


NET BENEFITS?

Small business use of online platforms

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Federation of
Small Businesses

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WHO WE ARE

The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

We provide our members with a wide range of vital business services, helping them to start, run, and grow successful businesses through high quality protection and support. This includes 24/7 legal support, legal and tax insurance, financial expertise, training and events, debt recovery, health and safety, payroll and pensions, help with care, and employment/HR advice – alongside a powerful voice in Government. FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed.

Our policy and advocacy work starts with our expert team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament, and the media. Further to this, our teams in Glasgow, Cardiff and Belfast work with Governments, elected representatives and media in Scotland, Wales, and Northern Ireland.

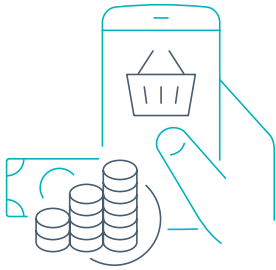
OUR RESEARCH

The information presented in this publication is solely based on the comments and opinions expressed by the small business owners and FSB members that took the time to participate in our research. This report is intended to serve as a collective representation of their viewpoints and experiences. The report is not intended and should not be construed as intending to cause harm or injury to or have a negative impact on the reputation of any particular entity.

This report is published in response to the overwhelming public interest and demand for comprehensive information on the use of online platforms by small businesses. We aim to provide a comprehensive resource for those seeking insights and understanding on this topic.

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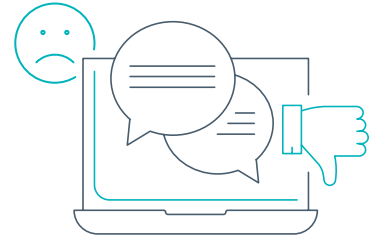
71%

of small businesses using platforms say **that platforms are important to their business**



24%

of small businesses selling through Amazon report **de-ranking of their product on search results** once Amazon had launched its own competing product



12%

of small businesses using platforms **report malicious or fake reviews**

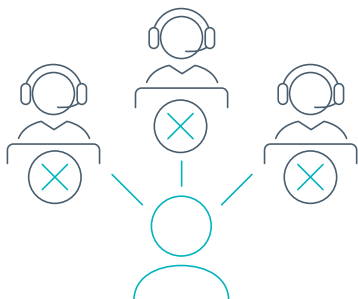
53%

of small businesses **currently use an online platform** (as of October 2022)

79% of small firms in the accommodation sector



62% of small firms in the retail sector



39%

of small businesses who have an issue with a platform find it **difficult or very difficult to resolve that issue**



10%

of small businesses using a platform report **having issues with deliveries** on at least a weekly basis



16%

of small businesses who have had an issue with an online platform believe they were **treated very unfairly by the platform** when trying to resolve that issue

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FOREWORD

The digital revolution has transformed the landscape for small businesses. Online platforms, from eBay and Amazon to UberEats, Deliveroo and Booking.com, have become indispensable tools for many, as evidenced by the surge in their adoption during the Covid pandemic and their continued use since.

Platforms are present in most sectors, bringing businesses together with other businesses and with consumers, and their business models vary. Some are primarily used as marketplaces, allowing buyers to view what is on offer and go on to buy it. Others offer both the goods and the means of delivery to the customer. This report mainly focuses on platforms that allow businesses to sell to consumers in the retail goods, food, and accommodation sectors because we received most evidence about those sectors from our quantitative and qualitative work.

Over half of small businesses now use these platforms, with seven in ten small businesses saying that they are important or very important to their business. The research has identified that there are benefits platforms can bring, but it is crucial to address the policy and regulatory challenges that have emerged over the last few years. Our research shows that small businesses believe that they too often find themselves at a disadvantage due to the asymmetry of power between them and the platforms they rely on.

Consequently, based upon our research, targeted interventions from competition authorities are considered necessary to level the playing field, and the UK Government must tackle intellectual property rights infringements by strengthening the UK's intellectual property framework and ensuring its effective enforcement.

Issues such as late payments are not unique to online platforms, but their prevalence among large online platforms has the ability to exacerbate the problem. Large online platforms have the resources to pay small businesses more promptly, and it is only fair and reasonable that they should be held accountable for their payment performance.

Our research shows that small businesses consider that they often struggle to obtain satisfactory remedies from online platforms when disputes arise. Legal action is often too costly and time-consuming for small businesses, to say nothing of the mismatch in legal resources between small businesses and platforms, leaving them without viable recourse. The recommendation based on our research is that the UK Government should create a means for the resolution of such disputes which is rapid, cheap, and effective. The online world can be made to work for consumers, platforms and small businesses if the recommendations in this report are implemented.



Tina McKenzie
Policy Chair

KEY FINDINGS

Small firms and online platforms

- Over half of the small businesses surveyed (53%) stated that they currently use an online platform as part of their business.
- 3 per cent of the small businesses surveyed stated that they previously used an online platform for their business but stopped in the last 12 months.
- Of those small businesses that use an online platform or have done so in the last 12 months, 71 per cent say that platforms are 'important' or 'very important' to their business.
- Over two in five of the small businesses surveyed (42%) state that they have never used an online platform, or stopped using one more than 12 months ago.
- When asked the reasons why the small businesses surveyed say that they do not use an online platform, the responses included:
 - Not aware of any suitable online platforms for their business or sector (36%)
 - Interests of an online platform or platforms are not aligned to their business (21%)
 - Subscription and/or joining fees are too expensive (15%)
 - Commission fees are too high (fees per sale) (15%)
 - Do not want to share their sales data (13%)
 - Loss of their business identity (12%)
 - Do not want to be tied into a platform's payment method (10%)
 - Trading via an online platform is insecure (6%).

Malicious and fake reviews

- Of those small businesses taking part in the research that use an online platform or have done so in the last 12 months:
 - 12 per cent reported malicious or fake reviews.
 - 25 per cent of the small businesses surveyed that are users of Amazon reported malicious or fake reviews.

Online platforms for cross-border trade

- Of those small businesses taking part in the research that use an online platform or have done so in the last 12 months:
 - 29 per cent are using those platforms to trade internationally.
 - 6 per cent have stopped trading internationally. .

Infringement of intellectual property

- Of those small businesses taking part in the research that use an online platform or have done so in the last 12 months:
 - A fifth of small businesses using Amazon (20%) say they have experienced infringement or alleged infringement of intellectual property (their own or a third party's).
 - A fifth of small businesses using Amazon (20%) and 12 per cent of small businesses using eBay say they have experienced their product being cloned or copied.

Dispute resolution

- Two in five of the small businesses taking part in the research (39%) who have had an issue with a platform found it 'difficult' or 'very difficult' to resolve that issue.
- One in six of the small businesses taking part in the research who reported issues with platforms (16%) said they were resolved 'very unfairly', and in a further 16 per cent of cases the small businesses taking part in the research reported that the platform took no action to resolve the issue.

RECOMMENDATIONS

The recommendations we have put forward are our honest opinions, derived from the results of the research we have conducted. We have diligently gathered and scrutinised the data from such research to arrive at and present well-informed conclusions and recommendations.

- The Competition and Markets Authority (CMA) should accept the proposed commitments from Amazon in respect of the use of third-party sales data.
- The CMA should investigate the charging structures of retail platforms, and the charging levels of accommodation and food delivery platforms, to determine whether these are indicative of monopolistic or oligopolistic behaviour.
- The CMA should investigate the relationship between platforms and delivery companies to ensure that this is working fairly and effectively for small business users.
- The CMA's investigation of reviews on Amazon and Google should include consideration of the mechanisms by which small businesses can bring any fake reviews to the attention of the platforms and get action taken.
- The UK Government should consider legislation to make it an offence for an individual to post a deliberately fake and malicious online review.
- The UK Government should legislate to introduce a rapid, effective and affordable dispute resolution procedure that would cover disputes between small businesses and platforms and between small businesses and other platforms users, including both consumers and other businesses.
- The UK Government should review the intellectual property framework in the UK and work with international partners to improve enforceability and enforcement.
- Local authorities should consider whether facilitating a local platform in their area could help small businesses sell to consumers while avoiding the costs and other issues associated with the large platforms.
- Platforms should examine ways to reduce the administrative burden and other costs for small businesses of selling into the European Union.
- Platforms should commit to paying small businesses within a maximum of thirty days, in line with the Prompt Payment Code which governs standard supplier payments.

- Platforms should avoid sudden changes to their contracts with small business users and only introduce changes in a predictable and pre-notified fashion, with consideration given to the impact of such terms on small businesses.
- Platforms should invest much more in systems to resolve issues for small businesses, including the provision of dedicated complaint and dispute handling resources where these do not already exist.
- Food delivery platforms should share aggregated and anonymised information with individual small businesses on the favoured products and broad demographics of their own customers, to allow them to better target their marketing.
- Retail platforms should put more resources into preventing abuses of intellectual property by third-party sellers and clearly set out their policies and processes to resolve intellectual property disputes.
- Amazon should commit to give credit to its business customers at its expense, rather than at the expense of other businesses.
- eBay should allow sellers to decide which buyers they are willing to sell to, within reason, by allowing sellers to filter based on a buyer's track record on issues such as returns and bad reviews.

