

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

**MEMORANDUM**

---

TO: Small Business Committee Members  
FROM: Nydia M. Velázquez, Chairwoman  
DATE: March 13, 2019  
RE: Full Committee hearing entitled, “Flipping the Switch on Rural Digital Entrepreneurship” on Wednesday, March 13, 2019 at 11:30 a.m. in Room 2360 of the Rayburn House Office Building

---

The Committee on Small Business will meet for a hearing titled, “Flipping the Switch on Rural Digital Entrepreneurship.” The hearing is scheduled to begin at 11:30 A.M. on Wednesday, March 13, 2019 in Room 2360 of the Rayburn House Office Building. According to U.S. Census data, only 17 percent of businesses are located in rural areas despite 97 percent of the nation being classified as rural. Digital tools have changed the way many rural entrepreneurs are starting and growing their business. By embracing digital engagement, Main Street firms are experiencing greater sales both locally and globally. Yet, rural entrepreneurs still face challenges in fully utilizing digital technologies. The hearing will review the opportunities online technology holds and examine the barriers rural small businesses face in fully embracing it.

Witnesses include:

- Mr. Dana F. Connors, President and CEO, Main State Chamber of Commerce, Augusta, ME, Testifying on behalf of the Maine State Chamber
- Mr. Bill Ingersoll, Founder, Bikes, Trikes and Quads, Sloansville, NY
- Ms. Afton Stout, Founder, My Dinosaur Dreams, State Center, Iowa
- Mr. Jake Ward, President Connected Commerce Council, Washington, DC

**Background**

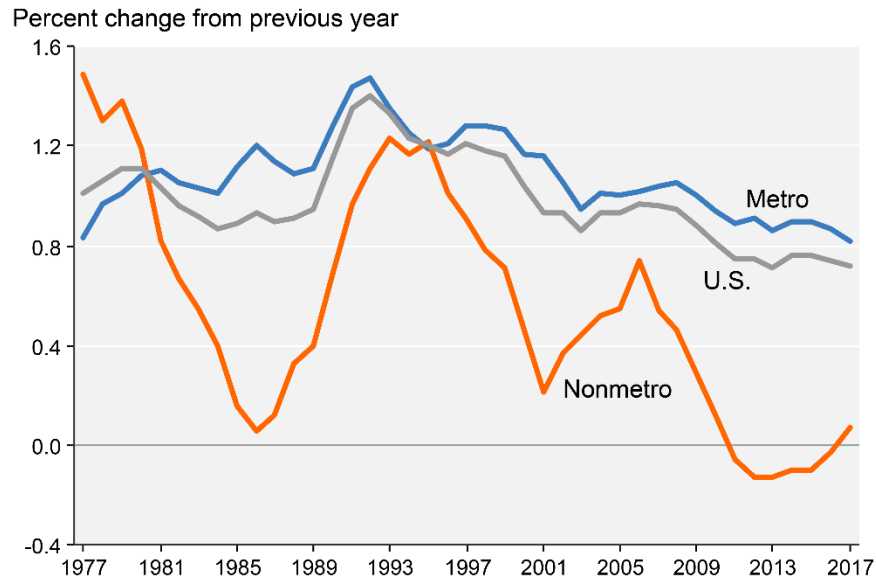
Over the last decades, platform-based commerce has grown from a small corner of internet to an integral aspect of our modern society. Whether it is using digital platforms to make online purchases or hailing transportation to the next destination, digital innovations have opened the door to new market and economic opportunities. Much like infrastructure, digital systems and platforms provide the underpinning for businesses to buy, sell, and make their products or services. Fully utilizing digital technologies powers businesses, creates opportunities for communities, enables trade, connects workers to their jobs, and creates opportunities for struggling communities.

## The Rural Economy

Of the 46.1 million residents that call rural American home, nearly one in five are over the ages of 65 years old, much higher than urban areas.<sup>1</sup> The large difference in age of the population can be attributed to net outmigration of young people moving to pursue educational and job opportunities

**Figure 1**

### **Population change by metro/nonmetro status, 1977-2017**



Source: USDA, Economic Research Service using data from the U.S. Census Bureau, county population estimates.

in other places. Between 2010 and 2016, the rural population experienced a 0.4 percent decline in population, with almost 700,000 people leaving on net.<sup>2</sup> In contrast, urban counties experienced more than a 5 percent increase in population over the same period.<sup>3</sup> Though, it should be noted that between July 2016 and July 2017 rural counties increased in population for the first time this decade.<sup>4</sup> Normally lost in the story, though, is the growing diversification of rural communities. In 188 rural classified counties, increases in the Hispanic population over the years has helped stem and even offset population losses.<sup>5</sup> Nonetheless, the aging of the population and outmigration has major implications for rural labor force participation, the health care system, and the future economic stability of rural communities.

