

Chapter 15

E–Fulfilment and Offshore Centres: Economic Policy Implications for Small Business

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ABSTRACT

This chapter introduces the importance of the e-fulfilment industry for offshore centres and in particular the small business and economic policy implications. The extant concepts, research, and experiences the chapter builds on is the literature concerning the e-fulfilment industry. It argues that the key results, evidence, and experience, from the models that have been developed and the specific model formulated for this work, indicate reasons for the development of e-fulfilment in offshore centres with particular reference to the tax advantages provided by the Channel Island of Jersey. The limitations of the results are that they report the early findings of other work and the conceptualisation of the e-fulfilment model in this work and as a result there is a need for empirical evidence. The authors therefore plan to undertake empirical research to support the evidence that has been researched so far. Furthermore, there are important implications of the study for policy makers, small business, practitioners, researchers, and educators for the specific field of e-fulfilment developments in particular and e-commerce in general.

INTRODUCTION

Past research on the development of the e-fulfilment industry has provided understanding of the activity

at a time when it has attracted negative publicity. Negative publicity has focused on businesses that have switched their distributions of low value goods such as CD's/DVD's through offshore centres to take advantage of Low Value Consignment Relief (LVCR) which is the European Union (EU) ap-

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proved mechanism for VAT exemption. LVCR allows products in the single parcel to be shipped sales tax/VAT free throughout the EU if the value of the goods is between 10 and 22 Euros (£8 to £18 in the UK). The specific level of the relief is set by individual EU members and the UK limit is £18.

There are basically two types of activity within the e-fulfilment sector, although a number of businesses operate as a hybrid of the two activities. Whole Chain Companies (WCC), such as Play.com, buy and own stock and sell goods to final customers. On the other hand, Third Party Service Providers (3PS) provide logistics or distribution services for other retailers. It is known that some big retail players, such as Tesco, Asda and Amazon, are using agent companies with operations on Jersey to obtain the benefits of LVCR. WCC receive revenues based on the total value of sales whereas 3PS receive revenues based on the service they provide, with sales revenue received by the retail firm.

The key for e-fulfilment businesses operating in Jersey to take advantage of the LVCR relief is to balance the additional package and delivery charges against the increased profits arising from the competitive advantage offered by lower prices due to the VAT free sales prices.

In this chapter we initially consider the literature concerning the e-fulfilment industry and the models that have been developed. This is followed by the conceptualisation of a model of the e-fulfilment industry which is appropriate to offshore centres. We then apply the model to the case study of the island of Jersey which is an offshore jurisdiction in the English Channel off the shores of France. Finally we draw conclusions from the findings of this study and consider the policy implications of the e-fulfilment activities which are taking place.

BACKGROUND

According to Ash and Burn (2003) enterprises over the last fifteen years have had to reconsider their role with regard to Information and Communication Technologies (ICTs) as a support tool for significant business change. Not only has e-business become essential to industries, including financial services and retailing, but to businesses in general. In some situations new e-business opportunities have arisen themselves and a good example of this is e-fulfilment. In fact, the services provided by e-fulfilment have been estimated to be worth US\$1.006 Trillion in the US alone or 0.1% of their GDP (Rogers, 2002). Twenty one percent of all logistics transactions were expected to be online by 2005 with long term implications for freight companies (Homs, Meringer & Rehkopf, 2001). E-fulfilment has been defined as “everything an online company does to satisfy customer demand within an e-Business framework and includes both supply chain and logistic functions” (Palmer, Kallio & Heck, 2000). A further definition is that “e-Fulfilment defines that part of e-Business which aims at efficiently and effectively integrating a company’s back office processes, activities and functions arising from order capture through to final delivery to the customer” (BCI, 2002). The scope of e-fulfilment involves companies with online retailing adapting e-fulfilment applications and the provision of applications and both the Business-to-Business (B2B) and Business-to-Consumer (B2C) market (BCI, 2002). The literature on e-fulfilment, and online retailing, identifies a number of issues that the provider needs to consider and these include location design and systems, packing, customer service, financial transactions, warehouse costs, delivery, transport mechanisms and flows, procurement management, management information systems, front end ordering systems, after sales service, returns and real-time tracking. These are recognised as integrated components which create virtual proximity between e-trader and customer.

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