

E-commerce in India

Why in news?

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India's e-commerce sector has grown multi fold which demands a change in the uncertain policy environment surrounding the sector.

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What is the status of this sector?

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- E-commerce is a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet.

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- Electronic commerce operates in all four of the major market segments in India - business to business, business to consumer, consumer to consumer and consumer to business.

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- India's e-commerce sector has grown quickly despite an uncertain policy environment.

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- While online retail accounted for less than 1% of the retail market in 2013, it is reckoned to have crossed 3% in 2018.

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- In several categories of electronics such as personal computers and smartphones, e-commerce holds a far larger market share.

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- Even in non-traditional items such as furniture and high-end fashion labels, growth has been phenomenal.

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- E-commerce companies such as Amazon and Flipkart have reportedly spent over Rs 5 billion in marketing during the recent Navratri period, and they will spend more in the run-up to Diwali.

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- Analysts claim online sales during Navratri have crossed \$2.6 billion, or about Rs 190 billion.

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- This is a huge year-on-year rise over the \$1.4 billion sales during the same nine-day period of 2017.
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Where does this growth come from?

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- The increased impetus has been attributed to the wider market reach in **Tier II and Tier III towns**.
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- Small-town India reportedly contributes 82% of Amazon India's new customers.
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- This is also the main reason for its creation of local language interfaces and its determination to be capable of delivering in every rural pin code.
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- Flipkart also claims that over 50% of its new customers come from small towns.
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- It is interesting to consider the positive externalities that have arisen from the e-commerce explosion.
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- Flipkart and Amazon have close to about 100 fulfilment centres spread across multiple states between them, which makes them the prime drivers for warehousing.
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- The portals offer direct employment to tens of thousands, in multiple capacities, ranging from delivery to high-end data analysts to marketing.
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- They also deploy artificial intelligence in their India operations.
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- They have adopted easily accessible, in-house fin-tech solutions, offering EMIs through PayTm, Amazon Pay and PhonePe.
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- In turn, it induced widespread acceptance of “cashless” commerce far more effectively than demonetisation did.
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- So far as the consumer is concerned, apart from easy payment options, e-commerce sites offer a wider choice of merchandise along with lower prices.
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- In Tier II/III locations, there may be no offline alternatives for the many

categories of goods available online.

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- It is, therefore, no exaggeration to say that e-commerce has triggered a retail revolution in the rural and semi-rural hinterland.

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What are the concerns with the proposed draft policy?

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- **Localised production** - India does not allow FDI in e-commerce companies that hold their own inventories/stocks [inventory-based model]
- Under this model, firms directly sell products from their own inventories.
- On the other hand, the government allows 100% FDI in the marketplace model.
- Marketplace operators like Flipkart cannot hold inventory (stocks) and sell products on their platform, where they can only facilitate the online sale process for other vendors.
- However, the draft policy says that FDI may be allowed in inventory-based e-commerce companies up to 49%.
- But this comes with a condition that the e-tailer sells 100% Made-in-India products.
- This will allow e-commerce firms to offer their own brands only as long as they are made in India.
- If restrictions on holding inventory and in the production of multiple branded goods were removed, efficiencies would be enhanced, enabling a further deepening of the market.
- **Sunset clause** - The draft proposes a sunset clause, wherein maximum duration of differential pricing strategies (such as deep discounts) that are implemented by e-commerce platforms to attract consumers would be introduced.
- This restriction is aimed at curbing the practice of foreign-funded companies bypassing laws to use foreign money to offer huge discounts.

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- Discounts help e-commerce companies gain loyal subscribers.
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- Domestic retailers have raised the issue of foreign money funding discounts which makes it difficult for the local retailers to compete.
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- Thus the sunset clause might restrict the ability of e-commerce companies to offer deep discounts, which is the very base of its attraction over the brick-and-mortar retailers in India.
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- **Related parties** - The draft e-commerce policy also places curbs on "related parties".
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- Related party sellers are the online sellers who already have a business relationship with the e-commerce company.
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- A foreign-funded e-commerce company is not allowed to keep inventory but some companies might circumvent this rule by funding their sellers and offer discounts through them.
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- This results in market distortion wherein a particular seller will misuse the money power to discount the product at a faster rate while other sellers getting unable to match its sale price.
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- Hence the proposed curb will promote a level-playing field in the marketplace.
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- However, e-commerce companies would not be able to offer their in-house brands extensively with these restrictions.
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- **Data localisation** - The draft policy says Srikrishna committee's recommendations will have primacy on data localization and data privacy.
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- Both documents suggest the government will have access to data stored in India for national security and public policy objectives, subject to rules on privacy and consent.
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- The draft policy proposes tax sops to encourage data localization and grant infrastructure status to data centres.
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- However, enforcing data localisation may increase the cost of business for start-ups and further increase their cost of capital.
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What should be done?

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- The draft e-commerce policy is currently in review.

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- It could be a win-win situation for consumers and e-commerce players if the concerned clauses were removed or the restrictions are eased.

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- Fewer policy constraints would make the sector grow faster and create more employment, better real estate occupancy and lower prices for consumers.

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- The developed countries in the WTO are already demanding discussions on liberalising e-commerce trade and hence India's step towards formulating a domestic policy for this fast-growing sector is a welcome step.

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Source: Business Standard, Economic times

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