

Synchronising Europe – Regulation, Technology & International Business Growth

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1 Foreword

Part of the promise of the internet is seamless, borderless trade of goods and services. This is also the very essence of the European Union's (EU) ambitions: it has been built upon the free movement of goods, services, capital, and labour between Union countries. This goal is also what lies at the heart of its vision of a Digital Single Market. This concept is now more important than ever, given the continued upward trend in e-commerce, with around 71% of EU internet users ordering goods and services online in 2019¹. However, as this study shows, over half (51%) of online European businesses believe that international expansion within other EU member countries is becoming increasingly difficult.

Free movement of goods and services does not imply low regulatory standards. Rather, the bloc's philosophy is to harmonise and often raise standards within the Union and to have these standards adhered to by external trading partners. European regulation is now seen as the gold standard and is often adopted globally. This is known as the 'Brussels Effect', a race towards standardised regulations across the globe.

Instilling and harmonising regulation, standards, and taxation across 27 countries with different histories and customs is easier in principle than in practice, and trade friction remains a reality between the EU-27 nations today. In truth there will likely always be some friction, as most EU citizens and businesses see the continent as a rich patchwork of businesses and approaches rather than a homogenous mass. This diversity will feed the ever-growing workforce and encourage new perspectives for a world of greater innovation and creativity. It does, however, make trade and investment more challenging. This challenge arises continuously in country negotiations within the EU institutions and equally on the ground by EU businesses themselves. These businesses recognise that full regulatory harmonisation is an objective rather than (yet) an accomplishment, and through a mixture of ingenuity, innovation, knowledge, and technology seek to understand, meet, and navigate the trade barriers whilst they still exist. As this study will show, businesses are not entirely successful at this - only a minority say they understand all regulations that apply to them, let alone having confidence in adhering to them. Following in-depth research by the global market research consultancy B2B International and

¹The Digital Economy and Society Index (DESI) 2020

Stripe, this paper aims to identify what makes it more challenging for businesses to expand internationally and what role technology could play to help solve regulatory barriers and compliance issues in international business expansion.

How far away are we from the reality of a Digital Single Market for goods and services, and how can we move closer to this through the actions of European businesses on the ground? How much better could we be, how could we feed on our success, if we used more innovation, more technology to better understand and navigate regulations and tax policies and to reduce their complexity? Specifically, how could this drive greater cross-border trade in high-quality products and services within the EU and beyond, as well as greater investment between our countries?

We want to investigate both whether and how businesses would benefit from increased harmonisation of the rules and regulations across all EU Member States and what tools and technologies they have at their disposal to navigate the complexities in areas where regulatory divergence still exists. We believe that both aspects can play a critical role in fulfilling the promise of the Digital Single Market. For example, digital identity verification needs both a harmonised regulatory framework and technological tools to realise the promise of easier digital verification and enable European businesses and consumers to participate fully in the online economy.

We answer these questions below having interviewed the senior business leaders of 500 online European businesses², all of whom export to at least one market outside their home country. The research was conducted across nine European markets between March and May 2020: EU members France, Germany, Italy, Spain, Poland, Sweden, Netherlands, and Republic of Ireland; plus the UK. The businesses were drawn from a range of industry sectors, including Information Technology, Trade, Supply Chain, and Financial Services.

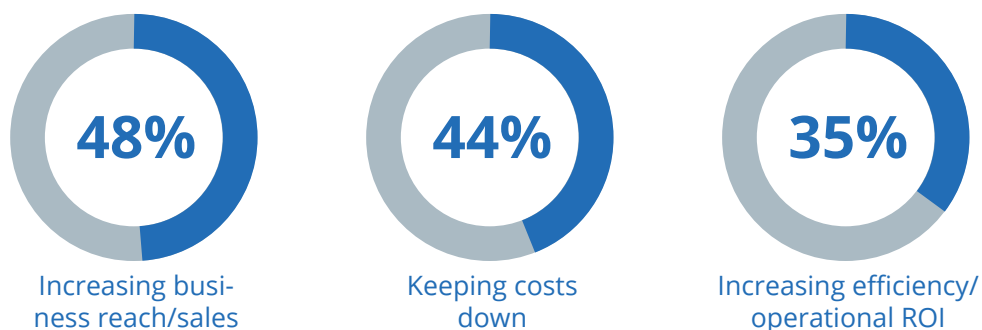
2 Online Companies & Compliance – The Status Quo & The Challenges

Regulations, perceived costs, and hazy knowledge are inhibiting international expansion

Our study began by exploring with managers and executives the key challenges facing them and the role of regulation, taxes, and technology within this. The findings were striking and unambiguous: the diversity of regulations across the EU is a significant, costly, and an increasingly important challenge in the minds of online businesses.

