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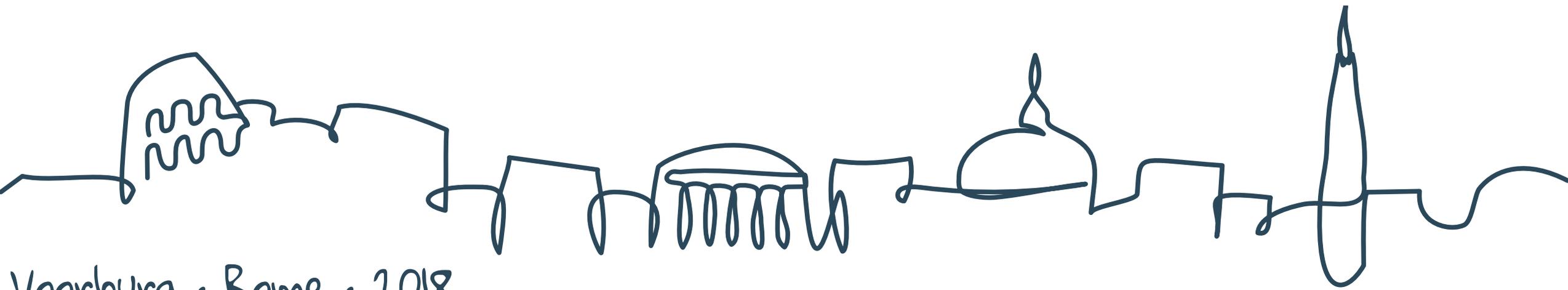
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Classification of Intermediary in Service on Internet Platform

XINHUA BI

National Bureau of Statistics of China



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Outline

- ① Background
- ② Principle of Classification
- ③ Case study
- ④ Further discussion



Background

Large internet groups are emerging in China now:

- ① Rapid development of ICT and wider use of internet
- ② Huge population with separate markets
- ③ Economic transformation needs and internet+ policy support





Background

These large internet platforms come from two independent ways

- ① Traditional companies extend their business online
- ② ICT companies develop their platforms to facilitate online transactions

Internet solves the problem of information asymmetry, brings the potential buyers and sellers together easier than before, but makes it much more difficult for industry classification especially for intermediary in service.

Main difficulties are as below:

- ① Mixed operation: different industries, goods & services, proprietary & third party
- ② Vertical integration: difficult to judge whether it is a pure service agent or principal service provider



Principle of Classification

In 2017, we issued **new version of industry classification for national economic activities (CSIC)** based on ISIC Rev.4,2006

Established a new group named "**Internet platform**"(643) taking into consideration that internet included all kinds of **third party** platform services activities:

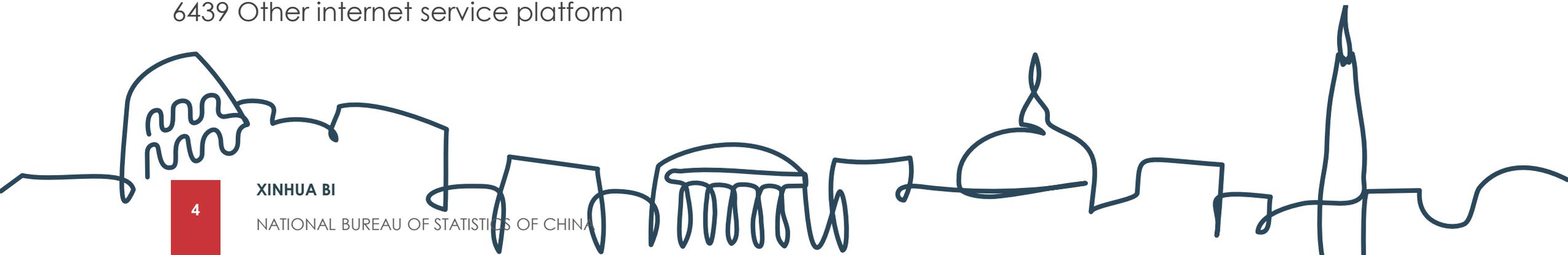
6431 Internet producer service platform

6432 Internet live service platform

6433 Internet technology innovation service platform

6434 Internet public service platform

6439 Other internet service platform





Principle of Classification

China Classification Development on Internet Related Services Activities CSIC(2017)&ISIC Comparison table

CSIC 2017	Description	CSIC 2011	Description	ISIC Rev.4	Description
64	Internet related service	64	Internet related service	61 63	Telecommunications Information service activities
641	Internet access services	641	Internet access services	6190 6311	Other telecommunications activities Data Processing, hosting and related activities
642	Internet information services (searching, online game)	642	Internet information services	6312	Web portals
643	Internet platform service	654	Data processing and hosting	6311	Data Processing, hosting and related activities
644	Internet security service				
645	Internet data service				
649	Other internet service activities	649	Other internet service activities	6190 6311	Other telecommunications activities Data Processing, hosting and related activities



Principle of Classification

All judgment based on legal entities' actual activities

- ① How many legal entities operate a platform? One or several, (if several: analysis one by one on legal entity level)
- ② Is there a clear predominance of one single service being sold within an entity?
- ③ What kind of platform? proprietary or third party or mixed

If mixed? Calculate value added proportion before further judgment

- ④ If third party, what kind of responsibility take on ?