ONLINE PLATFORMS AND SMALL BUSINESSES

The UK has one of the largest e-commerce markets in the world, and internet sales as a proportion of retail sales grew from 3.4 per cent in January 2007 to a peak of 37.8 per cent in January 2021, during the Covid pandemic. As of December 2022, they stood at 26.6 per cent of retail sales.¹

The growth in online platforms² over the last few years has increased their importance, and for many small businesses they are now an integral part of running their business. Over two fifths of the small businesses taking part in our research (44%) say they were already using an online platform prior to the pandemic and continue to use one. This number varies by sector for those who participated in the research:

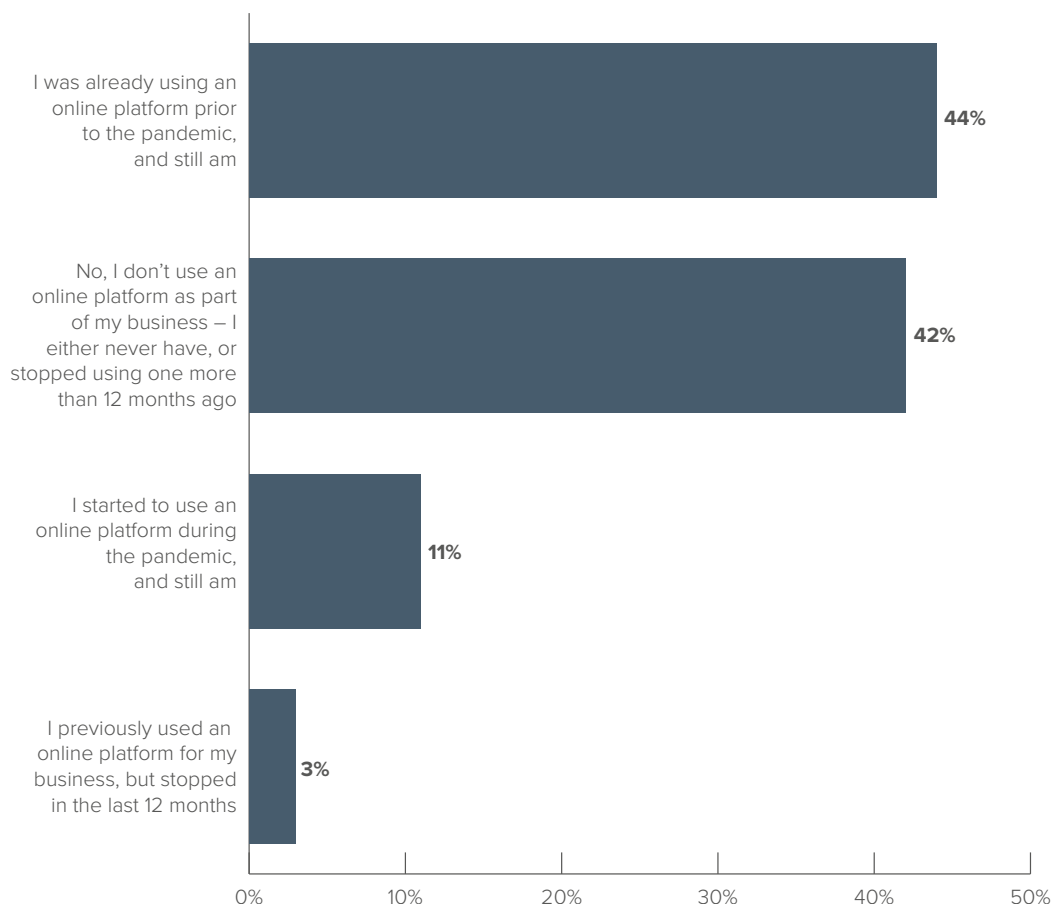
- two thirds of small businesses in the accommodation sector (66%)
- 56 per cent of information and communication businesses
- half of wholesale and retail businesses (50%)
- 48 per cent of manufacturing businesses use an online platform.

“We are more bricks and mortar, but we had to pivot towards online during the pandemic. It kept the business going through quite a difficult period.”

FSB member, hobby supplies business, East Midlands

Figure 1: Proportion of the small businesses that participated in our research that use an online platform to trade or generate work for their business

Source: FSB Online platforms survey, 2022



The impact of the Covid pandemic

Small businesses were hit hard by the Covid pandemic. Most smaller firms completely lost or experienced a significant decline in their income as a result of lockdowns and Covid restrictions.

One in ten small firms that took part in our research (11%) said that they started using an online platform during the pandemic and continue to use one now. The retail and the accommodation sectors were more likely to say they started using an online platform during the pandemic and continue to do so, amounting to 14 per cent of firms participating in our research in these sectors. Interestingly, 15 per cent of the small businesses that took part in our research in food and beverage service activities say they previously used an online platform for their business but stopped in the last 12 months. This compares to 3 per cent of all the small businesses participating.

“We should get a local platform of our own then we don’t have to deal with the platforms. It could profitably be done on a 5% commission.”

FSB Member, sports goods business, East Midlands

Local communities and local businesses played a significant role in providing resources and support to people during the pandemic. Our anecdotal evidence suggests the adoption of technology at a local level can help small businesses and local communities. This forms part of the ‘smart places’ agenda, where technology is used to connect businesses with local communities and to provide relevant data to local authorities to allow them to better respond to local needs. We are also aware of applications such as ShopAppy which are working with local authorities to deliver this kind of service across the country, so there is clearly potential for local platforms to work where the circumstances are right. Local authorities are well-placed to act as facilitators, working with local small businesses and technology providers.

Case study: Siop.io, Wales

When the first Covid-19 lockdown happened, most small businesses did not have a system in place to manage orders for pick-up and delivery. Kodergarten, a technology business in North Wales worked with social enterprise Menter Môn to build an online platform that local businesses could use to sell their food and drink products to local consumers. Because these businesses could only offer delivery within a relatively small area, the platform had to work differently to the large national platforms, by first determining what was available to any particular customer based on their postcode. It also needed to be flexible enough for businesses to enter telephone orders into the system, create delivery notes, pick lists and delivery checklists, and allow payment by cash or card. After 18 weeks work, siop.io went live with 26 local food businesses. During the pandemic they recorded more than £90,000 in total sales. Since the pandemic it is regularly used by 15 businesses, with around £20,000 of orders being processed in 2022.

Post-pandemic

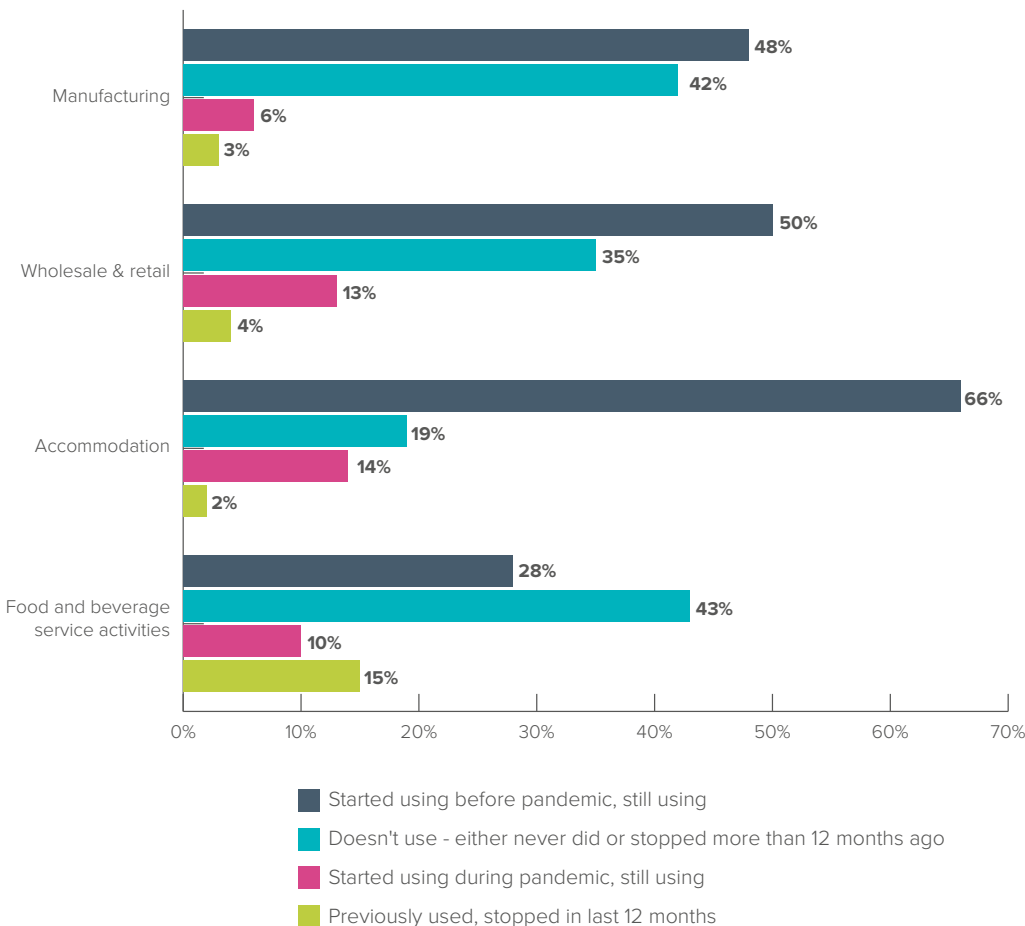
FSB research shows that 53 per cent of the small businesses who participated currently (as of October 2022) use an online platform. There is sectoral variation in the use of online platforms by those surveyed in that they are heavily used by small businesses in the accommodation (79%) and retail (62%) sectors; in comparison, construction (30%) reported the lowest use of online platforms among the sectors we considered.

“Platforms are important for us; we would love to be in the position where we’re exclusively doing all of our business on our website. But we’re just too small.”

