ing System - Case 21

Online retailer

Final methodological assessment - prepared by the EWS secretariat with the approval of relevant EWS network members

Based on information available in December 2021

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Background

This case is related to new developments for case 1, reported back in 2019.
At that point Company A, with head office in country X, after restructuring created several branches, i.e. in country Z or W, etc. The branch in Z was taking care of the sales from the website and invoices were sent from country Z. The company started paying company tax in Z and started reporting turnover and employment to the statistical office of country Z. The published annual accounts of company A were consolidated. The branch was paying head office fees that also covered payments for the use of the website. Statistical reporting was done in countries X and Z, but no retail trade turnover was reported anymore in country X, while business statistics and NA should record the retail sales and the inventories in the branches.

Since 2017, company A, reorganized again its European activities. With this new reorganization, the retailer moved the recording of all inventories to the accounts of its head office but without physically moving them, as the inventories are still in warehouses in the countries with branches. The question for the EWS was whether this business accounting change should lead to changes in the recording in business statistics and National Accounts.
The main concerns relate to the consistent recording of economic ownership of the goods and the geographical breakdown of sales.

Findings

Based on the answers received from the concerned EU Member States, there seems to be agreement to regard the **branches** as economic owners of the inventories and sales are therefore attributed to them in their role as retailers. The rationale for this position is:

- The production activity of the company is retail sales, and the sales to customers are recorded in the accounts of the branches.
- Both end customer and external supplier transactions appear to be settled via the bank accounts, which are allocated to the branches.
- The head office transfers the goods to the branches at zero margin.
- The head office inventory resale to branches is not booked as turnover, but as charges offsetting the cost of inventory.

Agreed recording

It is suggested that Country X performs a procurement function (as an ancillary service) for which it is remunerated by means of head office fees, given the zero trade margin. This is an export from country X and import and intermediate consumption in the country Z (or any other branch).

The resulting recording in NA and business statistics is similar to that agreed upon in Case 1. From the compilation point of view, the data from company accounts on stocks and changes in inventories need to be moved from the HO to the branches. No adjustments is needed for exports and imports of goods. NA and BOP can follow the physical movement reported in foreign trade statistics.

The practical method agreed was to obtain the data including a split on the branches (and on products) from countries involved or from the company reports. While sharing current data concerning the physical stock warehoused in each country was not always possible, the revenue and stocks from the annual report in Euro of the online retailer was used to do a split of physical stocks by branches. Further improvements are expected when updated / better-quality data become available for the contributing countries.