How to run Value Chain Analysis in 2018?
3 Practical Case Studies

Avisha Sood   Anusha Pande
TPA Global, The Netherlands

June 7, 2018
Taking control of the future

• Characteristics of “digital economy” impacted business models
• How relevant is Porter’s value chain today?
• Concepts of value creation for “digital economy” impacted business models
  • Value shop
  • Value network
  • Data factory (move from ROI to ROD)
• Types of “digital economy” impacted business models
  • Intermediary services : Uber, Amazon
  • Cloud computing
• How can TPA help – 3 practical case studies
  • VCA of “digital economy” impacted business models for TP documentation
  • Intangible versus service classification of “digital economy” impacted business models
  • APA in the current era
Characteristics of “digital economy” impacted business models
Characteristics of “digital economy” impacted business models

Indirect Network Effects
- Yes

Intermediary
- Yes

User Affiliation
- Low

Price Control and Liability
- Reseller

Production of Final Good
- No

Reseller
- Value chain

Vertically integrated Firms
- Yes

Input Suppliers
- No

Multi-sided Platforms
- Yes

Value chain

Value shop

Value network
How relevant is Porter’s value chain today?

- Data and information do not feature in Porter’s value chain.
- Steps in Porter’s value chain do not address multiples geographic locations.
- Describe a process where inputs are converted to outputs in a sequence (e.g. traditional manufacturer).
Concepts of value creation for “digital economy” impacted business models - Value shop

Examples: - Amazon Webspace - Consulting firms
Concepts of value creation for “digital economy” impacted business models
- Value network

Examples:
- **E-commerce intermediary:**
  - Booking.com
  - Google Play
  - Apple iTunes stores

- **Service intermediary:**
  - AirBnb
  - Blablacar
  - Uber
  - LinkedIn
  - Twitter
Key characteristics of digital economy impacted business models

- Enhanced user participation
- Collection of big data
- Reducing investments
- Generation of unique intangibles
Concepts of value creation for “digital economy” impacted business models
- Data factory (move from ROI to ROD)

Examples:
1. AT&T
2. Verizon
3. Liberty Global
4. T-Mobile
5. Sprint
6. Vodafone
7. Deutsche Telecom
8. Telefonica
9. Telecom Italia

Examples:
1. Disney
2. Comcast
3. Time Warner
4. Viacom
5. BBC
6. Bloomberg
7. Time
8. NewsCorp

Examples:
1. Netflix
2. YouTube
3. Hulu
4. Amazon Prime
5. Apple Music
6. Spotify
7. SiriusXM
8. Nintendo

Recent Examples:
1. AT&T and Time Warner
2. Disney and 21st Century Fox
3. Verizon and Yahoo!
4. Apple and Netflix (?)
Types of “digital economy” impacted business models
Types of “digital economy” impacted business models
- Reseller/Vertically integrated firms: Amazon

Country A
- Cloud computing
  
Country B
- Logistics provider
  
Country C
- Services, e.g., use of platform
  
Country D
- Headquarters
  
- Subsidiary
    
- Final customers
  
- Data & Purchase histories

Hosting servers & support
Order details, customer information
Purchase; revenue generated by the payment for goods

## VCA for Reseller/ Vertically Integrated Firms

<table>
<thead>
<tr>
<th>Inbound logistics</th>
<th>Operations</th>
<th>Outbound logistics</th>
<th>Sales and marketing</th>
<th>Services</th>
</tr>
</thead>
</table>
| Supply chain; Management data in **real time** & Source suppliers **globally**.  
**IP:** Software to monitor supply chain; Potential IP on robots. | Inventory data in **real time**.  
**IP:** Development of website & algorithms to target consumers | Receive & process internet orders globally. Assemble and ship orders to final consumers **globally**. Data on transportation of final goods in **real time**.  
**IP:** Development of software to monitor outbound logistics | **Definite collection of consumer data through purchase, histories & browsing histories.** Market research implicit in the collection of consumer data.  
**IP:** Development of algorithms to target consumers and to price differentiate | Data on the quality of products & services (via customer review database).  
**IP:** Customer review database made public |

---

**Real-time Supply Chain Management:**
- Management and monitoring of supply chain data in real-time.
- Development of software to monitor supply chain operations.

**Inbound Logistics:**
- Inventory data in real-time.
- Development of algorithms to target consumers.

**Outbound Logistics:**
- Receives and processes internet orders globally.
- Assembles and ships orders to final consumers globally.
- Data on transportation of final goods in real-time.

**Sales and Marketing:**
- Definite collection of consumer data through purchase history and browsing histories.
- Market research derived from consumer data.
- Development of algorithms to target consumers and price differentiation.