FSB member, Retail business, East of England

Figure 2: Proportion of the small businesses taking part in our research using online platforms to trade or generate work for their business, by sector

Source: FSB Online platforms survey, 2022



Over two in five of the small businesses surveyed (42%) don't use online platforms: they either never have, or they stopped using one more than 12 months ago. The most common reasons reported for this by those taking part are that the business is unaware of a suitable platform for the business (36%), they feel that their interests are not aligned with a platform's (21%), or the commission charged by an online platform is too high (15%). Of those that use an online platform or have done so in the last 12 months, 71 per cent say platforms are 'important' or 'very important' for their business.

Figure 3: Importance of platforms to businesses using them.

Source: FSB Online platforms survey, 2022

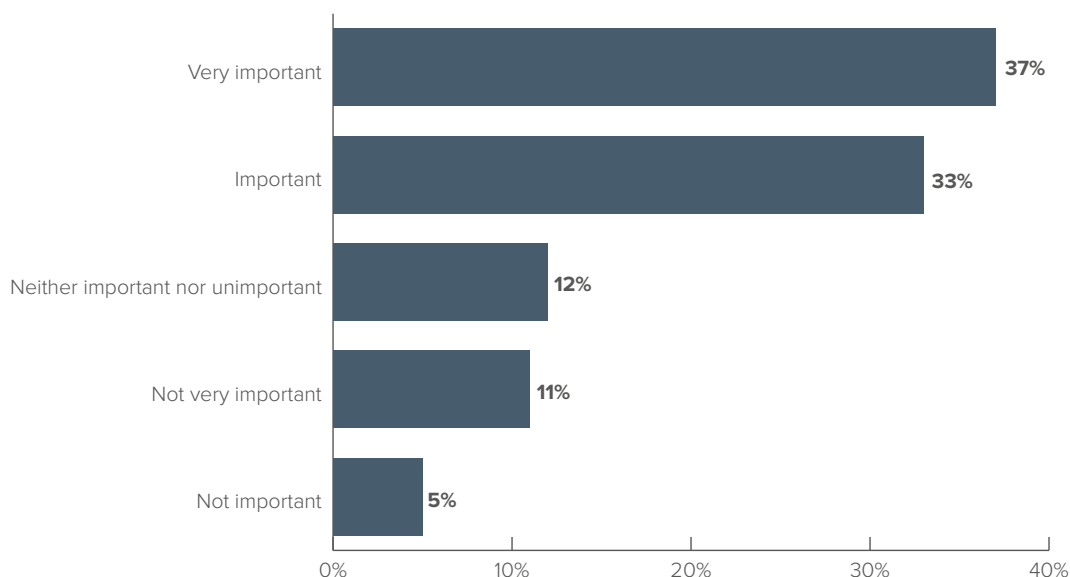
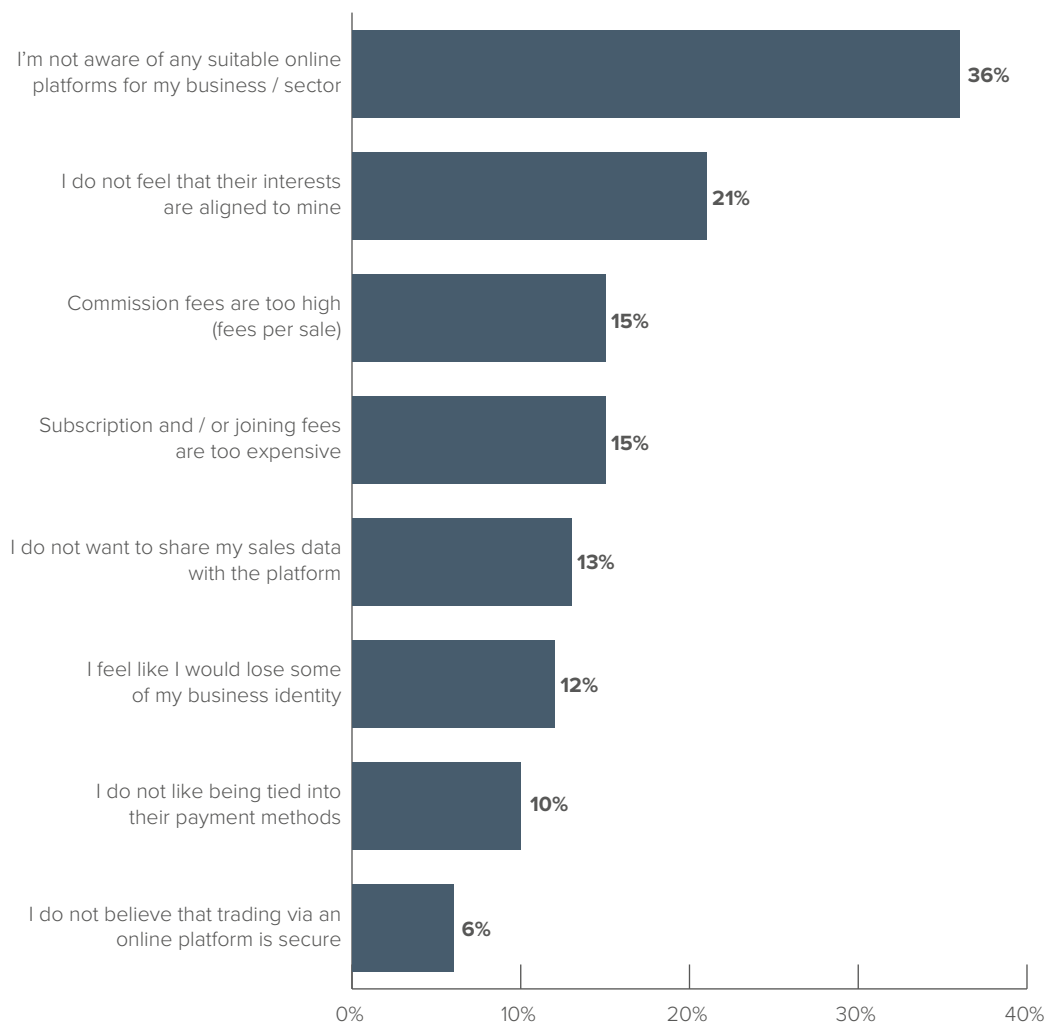


Figure 4: Reasons why the small businesses taking part in our research have stopped using an online platform or have never used one

Source: FSB Online platforms survey, 2022



Amazon

Amazon is a very significant part of online retail in the UK. It is difficult to obtain precise numbers on sales or market share because Amazon UK is part of a wider European entity and its activities also include logistics and other services. The CMA 'provisionally estimates that the UK Amazon Marketplace accounts for at least 50% of the market for the supply of e-commerce marketplace services to third-party sellers to reach customers in the UK, based on value of third-party sales and online reach'.³

One distinctive aspect of Amazon's model is that Amazon is both a seller of products on its own platform and a provider of a marketplace for other businesses to use.

Our research shows that this dual role can cause issues for small firms

using Amazon’s platform. FSB research found 25 per cent of the small businesses that took part in our research selling through Amazon reported de-ranking of their product on search results once Amazon had launched its own competing product.

Small businesses have expressed concern to FSB that Amazon uses data on sales made by third parties to plan its own sales activity, and that this may result in Amazon being able to use its buying power to obtain goods more cheaply than small businesses can to undercut them on price. In this regard, FSB received the following comments from its members:

“We were undercut with an American brand of clothing that we were doing very well with until Amazon listed it. We got on to our supplier, and it turned out Amazon were shipping it directly from America over here.”

FSB Member, Sports goods business, East Midlands

“I understand that if there’s a distribution arrangement in place you can’t infringe on that arrangement, but that doesn’t apply to second-hand products. But Amazon require you to get permission from the supplier or the manufacturer and to go through their process so that they can ‘vet’ you, in order to sell. It shouldn’t affect me as a second-hand seller – I should be free to sell second-hand products all day every day.”

FSB Member, Retail business, East of England

In December 2022, the European Commission accepted commitments from Amazon⁴ in the EEA to address the Commission’s concerns over Amazon’s use of non-public marketplace seller data and over a possible bias in granting sellers access to its Buy Box and its Prime programme. The CMA is consulting on proposed commitments from Amazon relating to similar concerns in the UK.⁵

“A couple of sports companies got involved with them [Amazon]. Then Amazon started telling them what they should sell, what colour it should be, how many in a pack, that sort of thing.”

