

E-Commerce Business Models

[proposed amendment 1] [proposal by the moderator after the meeting on 14 February 2023; original proponent China (proposal 4)] There are different approaches and perspectives to E-Commerce and business models widely vary depending on that. This annex focuses on main business models [and fulfilment process/logistic model] particularly relevant to the four main characteristics of cross-border E-Commerce under the Framework of Standards. Given the fast-evolving nature of E-Commerce, the list is not exhaustive and the situation might differ from country to country. There are currently three main E-Commerce business models: the self-run model, the E-platform/marketplace model and the hybrid model.

[proposed amendment 2] [suggestion by the Secretariat to have two sections in the annex] **A. Description of the main E-Commerce Business Models**

I. Self-run model

The self-run model is where E-Commerce vendors independently operate online sales. Vendors often have a website of their own where they provide relevant information and a friendly interface to display and sell goods. Vendors deliver goods to the final consumers through logistics operators who complete the transaction.

Characteristics of the self-run model: vendors operate their own website which may be self-built, self-owned and self-run. They provide consumers with information sharing, transaction, order confirmation, communication, online bank payment or third-party payment and other services via the Internet. Vendors may produce or purchase goods, sometimes also selling goods on a commission basis. The goods are delivered to the final consumers through the vendors' own supply chains or logistics partners, often as chosen by the consumers. Logistics operations such as import and export, warehousing and after-sales, the accuracy of website information, product quality and problems arising during the transaction process are managed and controlled by the vendors themselves.

[proposed amendment 3] [suggestion by the Secretariat based on prior discussions on the content of the annex] An example of a self-run business model is the Direct-to-Consumer (DTC) retail strategy/model, under which a brand or manufacturer sells its own products to its end customers, without the help of third-party retailers or wholesalers.

[proposed amendment (deletion) 4] [based on proposal 24 with proponent RPSG] ~~The self-run model is mainly used by the official websites of brands, including online shopping malls.~~

[proposed amendment 5] [wording suggested by the Secretariat based on the discussion on proposal 9 with proponent the EU] With regard to cross-border E-Commerce, the stakeholders involved in the self-run model are the vendors, consumers/buyers, financial intermediaries and e-payment service providers, fulfilment houses/centres, Customs brokers, freight forwarders and logistics service providers, and express carriers or designated postal operators.;

II. E-platform/marketplace model

The e-platform/marketplace model is where an e-platform/marketplace provides facilities and services to vendors who sell goods on the e-platform/marketplace's website. [proposed amendment 6 (was No 7 in the intersessional consultations)] [wording suggested by the Secretariat and modified during the meeting held on 14 February 2023] The e-platform/marketplace model is where an e-platform/marketplace acts as an intermediary for vendors and buyers, by facilitating them through a proprietary platform. The e-platform/marketplace integrates information flow, goods flow and capital flow for vendors. The e-platform/marketplace takes commission and service

fees after vendors and consumers have completed their transactions, but it does not [proposed amendment 7 (was No 8 in the intersessional consultations)] [wording suggested by the Secretariat] sell goods down any inventories. The e-platform/marketplace sets the ground rules which need to be followed while fulfilling the orders, such as the modes of payment, the delivery times, the refund policies, etc.

There are two main types of e-platform/marketplace model: the “market” and the “shopping guide”. The “market” is where the e-platform/marketplace acts as an online market to attract vendors and consumers: vendors are assigned a clickable access, and they receive orders from consumers by displaying their goods and interacting with them on the platform/marketplace. Transactions between vendors and consumers are settled by the e-platform/marketplace, [proposed amendment 8 (was No 9 in the intersessional consultations)] [based on proposal 25 with proponent the RPSG] which provides choices of intermediary services, which often include online payment, import and export, logistics, promotion, insurance and consumer protection.

The “shopping guide” is where the e-platform/marketplace serves consumers by matching their needs with the goods, guiding them through the purchase process. The core element of this model is the provision of information: a detailed goods description and price information from various platforms/marketplaces are fully integrated to help consumers easily view and compare options before making a decision.