**Services:**
- Data on quality of products and services.
- Publicly available customer review database.

---

**IP Protection:**
- Potential IP on robots.
- Development of software to monitor supply chain.
- Development of website and algorithms.
- Development of software to monitor outbound logistics.
Types of “digital economy” impacted business models
- Multi-side Platform: Uber

Country A

IT services (server) → Headquarters

Hosting servers & support

Country B

Data → Subsidiary

Payment: portion of fare
Services e.g.: use of platform
Revenue: payment for rides

Country C

Data → IT services (server)

Drivers → Subsidiary

Use of platform

Passengers → Subsidiary

Payment: portion of fare
Revenue: payment for rides
## VCA for Multi-sided platforms

<table>
<thead>
<tr>
<th>Network Promotion</th>
<th>Contract Management</th>
<th>Service Provisioning</th>
<th>Network infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruits <strong>globally</strong> and global passenger base. <strong>IP:</strong> Storage of user data.</td>
<td>Passengers credit card checks. Driver and passenger rating. <strong>IP:</strong> Development of rating algorithms</td>
<td>Payment through app. Drivers and passengers matched through app. Fare Setting based on distance and availability. <strong>IP:</strong> Algorithm to match users and set fares</td>
<td>Cars owned and maintained by drivers. Vehicle standard set by company. <strong>IP:</strong> Development of app and platform and its maintenance</td>
</tr>
</tbody>
</table>
How can TPA help? – 3 practical case studies
Relevance from a tax/TP perspective

How to present value chain in TP Documentation?

How to classify an intangible?

How to undertake controversy management?
How to present digital value chain in TP Documentation?

Insurance Industry

Retail and Wholesale Industry
How to present digital value chain in TP Documentation?

Value chain of a traditional retailer model:

- **Strategy and design**: Setting global strategy and creating designs based on market trends.
- **Manufacturing**: Producing assets.
- **Warehousing**: Storage of final goods.
- **Transportation and logistics**: Planning, implementing, and controlling procedures for the efficient and effective transportation of goods. Distribution to customers through establishments.

Value chain of a "digital economy" impacted retailer business model:

- **Data analysis**: Identifying trends through big data (e.g., machine learning), social buzz, RFID, amongst others.
- **Manufacturing**: Optimized production of assets in line with consumers' demand.
- **Warehousing**: Optimized inventory data in real time.
- **Transportation and logistics**: Control of transportation of goods and accurate forecast in real-time through technology tools.
- **Sales (Customers)**: Direct distribution to customers.
# How to classify an intangible?

<table>
<thead>
<tr>
<th>Tool/Platform</th>
<th>Data Origination</th>
<th>Collection of data</th>
<th>Processing of data to information</th>
<th>Artificial Intelligence (real time solutions)</th>
<th>Customer services (internet, shopping, music, media, advertising)</th>
<th>Collaboration with external providers</th>
<th>IP Law protection</th>
<th>TP classification as an intangible (routine or non routine) or a service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Platform</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>Chapter VI or Chapter VII ?</td>
</tr>
<tr>
<td>Data analysis software</td>
<td></td>
<td></td>
<td>X ?</td>
<td>X ?</td>
<td></td>
<td></td>
<td></td>
<td>Chapter VI or Chapter VII ?</td>
</tr>
<tr>
<td>Data storage</td>
<td></td>
<td></td>
<td>X</td>
<td>X ?</td>
<td></td>
<td></td>
<td></td>
<td>Chapter VI or Chapter VII ?</td>
</tr>
<tr>
<td>Payment gateway</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X ?</td>
<td>Chapter VI or Chapter VII ?</td>
</tr>
<tr>
<td>Business support services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chapter VI or Chapter VII ?</td>
</tr>
</tbody>
</table>
How to undertake controversy management?

TRADITIONAL MODEL
- Manual market analysis
- Service to retail bank
- Customer

USING ADVANCED IT
- Fintech
- Backbone
- Blockchain modules
- IT
- Customer

INTEGRATED IT BACKBONE
- Alipay
- WeChat Pay
- Customer

CUSTOMER SERVICE
- Retail bank
- Traditional model
- Using advanced IT
- Integrated IT backbone
How to undertake controversy management?

Before: Customer → Plane + Hotel + Car Rent

Now:

- Customer buys Source of Revenue
- Investors buy Data Factories
- Data Factories provide fee and revenue
- Customers buy platform
- Booking.com, Expedia, airbnb

INVESTORS

DATA FACTORIES

CUSTOMER
Global Tax Controversy

Global Tax Controversy - Workshop for Corporates

June 21, 2018 9:00 AM 6:00 PM CET

Register Here:  www.tpa-global.com/gtc2018
Speakers

Avisha Sood,
Senior Associate, TPA Global
Amsterdam, The Netherlands
E: a.sood@tpa-global.com
T: +31 20 218 2234

Anusha Pande
Associate, TPA Global
Amsterdam, The Netherlands
E: a.pande@tpa-global.com
T: +31 20 894 2553
TPA Global serves international businesses with integrated and value-added solutions. To ensure the highest quality and seamless service provision, thereby meeting international standards and regulations, a global network of dedicated professionals and specialists is a key and determining factor. Please select the region and contact our specialist in the country of choice.

https://www.tpa-global.com
Taking control of the future

TPA Global provides international businesses with integrated and value-added solutions in improving financial performance, operational efficiency, strategic development and talent coaching through a cross-border and cross-discipline team of professionals which identifies the right solutions for customers and targets; efficient and streamlined advisory and implementation processes which cut through operational complexities across functions and borders; and superior customer service and support which proactively anticipate the evolving needs of the clients.

+31 (0)20 462 3530 . tpa-global.com

The views expressed and the information provided in this material are of general nature and is not intended to address the circumstances of any particular individual or entity. The above content should neither be regarded as comprehensive nor sufficient for making decisions. No one should act on the information or views provided in this publication without appropriate professional advise. It should be noted that no assurance is given for any loss arising from any actions taken or to be taken or not taken by anyone based on this publication.

© 2018 Transfer Pricing Associates Holding B.V. All Rights Reserved.