FSB Member, Sports goods business, East Midlands

Online platforms and cross-border trade

Of those small businesses surveyed that use an online platform, 29 per cent say they trade internationally via a platform and 6 per cent used to

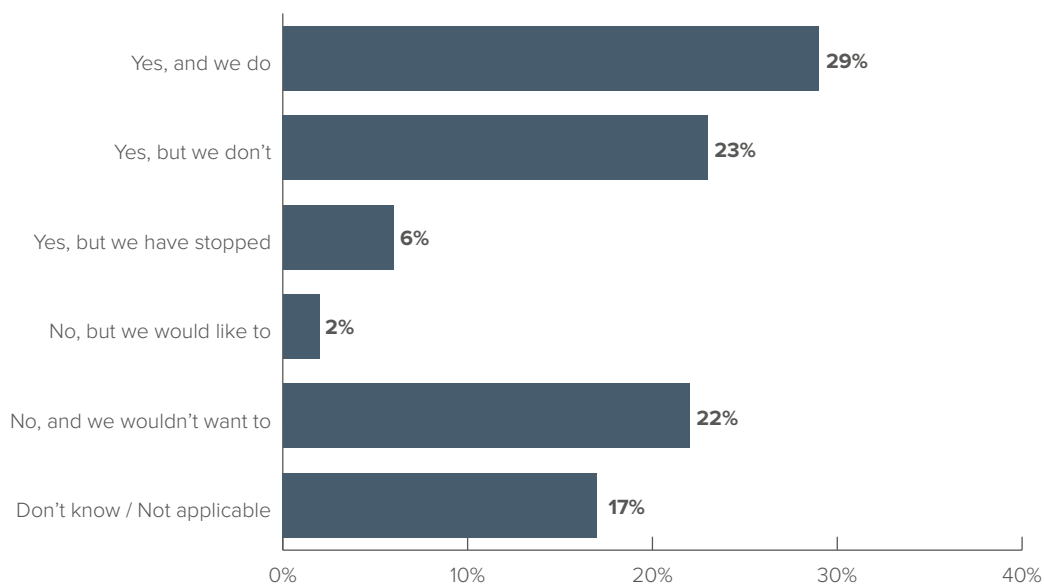
use a platform to trade internationally but have since stopped. Previous FSB research published prior to the pandemic and to the UK leaving the European Union found that one in five small firms included in that research who digitally trade do so using online marketplaces such as Amazon and Facebook.⁶ Amazon and eBay told us that they believe the proportion of small firms trading internationally via platforms is higher than this, and this may reflect the difference between incidental trade and firms which regard themselves as regular international traders and have responded to our survey on that basis.

“We were doing reasonably well in Europe before Brexit. It’s taken a while, but we just went live in the Netherlands with a new warehouse over there and we’re now offering that to other small companies who have a bit of business there. We could put everything over there and run it from there, but it’s just too difficult to send an individual parcel back to the UK. Over here my warehouse costs me £30,000 a year. Over there I’ve rented the same size premises for £12,000.”

FSB Member, Sports goods business, East Midlands

Figure 5: Proportion of respondents reporting on whether their online platform allows international trading

Source: FSB Online platforms survey, 2022



Clearly, setting up a separate business or warehouse in the EU is not a realistic option for most small businesses. There may be additional things that platforms can do to ease the burden: some already provide guidance on sending goods to the EU from the UK, but our research indicates some small businesses are still struggling with paperwork. Integrating the various forms with the platforms' own systems where possible may ease some of this burden. FSB's 2023 report, *Customs Clearance: The road to seamless trade for small businesses*, makes recommendations to the UK Government to make trade easier for small businesses in the context of the current trading arrangements.⁷ Many small retail business owners report that the cost of returns from the EU has increased significantly since Brexit which makes selling low value goods to EU consumers unprofitable, so platforms may wish to introduce mechanisms which mitigate this. The E-Commerce Trade Commission, which includes representation from FSB, is also looking at these issues with a view to making recommendations to the UK Government.

Recommendations

- **The CMA should accept the proposed commitments from Amazon in respect of the use of third-party sales data.** The EU has already taken action in this area, and while we recognise that Amazon has become indispensable as a means for small businesses to sell goods, it is unfair if Amazon is able to use their sales data against them.
- **Local authorities should consider whether facilitating a local platform in their area could help small businesses sell to consumers while avoiding the costs and other issues associated with the large platforms.** This will not be possible in all areas, but the examples we have found show that it can work for certain kinds of product in certain circumstances, potentially allowing small businesses to keep more of their income.
- **Platforms should examine ways to reduce the administrative burden and other costs for small businesses of selling into the EU.** Brexit has increased friction for small businesses selling into the EU, resulting in a significant number of businesses ceasing to trade with EU countries via platforms. Platforms have the resources and the knowledge to help here, so should consider how they might do more, for example by integrating customs forms into platforms' own systems.

CHARGES AND PAYMENTS

The commission charged by online platforms is generally high (up to 30-35%), though in some cases it is hard to obtain publicly available information on the precise rates and in others the charging structures are complicated. For example, in retail Amazon⁸ and eBay⁹ both have models where commission varies depending on the kind of seller and the product being sold, whereas Facebook Marketplace and Instagram (both part of Meta) charge a flat rate of commission on all sales. It is not obvious why these charges vary in this way. In other sectors there is variation between commission rates dependent on the level of promotion the site offers to the product or service, or the number of additional services bought by the seller. As part of our research we obtained the following statement from a restaurant owner:

“I was reluctant to start using the delivery apps for a long time because of the level of commission they take, and the fact that they don’t share any customer data with restaurants. Indian restaurants are typically low margin businesses – 5-10% - or in many cases they only just about break even, so if you’re paying 20-30% commission it’s hard to see how you make money. It is important to note that the commission is on the whole sale including VAT, which many restaurants may not fully realise when they consider signing up. So, if the headline commission is 20%, you pay 24% of the cost of the food.

I used to use my own staff to do deliveries, and before the pandemic I was even thinking of dropping this element of the business and concentrating on eat-in customers at the restaurant. However, customers are tending to eat at home a lot more because of the cost of living, and this has made it even more difficult for restaurants to make money. With reluctance, I signed up to Deliveroo because customers expect to be able to make orders through one of the apps, and using the app frees up some of my time that I would otherwise have spent managing the delivery drivers. However, I have noticed that orders through my own website have got fewer since I signed up which indicates that some customers have switched from the website to using Deliveroo.

Although the apps describe the restaurants as ‘partners’ it doesn’t really feel that way. There is some marketing benefit from being on the apps and this is helpful to Indian restaurants who typically aren’t that good at marketing, but the advantages are limited because all your competitors will be on the same apps and being on the apps might even be seen as cheapening your brand.

Customers are the winners from the apps as restaurants are under constant pressure to offer discounts. To customers it might look like these come from the app itself, but the reality is that the cost is borne by the restaurants. It is difficult to increase prices for delivery customers to recoup some of the commission because customers are very price-sensitive and expect takeaway food to be relatively cheap.

Small businesses have no bargaining power with the apps – there was talk of a campaign to demand lower commissions, but this didn't come to anything. We can't do without the apps due to customer expectations, but it would be nice if the apps put something back for small businesses in terms of investment in marketing or reduced prices. Their focus though seems to be on attracting and keeping the big brands.”

Munayam Khan, Director, Raja Monkey, West Midlands

Our evidence suggests a level of poor understanding of the charging structures of some online platforms. Around one in eight of the small businesses participating in our research (12%) state that the charging structures for Facebook Marketplace are ‘difficult’ or ‘very difficult’ to understand, in comparison to 32 per cent who say the same about Amazon’s charging structures.

Figure 6: Level of the participating small business’ understanding of the charging structures of the online platforms they use

Source: FSB Online platforms survey, 2022

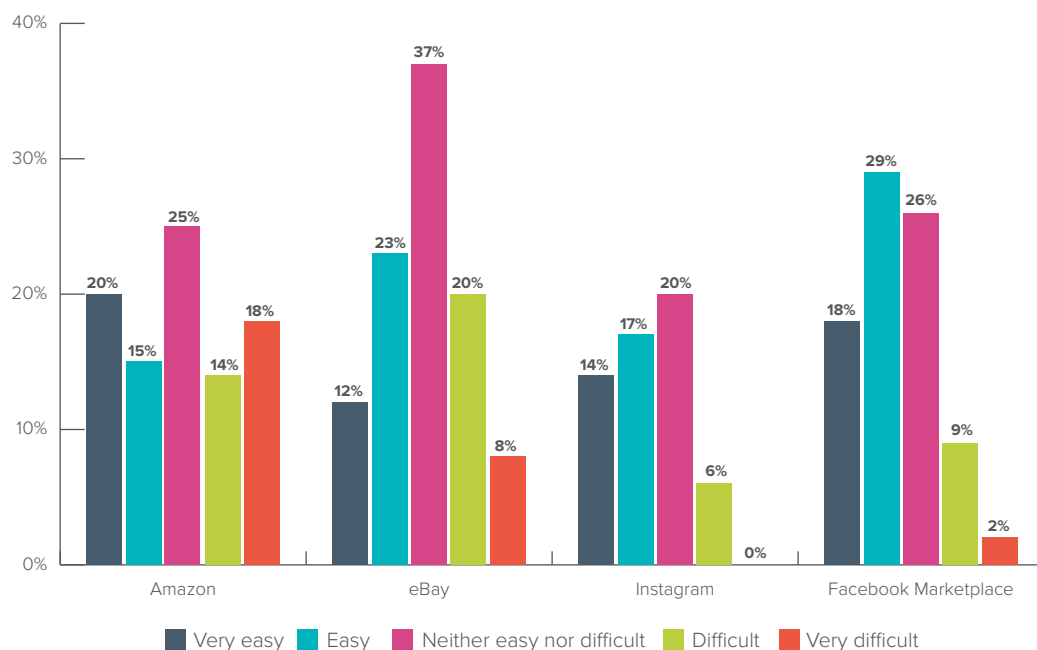
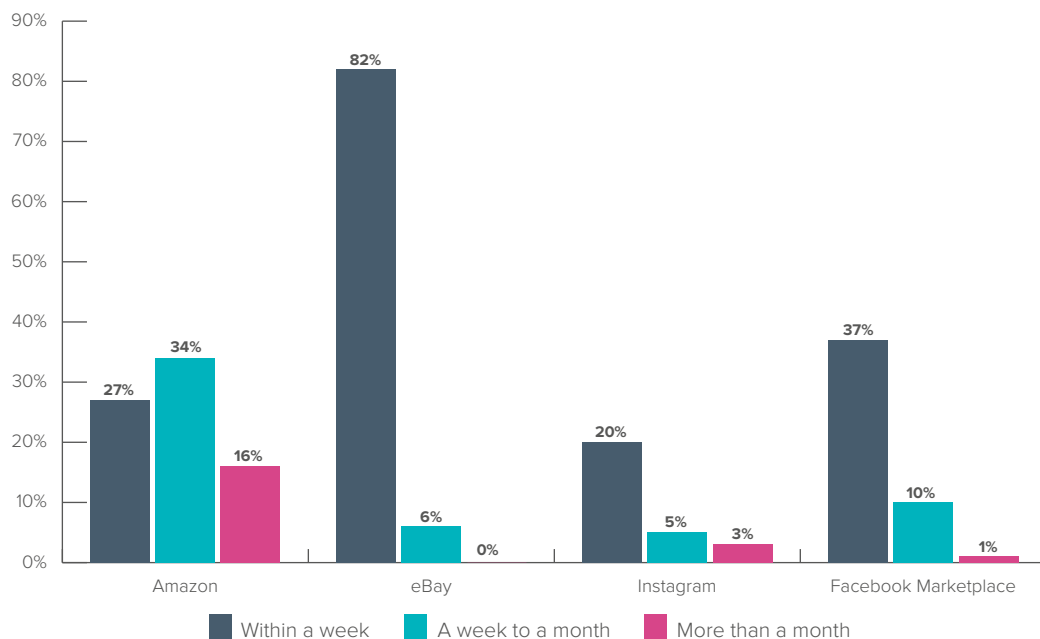