Although employment has improved since the Great Recession, the rural-urban employment gap still exists. Unlike urban areas, employment growth has been slower in rural areas and much of the

<sup>1</sup> RURAL AMERICA AT A GLANCE, 2018 EDITION, USDA ERS - FOOD ENVIRONMENT ATLAS, <https://www.ers.usda.gov/publications/pub-details/?pubid=90555> (last visited Mar 8, 2019).

<sup>2</sup> CENSUS SHOWS NONMETROPOLITAN AMERICA IS WHITER, GETTING OLDER, AND LOSING POPULATION, BROOKINGS.EDU, <https://www.brookings.edu/blog/the-avenue/2017/06/27/census-shows-nonmetropolitan-america-is-whiter-getting-older-and-losing-population/> (last visited Mar 8, 2019).

<sup>3</sup> *Id.*

<sup>4</sup> RURAL AMERICA ENDS FIRST-EVER PERIOD OF POPULATION LOSS, USDA ERS - FOOD ENVIRONMENT ATLAS, <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=58278> (last visited Mar 8, 2019).

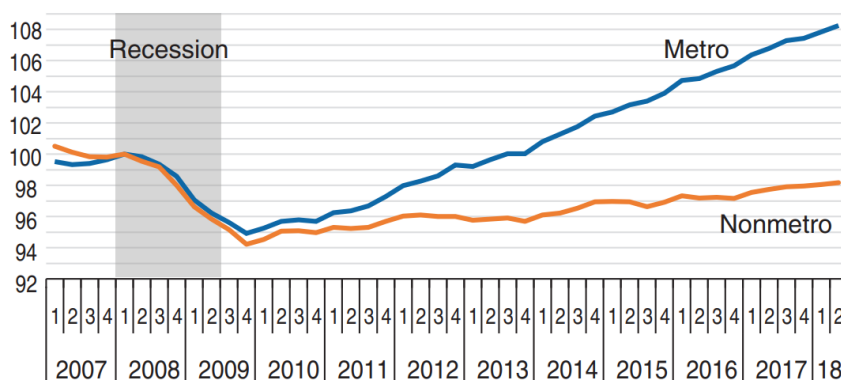
<sup>5</sup> HISPANICS HELP SOME RURAL COUNTIES AVOID POPULATION LOSS, USDA ERS - FOOD ENVIRONMENT ATLAS, <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=79658> (last visited Mar 8, 2019).

landscape looks different than pre-recession (see **Figure 2**).<sup>6</sup> Additionally, median income for rural workers has averaged 25 percent below their urban counterparts, though recent improvements in labor market conditions have increased incomes.<sup>7</sup>

**Figure 2**

**Nonmetro employment up 2 percentage points since 2013, and is just over one-quarter the rate for metro areas**

Employment index (2008 Q1=100)



Note: LAUS data from 2007 through 2009 were adjusted to account for a 2010 change in the method LAUS uses to apportion employment to counties. National employment totals were also benchmarked to the Current Population Survey's Research Series, which takes account of updated population estimates. Source: USDA, Economic Research Service using data from the Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS), seasonally adjusted.

While challenges still exist in rural America, rural economies have presented opportunities for success. For example, rural communities have the highest rates of upward economic mobility in the nation, higher rates of homeownership, and higher high school graduation rates than urban residents.<sup>8</sup> Most importantly, rural economies have started to diversify sources of employment outside of traditional industries.

**The Economics of Digital Commerce**

While the Internet first began as a form of communication, it has now grown into a nearly universal technology that supports nearly all sectors across the economy. Over the last decade, much of our society has turned to digital platforms as a primary marketplace to sell and buy goods and services. The shift holds true for many major and small retailers, many of which have found success in expanding online and mobile services.<sup>9</sup> The latest read of digital sales, though not fully encompassing of all digital transactions, from the U.S. Census Bureau for the third quarter of 2018, put the figure at nearly \$131 billion, an increase of 3.1 percent from the prior quarter and an increase of 14.5 percent from the same period a year before.<sup>10</sup> Higher estimates find that internet sector companies, those whose primary business is internet based, were responsible for \$966.2

<sup>6</sup> RURAL AMERICA AT A GLANCE, *supra* note 1.

<sup>7</sup> *Id.*

<sup>8</sup> IS THE AMERICAN DREAM ALIVE OR DEAD? IT DEPENDS ON WHERE YOU LOOK, ECONOMIC INNOVATION GROUP, <https://eig.org/dcieop> (last visited Mar 8, 2019).

