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Department of Communications,
Energy & Natural Resources

GROWING SMALL BUSINESSES THROUGH ONLINE TRADE

ENTERPRISE IMPACTS OF THE
TRADING ONLINE VOUCHER SCHEME

JULY 2015





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1 FOREWORD

Ireland's economy relies heavily on its small and medium-sized businesses, which support hundreds of thousands of jobs and livelihoods across the country.

The Trading Online Voucher Scheme is specifically designed to support this sector by helping small firms to access the benefits of internet-based commerce.

The data and case studies set out in this report demonstrate what can be achieved when the Government supports small businesses through training, mentoring and networking as well as the provision of small grants.

The research shows that small businesses that go online can experience a huge rise in customer inquiries and a significant increase in sales. No wonder businesses that make the leap into online trading believe their internet business will become more and more important to them.

This initiative was introduced and piloted as part of the Government's Action Plan for Jobs. So it is particularly encouraging that over 70% of the firms surveyed here expect to take on new staff to cope with the online business they have generated.

The Trading Online Voucher Scheme has been developed as a partnership between the Department of Communications, Energy and Natural Resources, the Department of Jobs, Enterprise and Innovation, Enterprise Ireland and the Local Enterprise Office network. I want to thank all those involved for their efforts in making the scheme such a success.



Most of all, I want to acknowledge the small firms who, by availing of the scheme and participating in this research, have given a solid example to others who want to improve and expand their businesses by going online.

ALEX WHITE
Minister for Communications, Energy
and Natural Resources

July 2015



2 SUMMARY

Small companies that invest even small amounts in trading online are experiencing positive returns in terms of new business and employment growth.

This survey of 225 companies, which have been supported by the Government's Trading Online Voucher Scheme, measures the impact of trading online.

Returns from companies, which all had 10 or less employees and less than €2 million in annual revenue, showed that:

- 85% experienced an increase in customer inquiries
- 71% expected to take on new staff to cope with new business
- The average number of new jobs is 1.4 per business
- 40% said they had generated customer interest from new markets
- 60% said the new business was additional and did not displace existing sales
- 99% said their online business would become more important in the short term
- 95% expected the time they spent on online business to grow
- 21% was the average increase in sales.



3 IRELAND'S DIGITAL ECONOMY

Like many things in our lives, the digital world is something that either impacts us daily or remains something that we've heard about but rarely engage in.

The digital world is, however, more than just technology. The internet is having a huge impact on the way business and Government services are provided. Some changes are more obvious than others, but scratch below the surface and an astonishing array of activities are supported digitally.

Every small business in Ireland needs to understand how best to use digital technology and content.

The digital economy now represents 5% of Ireland's GDP¹ and it is growing fast, at approximately 20% per year. This activity currently supports almost 100,000 jobs, directly and indirectly². Irish consumers spend around €700,000 each hour, 24 hours a day, online.

Small Irish businesses are in the midst of an online revolution. They are affected by changes in consumption patterns, which are growing rapidly in importance and impact. But not all Irish businesses are embracing the opportunities presented by the revolution in online consumption. National data from the Central Statistics Office shows that only 23%³ - or less than one in four - of Irish SMEs is trading online.

The fact that relatively few small Irish businesses trade online limits the options for Irish consumers to buy online locally. As a result, up to 70% of Ireland's online consumer spending currently goes overseas. Unless addressed, this online balance of trade deficit will make a larger and larger impact on the level of consumer spending in the real economy as online consumption grows.

The Government's Trading Online Voucher Scheme, developed by the Department of Communications, Energy and Natural Resources, is helping small businesses in Ireland to start to trade online and benefit from the significant potential for growth and jobs that comes with online trading.

¹ The Second UPC report on Ireland's Digital Future

² Indecon research conducted for the National Digital Strategy, 2013.

³ CSO, Information Society Statistics, Enterprise Statistics





4 THE GLOBAL CONTEXT

The global internet economy is driven by growth in the number of connected consumers using the internet. The level of sophistication of internet use is driving the type of interactions businesses can expect to have with these online customers.

The internet has grown throughout the world. Where there are low levels of computers, mobile phones are the means of connection. There are 3.04bn internet users worldwide⁴. This represents over 42% penetration of the entire global population.