Clearly the overriding challenge for companies is to expand their sales and reach whilst managing their costs. In short, to deliver business growth and a strong return on investment. Harmonised standards and tax policies should in principle deliver these objectives: entering a new market is less daunting if we can be sure that standards are similar or identical; companies can sweat their overheads harder if sales can be generated from new, nearby territories.

Figure 1: Top Challenges Facing Online European Businesses:



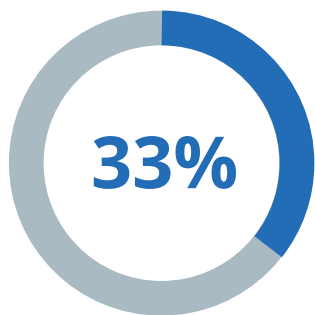
²Businesses transacting at least 50% of their goods and/or services online

But our study discovered a prominent minority of businesses cite regulatory issues as their biggest challenge – often more so than the fundamentals of growth and costs. More than a quarter name ‘regulation and compliance’ as one of their top 3 challenges, with almost as many (23%) revealing that the uncertainty around changing regulations – rather than those regulations themselves – were a leading business challenge.

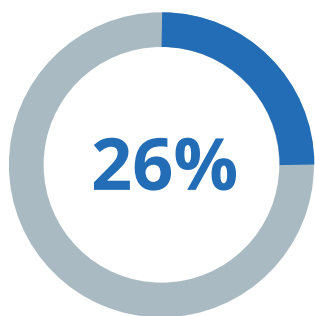
The message is clear: not only do businesses want good, harmonised regulations; they also want certainty, clarity, and permanence of regulations. This is a prerequisite to business confidence and to decision making on expansion, and thus an important driver of European business growth. This in a time when an international presence is not merely useful, it is often essential to a company's brand essence; a calling card indicating resources, footprint, and ambitions; a motif stating ‘we are a serious business’. Hence, 61% of respondents say there are high market expectations for their business to sell internationally. We discuss shortly how and to what extent technology can provide business with the clarity it needs.

Beneath this EU-wide story, several intriguing contrasts emerge between countries and sectors – reminding us of the heterogeneity of the continent. Businesses selling physical goods place greater emphasis on cost management than their (typically lower overhead, higher margin) counterparts selling services. The expense of producing and moving physical products means that international expansion is often a bigger decision. Businesses in Sweden, the Republic of Ireland, and ex-EU member the UK highlight more often that meeting EU regulations is a key challenge for them; others are more concerned by correctly administering VAT and other taxes.

But returning to the overall picture, over half (51%) of businesses state that selling into EU markets other than their domestic market is a challenge. Whether real or perceived, borders remain etched in the European business map, with unharmonised regulations and taxes often the cause. We complete this section of our paper with the 2 most startling findings from our study:



Only 33% of businesses are fully confident that they are compliant with regulatory standards.



And only 26% are confident they fully understand which regulations affect them.

Millions of companies do not fully understand which regulations they need to adhere to, and are scrambling around in the semi-dark to ensure that every part of their business is compliant.

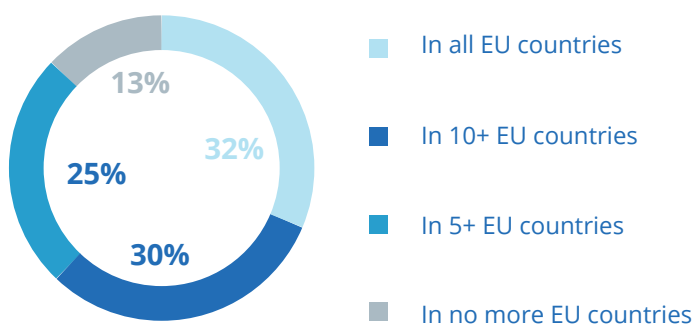
3 What Do Online Businesses Want From The Digital Single Market?