<sup>9</sup> HOW WALMART HAS REBRANDED ITS ECOMMERCE PLATFORM TO BE THE ANTI-AMAZON HERE'S HOW WALMART HAS REBRANDED ITS ECOMMERCE PLATFORM TO BE THE ANTI-AMAZON, <https://etailwest.wbresearch.com/walmart-rebranded-ecommerce-platform-strategy-anti-amazon-ty-u> (last visited Mar 7, 2019).

<sup>10</sup> U.S. CENSUS BUREAU - ECONOMIC INDICATORS DIVISION, QUARTERLY RETAIL E-COMMERCE SALES 3RD QUARTER 2018(U.S. Census Bureau) (2018), [https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf) (last visited Mar 7, 2019).

billion in real gross domestic product (GDP) in 2014.<sup>11</sup> The variance above highlights the challenges in measuring the value of online goods and services, with the chief factor being GDP's lack of accounting for the economic value of free online goods and services. Further, federal statistical agencies have difficulty properly assigning the economic contributions or value of digital marketplaces or digital platforms that are utilized by a growing population.

Despite the discrepancies and challenges in measuring their value, it is clear that digital platforms and commerce is here to stay and pose economic opportunities for business big and small. In fact, the growth in online sales is not only for large firms as data indicates that three out of four small businesses use tech platforms for sales, according to the latest figures from the U.S. Chamber of Commerce.<sup>12</sup>

### **How the Gig Economy and Digital Commerce Works**

The gig or sharing economy business model generally refers to online businesses that help to connect vendors with customers outside of the context of traditional, brick-and-mortar retailers or top-down corporate business models. These businesses range in a variety of formats, from auction sites to artisan and craft producers, to local classified listings, to travel and leisure service providers. Many digital platforms contain elements of a peer-to-peer (P2P) business, as some transactions are conducted directly between the consumer and a third-party vendor. Some gig economy businesses also provide a source of startup financing that differs from other common sources of startup financing (e.g., credit or equity). For example, Kickstarter enables startups to finance through an initial round of consumer orders of the vendor's product. Vendors on shared economy business sites have a range of motivations from hobby producers or retailers that make or sell goods or services in their spare time, to occasional sellers (e.g., classified listings or infrequent auctions), to entrepreneurs looking to build a new business.

Such businesses typically add value by providing: 1) a common marketplace for vendors to sell and for consumers to shop;<sup>13</sup> 2) a customer review, quality-control management, or certification process that helps to assure customers to purchase from smaller vendors; and 3) a convenient, online interface for consumers to purchase goods or services. The gig economy and digital platforms provide a variety of other sources of value added, depending on the business and industry. For example, some vendors on sites are able to provide consumers with a handmade or customized product that would not be available from a "big box" or chain retailer. Conversely, chain retailers have utilized the efficiencies of the digital economy to bring goods and services to consumer at a much faster, more informed pace.

The gig economy typically collects their revenue from fees or commissions charged on vendors and sellers, and sometimes by selling advertising space on their websites. These business models

---

<sup>11</sup> TOWARDS A BETTER UNDERSTANDING OF INTERNET ECONOMICS, INTERNET ASSOCIATION, <https://internetassociation.org/publications/towards-better-understanding-internet-economics/> (last visited Mar 7, 2019).

<sup>12</sup> WHAT'S TECH'S IMPACT ON SMALL BUSINESS? HERE'S WHAT WE FOUND OUT, U.S. CHAMBER OF COMMERCE, <https://www.uschamber.com/series/above-the-fold/what-s-tech-s-impact-small-business-here-s-what-we-found-out> (last visited Mar 7, 2019).

<sup>13</sup> With regard to (1), P2P businesses resemble some characteristics of business "incubators" for small-scale vendors.

vary, but they typically charge a flat or a percent of sales fees on vendors. Businesses also can generate revenue through advertising space on their website.<sup>14</sup>

The rise of the gig economy and digital platforms is largely due to the Internet, and the rising popularity of digital commerce.<sup>15</sup> The Internet has reduced communication and marketing costs for vendors, especially small producers, to get their products to a wide range of customers around the world. The gig economy helps to promote vendors by: (1) listing them next to other similar vendors on a website with an established flow of potential Internet consumers, and (2) featuring them or their products as popular. Some vendors also supplement their marketing using social media, and gig links to products via Facebook, Twitter, Instagram, etc. The commonly-accepted practices of using personal credit cards and Internet payment services, such as PayPal or Venmo, to conduct transactions over the Internet allow customers from around the world to conduct financial transactions.

