Background

In 2017, a social network company announced that it would in the course of 2018, start booking advertisement income in different European countries ($X_1…X_n$). Currently all income is recorded in one EU country Y. The company is controlled by an enterprise group in country Z which is outside the EU. The restructuring took place gradually until the beginning of 2019.

As a starting point, all the European countries ($X_1…X_n$) included in the announcement were asked if the company already had units in the countries; if they had any information on when the planned reorganisation would take place; and if they had already observed, e.g. in short-term surveys or monthly balance-of-payments data, any changes in advertisement revenues reported.

Findings

The countries ($X_1…X_n$) confirmed that the company has one or more units in each country. The units are in general relatively small. The units are classified with economic activities/ main purpose as: advertising and market research; or sales support and marketing (M73) and R&D services (M72) to the enterprise; or providing sales support, marketing services and engineering support to the enterprise.

Depending on the size of the unit(s) the inclusions of the unit(s) in the statistical surveys varies across countries, for example ITSS, BoP, SBS, STS quarterly survey on turnover.

Some countries informed Eurostat that the reorganisation is expected to take place in Q2 2018 while other countries said that they do not know when it will take place.

In summary, most countries have not yet seen an increase in turnover or employment that can be attributed to the reorganisation. One country said that the turnover of the unit(s) had been increasing a lot since 2011. In another country there was a huge increase in the turnover of the unit(s) between 2015 and 2016 which can be attributed to the commencement of advertising services from 2016. In yet another country, the unit(s) are monitored with regard to BoP data but with negligible transaction values.

Conclusions

In 2017, the company announced that it would be moving its organisation to a "local selling model" instead of routing all advertisement revenue through country Y. It would in the course of 2018, start booking its revenues to the countries where it already had an office (unit). Following this and the information at hands, it may be assumed that the company's function in countries $(X_1...X_n)$ will expand to include the advertising reseller business in respect of larger customers.

This means where the company's units in countries $(X_1...X_n)$ deals with advertisers directly "adding value" to the transaction, advising companies and planning ads, it will invoice through the respective countries $(X_1...X_n)$.

However, smaller businesses that use the social network's online ad-buying tools will still be invoiced through country Y, which will remain the company's international headquarters handling all business outside of country Z.

Since the company's reorganisation is expected to be finalised in the beginning of 2019, any impact is still to come in the statistics from most of the countries. As the company is at the same time expanding its business in the concerned countries it might be difficult to single out the impact of the reorganisation.

However, the concerned countries are asked to monitor the reorganisation and the impact it might have on the European statistics and to notify through the EWS any significant impact.

About NACE classification

Several of the concerned EU countries raised the issue of the possible impact on the NACE activity classification. Under the previous business model, probably all units located in Europe have been supporting the activity of the company in country Y and been classified in Section M – PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES. With the new model, this may no longer be appropriate.

By adopting a "local selling model", instead of routing all advertisement revenue through country Y, can it be supposed that the country unit(s) will be the "owner", even partially, of the space used for advertising in the social network? According to the NACE classification rules, "sale of advertising time or space directly by owners of the time or space (publishers etc.)" has to be classified "in the corresponding activity class". Which code will fit better considering the new model?

Eurostat has consulted its experts on classifications. Conceptually, the economic activity of the company is described as a text, photo, blog based web community and thus should be classified as Internet periodical publishing in ISIC Rev.4 class 5813 (Publishing of newspapers, journals and period), for the reason that the "content does change and is dynamic". ISIC Rev.4 class 5813 corresponds to NACE Rev. 2 class 58.13 (Publishing of newspapers).

The fact that advertising is the main source of revenue for the company does not change the economic activity. What is decisive is the economic activity the company actually is carrying out based on input, process and output.

It should be highlighted that a harmonized and comprehensive treatment of economic activity among Member States is crucial in order to assign the same NACE activity code to the several subsidiaries, in compliance with the new business model.