

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2561 Rayburn House Office Building  
Washington, DC 20515-6515

**MEMORANDUM**

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TO: Members, Subcommittee on Innovation and Workforce Development  
FROM: Rep. Jason Crow, Chairman  
DATE: May 9, 2019  
RE: Subcommittee hearing entitled, “The Digital Ecosystem: New Paths to Entrepreneurship” on Thursday, May 9, 2019, at 10:00 a.m. in Room 2360 of the Rayburn House Office Building

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The Committee on Small Business Subcommittee on Innovation and Workforce Development will meet for a hearing titled, “The Digital Ecosystem: New Paths to Entrepreneurship.” The hearing is scheduled to begin at 10:00 A.M. on Thursday, May 9, 2019 in Room 2360 of the Rayburn House Office Building.

The integration of digital platforms is vital for small businesses. From reaching consumers to hiring gig workers, digital platforms allow main street businesses to expand and grow. As the digital economy evolves, digital platforms are moving away from one to one buyer-seller relationships to interconnected digital ecosystems. However, small businesses face challenges keeping pace with the rapid expansion of digital services and understanding the value of data exchanges. Introducing small firms to innovative online solutions will empower businesses to unlock the benefits of these powerful tools. In this hearing, we will discuss how digital platforms empower small businesses and potential barriers to the adoption.

Witnesses include:

- Ms. Kellyn Blossom, Head of Public Policy, Thumbtack, San Francisco, CA
- Ms. Erika Mozes, Co-Founder and COO, Hyr, Inc., New York, NY
- Mrs. Olivia Omega Wallace Co-Founder Wallace Marketing Group, Aurora, CO

**Background**

Early digital platforms focused on one-to-one seller-buyer relationships. Today, digital platforms tie together an interdependent network of stakeholders, services, and consumers that share data to drive efficiencies. These networks are commonly referred to as digital ecosystems. Digital ecosystems unlock powerful tools for small businesses. In fact, an SAP study found that 80 percent of companies that have embraced digital platforms have increased profitability by 85 percent.<sup>1</sup>

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<sup>1</sup> Allison DeNisco Rayome, *Digital transformation leads to better profits for 80% of companies that pursue it, says report*, TechRepublic.com, Aug. 30, 2017, <https://www.techrepublic.com/article/digital-transformation-leads-to-better-profits-for-80-of-companies-that-pursue-it-says-report/>.

Digital ecosystems have also brought about modern business concepts like the gig economy. Because digital platforms can connect small businesses and solopreneurs to consumers and other businesses at any time and place, the U.S. workforce is slowly shifting to flexible short-term, work arrangements, or “gigs.” Today a third of works are gig workers and that number is expected to reach 50 percent by 2020.<sup>2</sup> The rapid emergence of this labor market is commonly referred to as the gig economy.

Digital ecosystems also drive efficiencies in marketing. In the traditional marketing world, small business with cash-strapped marketing budgets struggle to compete with big business for scarce and expensive ad placements. Today, digital ecosystems create low cost alternatives for small businesses and opportunities to reach niche markets based on shared data.

However, nearly a third of small businesses do not have functioning websites and 42 percent believe that the Internet is not important to their business.<sup>3</sup> Many small businesses cite costs as a key barrier for website development. Other businesses have trouble understanding the importance of digital interconnectivity and how the underlying data sharing drives efficiencies. This lack of familiarity causes small business employees to be resistant change.

### **Development of the Digital Ecosystem**

Over the last twenty years, the Internet has become an indispensable resource. Ubiquitous access to information and services has become a way of life. The digital economy is expanding at an average rate of 5.6 percent per year, triple the pace of the U.S. GDP.<sup>4</sup> Today 53 percent of the world’s population are Internet users.<sup>5</sup> A key driver of the growth of the digital economy is the development of digital ecosystems.

Digital ecosystems are much like co-working spaces. Co-working spaces provide a shared work environment with a variety of services that allow people to work independently yet have opportunities to exchange ideas and collaborate and benefit from each other. In digital ecosystems companies, people, data, and processes are connected by the shared use of digital platforms.<sup>6</sup> Early Internet platforms were usually two-sided platforms that connected buyers and sellers.<sup>7</sup> Now platforms bring together consumers, service providers, and stakeholders to develop distributed networks of value exchanges.<sup>8</sup> These exchanges create digital ecosystems where business owners

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<sup>2</sup> World Economic Forum – Centre for the New Economy and Society, *THE FUTURE OF JOBS REPORT 2018* (World Economic Forum) (2018), [http://www3.weforum.org/docs/WEF\\_Future\\_of\\_Jobs\\_2018.pdf](http://www3.weforum.org/docs/WEF_Future_of_Jobs_2018.pdf) (last visited May 1, 2019).

