

FDI in e-commerce - Policy review - II

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What are the possible benefits?

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- Under the guidelines, the e-commerce players cannot directly or indirectly influence the price of goods and services.

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- Also, e-commerce marketplace entity will not mandate any seller to sell any product exclusively on its platform only.

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- Thus, consumers may no longer enjoy the deep discounts offered by retailers that have a close association with marketplace entities.

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- However, the absence of large retailer's monopoly will, however, bring relief to small retailers selling on these platforms.

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- Traders running traditional brick-and-mortar stores, who now find it difficult to compete with the large e-commerce retailers with deep pockets, could also gain.

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- These changes will enable a level playing field for all sellers, helping small retailers, including MSME, to leverage the reach of e-commerce.

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What are the concerns?

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- The guidelines say that e-commerce companies running marketplace platforms (Amazon and Flipkart) cannot sell products through companies in which they hold equity stake.

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- Also, a vendor's inventory will be deemed to be controlled by the e-

commerce player if more than 25% of its purchases are from the e-commerce player or its related firms.

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- **Business model** - 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.

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- Going forward, the suppliers will not be permitted to sell their products on the platform run by such marketplace entity.

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- This will impact backend operations, as Group entities would have to be removed from the e-commerce value chain.

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- Separately, any specialised back-end support given by e-commerce players for some sellers must now be extended to all vendors.

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- **Equity restrictions** - E-commerce players, who have their private labels on a product, will not be able to sell them on their platforms if they hold equity in the company manufacturing them.

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- For example, Cloudtail India Pvt Ltd is the biggest retailer operating on Amazon, while WS Retail was the biggest seller on Flipkart.

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- Cloudtail's ownership shows a clear link with Amazon.

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- Hence, under the new rules, Cloudtail, in which Amazon holds equity stake, may not be able to sell products on Amazon's e-commerce platform.

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- **Voluntary sale** - An e-commerce marketplace entity will not mandate any seller to offer a product exclusively on its platform under the new rules.

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- However, there is no explanation on what to do when a seller voluntarily opts to sell exclusively on one e-commerce portal over another.

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What should be done?

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- The guidelines could reinforce investor complaints about India being

unpredictable in terms of policies.

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- Despite these concerns, the policy requires a major overhaul in the business model and shareholding structures of such players.

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- The government, on its part, has to form a regulatory authority to check flouting of e-commerce rules under the new guidelines.

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Source: The Indian Express, The Hindu

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