This explosion in connected consumers over the short life of the internet is having a very significant impact on the global economy. According to research undertaken by McKinsey, 21% of global GDP growth can now be attributed to the impacts of the internet. Businesses that use digital content and technology gain efficiencies and displace certain types of employment. But this displacement is more than compensated by the creation of new types of jobs that support the online aspects of businesses. The net jobs impact is an overall increase in employment of 1.6⁵.

International evidence shows that 75% of the impact of digital is found in traditional business. Small businesses which adopt digital enjoy a 10% gain in productivity and are twice as likely to export⁶. These trends mean that nine out of ten jobs in Europe will require e-skills in the future, according to the European Commission⁷.

⁴Internet world stats

⁵McKinsey: Internet Matters 2011

⁶McKinsey Global Institute

⁷EU: Digital Agenda Scorecard 2012



5 TRADING ONLINE VOUCHER SCHEME

Research from Australia⁸ indicates that 54% of small businesses who use the internet gain competitive advantage. McKinsey⁹ have measured that SMEs who adopt internet trading grow twice as fast and export twice as much as those who don't.

But most small businesses in Ireland do not trade online despite the enormous market opportunity it provides. There are various reasons for this. Core among them are the perceptions of technical complexity, the competitive environment, ability to invest, and uncertainty over the benefits.

The Government's Trading Online Voucher Scheme was introduced and piloted under the 2013 Action Plan for Jobs. It was rolled out nationally under the 2014 Action Plan. The scheme is a key action under the business strand of the National Digital Strategy, which was published in July 2013.

The Trading Online Voucher Scheme aims to get 2,000 more small Irish traditional companies trading online by the end of 2015. It focuses on providing a flexible incentive for small business owner-managers to address the barriers to trading online.

The scheme offers a financial incentive of up to €2,500, as well as training, mentoring and networking support to small businesses to help them develop their online trading capability. It is an example of an effective cross Government partnership between the Department of Communications, Energy and Natural Resources (DCENR), Department of Jobs, Enterprise and Innovation, Enterprise Ireland (EI) and the Local Enterprise Office (LEO) network.

The scheme is operated through the national network of 31 LEOs, whose mentors work with applicant companies to ensure high quality applications. By late June 2015, 1,000 vouchers had been awarded to successful applicant companies. The roll-out is continuing throughout 2015 to reach the initial target of 2,000 businesses.

The scheme has attracted small businesses from across a wide range of sectors including retail, manufacturing, food, and professional services.

⁸http://www.isoc.org/inet97/proceedings/C2/C2_1.HTM

⁹McKinsey, Internet matters: The Net's sweeping impact on growth, jobs and prosperity, May 2011.



6

EVALUATION OF IMPACTS

The Department of Communications, Energy and Natural Resources conducted research on the impact of trading online on Irish small businesses.

Irish small businesses which trade online:

- > See a 21% increase in sales
- > Create 1.4 new jobs, and
- > Enter new markets and 40% export

This survey of 500 small businesses was conducted in March 2015. The response rate was 45%. All the companies employed ten people or less and had revenue of less than €2 million a year. They had all invested in trading online within the last 12 months.

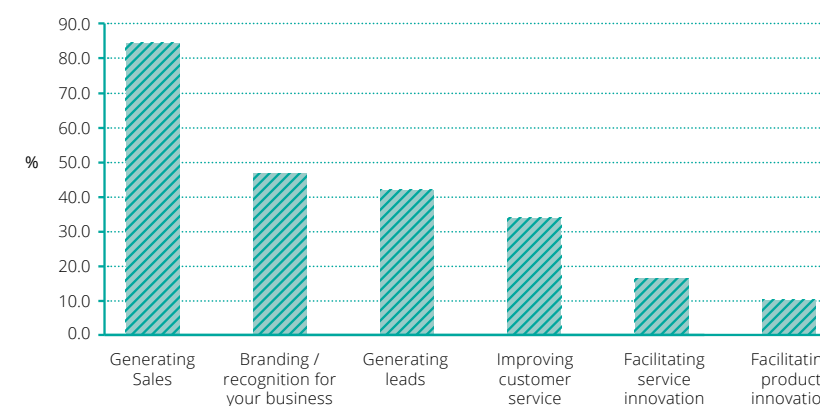


6 EVALUATION OF IMPACTS

6.1 GROWTH INDICATORS

Since commencing trading online **85%** of businesses see an increase in **customer inquiries**.

