New Ecommerce Norms

The government has issued new rules regarding Foreign Direct Investment (FDI) in e-commerce.

- The Department of Industrial Policy & Promotion (DIPP) issued a clarification to the existing rules pertaining to FDI in e-commerce companies.

New Rules by DIPP

- The vendors that have any stake owned by an e-commerce company (equity stake) cannot sell their products on that e-commerce company's portal.
- Any vendor who purchases 25% or more of its inventory from an e-commerce group company will be considered to be controlled by that e-commerce company, and thereby barred from selling on its portal.
- The policy mandates that no seller can sell its products exclusively on any marketplace platform and that all vendors on the e-commerce platform should be provided services in a "fair and non-discriminatory manner". Services include fulfillment, logistics, warehousing, advertisement, payments, and financing among others.

Why New Rules?

- Large e-commerce companies such as Amazon and Flipkart, while not owning inventory themselves, have been providing a platform for their group companies such as CloudTail and WS Retail respectively.
- E-commerce companies with foreign investments can only operate under the marketplace model, and not under the inventory model, which has allowed them to sell products much cheaper than independent sellers.
- Some see this as skewing the playing field, especially as these vendors enjoyed special incentives from the e-commerce firm, over others.

Impact of DIPP Norms

- The DIPP policy is directed at protecting small vendors on e-commerce websites. It seeks to ensure small players selling on the portals are not discriminated against in favor of vendors in which e-commerce companies have a stake.
- Smaller marketplaces that do not have a stake in any vendors will also be able to now compete with the big firms. It can also boost the Start-Up India initiative of the government.

e-Commerce in India

- It 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.
- In India, there are three types of e-commerce business model:
  - Inventory base model of e-commerce
  - Marketplace base model of e-commerce
  - The hybrid model of inventory based and marketplace model.

Marketplace and Inventory-Based Model

- Marketplace based model of e-commerce means providing an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between the buyer and seller.
- In a marketplace model, the e-commerce firm is not allowed to directly or indirectly influence the sale price of goods or services and is required to offer a level playing field to all vendors.
- Inventory based model of e-commerce means an e-commerce activity where the inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.

FDI guidelines for e-Commerce

- DIPP has issued guidelines for FDI in e-commerce:
  - In India 100% FDI is permitted in B2B e-commerce, however, No FDI is permitted in B2C e-commerce.
  - 100% FDI under automatic route is permitted in the marketplace model of e-commerce, while FDI is not permitted in inventory based model of e-commerce.