Businesses want regulatory and tax harmonisation

Our 500 online businesses made clear that the Digital Single Market is a desirable destination, whilst varying in their views as to how close we are to reaching a harmonised European market. A full 62% of businesses would be active in at least 10 countries if either regulations or tax regimes were harmonised across the EU. The desire to expand is almost unanimous, with small to medium sized businesses with fewer than 100 employees in particular striving to sell in all EU markets (38%, compared to 27% of companies with more than 100 employees).

Figure 2: The Impact Of Regulatory Or Tax Compliance

If Regulation & Compliance Was The Same Across All EU Member Countries, Businesses Would Sell...

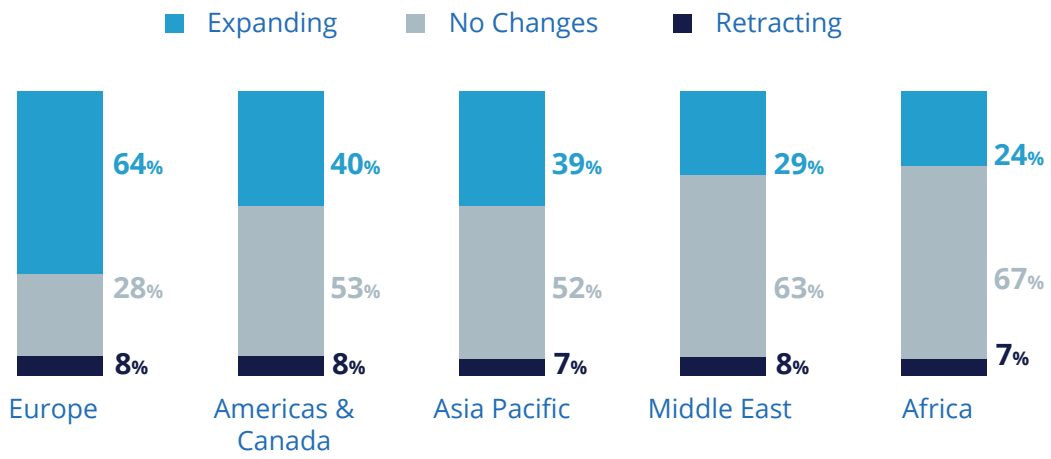


This geographical expansion would enable the resolution of online businesses' most fundamental challenge: increasing sales. We discuss later the return on investment should greater harmonisation be achieved; it suffices to point out here that if 1 million businesses transacting online (around 5%) from across the EU could achieve an extra €50,000 Euros in sales, the extra impact on EU GDP would be €50 billion. Greater harmonisation of regulations and taxation would likely boost EU revenue quickly, sizeably, and permanently.

We highlight that harmonisation of taxation is just as desirable to online businesses as harmonisation of regulations. Indeed, 60% of online businesses believe that the EU already is a Digital Single Market as opposed to a market where different regulatory standards exist in different countries. These businesses do not need regulations to be standardised (they believe this has happened already). Instead, they request tax harmonisation.

Throughout our conversations, the opportunity to compare the European Union business environment with that of the US proved irresistible to many managers and executives. Most feel conflicted – whilst emulating the perceived regulatory homogeneity and lower taxes of the US is seen as desirable, the COVID-19 pandemic has accentuated their already strong focus on Europe and its high regulatory standards, at the expense of North America and other regions. They feel that EU regulations present differentiation opportunities for businesses with genuine expertise. Two thirds of businesses plan to expand deeper into Europe, as opposed to 40% looking to grow in North America. It pays tribute to the optimism of European entrepreneurs and the opportunity to expand their business reach at a time the economy is starting to recover. Europe is their business hinterland, and on the whole, they want to keep it that way. Greater harmonisation of regulations and taxation would surely only increase this euro-preference.