Figure 7: Participating small businesses' estimation of length of time it takes to receive payment from an online platform(s)

Source: FSB Online platforms survey, 2022



FSB’s *Time is Money: The case for late payment reform* report found thousands of small businesses are being held back by a systemically poor payment culture.¹⁰ Our research suggests Amazon takes more than a month to make payments to a significant number of the participating small businesses (16%). This may be at least partly due to business account holders being allowed thirty days to make payment.¹¹ We obtained the following comment from an FSB member:

“Amazon give business customers a minimum of 30 days credit and it’s at the seller’s expense. So, any funds that come through from a business customer I know are sitting there, but I can’t access them. I haven’t signed up to it and I can’t opt out of it. Thankfully we sell second-hand products so we don’t have many business buyers”

FSB member, Retail business, East of England

Use of online platforms in the accommodation sector

In the accommodation sector models vary between commission paid by the business and fees paid by the customer, but in all cases commission/fees seem to be in the range of 15-30 per cent or higher, based on information reported to us by small businesses and information available on the platforms' websites. This level of commission indicates a problem with a lack of competition, and it is notable in the accommodation sector that although there appear to be many platforms operating, several of these are in fact owned by a small number of large groups.¹² In the UK, the CMA has taken action on online hotel bookings, requiring sites to be more straightforward and transparent about the information provided to consumers.¹³ Compliance with these requirements is still under active monitoring. In Spain, the National Markets and Competition Commission (CNMC) launched an investigation into Booking.com in October 2022.¹⁴

“They regularly allow people to stay without taking their credit or debit card details, we don’t get paid and, in some cases, Booking.com still want their commission - how is that even allowed?”

FSB member, Hotel, North West

“We use Booking.com to take bookings from guests. We originally took around 75% of our bookings this way, with the rest coming direct, but the proportions are now reversed. On the one hand, we believe that for small accommodation providers, online platforms such as Booking.com are necessary to be a successful business, especially when the business is new. Platforms help businesses reach a global audience and provide useful services such as the translation of communications with customers. On the other hand, we think the commission paid is unreasonably high (between 15 and 30%) and the connection between the commission paid and the degree of promotion provided in return is not transparent – in theory paying a higher commission rate results in more bookings, but it is not easy to see this from the data provided.

We also have concerns about the ‘Genius’ rating for customers which seems to be given to everyone and results in the accommodation provider having to offer a 10% discount – customers may assume that this discount comes from Booking.com itself.

The Booking.com system has a one-size fits-all approach to terms and conditions, which may not match the terms and conditions of the business itself (for example in relation to deposits and refunds): this has the potential to lead to conflict with customers as it is ambiguous as to whose terms and conditions apply.

Communicating with Booking.com when something goes wrong is difficult. Overall, there is a sense that the platforms are set up to deal with large hotels with hundreds of rooms, but the contact system is more difficult to use for businesses like us that are run by one or two people who don't have much time and will often give up as a result."

FSB member, B&B, North West

Recommendations

- **The CMA should investigate the charging structures of retail platforms, and the charging levels of accommodation and food delivery platforms, to determine whether these are indicative of monopolistic or oligopolistic behaviour.** Interventions made by the CMA so far are welcome and should continue to be pursued and enforced, but these have so far not looked at the fundamental costs to small businesses and consumers of using these sites and whether competition is effective in these markets.
- **Platforms should commit to paying small businesses within a maximum of thirty days, in line with the Prompt Payment Code which governs standard supplier payments.**¹⁵ This should include payments to third-party sellers on these platforms, as well as direct suppliers. FSB is concerned about late payments across the whole economy, and there is no reason why online business should be exempt from this voluntary initiative, or from any legislative action taken by the UK Government in future. In line with this, the CMA's Digital Market Unit should consider applying the thirty-day requirement to firms with Strategic Market Status.¹⁶
- **Amazon should commit to give credit to its business customers at its expense, rather than at the expense of other businesses.** There is no reason why small businesses should have to supply goods to other businesses and wait more than a month for payment, given that Amazon chooses to offer these terms to business customers and it only seems fair that it should therefore finance the service itself.

DELIVERIES

Business models differ when it comes to deliveries: with some platforms, the business is responsible for arranging its own deliveries, whereas with others the platforms both take payments and arrange pick-up and delivery of the goods. Our research shows that this can lead to confusion and frustration as to who owns the relationship with the delivery companies and what happens when things go wrong, and significant cost for small businesses.

We asked respondents to our survey about both their experience of things going wrong with deliveries and who covers the cost of this.

Figure 8: Experience of products being lost, going missing or not being delivered to a customer while using online platforms to sell goods to consumers, across all the platforms used

Source: FSB Online platforms survey, 2022

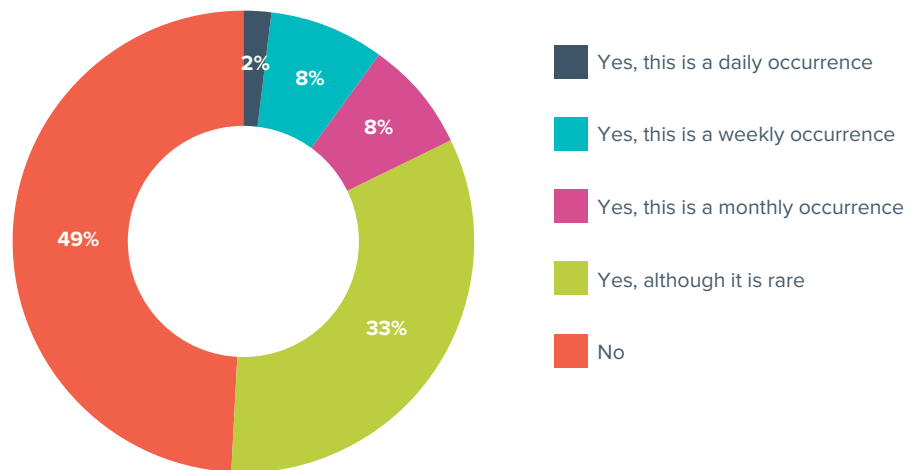
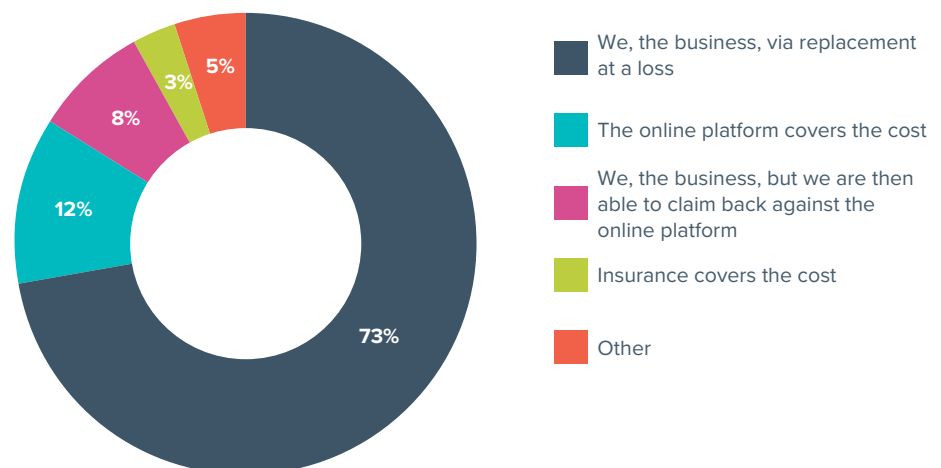


Figure 9: Which party is required to pay if items go missing during the delivery process, for all platforms

Source: FSB Online platforms survey, 2022



Of those respondents that have experienced issues with deliveries, just under three quarters (73%) say they (the business) have to cover the cost of a replacement at a loss, in comparison to 12 per cent which say the platform covers the cost. Only 3 per cent of the responding small firms say insurance covers the cost. Our data does not distinguish between those small businesses that use a platform's service to deliver goods to their customers and those which arrange deliveries themselves, but the key point is that the cost of failed deliveries is overwhelmingly borne by small businesses themselves. The following statement was received from a FSB member working with deliveries:

"I design, manufacture and supply eco-friendly household products. The products are plastic free, non-toxic and zero waste to landfill with a low carbon footprint. I use Shopify to take payments and arrange deliveries to customers nationwide. The business is facing higher input costs due to inflation and the increase in energy prices, and on top of this significant issues with deliveries being seriously delayed or never arriving. This has resulted in the company losing loyal customers and money.