Customer inquiries are one of the first business impact indicators for trading online. Increases in customer inquiries give an indication of possible future earnings in both product and service orientated businesses. The fact that so many businesses reported an increase indicates that moving to online trading increases potential market penetration.

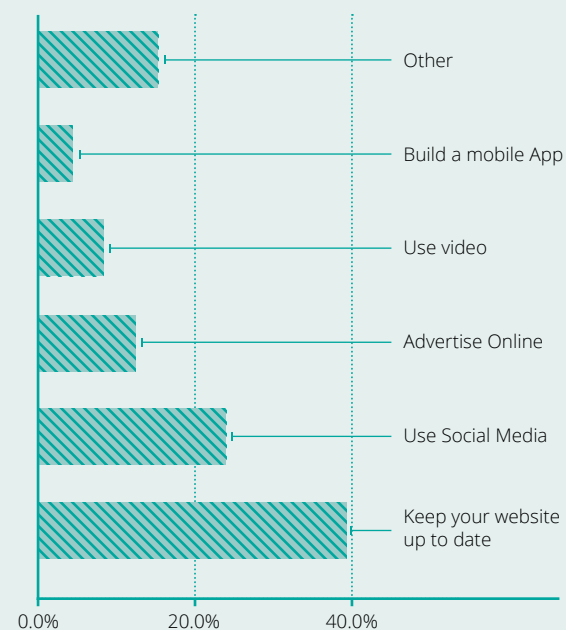


WHICH OF THE FOLLOWING OPTIONS DESCRIBES THE MAIN FOCUS OF YOUR ONLINE STRATEGY? (PICK ONE OR MORE OF THE FOLLOWING)

Direct **sales** have already increased by **21%** as a result of trading online.

Sales revenue is the life blood of every business. The reported 21% increase in sales by businesses which have participated in the scheme gives a real indication of the momentum a small business with limited resources can expect if they invest in online trading. Increased sales build a foundation for the digital business and give a return on investment for the additional resources to grow the digital aspect of the business.

The training and mentoring available through the Trading Online Voucher Scheme is also having an influence on how businesses sustain and increase their online business. Business owners and managers become more focused on maintaining an active and up-to-date web presence, and less reliant on external resources. Many are also much clearer on what they need their web technology to do – and less distracted by technology trends, which might have influenced their strategy in the past.



WHAT ARE YOUR PLANS TO ENCOURAGE MORE OF YOUR CUSTOMERS TO USE YOUR ONLINE STORE? (SELECT ONE OR MORE)

Online trading is not displacing existing sales in 60% of businesses.

The majority of businesses report no impact on their existing sales. Instead, online trading adds to their business revenue. Data from elsewhere in the research clearly indicates that the main reason for this is that the addressable market grows, in terms of types and location of customers, with the introduction of online trade.

99% of businesses say their **online store** will become more important for their business. This perception is driven by enhanced lead generation and sales.

Given the increase in the customer inquiries and sales revenue, it is not surprising that almost all the businesses report that the trading online component of their business becomes more important to them in the near term. It is interesting to note that this overwhelming positive outlook is prevalent in small businesses that were not trading online until recently, and required activation through the Trading Online Voucher Scheme to take the necessary action.



DO YOU SEE THE ONLINE STORE BECOMING MORE IMPORTANT TO YOUR BUSINESS OVER THE NEXT 6 MONTHS?