Figure 3: Plans For International Expansion / Retraction Over The Next 5 Years



4 Tackling The Challenges

Businesses meet the challenges through use of online tools, external advisors, and in house recruits

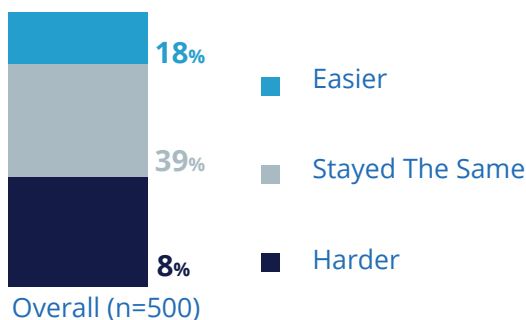
It is clear that online European businesses want to continue their expansion within Europe, in preference to anywhere else in the world. It is equally apparent that they desire a Digital Single Market and tax harmonisation. Now the bad news: they believe that expanding within Europe is becoming more difficult. One business leader said,

"We increasingly have to comply not only with the overarching EU legislation, but also the regulations in each market. In some countries, you need different disclosures or confirmations, calculations need to be worked differently...It is not a pure translation that can be applied across the EU. You have to plug into different workflows and payment flows of the local country and meet their regulatory standards."

Companies are of course justified in pointing out the difficulties of expansion. In some industries, such as FinTech, it takes several months and a great deal of overhead to obtain initial licenses and regulatory approvals to establish a business, not to mention maintaining them. And even though licenses can be passported, there is a country-level dimension to regulation as well: local European regulators, particularly in France and Germany, are known for particularly stringent regulation of platform payments, for example, and regulators in Benelux, Nordics, and Southern Europe all have their own local interpretation.

Such are these complexities that 42% of businesses find compliance increasingly difficult, against only 18% stating that compliance is becoming easier. Illogically, the longer businesses are established, the more difficult the task becomes.

Figure 4: Ease Of Compliance With Regulations



As businesses grow, they become aware of the regulations they need to adhere to, more concerned about 'doing things by the book', and perceive that the 'rulebook' is constantly growing. Businesses find the change in regulations confusing and discombobulating. What if they miss a new regulation? What if they invest in meeting a regulation and then the rules change? As well as being clear, sensible, and harmonised, businesses want regulations that are static. The key regulatory challenges that have increased in difficulty over the past 5 years are:

- 1 Incorporating new regulatory changes (particularly for Retail, Whole sale, Financial, and Professional Services)
- 2 Adapting to changes in protectionism (particularly for Construction and Manufacturing)
- 3 Receiving government support / incentives (particularly for Logistics and Distribution)
- 4 Maintaining accounting standards (particularly for Government departments and non-profits)
- 5 Dealing with taxes such as VAT (particularly for Hospitality & Tourism and Logistics & Distribution)

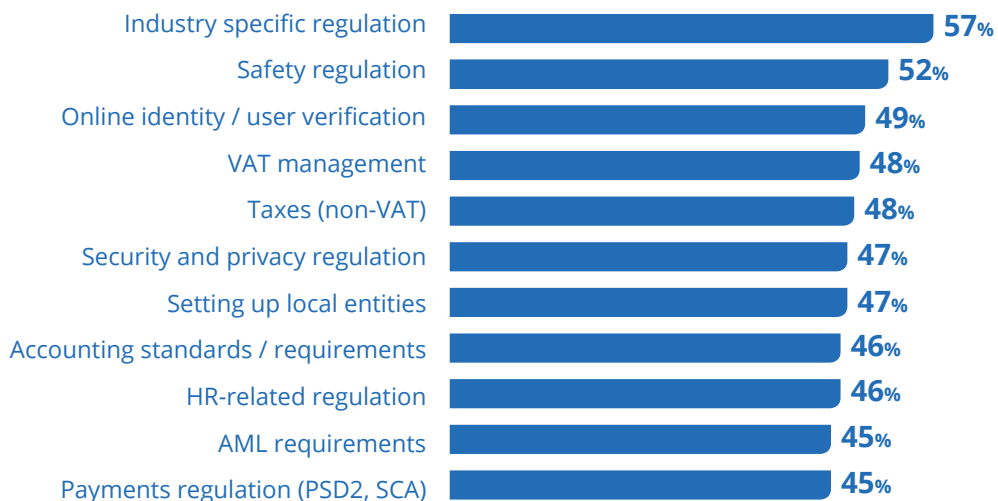
Overall, 72% perceive compliance with regulation a barrier to growth and 66% consider dealing with VAT a barrier to growth. This seems unacceptably high.

