



FDI POLICY IN E-COMMERCE – ITS INFLUENCE ON PURCHASES

Dr. C. V. Ranjani

Assistant Professor,
Department of Commerce,
Nizam College,
Hyderabad, Telangana.

ABSTRACT

E-commerce in India at present is at an embryonic stage and has started to make its presence felt in every nook and corner of the country. Customers have started inching towards on-line shopping because of the plethora of conveniences available in this mode of trade. The shopping arena is gradually shifting from physical to virtual. E-commerce business, though presently a neophyte, is poised to make a huge impact on the retail trade map of India shortly. On the other hand, the road side Kirana store owner managed to survive despite stiff competition from super markets, hyper markets, specialty stores and malls. The kirana stores, of late, have started to provide online services besides off-line business to survive. At the same time, e-commerce houses may also enter the off-line business units to expand their market share. In March 2016, Government of India had introduced a new FDI policy on e-commerce trade. The main objectives of this paper is to study the impact of restrictions imposed on allowing discounts in the new FDI policy, to analyze the overall impact of the new FDI policy on purchases made by the consumers and to understand the influence of FDI policy on survival of traditional retail stores.

KEYWORDS: Foreign Direct Investment (FDI), E Commerce, E-tailers, Mom n Pop stores, Kirana stores

Introduction

The Industrial Revolution that took place between 1760 and 1840 had completely transformed the human living standards and styles. The handmade production of goods and products became a passé and mechanization swept across all the production centers round the globe. Industrial Revolution paved way for significant improvement in productivity, quality and uniformity of products. Industrial Revolution had brought in technological developments in the key industries like textile manufacturing, metallurgy, steam power, machine tools, chemicals, cement, gas lighting, glass making, paper making, agriculture, mining, transportation and alike.

Post-industrial revolution, the major revolution that has influenced the lives of homo-sapiens is electronic/digital revolution. It took nearly one and a half decades for commercial evolution of computers after Charles Babbage designed the first programmable computer called the “Analytical Engine”. With the advent of internet, World Wide Web, the digital revolution like a wild-fire on a mission, made in-roads into our day-to-day lives. The plummeting costs of digital equipment’s, communication aides and broad-band and rocketing unimaginable pace of broad-band helped the digitalization permeate into remotest rural hamlets.

The digital revolution has not only precipitated office automation, improved facilities in transportation and communication fields, but started to dominate other industries also.

One such industry which is getting morphed by digitalization is retailing. Gone are the days when we used to accompany our parents, carrying big bags, to the provision stores / super markets for our monthly groceries. E-commerce has redefined and revamped the consumer buying behavior.

Internet usage has become an integral part of human lives for remaining connected with friends, accessing emails, buying movie tickets and ordering food. The changing lifestyles of the country’s urban population have also led many people to rely on the internet for their shopping needs. The convenience of shopping from the comfort of one’s home and having a wide product assortment to choose from has brought about increased reliance on the online medium.

In the last few years, the e-commerce market in India has witnessed a tremendous boom. This growth can be partly attributed to the increasing smartphone and internet user base, to the rising standards of living and a burgeoning upper middle class with high disposable income and a busy

lifestyle. Though the penetration rate of e-commerce in India is low as compared to that of the USA and the UK, yet there has been considerable growth over the years

Despite the sector being at its infancy, the Indian market showcases the right kind of opportunity for the sector to grow. If the present growth trend were to continue, it is poised to reach anywhere between \$10 billion to \$20 billion by 2017. Some of the characteristics favorable for the growth of the Indian e-commerce market are the option of cash- on-delivery, demand for international consumer products, a sprouting rural and semi-urban consumer class and a favorable demographic dividend to spur online sale of goods and services. The potential of e-commerce is promising with mobile commerce being the next step for both the consumers and merchants with the latter capitalizing on this opportunity to the full extent.

