E-commerce

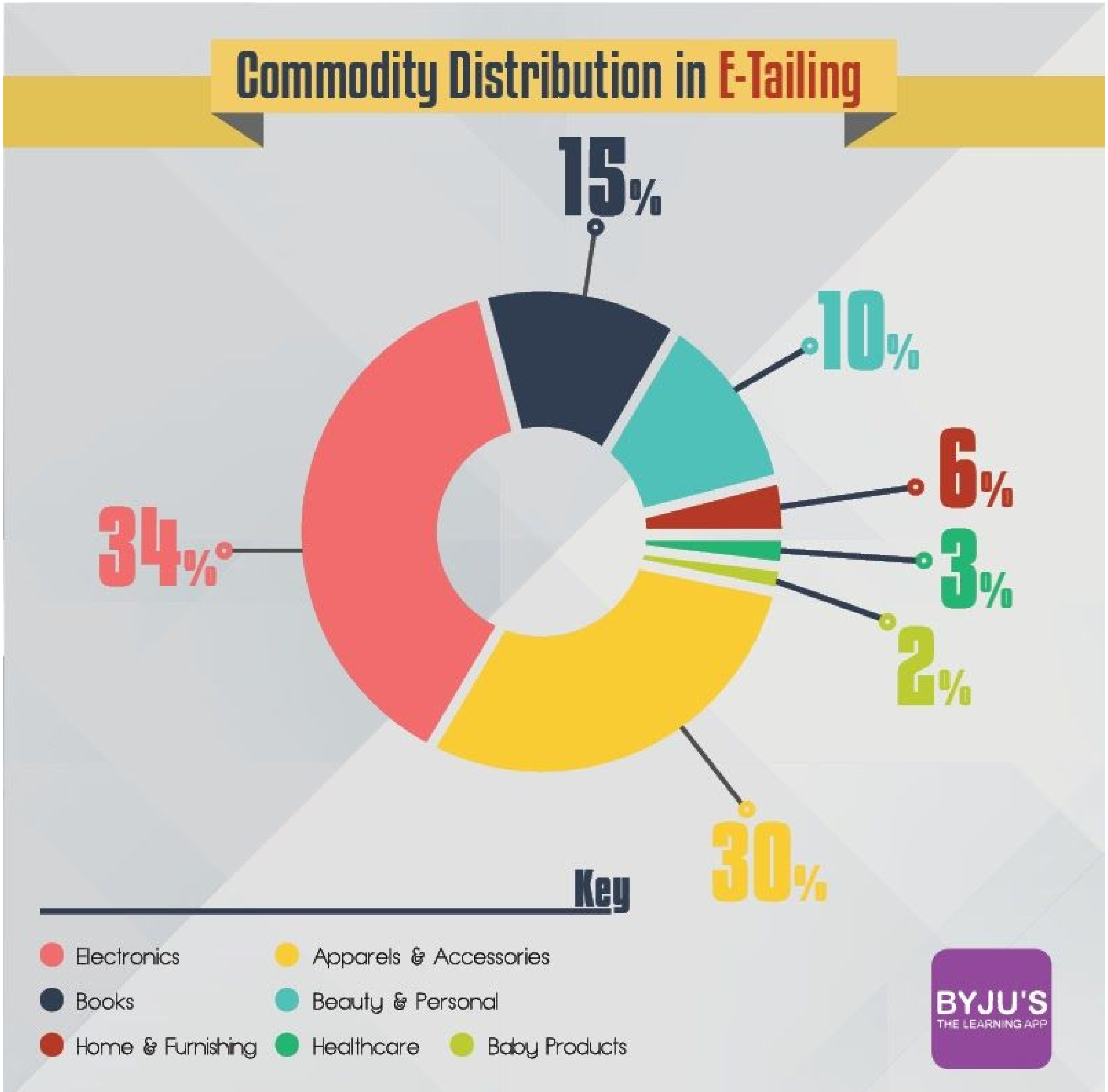
What is E-Commerce?

E-Commerce is defined as the buying and selling of goods and services including digital products over digital and electronic networks. Electronic commerce (E-commerce) draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems.

Who is an E-Commerce Entity?

It means a company that is incorporated under the Companies Act,1956 or the Indian Companies Act 2013 or a foreign company covered under the Companies Act 2013 or an office, branch or agency in India as provided in FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.

Let us study from the image below, the sectors that contribute the most to e-commerce :



Why is in the news?

- 100% Foreign Direct Investment (FDI) is permitted through the automatic route in the market place model of e-commerce.
- The above development indicates that 100% FDI is not permitted in the inventory-based model.
- This FDI is permitted only for B2B (Business-to-Business) model and not for B2C (Business-to-Consumer).