There is an undoubted latent need for technology that guarantees online businesses are up to date with business regulations, standards, and taxes, as well as facilitating compliance. Technology has always been an enabler for businesses, and it can be a means to align necessary regulatory standards and every business' desire to expand. In fact, 57% of online businesses state that the availability of internet-based technology and tools has made it easier to run their business over the past 5 years. This makes online tech and tools the number 1 factor in making the lives of our managers and executives easier. It is no wonder they are looking to technology for help: Only 7% said that they would not use technology if it was available to help them to deal with regulation and compliance.

Other than online tools, online businesses reach to other important sources in order to meet their regulatory challenges: 44% pay for external advisors or consultants, and 41% recruit the manpower themselves.

In terms of the specific sets of regulations that online businesses require help in resolving, the list is extensive. Businesses describe 11 types of regulation taking up 'significant resources' (below).

Figure 5:
Resource-
extensive
Regulations



Most of these regulations require high value tailored, specific navigation, or advice. Generic guidance will not cut it. This represents a significant opportunity for tech solutions providers and external consultants and advisors alike. Dealing with all types of regulation takes up a substantial amount of resources across a business. Those in heavily regulated industries, such as financial and professional services and healthcare, have devoted the most resources to these areas.

“The more jurisdictions that we enter, the more regulations need to be conformed to. If there are any changes, we must retrospectively go through all of the individual regions or jurisdictions that we are present in and reinterpret. It gets harder as we grow, and the challenge becomes larger.”

5 The Cost Of Compliance & Non-Harmonisation

Better technological solutions could help businesses save money on staff and external advisors, as well as stimulating billions of Euros of European growth

We have established that regulatory compliance is a ‘top 5’ business challenge for online businesses. This challenge is increasing by the year, and businesses are spending on technology, consultants, and staff to solve the problem. Evidently the cost is significant:

Outlay

- Staff time – It is not uncommon for a medium-sized business transacting online to employ 2-3 full time equivalents on regulatory compliance, at an estimated total payroll cost of €250,000 per annum. Across companies of all sizes in our survey, approximately 5% of the total wage bill is spent on compliance.
- Consultants and advisors – Businesses in our survey are frequently spending €100,000 per annum on external compliance guidance. Across businesses of all sizes, spend on all types of compliance advice and consultancy is typically around 3% of the total wage bill value.

Lost international expansion opportunities

- 72% of businesses feel compliance is a hindrance to their growth, including 30% who state it is ‘a great challenge’. On average, businesses feel they could increase revenue by an enormous 30% if they did not have to deal with regulations and compliance.
- If this 30% revenue increase applied to all B2C e-commerce businesses in the EU, the extra impact would be significantly more than €100 billion, for this segment alone³. Making regulation and compliance more navigable for businesses is a key factor for the future of Europe’s online economy.

Other opportunity costs

- The resources currently spent on trying to achieve regulatory compliance could be reallocated to more value-added activities. Beyond international expansion, innovation, engineering better working practices, hiring, and building CSR programmes are all mentioned by many businesses as areas they would and could give greater priority to. If technology could make our businesses more effective at dealing with regulations, our continent would become more innovative, more efficient, more employed, and more focused on social issues.

³Based on a size of €621 billion for EU B2C e-commerce market: <https://ecommercenews.eu/e-commerce-in-europe-e621-billion-in-2019/>

Figure 6: How Time Would Be Better Spent



It is clear that if technology firms can erode the difficulties associated with compliance, that would inject billions of Euros of growth into European businesses as well as saving firms' significant outlay on compliance-related staff and consultancy. Businesses need to be equipped with greater means and resources in dealing with regulation and compliance.