6 EVALUATION OF IMPACTS

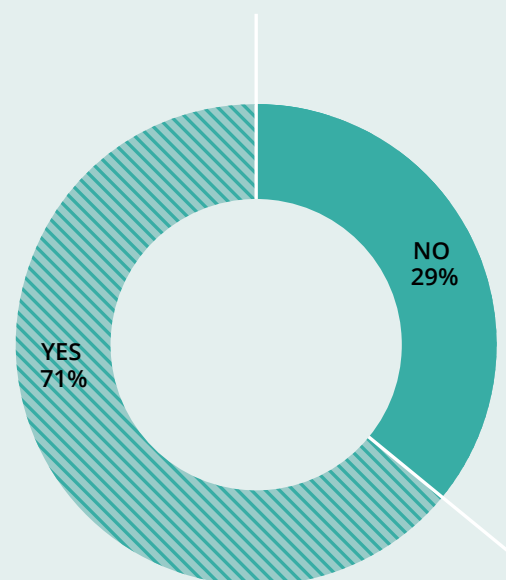
6.2 EMPLOYMENT INDICATORS

73% of the businesses said that trading online effects their **work practices**.

An early indicator as to the overall impact of trading online on the existing workforce in small business is to look at the changes in duties and increased demands on current employees. Trading online brings new trade to many businesses, which increases the quantity of work involved in operating the business.

Currently, businesses are spending an additional **11 hours** per week managing their trading online presence.

To quantify the increased workload on businesses, respondents were asked to specify the extra time their employees spent on online aspects of the business. The average increase of 11 hours would equate to a 28% increase in working time on a 40 hour working week. This aligns with the corresponding increase in sales. It would seem therefore, that the investment made by small Irish businesses in the online trading part of the business is justified by the returns in business growth.



DO YOU EXPECT THAT BY PARTICIPATING IN THE TRADING ONLINE VOUCHER SCHEME, YOU WILL NEED TO RECRUIT STAFF IN THE NEXT 6 TO 12 MONTHS?

95% expect the time spent on their online business to increase. The average expectation is for an increase of **42%** in the next six months.

The research suggests that businesses are likely to sustain this extra investment so long as they see a return on the investment. The average expected additional investment is significant at 42%, which corresponds with the expectation that business will increase their workforce in the next 12 months.

71% expect to need to add **new jobs** to cope with increased business. The average number of net new jobs per business is expected to be **1.38 jobs** in the next 12 months.

Looking at the rate of expected job growth, the research quantifies, for the first time, for small Irish business the jobs dividend from increased growth due to trading online.

The multiplier of 1.38 is in line with existing international research, which includes larger businesses with a bigger capacity for employment than traditional small businesses. This finding points to the fact that small businesses can compete in a global marketplace and can achieve growth, irrespective of location.

This finding is significant, as growth in employment shows that businesses who make an informed initial investment in their trading online business see the benefits sustaining into the longer term. It also indicates that there are more opportunities for job development outside the main urban areas. It also puts focus on the availability of digital skills and experts to help small businesses sustain and grow their online business.



