stripe

Global Natives

How online businesses are leading a new wave of globalization despite growing challenges to international trade

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For most of the past century, globalization has been driven by large businesses. The very term *multinational* conjures the image of a giant corporation whose far flung units touch every corner of the world.

The internet has turned that image on its head. Borderless and unparalleled in scale, the internet connects an estimated 3.2 billion users, or more than half of the world's population. As such, it allows virtually any business, no matter how small, to reach customers anywhere.

This study, based on an extensive survey of founders and senior executives of online businesses[1] across 15 global markets, examines how a new generation of entrepreneurs has embraced the singular capabilities of this networked world to benefit from cross-border expansion. As they broaden their audience and reach by expanding internationally, these new businesses are driving a new wave of globalization that is poised to boost global GDP.

But the study also shows how government policies in the form of tariffs, taxes, and regulations can sometimes be a challenge to the very promise of global trade, especially for small businesses. Even as the internet and a new crop of digital tools are removing hurdles to international expansion, protectionist regulations and trade tariffs are introducing new ones. As a result, an alarming 42% of online businesses say that running an international business is increasingly getting harder, not easier.

Embracing the internet to sell internationally is a clear path to new customers, and for smaller companies in particular, it can help fulfill what the US Commerce Department calls a "vast untapped export potential" on its Commercial Service website.[2] But that potential—and its promise to boost global GDP—may never be fully realized without supportive policies and regulations.

[1] Online businesses being defined here as companies that accept online payments, and with online commerce as their primary source of revenue.

[2] International Trade Administration, U.S. Commercial Service: https://www.trade.gov/cs/factsheet.asp

Online businesses are global natives

For today's online businesses, expanding internationally has become a top priority—one that often takes precedence over other vital business functions such as sales, marketing, engineering, and HR. Indeed, 70% of online businesses sell outside of their home markets today. The figure is even higher among those with more than 50 employees: 90% are selling across borders today.

This dwarfs the rates of cross-border trade for companies overall. In most countries, the percentage of companies with foreign customers is in the single digits. In the United States, less than one percent of the 30 million companies export, the Commerce Department goes on to say. Much like millennials grow up taking the internet for granted, online businesses are expanding to new markets faster and more effortlessly than their predecessors. They are global natives.

The appetite for expanding internationally varies significantly by geography. Online businesses based in countries with large domestic markets tend to be laggards with regards to foreign expansion. In fact, among those surveyed, online businesses in the United States are the least international of all. Conversely online businesses in Singapore and Hong Kong have the most international focus. And even though the EU's Digital Single Market is intended to facilitate cross-border trade among member countries,[3] European online businesses are not as internationally-focused as their Asian counterparts.

TABLE

SHARE OF ONLINE BUSINESSES SELLING TO MORE THAN JUST THEIR HOME MARKET

Singapore	88%
Hong Kong	88%
Japan	86%
France	84%
Italy	78%
Spain	77%
Netherlands	76%
China	74%
Germany	71%
Australia	66%
India	63%
UK	60%
Mexico	59%
South Africa	56%
USA	45%

Selling globally early goes hand in hand with faster growth

The Coca-Cola Company is among the most recognizable multinationals on the planet, but it wasn't always so. Founded in 1886, Coca-Cola didn't begin selling outside of the United States until 34 years later.[4] It's a story that stands in stark contrast with that of today's prototypical online business: six in ten online companies with international sales entered new markets in the first year of their existence.

[3] https://ec.europa.eu/digital-single-market/

[4] Coca-Cola set up a Foreign Sales Department in 1926, 34 years after the start of The Coca-Cola Company.

There's a logic behind the urge to expanding internationally quickly: it correlates with long-term economic success and productivity. Over the last five years, firms that expanded internationally during their first year grew 141 percentage points faster in revenue and 15 percentage points more quickly in headcount than the ones that were slower to reach international markets. While this correlation does not automatically imply causation, evidence suggests that speed of internationalization leads to faster growth.[5]

TABLE
REVENUE AND HEADCOUNT GROWTH OVER LAST 5 YEARS

Time to enter international markets, < 1 year after incorporation		Time to enter international markets, > 1 year after incorporation	
Revenue Growth	+887%	Revenue Growth	+746%
Headcount Growth	+196%	Headcount Growth	+181%

Of course, the rate of growth of online businesses differs by vertical. SaaS and gaming businesses saw the fastest international growth, whereas hospitality and digital content companies grew the slowest. It's clearly easier to grow and scale pure software businesses than companies that touch physical infrastructure or require manual content creation. However, across nearly all verticals, the companies that were faster to enter international markets grew more quickly than other companies in the same category.