Roughly 80-90% of packages with next day delivery take longer to arrive with the customer, when they do arrive. Despite paying for insurance, they often go uncompensated due to delays in investigations and a 30-day claim limit. Discussions with Shopify and delivery companies such as DPD are unproductive and time-consuming.

Attempts to contact delivery companies run into difficulties because the business is not considered to be the customer, given that Shopify or Shippo is the account holder. I am sent round in circles, which takes up a huge amount of my time and causes a great deal of frustration and extra expense which cannot be afforded during the current cost of living crisis.

Competing in paid search rankings on Google with large manufacturers is very difficult for a small business, so the issues with deliveries as set out above just put further barriers in the way of being able to compete with multinational businesses and expand."

FSB member, Manufacturing, Wales

Recommendations

- **The CMA should investigate the relationship between platforms and delivery companies to ensure that this is working fairly and effectively for small business users.** The relationships between the various parties in the chain are not straightforward in terms of determining who is a customer of whom, and this leads to issues when things go wrong, where the small business cannot deal directly with the delivery company but the platform itself is unable or unwilling to resolve the problem.

REVIEWS, SALES DATA AND TERMS AND CONDITIONS

Online reviews

The problem of misleading or vindictive online reviews is well-known. Negative reviews which are based on the consumer's genuine experience of a product or service are useful as they allow businesses to respond to feedback and make improvements. Reviews which are misleading or vindictive can cause serious damage to a business.

In 2020, the CMA took action against Facebook and eBay,¹⁷ and is currently investigating Google and Amazon.¹⁸ FSB research shows 12 per cent of all small businesses that took part in our research say that they have experienced malicious or fake reviews on platforms, rising to 25 per cent for small firms using Amazon. We recognise that platforms have made efforts to tackle fake reviews posted on their sites, but our research shows that more could and should be done to tackle malicious or fake reviews from individuals.

“On Amazon unless someone swears or uses personal information, you cannot get it removed, because that’s the customer experience.”

FSB member, Retail business, East of England

Listings and rankings

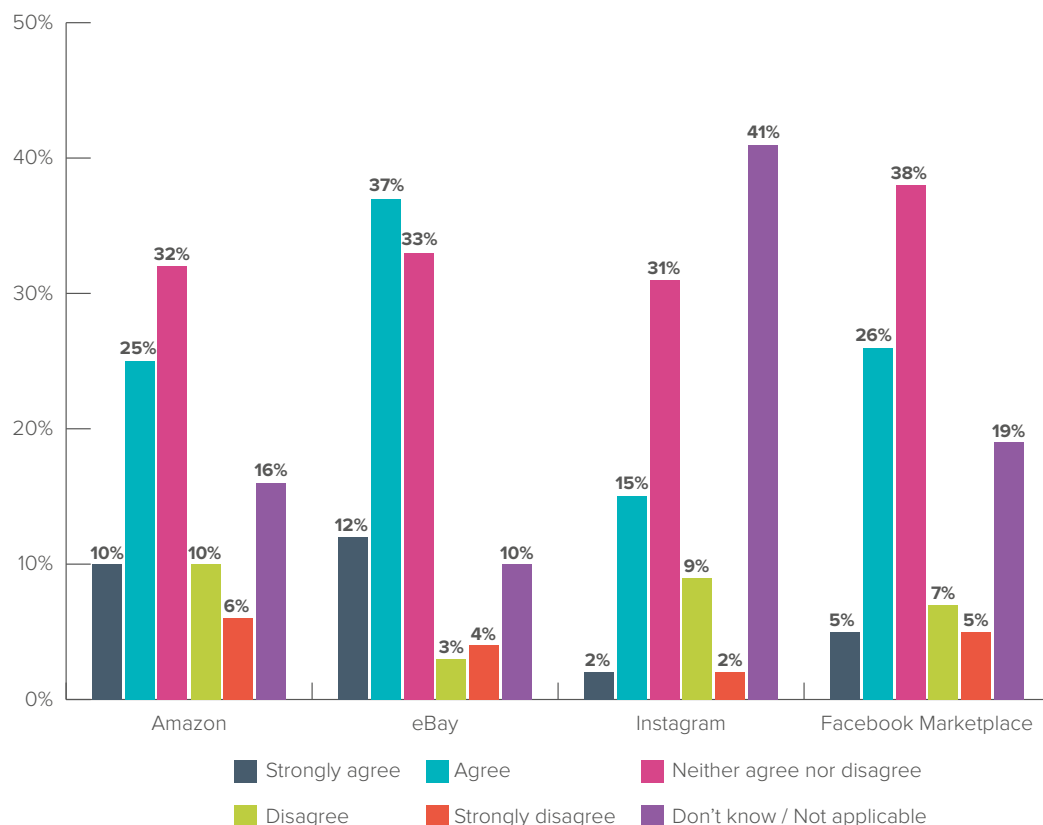
Our research shows one in twenty small businesses that took part in our research using platforms (6%) have experienced the de-ranking of a product on search results (where the relative ranking of a product is suddenly decreased so that consumers are unlikely to see it) once a platform has launched its own competing product or service (24% of Amazon users that took part in our research) and six per cent of small businesses that took part have experienced the delisting (removal from the website) of a product or service (25% of Amazon users that took part in our research).

Sales data

We asked how useful the sales data provided by platforms is for small business users.

Figure 10: Proportion of users that responded agreeing that the platform provides them with useful sales data

Source: FSB Online platforms survey, 2022



One FSB member commented on the difference between the information available to buyers about sellers on eBay, as compared to the information that sellers get about buyers, which is much more limited:

“They need to open up the metrics of buyers, anonymously, so that for example we know if a buyer returns 10% of the product that they buy. I don’t want to transact with them. If they leave negative feedback for more than 5% of transactions, I don’t want to trade with them.

They’re not interested in it because they’re using the sellers’ capital to generate their goodwill with the buyers. So instead of allowing us to police out all of the bad actors within the platform they retain them all, and then they rely on us to bear the cost of that.

eBay’s tolerance levels are going to be far higher than ours. If I catch someone cheating once I’m not going to give them a second chance because they’re going to do it again. But eBay do. They’ll do it five, six, seven times before eBay excludes them. So, I want access to the metrics anonymously, so that I can restrict who I transact with.”

FSB member, Retail business, East of England

I would like to get more information from the platforms about my sales, in terms of which combinations of items are most popular, and would also like more information about the demographics of my customers to be able to target my marketing better. The platforms’ own promotional material is very much focused on their relationships with the big hospitality chains. Smaller businesses would have to pay for such promotions or offer discounts which would be unaffordable, so it should seem reasonable that platforms share more information to help level the playing field between small and large food businesses.

FSB member, Restaurant, East Midlands

Changes to terms and conditions

Our evidence suggests small firms experience sudden changes to terms and conditions from some online platforms. From those that completed our survey, this was most prevalent with Amazon (24%) and eBay (16%). Though they may be permitted by contract, sudden changes to terms and conditions can be very difficult to cope with for small businesses especially if they have financial or operational implications, as the following case study shows.

“I run a small number of food outlets located in shopping centres. I use Too Good To Go, an app which allows consumers to buy food items from both small and large retailers nationally. Too Good To Go is marketed on the basis that it avoids food waste by allowing retailers to sell surplus stock at a discount. The consumer pays for a bag of items and must collect the bag from the retailer at a pre-determined time: the items will be discounted significantly from their usual retail price.

Too Good To Go recently announced it would be changing payment terms from 30 plus 10 days to 90 plus 20 days – in other words, businesses would have to wait up to 110 days from the date of the transaction to receive the payment. They also increased their level of commission, meaning that businesses would have to increase their prices for consumers in order to make any profit from transactions via the app.”

FSB member, Food services chain, East Midlands

Recommendations

- **The CMA's investigation of reviews on Amazon and Google should include consideration of the mechanisms by which small businesses can bring any fake reviews to the attention of the platforms and get action taken.** Some small businesses take the view that fake reviews are a necessary evil when doing business online, but there is no reason for this to be the case. It is also particularly unfair on new businesses, where early fake reviews might mean the business is left facing an uphill battle to build a customer base.
- **The UK Government should consider legislation to make it an offence for an individual to post a deliberately fake and malicious online review.** Legislation to prevent businesses from posting or commissioning fake reviews has already been proposed, and we think this should be supplemented by making laws for individuals.
- **eBay should allow sellers to decide which buyers they are willing to sell to, within reason, by allowing sellers to filter based on a buyer's track record on issues such as returns and bad reviews.** This might be based on sellers first establishing their own track record of trustworthiness, and subject to certain thresholds so that buyers who have returned reasonable amounts of product or given normal levels of bad reviews are not excluded.
- **Food delivery platforms should share aggregated and anonymised information with individual small businesses on the favoured products and broad demographics of their own customers, to allow them to better target their marketing.** This would help create a more level playing field between small and large food businesses.
- **Platforms should avoid sudden changes to their contracts with small business users and only introduce changes in a predictable and pre-notified fashion, with consideration given to the impact of such terms on small businesses.** Sudden changes should be a matter of last resort, not a matter of course. If the platform has an existing policy in place on changing terms after a set period of the business being signed up then this should be made clear from the outset, clearly highlighting any terms that will be changing for the business' attention.

