

Contribution of retail and wholesale SMEs to the EU economy

Small and medium-sized enterprises (SMEs) in retail and wholesale are a major source of growth and jobs. 30% of European SMEs across all sectors are in retail and wholesale. SMEs in our sector generated a combined turnover of Euro 5.5 trillion in 2014 in a highly competitive and ever-changing market environment. They are a major source of diversity, vitality and innovation. Today, they face a number of key challenges, including digital transformation, major administrative burdens, complex regulation, difficult access to finance, and the problems of availability of a trained work-force. They are continuously adapting to this changing landscape, but require appropriate support to meet these challenges.

EuroCommerce welcomes the Commission's *Start-up and Scale-up Initiative* and its comprehensive overview of ongoing and upcoming initiatives by the Commission to reduce burdens for small companies, especially those that have just started or are scaling up. We look forward to contributing to the implementation of these proposed measures, but would highlight that the problems addressed in the Initiative should also provide solutions for traditional SMEs, and focus more widely than just on high-tech start-ups.

A major social and economic contributor to the EU economy

SMEs in retail and wholesale account for 5.4 million businesses, or 1 in 4 of all businesses. Two-thirds of these operate in retail (3.6 million businesses) and one-third in wholesale (1.8 million businesses). This works out at 1.5 retail and wholesale SMEs for every square kilometre of Europe. SME retailers & wholesalers are inherently very close to their customers and consumers. This presents opportunities for identifying locally relevant innovations that generate sustainable competitive advantage for smaller firms.

SMEs in retail and wholesale are deeply rooted in the local economy: more than 93% of retail businesses are micro businesses, employing less than 10 people, making up approximately 36% of retail employment and generating almost 26% of value added. Wholesale is also dominated by micro enterprises, approximately 90%.

SMEs are also very active in **export and import markets**. In Austria, for example, enterprises in retail and wholesale generate about 25% of all exports and 50% of all imports.

A major reservoir of jobs

The retail and wholesale sector is **the largest employer** in the EU after manufacturing, employing 13% of the European labour force. This accounts for 29 million Europeans, of which 18.6 million people are in retail and 10.5 million in wholesale. Almost two-thirds of retail and wholesale employees work in SMEs, and 5 million are self-employed. Many of the jobs in wholesale are high-quality, sustainable and long-term, and the level of labour productivity is above average.

Retailers and wholesalers provide jobs to people from very diverse backgrounds and levels of education. They see this diversity as a real asset, and a vehicle for inclusion and competitiveness. The sector has a strong track record of training people to progress from entry-level to senior management positions. The emergence of online and increasingly omnichannel businesses adds another dimension to the traditional contribution of SMEs; start-up and scale-up businesses providing a home for talented professionals seeking to create new kinds of value for their customers.

Skills needs in retail and wholesale have evolved as a result of a changing consumer environment and the use of technology. To remain ahead of the game, SMEs need to be flexible and seek to offer customers a real experience in store, with expert advice and personal service. Even if the majority of transactions remain store-based, omnichannel and e-commerce are growing fast. This means that employees need to be equipped with a new set of both technical and soft skills to meet the new challenges of the digital era.

SMEs also need flexibility to react quickly to changing customer demands. This has an impact on work organisation. To remain competitive, SMEs need flexible and reliable contractual arrangements, continuous professional development, modern social security systems and active labour market policies. In this context incentives to make it easier to recruit and create new jobs have to be encouraged at Member States' level.

A major source of innovation

Small businesses are a key source of innovation. Being close to the customers, they can easily adapt to their changing needs and adapt their services and value propositions accordingly, through continual innovation.

Retailers and wholesalers however innovate differently than industry by placing much emphasis on less tangible forms of innovation, such as new business models or processes. Technological innovations include self-scanning, loyalty marketing systems, new payment methods, and mobile and online platforms. Non-technological innovations include new in-store merchandising techniques, new customer service approaches, new business models and formats. Wholesale and retail SMEs can move quickly and flexibly; they have informal and adaptable processes, and the best in class have a can-do, action-oriented culture.

This flexibility and few layers of management mean that incremental product and process innovations can be introduced and developed on a small scale and resources re-allocated quickly.

Digital champions

Retail and wholesale is undergoing a major transformation, driven primarily by the rapid expansion of the digital economy. To survive and grow, small businesses must offer better services and shopping experiences, develop creative solutions to attract new customers, and use digital technology to make sure their businesses stay relevant and create new opportunities. The most agile and visionary among them are adapting at pace and reinventing themselves, anticipating customers' changing needs and preferences, and benefitting consumer through applying new technology in terms of convenience, speed and choice. Digitalisation remains nevertheless a challenge for many SMEs, particularly in terms of investing in ICT and finding the right people with the skills to develop new digital and marketing strategies. For micro-businesses particularly, this can present a major hurdle to establishing a completely new and separate business in e-commerce. What should be a major advantage for SMEs – the ability to address new customers without establishing new physical

shops – can become a major challenge. It is important that small retailers and wholesalers get the support they need to foster the creation of new business models and innovative approaches.

Recommendations

SMEs in retail and wholesale offer a huge potential in helping Europe address the jobs and growth challenge. However, the **major opportunities** of the Single Market and cross-border e-commerce are often **out of reach for SMEs**. This is due to lack of harmonisation in standards, consumer law, product safety and labelling requirements, as well as burdensome and costly VAT rules.

Small retail and wholesale businesses suffer disproportionately from burdensome regulation: they do not have the lawyers and regulatory experts to deal with these rules. SMEs therefore need EU decision-makers to address these challenges, support them in taking advantage of the digital revolution and ensure a level playing field for all forms and channels of retail and wholesale. EuroCommerce encourages the Commission to follow up on the promises made in the **Single Market Strategy**, and the **Digital Single Market Strategy**, which are also repeated in the Start-up and Scale-up Initiative. We would ask all parts of the Commission and other EU institutions to always **think small first** and consistently apply the principle of **better regulation** in looking at new and existing rules.

EuroCommerce therefore reiterates its call to the EU institutions for an EU SME policy, which:

- supports an **SME-friendly regulatory environment**, with properly designed legislation based on a systematic implementation of the “Think Small First” principle and a compulsory SME test;
- creates a **level playing field for all forms and channels** of retail and wholesale - improved application and enforcement of EU laws, simplified information requirements and easy access to information (digital gateway);
- facilitates access to finance for SMEs, including easier access to EU funding;
- creates a **level playing field in the area of taxation**;
- fosters a strong culture of **entrepreneurship**;
- **supports SMEs in their digital transformation**, helps retail and wholesale SMEs establish SME e-commerce platforms on which local SMEs can sell their products online and provides support acquiring digital marketing & IT skills;
- supports SMEs that want to **go international**: As within Europe, regulatory burdens in other markets deter SMEs from trading; SMEs need an ambitious trade agenda and support for finding business partners and incentives to facilitate access to international goods and services markets, and to help their integration into global value chains;
- reduces regulatory complexity for **small importers and exporters** in the field of customs and rules of origin and enhances predictability and legal certainty;
- supports retailers’ and wholesalers’ needs in the field of **transport and logistics**;
- supports a **fully-functioning single market**, allowing retailers and wholesalers to provide goods and services across Europe.