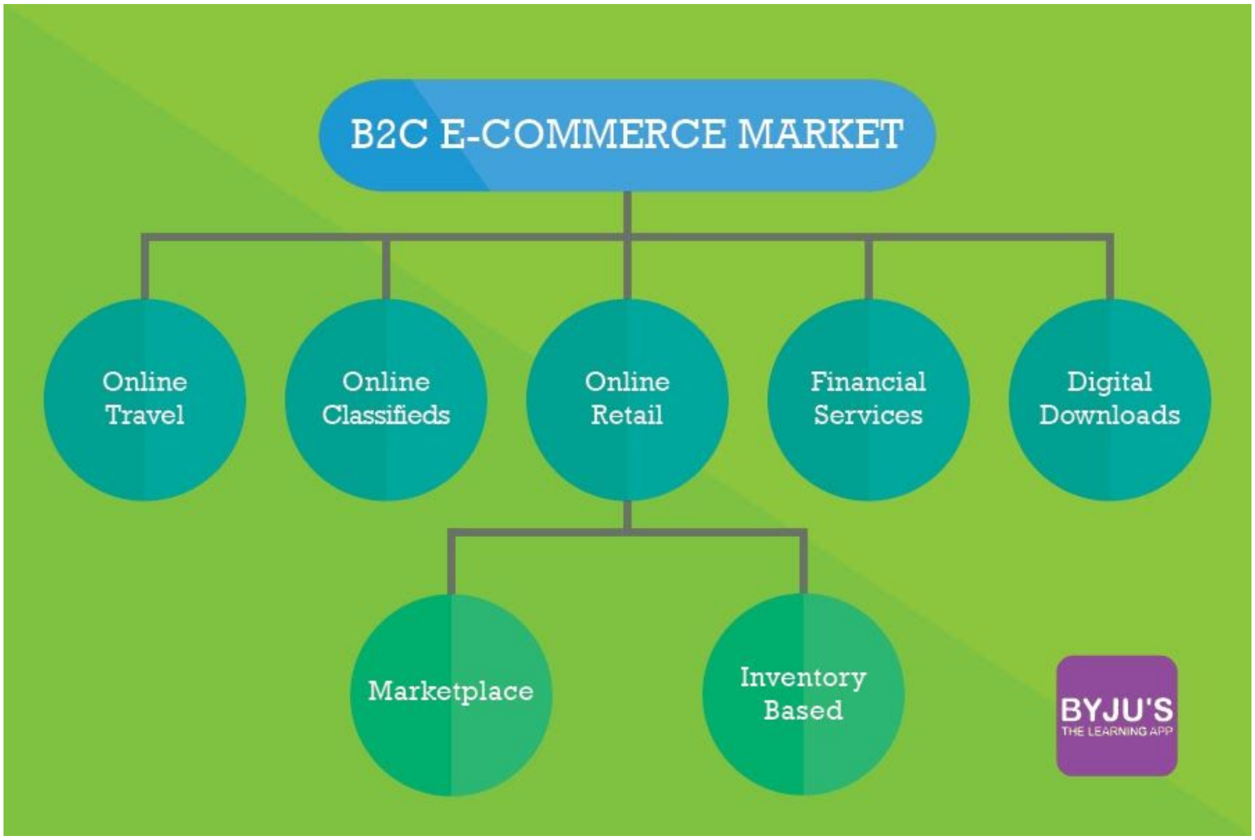
Under what conditions FDI is granted here?

- A manufacturer will be permitted to sell its manufactured products in India through E-Commerce retail.
- A single brand retail entity operating through brick and mortar store is permitted to undertake retail trading through E-Commerce.
- An Indian manufacturer is permitted to sell its own single brand products through E-Commerce retail. Indian manufacturer would be the investee company, which is the owner of the Indian brand and which manufactures in India, in terms of value, at least 70% of its products in house, and sources, at most 30% from Indian manufacturers.

The conditions levied are as follows:

- E-Commerce marketplace may provide support services to sellers in respect of warehousing, logistics, order fulfilment, call centre, payment collection and other services.
- The E-Commerce entity providing the marketplace will not exercise ownership over the inventory i.e. goods purported to be sold. Such an ownership over the inventory will render the business into an inventory-based model in which FDI is not permitted.
- An e-commerce entity will not permit more than 25% of the sales affected through its marketplace from one vendor or other group companies.
- Post-sales, delivery of the goods, the satisfaction of the customer, warrantee/ guarantee of the goods and services will be the responsibility of the seller.
- In a market based model, payment for sales may be facilitated by the e-commerce entity in conformity with the guidelines of the Reserve Bank of India.
- E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain a level playing field.

The table below how the two models of e-commerce work:



(Source: DIPP) **Market-Based Model:** Under this model, an e-commerce entity acts as a facilitator of goods and services by providing an information technology platform to the buyers and sellers

Inventory Based Model: Under this model, the e-commerce entity owns an inventory of good and services to be sold to the buyers directly

Implications of FDI in E-Commerce **Good points:**

- The B2B business model in the market place has been officially recognized by the government of India and hence ended much ambiguity in the policy.
- The discount wars will end providing some relief to the brick and mortar retailers and provide a level playing field.
- It will allow the traditional brick and mortar sellers to come out of their geographical barriers.
- It will help connect the long chain of demand in India with a long chain of supply.
- Indian offline manufacturers can go online and attract foreign investment now.

What are the Challenges of the Indian e-commerce industry

1. **High competition:** There are different players in the same area of business leading to decrease in profitability due to reasons such as aggressive pricing strategies, heavy discounts and offers, free delivery, high commissions to affiliates and vendors during sale period to name a few. These firms are losing billions to attracting customers.
2. **Poor logistic & supply chains:** E-commerce companies need to maintain the stock to get the benefit of reach and the ability to stock more items than physical stores as these are their biggest differentiators. With this benefit also comes the challenge of robust supply chains and logistics networks, which are not comparable and developed to global standards in India.
3. **Payments:** While offering a wide variety of payment options, Cash on Delivery(CoD) option in India is the most prevalent as customers fear to share information online and do not trust the website for secure payments. Also, the return percentage of orders in CoD is much higher compared to online payments.
4. **Trust of the customer:** Due to the constraints of quality, colour and texture recognition especially in apparels and luxury products, the customers are not able to trust that what is shown will be delivered.