6 EVALUATION OF IMPACTS

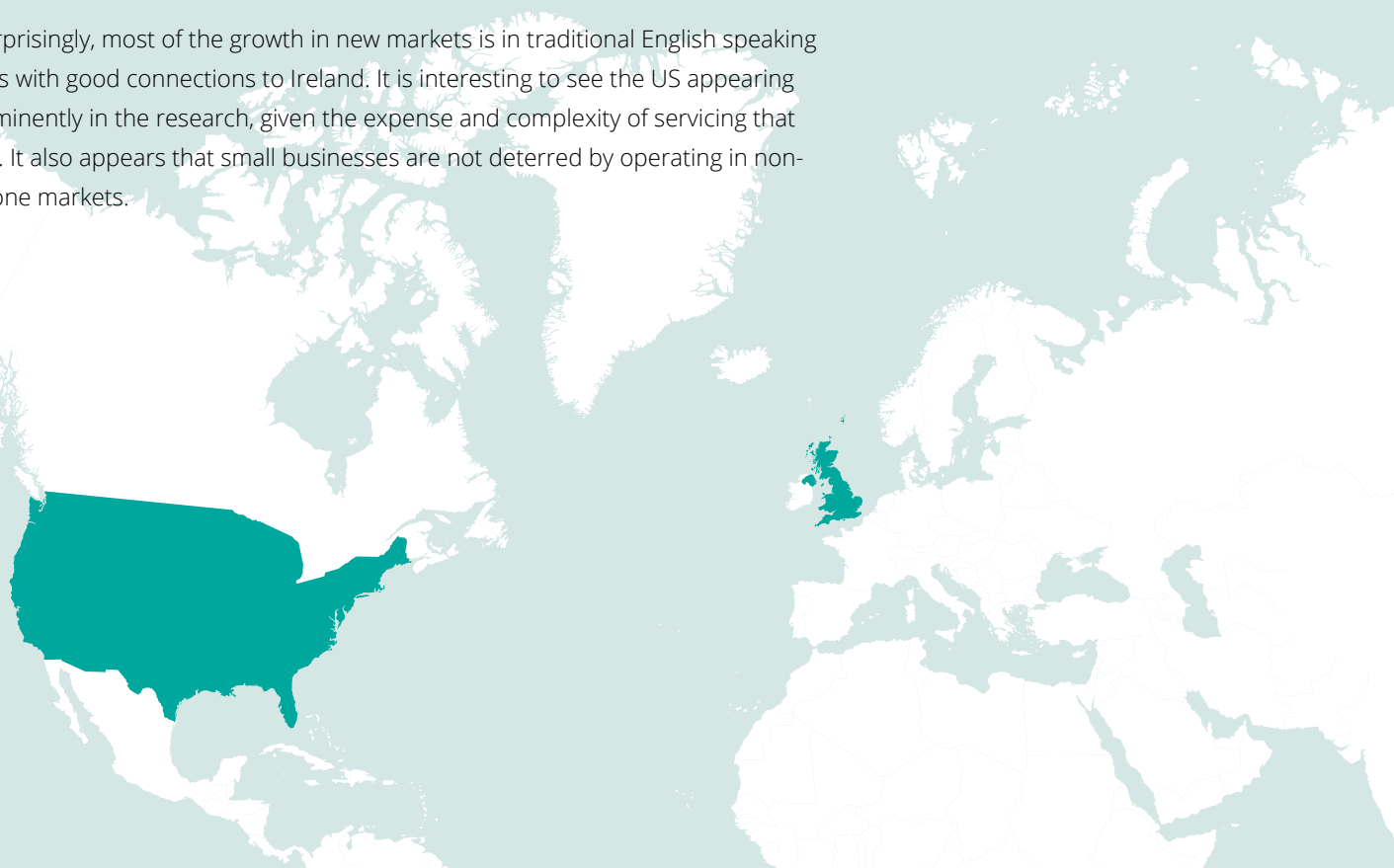
6.3 EXPORT INDICATORS

40% of businesses are now getting customer interactions from **new markets**. The most important **export markets** are UK, USA and Northern Ireland.

Digital levels the playing field for small business. The internet gives very low cost access to billions of online customers. It shifts the focus of competition and allows businesses who are innovative and ambitious to grow.

The vast majority of the 170,000 plus traditional small Irish businesses in Ireland trade in local markets. Many businesses in rural Ireland survive by developing close relationships with customers over an extended period of time. Exporting is not the main aspiration of many small businesses, but those who embark on developing their trade online are finding new customers in new markets.

Not surprisingly, most of the growth in new markets is in traditional English speaking markets with good connections to Ireland. It is interesting to see the US appearing so prominently in the research, given the expense and complexity of servicing that market. It also appears that small businesses are not deterred by operating in non-euro zone markets.





7 CASE STUDIES



7

CASE STUDIES

7.1

KINGSIZE.IE

9 TUAM ROAD RETAIL CENTRE, TUAM ROAD, GALWAY
16 DAWSON STREET, DUBLIN 2

Kingsize, a men's retailer with premises in Galway and Dublin, has been in business under owner and manager Justin Dixon for five years.

Whilst business was steady, Justin heard about the Trading Online Voucher Scheme and attended an information session on the scheme run by the Local Enterprise Office in Roscommon, where his business is registered. Finding the process of applying for and implementing the voucher clearly laid out and straightforward, Justin is now seeing the benefit of having engaged with the programme.

Kingsize used the trading online voucher to greatly enhance the look and functionality of kingsize.ie, making it more user friendly by changing the platform to one which allows customers to filter searches within each relevant category, use PayPal and improve the look of the site.