<sup>3</sup> 74 Percent of Small Business Websites Have No e-Commerce, <https://smallbiztrends.com/2016/06/small-business-e-commerce-trends.html> (last visited May 1, 2019).

<sup>4</sup> Shelly Hagan, *Digital Economy Has Been Growing at Triple the Pace of U.S. GDP*, BLOOMBERG: TECHNOLOGY (Mar. 15, 2018), <https://www.bloomberg.com/news/articles/2018-03-15/digital-economy-has-been-growing-at-triple-the-pace-of-u-s-gdp> (last visited May 1, 2019).

<sup>5</sup> Digital in 2018: World’s internet users pass the 4 billion mark, <https://wearesocial.com/us/blog/2018/01/global-digital-report-2018> (last visited May 1, 2019).

<sup>6</sup> Tom Hardin, *Digital Platform Trends: Digital Ecosystem*, G2 CROWD, <https://blog.g2crowd.com/blog/trends/digital-platforms/2018-dp/digital-ecosystem/> (last visited May 1, 2019).

<sup>7</sup> Ian Pollari, *The Rise of Digital Platforms*, KPMG: INSIGHTS, <https://home.kpmg/xx/en/home/insights/2018/02/rise-of-digital-platforms-fs.html> (last visited May 1, 2019).

<sup>8</sup> Hardin, *supra* note 6.

and users develop valuable data that creates targeted markets and new opportunities. These opportunities include the evolution of distributed networks which are the catalyst for new technology like blockchain, machine learning, and internet of things (IoT).<sup>9</sup> Digital ecosystems have also brought about new business models like the gig economy, search engine optimization, and social media marketing.

### *The Gig Economy and Small Business*

The gig economy describes the rise of temporary and flexible work arrangements in which businesses rely on independent contractors and freelancers instead of full-time employees.<sup>10</sup> The rise of digital platforms has fostered the gig economy by easing communications between freelancers with targeted markets of employers.<sup>11</sup> This shift in workforce development has had a swift and far-reaching impact on the U.S. workforce. According to a survey, more than one in three Americans freelanced in 2018.<sup>12</sup>

This gig economy can benefit both small business employers and solopreneurs. There are significant costs benefits for employers who hire gig workers. Forty-three percent of companies hiring gig workers are saving 20 percent in labor costs.<sup>13</sup> The gig economy has also developed new paths to entrepreneurship. Instead of growing small businesses by adding staff, solopreneurs are working independently and collaborating with other skilled individuals to bundle skill sets and offer a variety of services.<sup>14</sup>

Small businesses and solopreneurs are both embracing the gig economy. According to a recent survey, 70 percent of U.S. small businesses have hired a freelancer and 50 percent have current gig worker employees.<sup>15</sup> Because gig workers have become more prevalent, solopreneurs have fostered co-working relationships with other freelancers. As a result, 20 to 30 percent of solopreneurs use other freelancers to expand the products and services that they can provide.<sup>16</sup>

### *Next Generation Digital Marketing Benefits Small Business*

Effective digital marketing strategies are crucial for small business because of reduced costs and increased opportunities. To reach an audience of 2000 consumers a business would have to spend

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<sup>9</sup> Malgorzata Svensson, et al., Digital Connectivity Marketplaces to Enrich 5G and IoT Value Propositions, Ericsson Technology Review, May 30, 2018, <https://www.ericsson.com/en/ericsson-technology-review/archive/2018/digital-connectivity-marketplaces-to-enrich-5g-and-iot-value-propositions>.

<sup>10</sup> Will Kenton, *Gig Economy*, INVESTOPEDIA: SMALL BUSINESS (May 14, 2018), <https://www.investopedia.com/terms/g/gig-economy.asp>.

<sup>11</sup> Freelancing in America 2018 (Edelman Intelligence) (2018), <https://www.slideshare.net/upwork/freelancing-in-america-2018-120288770/1> (last visited May 1, 2019).

<sup>12</sup> *Id.*

<sup>13</sup> Abdullahi Muhammed, *Four Statistics Showing How Business Can Benefit From The Gig Economy*, FORBES, Jul 31, 2018.

<sup>14</sup> *Id.*

<sup>15</sup> How Small Businesses Are Leveraging Freelancers in the U.S., LINKEDIN, Aug. 8, 2018, <https://www.linkedin.com/profinder/blog/how-small-businesses-are-leveraging-freelancers> (last visited May 1, 2019).

<sup>16</sup> Robert McGuire, How Many Freelancers Are There?, NATION1099 (Jul. 16, 2018), <https://nation1099.com/gig-economy-data-freelancer-study/> (last visited May 1, 2019).

\$1450 on traditional marketing versus \$125 using digital marketing.<sup>17</sup> Digital marketing is also less disruptive, because many times consumers are already following a business or similar businesses when they receive ads.<sup>18</sup> While small business budgets are hard-pressed to compete with big business in the print and television advertising marketplace, digital marketing provides small businesses to build brand awareness to targeted audiences of niche consumers.