Thanks to the intermediary services provided by e-platforms/marketplaces, both platforms/marketplaces and vendors can focus more on their own roles. This makes it easy for micro-, small and medium-sized enterprises and [proposed amendment 9 (was No 10 in the intersessional consultations)] [based on proposal 1 with proponent Canada] individuals businesses to become vendors. As a rule, e-platforms/marketplaces focus mainly on platform/marketplace services, and are concerned more about optimization of the user interface and user experience so as to provide consumers with easier access to the desired goods. Meanwhile, vendors are able to concentrate more on goods quality and market promotion.

[proposed amendment 10 (was No 12 in the intersessional consultations)] [wording suggested by the Secretariat based on the discussion on proposal 9 with proponent the EU] With regard to cross-border E-Commerce, the stakeholders involved in the e-platform/marketplace model are the E-Commerce platforms/marketplaces, vendors, consumers/buyers, financial intermediaries and e-payment service providers, fulfilment houses/centres, Customs brokers, freight forwarders and logistics service providers, and express carriers or designated postal operators.

III. Hybrid model

The hybrid model is a combination of both the self-run and the e-platform/marketplace models.

An operator of a hybrid model may have its own business which is similar to "self-run", i.e., self-purchase and self-sales. At the same time, vendors are also incorporated in its platform/marketplace in order to sell their own goods. Therefore, the operator of the integrated model needs to manage both its own transactions and the platform/marketplace used by the vendors.

Some integrated operators provide their own services for payment, import and export, logistics, promotion, insurance and consumer protection. They may require their vendors to use these services for their transactions.

[part II of proposed amendment 2] [suggestion by the Secretariat to have two sections in the annex; title of section B modified during the meeting held on 14 February 2023] **B. Description of the E-Commerce fulfilment process**

[proposed amendment 11 (in the intersessional consultations was alternative proposal by the EU to be included instead of proposed amendments 14 to 22)] The E-Commerce business models can also be approached from a logistics point of view. In this case the most crucial aspect is the delivery of the goods, by/to whom, how and when, and last but not least: what are the specific consequences for Customs. A frequently used mode is the so-called E-Commerce fulfilment mode. In Annex VI "E-Commerce Stakeholders: Roles and Responsibilities", several types of fulfilment houses/centres are indicated.

E-Commerce fulfilment is the process of receiving orders, packaging, and distributing products to the consumers who purchase them. Even invoicing, advertising, and collecting taxes can be part of the fulfilment process.

In general, the most common E-Commerce fulfilment modes are: (i) in-house fulfilment, (ii) third-party (3P) fulfilment and (iii) drop shipping.

Under the *in-house house fulfilment* mode, the vendor packages the goods and contracts logistics service providers that would deliver the goods to the consumer/buyer. In this mode, the vendor is responsible for all aspects of fulfilment.

Under the *third-party (3P) fulfilment* mode the vendor outsources the management of its distribution processes to a specialized logistics company that handles the vendor's entire E-Commerce fulfilment flow within its own fulfilment house/center. The fulfilment provider takes care of order processing, inventory management and distribution. Goods might be packed and shipped out of the fulfilment house/centre to a business for retail distribution (B2B fulfilment) or directly shipped to consumers/buyers (B2C fulfilment). When choosing the fulfilment house/centre location, vendors/e-commerce platforms/marketplaces are guided by the consumers' requirement for speedy delivery (delivery within one or two days of order placement).

The use of in-house / 3P-fulfilment houses/centres has an impact with regard to the stage in the logistics flow at which goods undergo Customs clearance and there are sometimes cases in which no transaction value is available at the moment of importation (movement of stock).

Drop shipping is a fulfilment mode characterized by a different flow of the goods from the vendor to the consumer/buyer. Under the drop shipping mode, the vendor does not stock or own inventory and the goods are kept by the manufacturer or a distributor/wholesaler until orders are placed. In essence, the shipment of the goods to the consumer/buyer is handled by the manufacturer of the goods or by a distributor/wholesaler (the drop shipper). Goods may enter a fulfilment house/center but be processed immediately and get shipped quickly. The fulfilment house/centre does not need to maintain a physical inventory/stock of the goods on behalf of the vendor or on behalf of the drop shipper.

In essence, drop shipping involves two transactions: (i) between the vendor and the consumer/ buyer, and (ii) between the vendor and the drop shipper (manufacturer or distributor/wholesaler). This could have implications with regard to the Customs clearance process, including the Customs value.

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