Legal and other procedures for setting up e-commerce business in India

For starting up an e-commerce business in India, some of the legal and other procedures to be followed are detailed below:

- a) **Registration of the domain name** – the domain name should be registered with an appropriate registry by paying registration fee, providing valid address supported by ID proof
- b) **Obtaining a federal tax ID number** – this is necessary if the principal business is located in United States or US territories. To make e-commerce business a separate legal entity, it is necessary to obtain a federal tax ID number
- c) **Payment of VAT/Service Tax** – Taxes at applicable rates are to be paid to be Government in stipulated timelines
- d) **Investing in data security** – Investing in cyber security will safeguard the financial transactions of the customers
- e) **Entering into MOU with contractors** – Entering into a fool proof MOU with the contractors will prevent supply of spurious services

Though there are some governing regulations on conducting of e-commerce, there is no specific FDI policy on e-commerce. In a bid to bring in discipline and controls, Government of India came out with a policy for FDI on e-commerce in the month of March 2016.

Guidelines for FDI on e-commerce issued by department of industrial policy & promotion on 29th March, 2016

FDI up to 100% under automatic route is permitted in B2B e-commerce. No FDI is permitted in B2C e-commerce. However, FDI in B2C e-commerce is permitted in following circumstances:

- ✓ A manufacturer is permitted to sell its product manufactured in India through e-commerce retail.
- ✓ A single brand retail trading entity operating through brick and mortar stores 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 manufacturers in India, in terms of value, at least 70% of its products in house and sources, at most 30% from Indian manufacturers.

Review of Literature

Nishith Desai (2015) in their research report on E Commerce in India concluded that an in-depth understanding of the legal regime and the possible issues that an e-commerce business would face coupled with effective risk management strategies has been the need of the hour for e-commerce businesses to thrive in this industry. KPMG (2015) in their report on India's E-Commerce determined that the sustained growth of over 50 per cent in the Indian e-commerce retail sector underlines the need for 'efficient and sustainable logistics operations' for various sizes of e-commerce retailers in India. The growing prominence of the marketplace model and the increasing penetration of e-commerce are likely to alter the way e-commerce logistics functions in India. Deloitte's (2015) 19th Global Powers of Retailing report identifies the 250 largest retailers around the world based on publicly available data for fiscal 2014-15 and analyzes their performance based on geographic region, primary product sector, e-commerce activity and other factors. The report also provides a look at the world's 50 largest e-retailers, an outlook for the global economy and an analysis of market capitalization in the retail industry. Santosh and Suryawamshi, (2015) in their research paper studied the implications of E-commerce on the Indian economy. They also opined that there is no universally accepted definition of e-commerce and suggested that there is a need to clarify terms. Prasad and Miranda, (2014) concluded that medium sized companies with branded quality products can be expected

to benefit more from B2B E-Commerce. Sarbapriya, (2011) in his study found that the role of government should be to provide a legal framework for e-commerce so that while domestic and international trade are allowed to expand their horizons, basic rights such as privacy, intellectual property, prevention of fraud, consumer protection etc. are all taken care of. Monica, (2015) examined the opportunities and obstacles in allowing FDI in e-tail. The study says that given the present state of the Indian e-commerce industry, even if FDI is allowed in the e-commerce B2C segment, the Indian economy will take time to be able to reap benefit from it. Nirupama and Nibedita, (2015) in their study found that E-commerce has had a positive impact on manufacturing units. Of the 500 manufacturing units they sampled, only 85 sell to e-commerce companies. They expect this number to increase in the near future because of the growth in consumer demand. However, for this number to increase exponentially, the terms of transaction for the manufacturing units must be made easier. Indrajit et.al, (2015) undertook a study to investigate the present market scenario from the customer point of view and find out the economic and business growth of online business in India. Kaushik and Kapil(2012) presented a SWOT analysis of the Retail sector. Gangeshwar (2013) dealt with the conceptual knowledge of search engine marketing, and discussed about the top motivating factors of shopping online. The rapid pace of growth of the e-commerce industry is not only indicative of the increasing receptiveness of the public but has also brought to the fore the issues that the legal system of the country has been faced with.