Only provide information without matching order automatically online- 642 Internet information

Matching order online but not take on any transaction related responsibilities-643 internet platform service

Take on more responsibilities as an agent - some kind of agency service CSIC already have or principal activities

Engaged in delivering the product or service- if yes, principal activities.



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Case Study



I. Accommodation service

ZIROOM& aribnb comparison

ZIROOM rents the apartments from the owners, makes some decoration, equips with electronics appliances then rents out to the tenets, it also provides washing, cleaning, parking services. The largest revenue comes from the price difference between the tenants and owners.

ZIROOM is a third party, but it has the price power, deals with house renovation and takes the risk of vacancy. If tenets have any trouble, they turn to ZIROOM instead of the owners.

Airbnb develops a platform to facilitate the renting transactions between the owners and tenets worldwide, provides an online payment system, but isn't responsible for resolving the dispute between the above two.

ZIROOM belongs to Real estate leasing management(704.CSIC2017) instead of Real estate intermediary service.

Airbnb belongs to Internet platform service(643 CSIC2017)

Case Study

II. Third Party fulfillment in Retail Trade

JD & TMALL comparison

JD is an internet retail giant starting from offline electronic products retailer. It uses its platform to provide third party ecommerce service for other sellers.

TMALL, originally a third party e-commerce platform belonging to Alibaba group, is now conducting proprietary trading.

Mixed operation is very common. How to classify their activities? **It depends!**

JD and Alibaba are now both big internet groups. Typically 10+ companies operate one platform.

Business operation model changed from time to time respond to the flexible market.

Sometimes, companies are specialize in different products (electronic products, books, tickets ,etc) or services (proprietary or third party), Sometimes, companies cover different regions.

The principal activity of the unit should be determined with reference to the value added of these activities. *Internet retail or internet platform service or data processing and hosting.*

But the continuity and stability of the classification of a certain entity should be taken into consideration.



Case Study



III. Deal of the day & other related internet sites

Internet platforms publish everyday deal information from all kinds of E-commerce websites which cover various goods and services belonging to different industries and provide the links of the deal websites.

It seems like an information agent, and gains the commission income, but their main business income may not be commissions but advertisement revenue.

Similar cases: Internet health platforms:

Healthy problems consulting, Medical service review, etc.

The main business income: Advertisement revenue rather than commissions.

Maybe it is better to classify these website services into Internet information services (CSIC2017) or Web portals (ISIC v4 6312).

It seems like something new, but there is no essential difference.





Case Study



IV. Other cases

DiDi is an internet platform to support taxi and other private cars providing transportation service to passengers. It also provide car and bicycle renting services.

- Applies floating prices to drivers and passengers separately based on market mechanism.
- Records fares all in revenue and records payments to drivers all in expense, which are different from the traditional taxi companies. The latter record contract fees in revenue.
- Doesn't own the property right of the cars online. DiDi is a third party platform company, but need to take on part of responsibility when robbery and assault occur during the driving period.

If DiDi is classified into taxi services, the accounting methods are different from the traditional taxi company. If DiDi is classified into internet platform services, it takes on too much responsibilities.

So what do we do ?



Further Discussion

- ① Platform and legal entity are two different things.

Several companies can support one platform. One company can set up several platforms. We classify the industry at company level instead of platform level. Some very comprehensive websites such as Tencent, Ctrip, Taobao, JD are based on many companies which make the classification issues easier than imagination.

- ② The business activities become more and more comprehensive by use of internet. New business models and new industries are emerging everyday. There is no need to identify everything. As long as the accounting methods are the same, related activities can be classified into the same group.
- ③ Everything can be internet plus.



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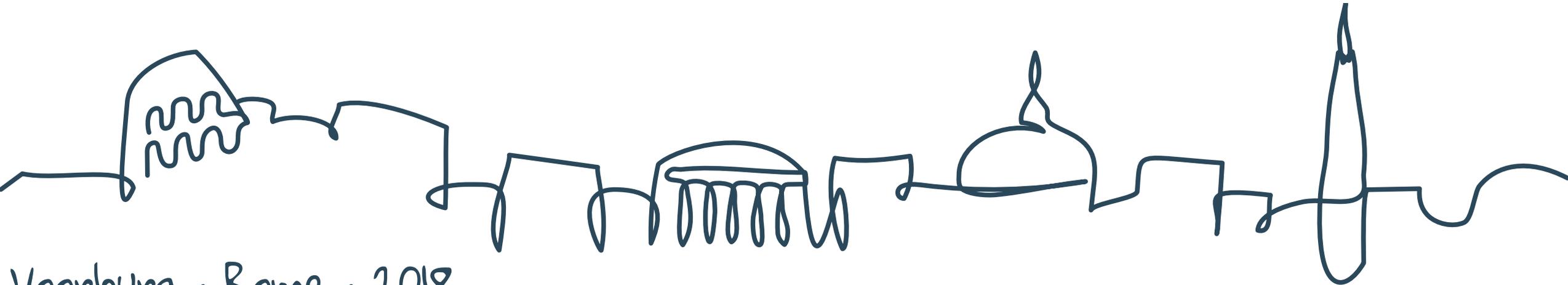
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THANK YOU!



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