6 How Might Technology Help More?

Businesses want clearer, more integrated technological solutions

70% of online, international businesses are currently using technology to help them deal with regulations and compliance. Our findings show that this figure has risen to 99% of businesses during the COVID-19 pandemic. The landscape of online tools is extensive and fragmented, however. Such is the range of regulations, and the range of solutions to help meet those regulations, that many managers and executives see a spaghetti of confusion rather than a clear roadmap through the complexity. Not only do businesses want clearer, more harmonised regulations; they also have a latent need for clearer, more harmonised, and more integrated technological solutions. Business confidence in technology is highest in Poland and Ireland; this is a testament to Ireland's traditional openness to technology and it also points to the technological vision and ambition of businesses in Poland and other countries in the more Eastern parts of the continent.

The technology, just like the regulations, is seen as too country-specific and rather piecemeal. Ultimately, businesses are looking for an online tool which allows them to seamlessly carry out transactions across the EU and has built in software supporting the varying tax, VAT, and regulatory requirements across the different markets. An integrated solution to the complex challenge would dramatically reduce the opportunity cost of the time and money spent by businesses when dealing with regulations across different markets.

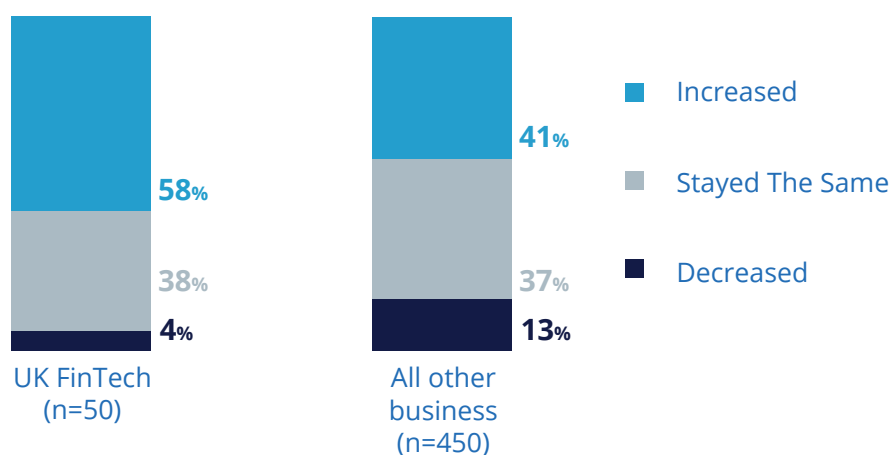
7 Focusing On UK FinTech Businesses

UK FinTech businesses crave further harmonisation, and wish to expand to more European countries, more than almost any other group. They are keen for advanced and efficient technology to help them to achieve these objectives.

We deep dived into growth and retraction plans for FinTech⁴ businesses within the United Kingdom and analysed how dealing with regulatory complexities through a technological lens impacted these plans. The FinTech industry is one of the most technologically advanced and regulation-savvy segments of the online economy and a likely indicator as to the direction of where the economy is headed in the future.

We have seen that technology plays a vital role in helping businesses to overcome regulatory and tax related issues between countries, so where do companies already making extensive use of technology in the financial services sphere fit in? Are they overcoming regulatory challenges more easily?

Figure 7: Change In Spend On Tackling Regulations



Dealing with regulation and compliance is higher on the agenda for UK FinTech businesses than other online businesses operating across Europe - it is their second biggest challenge (versus the fifth biggest challenge for other businesses). This reflects the high regulatory standards within FinTech and possibly also the UK's departure from the EU: less than half (48%) of UK FinTech businesses now perceive the EU to be a Digital Single Market, with the remaining 52% seeing it as individual countries, all with varying regulations.

But UK FinTech firms are passionately pro-EU harmonisation and pro-European expansion. 74% plan to expand into further European countries over the next five years, well above every other group we interviewed. UK FinTech businesses, too, strive for harmonisation of regulations, and **every single UK FinTech business we spoke to** would expand into a greater number of EU countries, should regulation and compliance be the same across the member countries. Greater regulatory harmonisation in the EU would be extremely beneficial to UK FinTech firms and would result in significant extra investment from the UK to the EU. This could also be a sign of UK FinTech firms adapting their businesses so they can continue to serve EU customers after the UK's departure from the EU.