Objectives of the study:

The objectives of the study are:

- i) To study the impact of restrictions imposed on allowing discounts in the FDI policy
- ii) To analyze the overall impact of FDI policy on purchases
- iii) To understand the influence of FDI policy on survival of traditional retail stores

Methodology:

The study relied on primary and secondary sources of data. For the purpose of primary data, a structured questionnaire was designed using Likerts 5 point scale to 100 customers located in the twin cities of Hyderabad and Secunderabad. Selection of the customers was based on convenience sampling. After the data was collected it was organized and analyzed. For analysis of the questionnaire, SPSS was used. Data was analyzed by using descriptive statistics. Simple

statistical tools like percentages mean and graphs were used in order to analyze the above data. Secondary source of data in the form of published information available from various books, journals and reports published by KPMG, Deloitte, AT Kearny, PWC, BCG were referred.

Profile of the Respondents

Table 1
Demographic Profile of the Respondents

Variables	Categories	No. of Respondents	%
Gender	Male	58	58
	Female	42	42
Age	Up to 25 years	8	8
	26 to 50 years	67	67
	51 years and above	25	25
Income	Below Rs.2,00,000	3	3
	Above Rs.2,00,000 to Rs.4,00,000	4	4
	Above Rs.4,00,000 to Rs.6,00,000	21	21
	Above Rs.6,00,000 to Rs.8,00,000	32	32
	Rs.8,00,000 and above	40	40
Educational Qualifications	Less than UG	8	8
	UG	42	42
	PG	38	38
	Any other specify	12	12

Source: Questionnaire Administered

To study the influence of FDI policy decisions on the e-commerce trade, a sample size of 100 respondents have been chosen for the survey. While choosing the respondents, it has been meticulously planned to include only the income-earning class to have a better perception about the study. Age of the respondents has been shortlisted in the range of 18 to 60 years. The age-wise grouping of the respondents is narrated in the above table.

With both the genders are equally empowered financially and are taking decisions on par while making purchases, particularly related to household things, equal number of respondents in each gender is preferred for the study.

Five levels of income groups up to a maximum annual income of Rs.8.00 lakh have been included in the study to have a concerted and assorted opinion on the e-commerce developments and its influences on the purchases. While opting for the academic back-ground of the respondents, it is planned to include the people with all levels of scholastic prowess to have an in-depth study on the subject. The analysis of the profile of the respondents is vividly described in the table given above.

Online purchase are mainly influenced by the quantum of discounts allowed

Table -2

Online Purchase are Mainly Influenced by the Quantum of Discounts Allowed				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	6	6.0	6.0	6.0
Disagree	8	8.0	8.0	14.0
Neutral	12	12.0	12.0	26.0
Agree	35	35.0	35.0	61.0
Strongly agree	39	39.0	39.0	100.0
Total	100	100.0	100.0	

Source: Questionnaire Administered

Collection of data and analysis as done in the above table is primarily meant for understanding the effect of discounts on the online purchases. From the study done, it is clear that the online purchases are mainly influenced by the size of discounts allowed on the products. 74% of the respondents agreed that the quantum of discounts allowed by e-commerce is the primary influencing factor for opting on-line purchases over purchases from traditional off-line stores. Only 14% of the respondents expressed that the factors other than discounts such as availability

of wide range of products, convenient shopping from the house, door-delivery, COD facility etc are the primary triggers for choosing on-line shopping.

New FDI policy will have a positive impact on e commerce business

Table-3

New FDI Policy will have a Positive Impact on E Commerce Business				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	8	8.0	8.0	8.0
Disagree	16	16.0	16.0	24.0
Neutral	33	33.0	33.0	57.0
Agree	25	25.0	25.0	82.0
Strongly agree	18	18.0	18.0	100.0
Total	100	100.0	100.0	

Source: Questionnaire Administered

The above table studies the scope of positive impact the new FDI policy will have on e-commerce trade. The reaction of the respondents on the above subject is mixed. Some of the respondents (43%) are sanguine that the new FDI policy will have positive impact on the e-commerce business whereas 33% remain neutral and 24% negated the prospects of positive impact.

The respondents who are positive about the FDI policy are hopeful that the implementation of the policy will encourage entry of legal business entities, transparency in the transactions, uniform pricing, customer protection etc.