New online tools power global natives

International expansion has been a feature of online businesses since the beginning of the web era. But the availability of a new set of tools and services in recent years has greatly accelerated the trend, making it easier for startups to conduct cross-border trade.

The tools range from services for payments and business formation to online advertising technologies, localization and translation services, and cloud computing infrastructure. More than two-thirds of those surveyed cite these tools as the primary enabler of international expansion, well above funding (37%), physical infrastructure (36%), or government support (35%). Many have set up shop on marketplaces like Shopify and Amazon, which vastly simplify the process of establishing businesses with global reach.

Social media has played an important role too. Half of online businesses say social media is their No. 1 international marketing channel, ahead of traditional advertising (43%) and website localization (40%).

[5] It is also possible that things work in reverse, and faster-growing companies reach international markets more quickly. Other company characteristics such as product quality or management sophistication might play a role as well. Also, these growth rates focus solely on companies that have remained in operation for at least five years; growth rates for all companies including those that fail within five years would necessarily be lower.

TABLE
HOW DO YOU MARKET YOUR GOODS INTERNATIONALLY?

Social Media	50%
International advertising	43%
Localization/translation of website/content	40%
Physical storefront in the international market(s)	33%
Other marketing	19%

As these tools become more entrenched and more capable, it's reasonable to assume that international sales will grow. Already four in five online businesses say they plan to further increase their international operations in the coming years, and nearly one in two say the increase will be significant. As a result, global natives are not only more international than other kinds of companies today, but they also plan to extend their global footprints more aggressively tomorrow. In that respect, they are a driving force of the next wave of globalization.

A new type of company: the single-person multinational

Technological advances have certainly propelled the global natives into new markets faster. They've also given rise to a new but rapidly growing crop of multinational companies, the single-person multinational. With no employees, these companies embody a new category of business: the single-person multinational.

Nearly nine in 10 of respondents with no employees say new digital tools have made it easier to sell internationally. For many of them, marketplaces like Amazon or Shopify have been a significant driver of internationalization, as these platforms help to erase barriers that would have previously been insurmountable. They are international simply because they can be—because their product appeals to a global audience and, thanks to the power of marketplaces, nothing stands in their way. Half of them have even been international from Day 1. In this sense, platforms and marketplaces are multipliers for entrepreneurship across the world, and the true infrastructure that greases the wheels of international commerce.

Open, not closed: tariffs, regulation, and immigration restrictions emerge as challenges to global growth

But even as entrepreneurs rush to reap the benefits of going global in growing numbers, they are running into increasingly strong headwinds. A startling 42% of those surveyed say it is harder to do business internationally today than it was five years ago. Only 36% say expanding internationally is becoming easier.

The obstacles typically stem from government policies. More than a third of companies say taxes, regulatory barriers, and tariffs have all made global expansion more difficult.

The growing challenges of operating internationally are underscored by the on-the-ground experiences of entrepreneurs. While doing business in foreign countries remains a net positive, it doesn't always come cheap. Inconsistent regulation and compliance rules across the world have become a major driver of operating costs. Online businesses say they spend between 5.9% and 37.8% of their net profit on regulation and compliance every year—and 54% say this amount has been increasing recently. What's more, 38% of founders and executives say they've spent weeks or even months of their time in the past year dealing with regulation and compliance.

TABLE
WHICH FACTORS HAVE MADE INTERNATIONALIZATION EASIER/HARDER?

Factors that have made global expansion harder	
Taxes[6]	38%
Regulatory barriers (too much regulation, too complex, etc.)	36%
Government tariffs	34%
Too expensive	34%
Increasing protectionism	29%
Lack of funding/capital	27%
Lack of skilled talent	26%
Lack of infrastructure (technical, physical, etc.)	25%
Cultural/linguistic issues	23%
Lack of local mentors/advisors	22%
Lack of education and training	22%

Factors that have made global expansion easier	
More availability of internet-based technology and tools	68%
More skilled talent	39%
More availability of funding/capital	37%
More government support (incentives, etc.)	35%
Better physical infrastructure	35%
Fewer regulatory hurdles	30%
More local mentors/advisors	28%

More than half of online businesses (54%) spend more than $50,000 annually on these issues. Given that there are millions of online businesses in the world, it becomes clear that billions of dollars are spent globally on regulation and compliance every year.

