

Context:

The government recently announced new e-commerce rules restricting players from selling the products of companies in which they have a stake, and capping the percentage of inventory that a vendor can sell through a marketplace entity (IT platform of an e-commerce entity) or its group companies. To curb the practice of deep discounts, the government said they cannot directly or indirectly influence the price of goods and services, and also brought in a new set of rules that bar the sale of products exclusively in one marketplace.

Rules for E-commerce:

- **Private Labels:**

- ✓ The first restriction explicitly disallows e-commerce marketplace companies from selling private labels that are brands they directly or indirectly own, on their platforms.
- ✓ E-commerce companies would be barred from selling products sourced from firms in which they have a stake in or control over.
- ✓ From the point of view of the vendor too, the clarification said that an entity with equity stake owned by an e-commerce marketplace entity or its group companies, or having control on its inventory by e-commerce marketplace entity or its group companies, will not be permitted to sell its products on the platform run by such marketplace entity.

- **Exclusive Deals**

- ✓ In November 2018, the OnePlus 6T phone went on sale exclusively on Amazon.in, besides being available on the phone company's own website. Samsung launched its new A9 phone exclusively on Flipkart.com. Such "exclusive sale" deals are common and popular across e-commerce platforms in India. Well, not anymore.
- ✓ The government has said that e-commerce entities will have to maintain a level playing field, and ensure that they do not directly or indirectly influence the sale price of goods and services. The policy mandates that no seller can sell its products exclusively on any marketplace platform

Cash Back Services

- For the purposes of this clause, provision of services to any vendor on such terms which are not made available to other vendors in similar circumstances will be deemed unfair and discriminatory.
- Any service like logistics provided by e-commerce companies to vendors in which they have direct or indirect equity participation or common control stake should be fair and non-discriminatory. These services include logistics, warehousing, advertisement, marketing, payments, financing etc.
- The policy says a vendor will not be permitted to sell more than 25% of its products on an online platform of a single e-marketplace firm.

How will e-commerce majors be impacted?

Industry experts say the changes will have a significant impact on the business model of e-commerce majors, as most of them source goods from sellers who are related party entities. "Going forward, the suppliers will not be permitted to sell their products on the platform run by such marketplace entity. This will impact backend operations, as Group entities would have to be removed from the e-commerce value chain. The time has now come to look at franchise channels, rather than equity investments channels, to do business in India,"

Concerns for Companies

- The move could adversely impact investments being made to bring new sellers on board.
- This will also impact the FDI investments in India

How it helps domestic Players?

- The biggest winners from the new guidelines will be the traditional brick-and-mortar sellers. In the past few years, online marketplaces had hit the brick and mortar hard. They had started luring away so many customers with discounts and cashbacks — and of course the ease of buying without stepping out — that brick-and-mortar retail was seen to be dying off soon.
- The new guidelines restricting discounts and cashbacks will help brick-and-mortar retailer retain customers.
- The revised norms are aimed at protecting the interest of domestic players, who have to face tough competition from e-retailers having deep pockets from foreign investors.

Small Sellers

- Smaller sellers on online platforms, which have been contesting the preferential treatment meted out by Flipkart and Amazon to their entities, have reason to cheer.
- Any service on an e-commerce platform – logistics, warehousing or easy financing options – will now have to be offered to all sellers and not to only preferred sellers.
- Ecommerce companies cannot charge additional prices from third-party sellers for these services. Even for private labels, retailers may not be able to advertise or promote their own brands while charging third-party sellers for pushing them.

Customers

Consumers may no longer enjoy the deep discounts offered by retailers that have a close association with marketplace entities.

Way Forward

Marketplaces are meant for genuine, independent sellers, many of whom are MSMEs (Micro, Small & Medium Enterprises). These changes will enable a level playing field for all sellers, helping them leverage the reach of e-commerce. Also, the Government should form a regulatory authority to check the flouting of e-commerce rules. The government should also come with an e-commerce policy soon so that small vendors get enough chances to participate in the online business.