Restrictions on allowing discounts by the seller discourages online purchases

Table-4

Restrictions on Allowing Discounts by the Seller Discourages Online Purchases				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	7	7.0	7.0	7.0
Disagree	8	8.0	8.0	15.0
Neutral	25	25.0	25.0	40.0
Agree	38	38.0	38.0	78.0
Strongly agree	22	22.0	22.0	100.0
Total	100	100.0	100.0	

Source: Questionnaire Administered

Analysis of the above table provides an insight into the effect of restrictions imposed on the quantum of discounts on the on-line purchases. As already understood in the study, majority of the customers prefer on-line trading primarily for the price-cut by way of discounts. When there is a cap on the quantum of discounts to be allowed, the motive for making on-line shopping will get vitiated. A portion of the on-line customers, if not a major chunk, may prefer off-line shopping for the following reasons –

- a) The quality and features of the product to be purchased can gauged in person in the case of off-line purchases.
- b) The product shown in the e-commerce portal is made to appear more attractive than in reality
- c) There is a strong skepticism among the buyers about the convenience in exchange of products, post-sales service etc on online purchases

At present, most of the customers are choosing on-line shopping over off-line despite the above apprehensions only because of the price difference. When the territory of discounts is trimmed with the new FDI policy, on-line purchases are going to get affected adversely. Majority of the respondents, i.e., 60% of the total sample vouched the same.

If no restrictions on discounts, the cost of the products will be cheaper

Table -5

If No Restrictions on Discounts, the Cost of the Products will be Cheaper				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	2.0	2.0	2.0
Disagree	12	12.0	12.0	14.0
Neutral	15	15.0	15.0	29.0
Agree	41	41.0	41.0	70.0
Strongly agree	30	30.0	30.0	100.0
Total	100	100.0	100.0	

Source: Questionnaire Administered

The above table discusses the possibility of products becoming cheaper if there are no restrictions on discounts. 71% of the respondents believe that if there are no restrictions on the quantum of discounts to be allowed, the cost of products sold will become cheaper. The sellers, both off-line and on-line will cut their margins and provide products at competitive rates to the end-users to remain in the business. Over a period of time, the cost of products is likely to remain reasonable if there are no curbs on quantum of discounts that can be allowed by the e-traders. 15% of the respondents preferred to remain neutral and 14% of the respondents believe that the quantum of discounts allowed by the e-traders will not have any impact on the overall pricing of the product in the market since the market-share of e-trader is comparatively marginal.

New FDI policy protects the interest of the Mom n Pop retailers

The table portrays the possibility of protecting interest of off-line retailers with the introduction of FDI policy. A scrutiny of FDI policy reveals that the policy has nowhere tries to curb the on-line trading nor it encourages the off-line business. The policy tries to bring some regulations in the e-commerce trade which has no serious impact on the traditional business. The e-commerce trade at present is at nascent stage and is not posing any serious threat to the off-line retail business. With ever-changing business gamut and matrix, who knows, one day the e-commerce giants may foray into off-line business and vice-versa. From a small road-side Kirana store to

retail giants to e-commerce leaders, everyone has his own niche market and specialty share in the business. Everyone knows how to maintain and sustain the market share in his own way.

Table-6

New FDI Policy Protects the Interest of the Mom N Pop Retailers				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	12	12.0	12.0	12.0
Disagree	25	25.0	25.0	37.0
Neutral	28	28.0	28.0	65.0
Agree	24	24.0	24.0	89.0
Strongly agree	11	11.0	11.0	100.0
Total	100	100.0	100.0	

Source: Questionnaire Administered

With the above backdrop, 35% respondents believe that FDI policy protects the interest of off-line retailers as the prices will be regulated and predatory pricing will be penalized. 37% of the respondents opine that the policy will not have any impact on the off-line trading and it moves on as usual. 28% of the respondents prefer to remain neutral.

Conclusion:

As per the latest Census 2011, 41% of the Indian population is below 20 years of age. It is further predicted that by 2020, the median age of an Indian would be 29 years. With the young segment dominating the country's prospects, the digital era is poised to rule the roost. E-commerce in India at present is at an embryonic stage and has started to make its presence felt in every nook and corner of the country. Customers have started inching towards on-line shopping because of the plethora of conveniences available in this mode of trade. In March 2016, Government of India had introduced a new FDI policy on e-commerce trade. This study has been undertaken to understand the impact of the new policy on online purchases, overall e-commerce trade and off-line trade.