Kingsize is a destination shop so Justin also used the voucher to make the website mobile-friendly, thereby making it easier for customers to locate the shops. The website brings customers to the door, as well as encouraging them to shop online.

Since upgrading their website into a more professional portal, Justin has seen 25% monthly increases in traffic since the site went live in January 2015. Whilst the nature of his product often necessitates initial face-to-face contact, repeat customers tend to deal with him online.

Since participating in the scheme, Justin has taken on two extra staff, who share their time between the shop floor and the online side of the business. As the online business is showing such good returns, he plans to employ another person soon. Their main focus will be to manage and promote the company's online and social media presence.

Kingsize used 30% of its voucher for online advertising. "This has increased our online traffic, footfall in the shops and phone communications," says Justin. "Not alone has online trade increased significantly, but a large percentage of purchases made in store can be attributed to customers having found us online," he adds.

Justin believes the voucher is directly responsible for "helping cement our position as a market leader in our field." He now has his sights on expanding beyond his current market which includes Ireland, Northern Ireland and the UK.

www.kingsize.ie





7 CASE STUDIES

7.2 MARY DALY & ASSOCIATES

18-19 COLLEGE GREEN, DUBLIN 2
ISLAND CROSS, LITTLE ISLAND, CORK

Based in Cork and Dublin, Mary Daly & Associates was established by Mary Daly in 2000.

Since then they have grown to become one of the leading providers of food safety consultancy and training services to a wide range of businesses in Ireland.

Their Food Safety and HACCP (Hazard Analysis Critical Control Points) service involves inspecting premises to ensure they are compliant with food safety legislation, training staff, handling food poisoning complaints, and updating and creating food safety documentation. The company has also diversified in recent years to offer manual handling, customer care, first aid, nutrition and human resource services.

They found the Trading Online Voucher Scheme application process to be straightforward and the information session answered their queries and provided the company with lots of ideas.

As a result of the website upgrade, they now have the ability to provide training online, which the company says “has appealed hugely to many potential clients and has been instrumental in winning large contracts”.

It has provided learners and existing clients with a cost-effective and flexible way of training their staff to ensure that they are compliant with required standards.

Mary believes that the Trading Online Voucher Scheme has been instrumental in the company's growth, and has resulted in an increased level of new business and job creation. The company has recruited an additional full-time food safety consultant for the Dublin and Midlands area, and they are in the process of recruiting another consultant for the Cork area.

“It has set us apart and given us a competitive edge. We are moving with the times and embracing technology in every aspect of our business. More importantly, our clients appreciate the freedom it gives them and ensures compliance every step of the way for them”, says Mary.

Additional sales from the online training course have already covered the financial investment made by the company.

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www.marydaly.ie



7 CASE STUDIES

7.3 MCGEE MEMORIALS

SHORE ROAD, MEENMORE, DUNGLOE, CO. DONEGAL
MILLTOWN, NEW MILLS, LETTERKENNY, CO. DONEGAL

McGee Memorials is a Natural Stone and Memorial Products company based in Donegal. It is owned and managed by Kevin McGee.

Kevin found out about the Trading Online Voucher Scheme through his Local Enterprise Office, which he found to be very helpful and supportive throughout the information, application and implementation phases.

Kevin's motivation for engaging with the scheme was to promote his business and improve his customer service. These goals have been achieved through increased inquiries via his updated website. Local trade used to account for over 90% of business. Now, e-commerce tools have supported him to trade online, take credit payments and make sales electronically, which has expanded the reach of his customer base.

McGee Memorials can now process online payments. This has resulted in new business from as far afield as Australia, the USA and UK markets for items such as plaques and accessories. In terms of the impact of trading online on his business, Kevin remarks: “It's like having another gear on your bicycle”.

This increase in business activity, directly attributed to his engagement with the scheme, has led Kevin to take on an additional full-time and part-time employee who maintain the website and deal with an increasing amount of web traffic.

According to Kevin “more doors open as a result of the Voucher”. McGee Memorials is a great example of a traditional craft company which has made inroads into the online world and captured the opportunities afforded by the implementation of the trading online voucher.