So how can technology play a more supporting role to enable this? FinTech businesses across the UK are heavily invested and interested in how technological solutions can help them to deal with, manage, and overcome any issues arisen by regulation and compliance in order for them to reach their full growth potential. Only 10% said that they would not use

⁴Businesses in the Financial Services sector providing their products and/or services online through software or other means of technology

a technological solution dedicated to these matters if it was available to them, and 78% are currently using a form of technology to manage regulation and compliance already, paving the way for other online businesses to follow suit.

However, technology is yet to reach its peak. Only 20% of UK FinTech businesses who are currently using technology are satisfied with the solutions available to help them to deal with regulations. A lot of work remains to be done.

“We need a complete list of what is required for our industry sector. We are wasting time today in checking standards. There should be a technological solution that will give us alerts in case of any regulatory changes and a calendar with deadlines that is realistic in relation to the ability to adjust in order to help our business to grow.”

Technology has the potential to play a significant role in reinstating business confidence and dramatically reduce the opportunity cost of the time and money spent by FinTech businesses when dealing with regulations. It allows labour to be refocused more productively and time better spent on furthering business goals, most prominently, international expansion into Europe.

8 Changing Focus During Crises

COVID-19 has increased the need for strong technological solutions with a good ROI

Our interviews with business leaders took place before and during the COVID-19 pandemic, providing the opportunity to compare how businesses' views towards compliance and technology might have changed. The findings were clear: compliance remains as important as ever, and technology is far more likely to be the go-to tool to cut through regulatory complexity. COVID has accelerated the need for more and better technological tools.

Figure 8:
The Impact
of COVID-19
On Business
Challenges

Business Challenge (By rank top 3)	Overall	Pre COVID-19	During COVID-19	
Increasing business reach / sales	48%	44%	56%	
Keeping costs down	44%	37%	59%	
Improving efficiency/operational ROI	35%	31%	43%	■ Bigger challenge during COVID-19
Being innovative	31%	37%	16%	
Regulation & compliance	28%	26%	32%	
Keeping up with the competition	27%	30%	21%	■ Bigger challenge pre COVID-19
Keeping up with market innovations	24%	28%	15%	
Uncertainty about changing regulation	23%	21%	25%	
VAT & taxes	21%	23%	16%	
Attracting new talent	20%	21%	17%	

Furthermore, firms' overriding business challenges have shifted away from innovation and differentiation and towards the core issues of raising revenue and ensuring all spend has a strong return on investment. We would caution against any business deprioritising differentiation and innovation, but the need for effective technological solutions that really deliver just got bigger.

9 Closing Thoughts

After 500 conversations with business leaders we believe that the opportunity for tech firms to 'raise their game' with compliance solutions is overwhelming. At the same time, there is a need for further harmonisation of regulations across the EU. Regulations themselves drive standards, enabling quality, safety, and differentiation. But unharmonised, opaque, or hidden regulations hinder European businesses and intra-country trade to the tune of billions of Euros.

Many businesses are both reluctant and unsure. They are exasperated at the cost of complying (frequently 5-10% of all people costs) and not convinced they are aware of, let alone meeting, the full range of regulations that apply to them. Unsurprisingly this often makes international business seem overwhelming.

Apart from the obvious approach to continue to streamline regulations across the EU, technological solutions could - and should - be part of the solution. Businesses overwhelmingly believe tech has the potential to assuage their regulatory worries but feel there is far more progress to make. In some cases, the regulatory tech landscape is almost as fragmented and confusing to businesses as the regulatory landscape itself. Businesses require far more comprehensive and integrated tools, covering multiple geographies and groups of regulatory issues. It should be added that the COVID-19 crisis has made every one of these points even more true.

Solving the tension between diverse regulatory and tax requirements on the one hand and the desire for international business expansion on the other is not just a business opportunity for technology companies. It is a chance to bring European countries and economies together. Solving the problem can be a cornerstone on the way to a more unified Europe.





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