DISPUTES AND COMPLAINTS

Despite the benefits of using online platforms, the relationship between online platforms and small business users is not without issues. Around two in five small businesses surveyed that use a platform (39%) say that resolving issues with platforms was ‘difficult’ or ‘very difficult’.

Compared to larger businesses, smaller businesses are significantly less well-equipped for resolving disputes. Therefore, it is vital that disputes can be resolved swiftly, fairly and at the lowest possible cost to those involved. Our evidence shows 33 per cent of all of the small businesses surveyed who had an issue with a platform say it was dealt with unfairly, and 5 per cent say the platform did not understand the issue.

Platforms tend to be set up to resolve issues that arise for consumers with a minimal amount of human contact: the use of FAQ pages and chatbots is typical. Platforms currently seem to make less effort to resolve issues that small businesses have as sellers, presumably because they have no incentive to do so: as we set out at the beginning of this report, platforms are very important for many small businesses who feel they have little choice but to use them for their business.

Figure 11: Responses to the question of how the most recent issue with an online platform was resolved

Source: FSB Online platforms survey, 2022

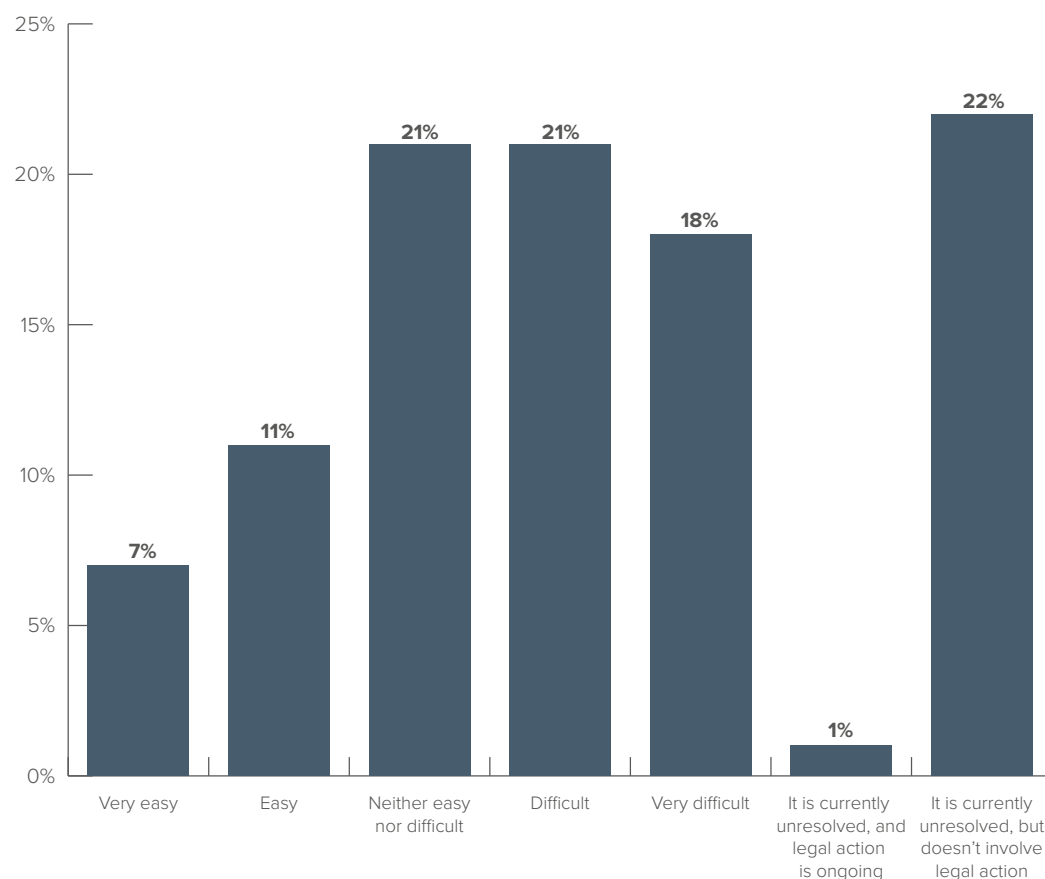
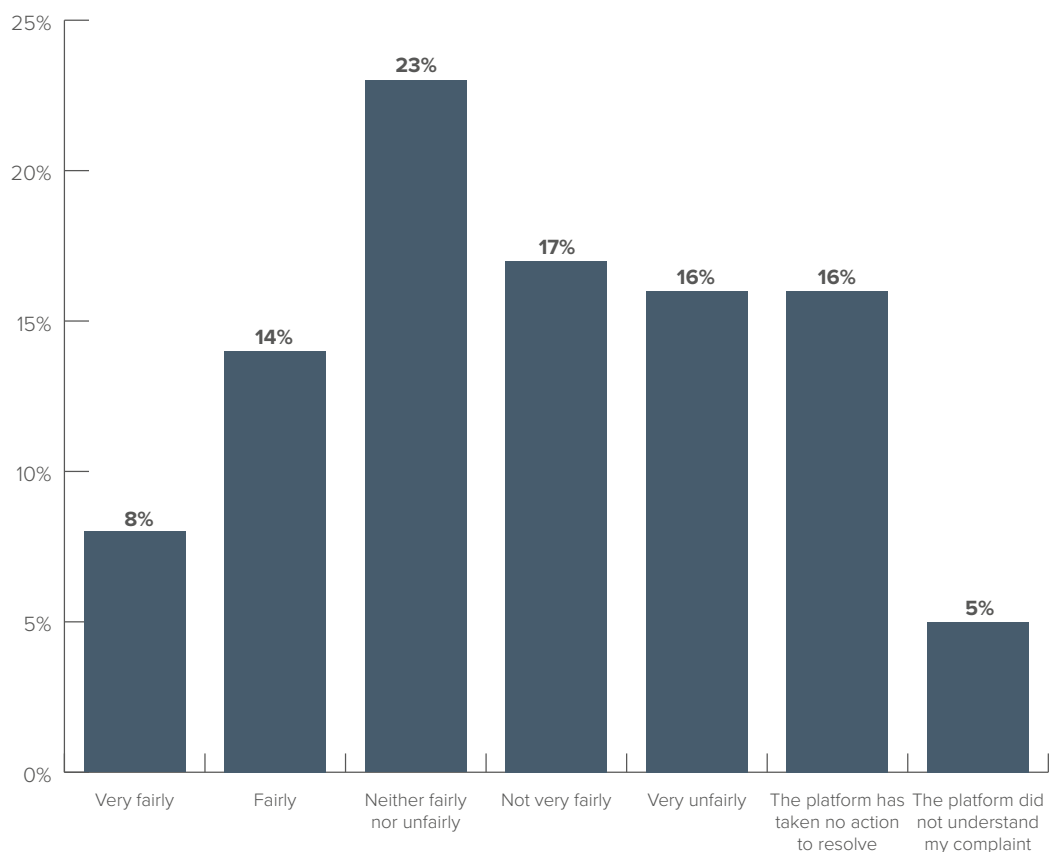


Figure 12: Responses to the question of how fairly the issue was resolved

Source: FSB Online platforms survey, 2022



It was also perceived by businesses that took part in our research that platforms tend to take the buyer's side in disputes between buyer and seller, rather than acting as a neutral referee. This is demonstrated by the comments made by one FSB member:

“eBay are like a seesaw: they go in favour of the buyer, and then they revert towards the seller, and they balance it back out, and then they go back towards the buyer. They can't seem to make up their mind who the most important party is within the transaction without realising that they're both as important as each other.

We have a case that’s ongoing. The buyer sent goods back to us that had been tampered with. The only thing that we could do was offer a 50% partial refund. That was our only way out. So, I refused. I said look, we’re top rated, we’re 99.5% on feedback. We sell hundreds of thousands of pounds every year. We pay you large fees every month. We expect some seller protection, particularly given the measures that we take. eBay judged the case, and gave the buyer a full refund, so we have a defective product now and have to pay for a full refund. I’ll continue to contest it.”

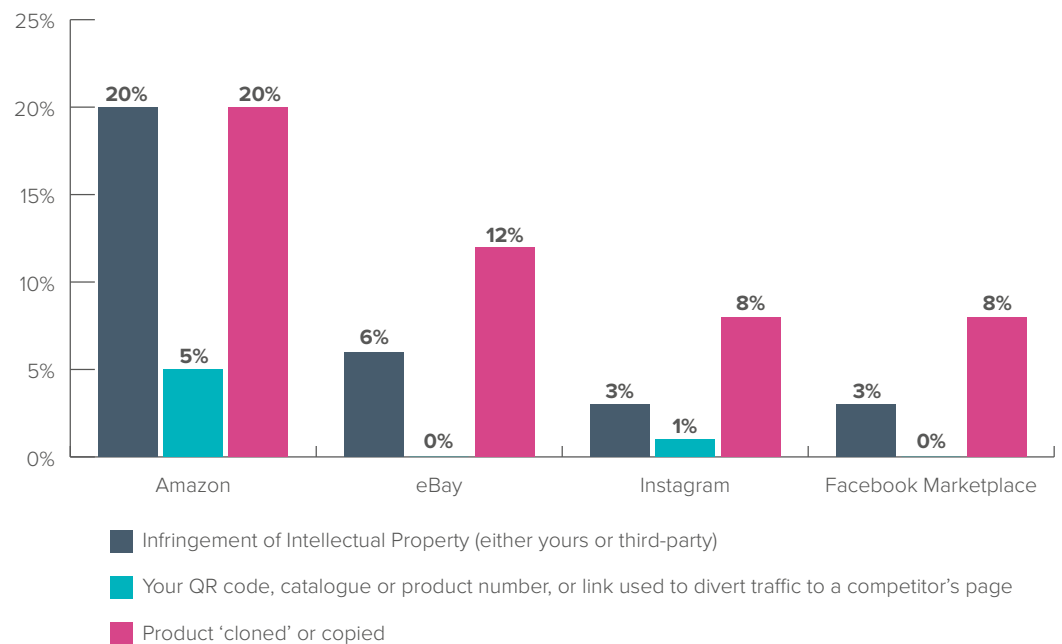
FSB member, Retail business, East of England

Intellectual property

Protecting intellectual property (IP) is critical for the UK’s knowledge-based economy. For small businesses, dealing with breaches of IP rights can be challenging, time-consuming and often ultimately fruitless. Taking legal action can be prohibitively costly.