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www.mcgeememorials.com





7.4 GOOSE ISLAND WORKSHOP

INCHALOUGHRA, CO. KERRY

Gary Marcham is a craftsman of bespoke and design wood furniture. From his workshop in Inchaloughra, Gary designs, produces and sells furniture that ranges from traditional chairs, dressers and tables to contemporary designs in furniture. Goose Island Workshop has been in existence for 11 years.

The business was previously marketed mainly through word of mouth and trade shows or exhibitions. "I had to do everything myself. In fact, I can't even remember what the old website looked like", Gary remarks.

Gary heard about the Trading Online Voucher Scheme in autumn 2014 and was encouraged to apply to the Local Enterprise Office in Kerry for a voucher. "At the start, I didn't appreciate the value of this way of selling," He says a friend saw the potential of trading online and encouraged Gary to develop his website and helped him with his application to the scheme

For Gary & Goose Island Workshop, the impact of trading online has been immediate. "It has made me, to be honest. In many ways, we [craftspeople] are so isolated. Our life is our work and we don't have time for marketing."

Since launching his new website in spring 2015, Gary has been receiving orders online. The website does a lot of the work for him in building trust and has increased the translation of queries to sales. "When people phone me, they place an order. Having reviewed my website, they feel like they already know me by the time they talk to me."

Gary plans to recruit additional staff on the management side and manufacturing side of the business to meet increased demand. Trading online has also opened up new markets for Goose Island Workshop, including more opportunities overseas. "I had no understanding of trading online before I engaged with the scheme and would never have thought of this for my business. Now it is the other half of my business."

Now, with a window to the world, the future is bright for Goose Island Workshop.

.....
www.gooseislandworkshop.ie





8 CONCLUSIONS

The results outlined in this report can inspire other small businesses to consider an investment into trading online. It shows that small businesses that plan, get advice, and work at their online presence see a clear return on their investment.

The survey of small business, that are new to trading online, clearly shows that support for businesses reduces the risk of the initial investment. The provision of training, mentoring and support helps to activate companies to make the investment into trading online.

The results should also inspire the digital content and technology industry to target small Irish business and help them succeed.

It takes time for investments in trading online to materialise. Success relies on the commitment and innovation of the business. For the first time, this report quantifies the real growth potential for Irish small business if that effort is made.

One of the recurring themes that emerged through the direct engagement with Irish small business during the process of rolling out the scheme was the increased opportunities for collaboration between businesses that trade online. Focussing on the online business gives owner-managers the opportunity to look at the businesses around them in a different way. Instead of being driven by competitive pressures, small businesses that are looking to maximise the impact of online trade look for opportunities to collaborate in areas like cross-selling, shared logistics or shared promotion.



9

APPENDIX

INFORMATION ABOUT THE TRADING ONLINE VOUCHER SCHEME

WHAT IS IT?

The Trading Online Voucher Scheme is designed to support Irish small businesses to enhance their trading online presence.

The scheme offers a matched funding opportunity of up to €2,500 in the form of a Trading Online Voucher which is available to eligible businesses by application through their Local Enterprise Office. This is a unique programme under the National Digital Strategy, funded by the Department of Communications, Energy & Natural Resources.

WHO IS ELIGIBLE?

The vouchers are targeted at businesses that have a limited online trading presence; 10 employees or less; turnover less than €2 million; applicants must be trading for a minimum of 12 months and the business must be located in the region of the local enterprise office to which they are applying.

There are some categories of business that are deemed ineligible for a trading online voucher (e.g. projects which are contrary to public policy). For further details on eligibility see page 1 of the application form which is available on the local enterprise office website.

WHAT CAN VOUCHERS BE USED FOR?

The trading online vouchers can be used for the development or upgrade of an e-commerce website such as implementing online payments or booking systems.

Other usage includes purchase of Internet related software, online advertising, development of an app, development and/or implementation of a digital marketing strategy, consultation with ICT experts for early stage adopters of online strategy, training/skills development specifically to establish and manage an online trading activity. Vouchers cannot be used for development of brochure websites, purchase of non-internet related software, or anything other than online trading related activity.

HOW DO I APPLY?

Visit www.localenterprise.ie
or contact your Local Enterprise Office.

You can also find updates on Twitter - #LEOTOV



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