Not surprisingly, immigration policy remains a perennial source of worry for global entrepreneurs who often need to rely on foreign workers to understand how to do business in various geographies. Nearly three quarters of those entrepreneurs oppose new immigration restrictions. While half of them say the support from their own government for hiring foreign talent is good or excellent, the assessments vary widely by region. Those in Asia and Europe tend to be much happier than those in the U.S., where only 37% are satisfied with the government's support for immigration.

Finally, no single policy issue unites global natives more than tariffs: 70% are against raising them. Interestingly, the opposition to higher tariffs is notably strong in China (92%) and the United States (84%), two countries embroiled in an escalating trade war, and the United Kingdom (89%), which recently voted to leave the European Union.

[6] Literally, "too many taxes." This includes both tax complexity and tax levels.

TABLE

SHARE OF ONLINE BUSINESSES OPPOSED TO MORE TARIFFS ON INTERNATIONAL TRADE

China	92%
UK	89%
USA	84%
Germany	83%
South Africa	81%
Hong Kong	80%
Italy	80%
Australia	75%
Netherlands	75%
Spain	74%
Mexico	73%
France	68%
India	65%
Japan	65%
Singapore	48%

Of course, entrepreneurs are not typically cowed by obstacles. Success often demands that they tackle challenges head-on, and that's just what they appear to be doing when it comes to international trade. Despite growing costs of and barriers, the vast majority of entrepreneurs are forging ahead. Only 3.6% say they plan to downsize their international operations. Of those, nearly half say they are pulling back primarily because of changes in customer demand, but taxes, regulations and the general challenges of operating globally are contributing factors for many.

Conclusion

A new generation of online businesses is quickly redefining what it means to be a global company. Its members tend to expand internationally in far larger numbers than their predecessors, sometimes pushing cross-border sales from Day 1. Thanks to a new set of online tools that simplify the process, these global natives are able to tap international markets regardless of company size. They tend to grow faster than their peers, boosting economic activity and prosperity.

But where the internet is lowering barriers to trade, government policies are lifting them back up. While many regulations and taxes serve socially important purposes, they can also place limits on the extent to which the internet can accelerate commerce across the globe. Their impact falls disproportionately on small businesses, who lack the sophisticated legal departments and other resources of their larger counterparts. Regulation should offer businesses a clear framework for innovation. It should encourage and foster new ideas and business models, but it should never be so cumbersome as to stop them from emerging in the first place.

METHODOLOGY

Stripe partnered with VIGA research to survey founders and executives of online companies about their organizations' approach to international expansion.

More than 9,000 founders and executives of online businesses in 15 international markets and across more than 10 industries participated in the study. Online businesses were defined as companies that accept online payments, and with online commerce as their primary source of revenue.

The globalization tango

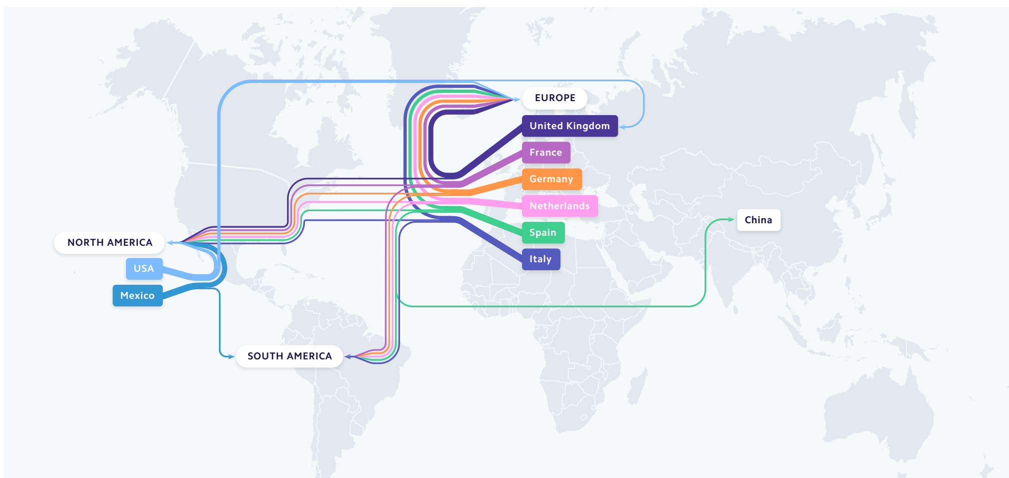
When it comes to *where* online businesses choose to go outside of their domestic market, no clear patterns emerge and no single destination rules all others. Many companies naturally look to their own region first. For example, the British may have voted for Brexit, but 60% of the country's online businesses choose to export first to the EU—a far greater rate than in any other European country. On the other hand, in Asia, diversification is the name of the game and companies don't show a clear preference for any region. Whether it is because of its growing affluence or lack of competition from locally-grown companies, South America ranks high on the list of destinations for businesses all over the world.

