-19 pandemic?
  - Significantly increased
  - Slightly increased
  - Remained stable
  - Slightly decreased
  - Significantly decreased

- Question 21: What are the issues your business experiences when selling products abroad? Please rank the items from the most important (top) to the least important (bottom).
  - Multiple VAT registration and reporting requirements
  - Customs procedures
  - Localisation of products (e.g. translation, packaging)
  - Recycling requirements
  - Product distribution rights

- Question 22: What does the future look like for your online business over the next year?
  - We are selling well online, and we plan to expand our online activities further
  - We are selling well online, but we plan to keep our online activities at the current level
  - We are struggling to sell online, but we plan to continue selling online
  - We are struggling to sell online, and we may downsize or stop our online activities

- Question 23: Which of the following best describes your business's products?
  - We sell goods manufactured by our business
  - We sell goods manufactured by other business(es)
  - We sell goods manufactured by both our business and other business(es)

- Question 24: Which city does your business mainly operate from?
  - Text answer

- Question 24 (JP ver.): Which country is your business operating from?
  - Japan
  - Other (text answer)

- Question 25 (JP ver.): Which city does your business mainly operate from? Please indicate your postal code.
  - Text answer

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