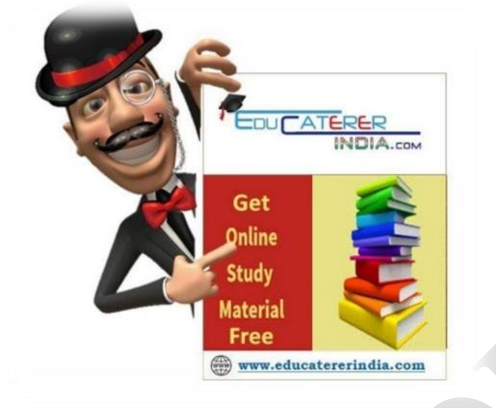
RBI guidelines for 100% FDI in E-Commerce



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Introduction

The tremendous growth of e-commerce market required streamlining in currency flow and regulation of e-commerce companies. In this purview, RBI along with DIPP have released guidelines for e-commerce companies

Nodal Agencies

- Department of Industrial Policy and Promotion (DIPP) is the nodal agency to provide licenses to e-commerce companies
- DIPP works under ministry of commerce and industry
- RBI regulates the money transactions in e –commerce
- Most of the transactions in e-commerce take place online and RBI has a huge role to provide safe and secure online transactions to the customers

Background of e-commerce in India

- E-commerce is fast growing industry in India and is expected to touch $69 billion by 2020
- Already 100 % FDI is allowed in e-commerce
- In the last 2 years, there is a tremendous increase in e-commerce market place competition with the emergence of players like Amazon, Snapdeal, Flipkart, Myntra, e-bay etc

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- The e-commerce companies give huge offers and discounts that drastically affected the sales of traditional brick and mortar companies
- Most of the traditional companies have gone out of business due to the heavy competition in e-commerce market place
- In this context, certain guidelines and measures needed to be taken to check the online companies from give such high discounts and offers to customers

Issues and Guidelines

- The recently released guidelines address two major issues of prominent display and online monopoly
- First, a large vendor with big discounts will get prominent display in online portals like Amazon, Snapdeal etc
- This forces other retailers in the online portal to reduce their prices and also get lower display
- Fixing of a floor price for the products in e-commerce is the recommended guideline to curb the above practice
- Second, monopoly creation in online market place
- WS retail in Flipkart alone accounts for more than 35% of sales
- CloudTail India sales in Amazon exceeds 40 %
- A single e-commerce entity is restricted to only 25 percent of the sales is the recommended guideline to prevent the above monopoly in e-commerce sales

Implications of the guidelines

- Customers cannot enjoy the current huge online discounts once the guidelines come into force as the online retailers will be forced to reduce the discounts
- The guideline will provide a level playing field for both online and traditional brick and mortar companies
- The new guidelines will put an end to the existing predatory pricing
- The guidelines constitute a direct or indirect influence on the online market which is fast growing and needs streamlining
- The guidelines have been released as a first measure to regulate the online market

Conclusion

- The guidelines will make the e-commerce players operate as technology providers and not as retailers
- Market places will serve as only technology providing platforms to sellers and not get in to inventory based models resulting in predatory pricing
- The guidelines have put restrictions on the existing players and the new entrants in to the online market place
- Critics argue this to be a bureaucratic discretion
- The new guidelines clearly separate inventory based models from market based e-commerce
- In inventory based models, there is no FDI allowed
- 100 % FDI is allowed only in market based e-commerce
- The guidelines must be transformed in to policies and implemented strongly by the nodal agencies – DIPP and RBI
- Competition commission of India must establish a committee to look into the existing predatory pricing regime in online market place
- Overall, customers will not enjoy the huge discounts that they are enjoying now from the online shopping portals after the guidelines are implemented

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