MAP

PREFERRED REGIONS FOR INTERNATIONAL EXPANSION

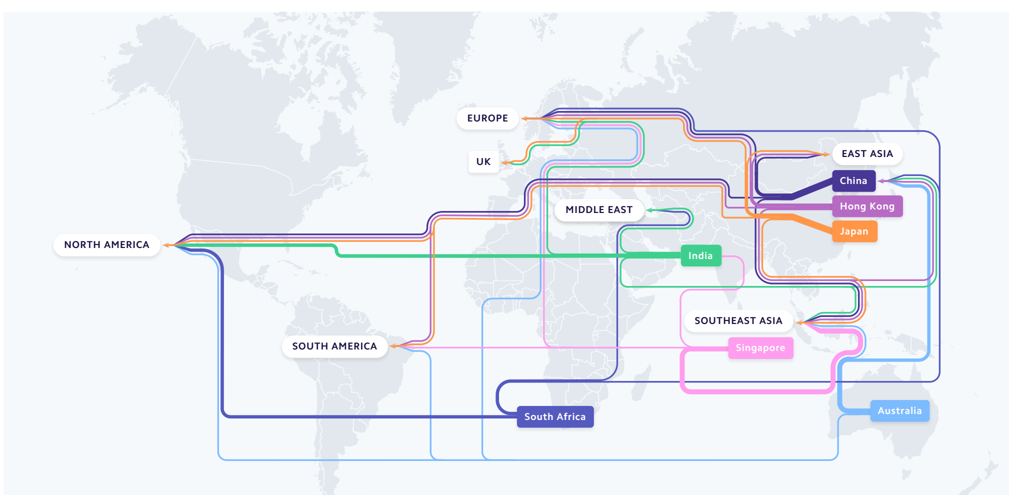
American and European online businesses

Showing weighted arrows from businesses' home countries to their first area of expansion



Asian, Australian, and African online businesses

Showing weighted arrows from businesses' home countries to their first area of expansion



APPENDIX 2

Time and effort required to start a business

While governments all over the world say enabling new business formation is a key priority, fewer than half (44%) of respondents say it is easy to set up a business in their home country. The variations by country are stark. While 77% of Japanese entrepreneurs find it easy to start a business at home, just 19% of those in Italy do.

Interestingly, online businesses in Japan, the U.S., and Germany tend to be more optimistic about conditions for company formation in their own countries than World Bank statistics would suggest,[7] whereas those in Italy, France, and Singapore are, in general, more pessimistic.[8]

TABLE
EASE OF STARTING A BUSINESS

"It's easy to start a business in my country" (Stripe research)		Time required to start a business (World Bank)	
Japan	77%	Hong Kong	1.5 DAYS
Hong Kong	57%	Australia	2.5 DAYS
Australia	54%	Singapore	2.5 DAYS
USA	53%	France	3.5 DAYS
Germany	51%	Netherlands	3.5 DAYS
Netherlands	48%	UK	4.5 DAYS
India	47%	USA	5.6 DAYS
UK	47%	Italy	6.5 DAYS
France	43%	Mexico	8.4 DAYS
China	40%	Germany	10.5 DAYS
Singapore	40%	Japan	12.2 DAYS
Mexico	32%	Spain	13 DAYS
South Africa	30%	China	22.9 DAYS
Spain	29%	India	29.8 DAYS
Italy	19%	South Africa	45 DAYS

[7] https://data.worldbank.org/indicator/IC.REG.DURS

[8] This discrepancy has been described by other researchers before: https://www.aeaweb.org/articles?id=10.1257/jep.29.3.121