The advent of the mobile app economy and smartphone adoption affords small businesses opportunities to reach customers at any time and place. Social media has also unlocked opportunities for small firms. Small businesses who have leveraged social media platforms have experienced 75 percent more traffic and 90 percent have reported increased exposure.<sup>19</sup> Because 93 percent of online experiences begin with a search engine and 47 percent of people click on the first three listings, search engine optimization (SEO) is also a critical component of an effective digital marketing strategy for small businesses.<sup>20</sup> However, 25 percent of small businesses are investing in online marketing, and 17 percent are investing in SEO.<sup>21</sup> Small businesses need better awareness of the benefits of digital marketing, and the broader digital ecosystem to foster adoption.

### **Small Business Challenges for Digital Adoption**

According to a study, 80 percent of small businesses are not taking adequate advantage of digital tools, even though 77 percent of small business owners use technology for personal reasons.<sup>22</sup> Today, nearly a third of small businesses do not have functioning websites and many believe that the Internet is not relevant to their business.<sup>23</sup> A key obstacle to developing websites is cost. Thirty percent of small businesses who do not have a website cite cost as the main factor.<sup>24</sup> Many small businesses also handle digital marketing on their own.<sup>25</sup> Because small business owners have limited staff and technology expertise, they have cited the inability to stay on top of emerging technology as a top issue.<sup>26</sup>

Another problem is resistance to change. Twenty-seven percent of business owners have indicated that their teams are resistant to using digital tools.<sup>27</sup> Many business owners and employees view

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<sup>17</sup> Cost Comparison – Digital Marketing vs Traditional Marketing, Endless Revenue Marketing (Oct. 31, 2018), <https://endlessrevenuemarketing.com/costs-comparison-digital-marketing-vs-traditional-marketing> (last visited May 1, 2019).

<sup>18</sup> *Id.*

<sup>19</sup> Social Media Marketing Statistics Important to Small Businesses, <https://smallbiztrends.com/2016/12/social-media-marketing-statistics.html> (last visited May 1, 2019).

<sup>20</sup> Betsy McLeod, 60+ Small Business Statistics to Help Your Digital Marketing Strategy, Blue Corona (Oct. 2, 2018), <https://www.bluecorona.com/blog/29-small-business-digital-marketing-statistics> (last visited May 1, 2019).

<sup>21</sup> *Id.*

<sup>22</sup> Small Business Technology Trends: Digital and Online Tools Connect Businesses to Customers, Deloitte: Perspectives, <https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/connected-small-businesses.html> (last visited May 1, 2019).

<sup>23</sup> Gregor Schmidt, 2019 Small Business Website Statistics You Need to Know to Stay Ahead of the Digital Curve, (Jan. 25, 2019), <https://topdigital.agency/2019-small-business-website-statistics-you-need-to-know-to-stay-ahead-of-the-digital-curve/> (last visited May 1, 2019).

<sup>24</sup> Rieva Lesonsky, *It's 2018. How Can You Not Have a Website Yet?*, SCORE (Sep. 11, 2018), <https://www.score.org/blog/its-2018-how-can-you-not-have-website-yet> (last visited May 1, 2019).

<sup>25</sup> Schmidt, *supra* note 23.

<sup>26</sup> Rashan Dixon, Simplifying Digital Transformation at Your Small Business, ENTREPRENEUR, Dec. 11, 2018, <https://www.entrepreneur.com/article/324016>.

<sup>27</sup> *Id.*

digital adoption as a luxury instead of a key driver for success.<sup>28</sup> Although big data has transformed business outcomes for a wide variety of business, many small businesses simply do not know where to start. Small businesses have trouble deciding what kind of business insights are relevant and how to assess the return on investment of data analytics.<sup>29</sup>

### **Conclusion**

The digital ecosystem has transformed all corners of the global economy. As technology evolves at an increasingly rapid pace, it is more important than ever for small businesses to keep pace. Many small businesses suffer lack of adoption due to lack of awareness. Engaging with digital platforms to solve common problems like competing for customers and hiring staff will empower more small businesses to grow and succeed. The development of digital ecosystems bridges these gaps through fostering value exchanges that lower barriers to information and opportunities. Small businesses need more opportunities to be educated about digital technology and engage with a broader network of technology professionals.

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<sup>28</sup> Bill Su, *5 Key Factors Holding Small Businesses Back from Joining the “Data Revolution,”* MEDIUM, Aug. 9, 2017, <https://medium.com/analytics-for-humans/5-key-factors-holding-small-businesses-back-from-joining-the-data-revolution-6b95618deb7f> (last visited May 1, 2019).

<sup>29</sup> *Id.*