The following is the quintessence of the findings –

- a) Impact of restrictions imposed on allowing discounts by e-tailers: The policy decision to impose curbs on quantum of discounts to be allowed by the e-tailers does not augur well for the e-commerce business, as per the opinion of the respondents. Despite several apprehensions and disquieting factors, the e-trade is blooming mainly because of the bait, the huge discounts offered on the products. Respondents are of the view that no seller does trade his products at a loss. When a seller is in a position to offer huge discounts, the decision to restrict the same will not do any good for the end-user or the business. Hence, the respondents prefer that there should not be any curbs on the quantum of discounts allowed by the e-commerce houses.
- b) Overall impact of the policy on e-commerce trade: The policy regulations will encourage the genuine players to enter the trade. It facilitates uniform pricing of the products by the traders due to imposition of curbs on discounts. Transparency in business transactions is facilitated. It will also discourage predatory pricing and unhealthy cut-throat competition. On the other side, the policy affects sales volumes of e-commerce with curbs on discounts.
- c) Impact of the policy on off-line retailing: The policy neither supports nor restricts the off-line trading. The curbs imposed on discounts on on-line trading will not have much impact on the off-line business. Both variants of the business models have their own customer base and both will survive and co-reside. Respondents have expressed that the policy will not have any major impact on the off-line business.

The shopping arena is gradually shifting from physical to virtual. E-commerce business, though presently a neophyte, is poised to make a huge impact on the retail trade map of India shortly. On the other hand, the road side Kirana store owner managed to survive despite stiff competition from super markets, hyper markets, specialty stores and malls. The kirana stores, of late, have started to provide online services besides off-line business to survive. At the same time, e-commerce houses may also enter the off-line business units to expand their market share. Both will remain and go together with their own strategies to retain and expand their respective market shares. The new FDI policy, on the whole, is a welcome change which tries to bring in some discipline, transparency and customer protection in e-commerce trade.

References:

1. Dr.KadamSantosh N and SuryawamshiSantosh D.(2015), “Contemporary Issues of E.Commerce and its implications in Indian Economy”, Research Front, Vol 3 No.1, PP 73-78.
2. Prasad BVS and Miranda JAB(2015), “B2B E Commerce in India, Abhinav, Vol, PP124-129.
3. Sarbapriya Ray(2011), “Emerging trend of E Commerce in India: Some crucial issues, prospects and challenges, Computer Engineering and Intelligent Systems, Vol 2 No.5, PP 17-35.
4. Indrajit et al.(2015), “A business and economic review of e-commerce in India”, International Journal of Science ,Technology and Management, Vol4, PP 69-78.
5. AbhishekVijayakumarVyas (2015), “Analytical study of FDI in India”, International Journal of Scientific and Research Publication, Vol 5, Issue 10, PP 1-30.
6. Kaushik and Kapil(2012), International Journal of Emerging Research in Management and Technology, “FDI In Indian Retail sector”, PP 7-14.
7. Monica Dutta (2015), available at <http://idfresearch.org/race/allowing-fdi-in-retail-the-pros-and-cons.html>
8. AmitPrabhu (2014), available at http://dipp.nic.in/English/Discuss_paper/Discussion_paper_ecommerce_07012014.pdf
9. Gangeshwar D.K(2013) available at http://www.sersc.org/journals/IJUNESST/vol6_no6/17.pdf
10. www.2.deloitte.com
11. www.dipp.nic.in
12. www.pwc.in
13. www.pahleindia.org/images/ECommerce%20Report.pdf
14. [http://www.ey.com/Publication/vwLUAssets/Rebirth_of_e-Commerce_in_India/\\$FILE/EY_RE-BIRTH_OF_ECOMMERCE.pdf](http://www.ey.com/Publication/vwLUAssets/Rebirth_of_e-Commerce_in_India/$FILE/EY_RE-BIRTH_OF_ECOMMERCE.pdf)
15. www.bcgindia.com/documents/file181823.pdf
16. <https://www.atkearney.com/...retail/global-retail-development-index/2015>