Figure 13: Proportion of small businesses that took part in our research and have experienced an intellectual property issue when trading via an online platform

Source: FSB Online platforms survey, 2022



Guidance published by the Intellectual Property Office in October 2022 states that “almost all e-commerce taking place on these stores is legitimate” without presenting any evidence to support this, and merely points those who may have complaints to the online platforms’ own processes.¹⁹ We recognise that these processes exist, and that they do have some effect in

reducing the degree to which intellectual property rights are abused, but the issue is still far too prevalent and small businesses still struggle to resolve problems when they emerge. As the following case study shows, theft of intellectual property can affect a small firm's long-term viability.

“I design UK-themed fashion items which have been very successful internationally (more than 80% of sales outside of the UK), particularly in European markets. 90% of these sales were to retail outlets rather than direct to consumer and would be made via B2B fashion websites in the countries concerned.

Two years ago, I made a large order with a Chinese manufacturer. I have recently become aware that this manufacturer has produced its own products using thirty of my designs and is marketing these to my customers via the same B2B websites. This has resulted in significant financial losses to the business and huge stress for me personally, as I've had to spend a lot of time tracking the products across numerous websites and requesting their removal from sale. On some websites the business's brand has also been copied, with some small changes. Generally, I have been able to get the counterfeit items removed from sale, but they keep re-emerging. I have a large stock of items which were delivered by the Chinese manufacturer, but which are very difficult to sell because the designs are already on the market at a cheaper price.

FSB member, Fashion manufacturer, London

Recommendations

- **Platforms should invest much more in systems to resolve issues for small businesses, including the provision of dedicated complaint and dispute handling resources where these do not already exist.** This would be in line with requirements set out in the draft Digital Markets, Competition and Consumers Bill, stating that large platforms will be required to have resolution processes in place for disputes with consumers: we believe this should also apply to disputes with small businesses. It is not acceptable to assume that small businesses have no choice but to put up with a situation where issues go unresolved or are resolved unfairly at their expense.
- **The UK Government should legislate to introduce a rapid, effective and affordable dispute resolution procedure that would cover disputes between small businesses and platforms and between small businesses and other platforms users, including both consumers and other businesses.** This could be funded by the platforms themselves, along the lines of the Financial Ombudsman Service model.
- **The UK Government should review the intellectual property framework in the UK and work with international partners to improve enforceability and enforcement.** The last official review was carried out in 2011,²⁰ and the world has moved on since then, especially in terms of the importance of online retail in the economy, and so the review should focus on whether the framework is still fit-for-purpose. Enforcing intellectual property rights in overseas jurisdictions can be difficult and expensive for small businesses, so the UK Government should do more to work with their counterparts to improve this to mutual benefit.
- **Retail platforms should put more resources into preventing abuses of intellectual property by third-party sellers and clearly set out their policies and processes to resolve intellectual property disputes.** It should not be the case that platforms do nothing to prevent these breaches unless they are raised by others, and even when issues are raised the platforms may not take any action. There is potential for greater use of artificial intelligence to find and remove products and sellers which are in breach. If platforms do not act in this area, then the Digital Markets Unit should set standards through its Code of Conduct.

METHODOLOGY

This report is based on a number of small businesses' experiences and views on online platforms. FSB undertook a mixed method approach for the research, consisting of a quantitative online survey, focus groups, and individual interviews. The survey was nationwide in its reach and both FSB members and other small businesses were invited to participate in the survey via email and social media channels.

The survey was administered by the research agency Verve and was in the field from 28 October to 10 November 2022. The survey questionnaire was completed by a total of 1,054 small businesses. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures may not sum to 100 per cent.

The focus groups took place via Zoom and were themed by sector. Focus groups and interviews took place in December 2022 and January 2023.

The publication of this report is issued in response to the overwhelming public interest and demand for comprehensive information on the use of online platforms by small businesses. We aim to provide a reliable resource for those seeking insights and understanding on this topic.

ENDNOTES

- 1 ONS, Internet sales as a percentage of total retail sales. <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>
- 2 There is no consensus as to what constitutes an online platform. However, in general, they are two-sided or multi-sided markets where users are brought together by a platform operator to facilitate an interaction, such as a commercial transaction. See European Commission, Online Platforms, 2016 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016SC0172&from=EN>
- 3 CMA, Notice of intention to accept commitments offered by Amazon in relation to conduct on its UK online marketplace, 26 July 2023. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1173816/Notice_of_intention_to_accept_commitments.pdf
- 4 European Commission: Commission accepts commitments by Amazon barring it from using marketplace seller data, and ensuring equal access to Buy Box and Prime, 2022 https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7777
- 5 CMA, Consultation on proposed commitments in respect of Amazon's UK marketplace, 2023 https://www.gov.uk/government/consultations/consultation-on-proposed-commitments-in-respect-of-amazons-uk-marketplace?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=67a9faf1-7484-4b1f-99d6-5f9b46236f65&utm_content=daily
- 6 FSB, Destination Digital, 2019 <https://www.fsb.org.uk/resources-page/destination-digital-report-pdf.html>
- 7 FSB, Customs Clearance, 2023 <https://www.fsb.org.uk/resource-report/customs-clearance.html>
- 8 Amazon's pricing structure for third-party sellers is available at <https://sell.amazon.co.uk/pricing>. The range in commission charged is from 7.14% (for computers and full-size appliances, for example) to 45.9% for Amazon device accessories (e.g. Kindle covers). Some products have tiered pricing structures, or a flat fee plus commission. For example, jewellery attracts commission of 20.4% for the portion of the total sales price up to £225 and 5.1% for any portion of the total sales price greater than £225 and books attract commission of 15.3% and a closing fee of £0.50 per item sold.
- 9 eBay's pricing structure for third-party sellers is available at <https://www.ebay.co.uk/help/selling/fees-credits-invoices/selling-fees?id=4809>. The range in commission charged is from 5% (for NFTs) to 12.9% (for pet supplies, for example). Some products attract tiered commission, for example women's handbags attract 12.9% for the portion of the total amount of the sale up to £800 (calculated per item) and 7% for the portion of the total amount of the sale above £800.

- 10 FSB, Time is Money, 2023 <https://www.fsb.org.uk/resource-report/time-is-money.html>
- 11 Our understanding of this, from information supplied to us by Amazon, is that business account holders are given up to 30 days to pay. If a seller wants to receive their money earlier, then they can pay Amazon a fee of 1.5% for this, in addition to Amazon's commission on the sale. If the buyer is more than 15 days late with the payment (i.e. 45 days after delivery of the goods) then Amazon will pay the seller and assume the credit risk. To be clear, the issue here is about businesses selling to business account holders on Amazon, and not about Amazon's own payment record in relation to businesses which supply goods to Amazon itself.
- 12 These groups are Booking Holdings, which includes Booking.com, Agoda.com, Kayak.com and others, and Expedia Group, which includes Expedia.com, Hotels.com, Trivago and others.
- 13 CMA, Online Hotel Booking, 2017 <https://www.gov.uk/cma-cases/online-hotel-booking>
- 14 CNMC, La CNMC inicia un expediente sancionador contra Booking.com por posibles prácticas anticompetitivas que afectarían a hoteles y agencias de viajes en línea, 2022 <https://www.cnmc.es/prensa/incoaccion-booking-20221017> (Spanish)
- 15 For further details of the code see <https://www.smallbusinesscommissioner.gov.uk/ppc/> For more information on FSB's campaigns in this area see <https://www.fsb.org.uk/knowledge/fsb-infohub/late-payments.html>. Our latest report on the issue, Time is Money, was published in March 2023 <https://www.fsb.org.uk/resource-report/time-is-money.html>
- 16 This is explained in more detail in UK Government, A new pro-competition regime for digital markets - government response to consultation, May 2022 <https://www.gov.uk/government/consultations/a-new-pro-competition-regime-for-digital-markets/outcome/a-new-pro-competition-regime-for-digital-markets-government-response-to-consultation#part-3-strategic-market-status>
- 17 CMA, Facebook and eBay pledge to combat trading in fake reviews, 2020 <https://www.gov.uk/government/news/facebook-and-ebay-pledge-to-combat-trading-in-fake-reviews>
- 18 CMA, CMA to investigate Amazon and Google over fake reviews, 2021 <https://www.gov.uk/government/news/cma-to-investigate-amazon-and-google-over-fake-reviews>
- 19 Intellectual Property Office, Protecting Intellectual Property Rights on e-commerce stores, 2022 <https://www.gov.uk/government/publications/protecting-intellectual-property-rights-on-e-commerce-stores/protecting-intellectual-property-rights-on-e-commerce-stores>

20 Intellectual Property Office, Digital Opportunity: A Review of Intellectual Property and Growth, 2011 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32563/ipreview-finalreport.pdf

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