### **Advantages of the Gig Economy and Digital Commerce**

Generally, a major advantage of this model is its relatively low fixed costs. A market niche can be identified and a website can typically be constructed in a faster timeframe and with fewer initial costs than it takes to obtain credit to purchase or rent a brick-and-mortar store or to construct a new retail building. Additionally, these businesses thrive on internet-based platforms where changes can be made with speed. While brick-and-mortar businesses are important to creating individual local economies, the lack of space in some markets has decreased the availability of places to open new businesses. The use of this model has allowed entrepreneurs to operate either completely online or in existing space such as their home. As a result, the amount of capital needed to start their business has decreased significantly. This has become especially important as more and more people who have lost their jobs are turning to this model to provide their daily income until they get their next job or using the platform to begin new careers.

### **Challenges Prohibiting Increased Small Business Use of Digital Commerce**

The gig economy business model also contains several challenges. In general, vendors face many of the common issues that might prevent any small business from making profits such as differentiating their product, meeting demand, and fulfilling orders. The e-commerce element of the model also introduces additional legal and regulatory risks for vendors and the business.

Nevertheless, not all laws are out of place in the arena as regulators must ensure the safety of consumers. That is why many platforms have emphasized the importance of transparency in their transactions and allowed for peer reviews. Review and comment tools have allowed vendors and consumers to build trust and reputation as it allows both to learn more about each other and the product being sold. For example, many platforms allow consumers to review the lodgings they

---

<sup>14</sup> Internet advertising revenues are calculated in a variety of ways: (1) pay per click, which is calculated on how many Internet users are directed to the advertiser's website via a banner on the host site; (2) pay per impression, which is calculated on how many times an advertisement (or banner) is displayed on the host site; or (3) pay per lead, which combines pay per click with the added requirement that the Internet user purchases something on the advertiser's website. The use of Internet "cookies," or small pieces of data sent from a website and stored in a user's web browser, help to customize advertising banners to feature products and services that the Internet user might be interested in viewing.

<sup>15</sup> The term "P2P" originated with online file-sharing software (e.g., Napster, Limewire), whereby users were conducted file transfers (often of copyrighted material) through a decentralized network of users.

rented as well as the experience provided by the vendor. Likewise, the vendors themselves review how the guests left their property. The same is true of the car gig services that allow both providers and members to be rated. This helps vendors build a reputation for their product while allowing other vendors to gain trust in consumers who use these products in which they have no ownership. It is this type of feedback in the business model that permits both parties to earn legitimacy and weed out the bad actors.

Connectivity to reliable, fast broadband is also a significant challenge to the expansion of digital commerce. This is particularly true in rural and remote areas that have limited, often non-existent fixed or mobile phone connectivity. With the constant development of digital technologies and digital platforms, existing broadband infrastructure does not and will not meet the needs of small businesses and entrepreneurs in rural communities.<sup>16</sup> Support for federal investments in rural broadband is also widely supported; over 73 percent of small business owners support national infrastructure spending that include substantial investments to expand broadband access to rural communities.<sup>17</sup>

Finally, on June 21, 2018, the U.S. Supreme Court overturned *Quill Corp. v. North Dakota* (504 U.S. 298 (1992)), which required a physical presence in a state in order for an entity to be subjected to state tax laws. The Supreme Court ruled that states can mandate businesses without a physical presence in a state with more than 200 transactions or \$100,000 in-state sales collect and remit sales taxes on transactions in the state.<sup>18</sup> This decision gives broader authority to a state to require online retailers to collect and remit sales tax on taxable sales into a state. Many have called on Congress to provide clearer rules in the wake of the decision.

## **Conclusion**

The growth of the digital economy is here to stay. Consumers are constantly on the go and searching for the most direct product from businesses. With technology and our economy constantly evolving, the necessity increases to develop new models to adapt to these changes. While traditional brick-and-mortar businesses certainly have their place in local economies, the peer-to-peer business model has provided entrepreneurs an alternative route to start a business using existing skills and products rather than starting from scratch. As with any new business model, there are issues to be worked out. Nevertheless, these businesses are providing valuable products and services to consumers and strengthening the role of small businesses in our nation's economy.

---

<sup>16</sup> ECONOMICALLY EFFICIENT COMPOSITION OF RURAL INFRASTRUCTURE INVESTMENT, AGECON SEARCH, <https://ageconsearch.umn.edu/record/277659/> (last visited Mar 7, 2019).

<sup>17</sup> SMALL BUSINESS OWNERS SAY INFRASTRUCTURE INVESTMENTS IMPORTANT TO THEIR BUSINESS, FAVOR ROBUST FEDERAL SUPPORT, <https://smallbusinessmajority.org/our-research/infrastructure/small-business-owners-say-infrastructure-investments-important-their-business-favor-robust-federal-support> (last visited Feb 27, 2019).

<sup>18</sup> See *South Dakota v. Wayfair, Inc., Overstock.com, Inc., and Newegg, Inc.*, 585 U.S. \_\_\_ (2018), 138 S. Ct. 2080.