

Date: January 28, 2014

To  
Shri. Ishtiyaque Ahmed  
Director,  
Department of Industrial Policy & Promotion  
Ministry of Commerce & Industry  
Udyog Bhawan, New Delhi.

**Subject: Feedback on the discussion paper by DIPP – Indian E-commerce industry**

Dear Sir,

Retailers Association of India (RAI) is the unified voice of Indian retailers, working with all the stakeholders for creating the right environment for the growth of the modern retail industry in India. RAI, is the body that encourages, develops, facilitates and supports retailers to become modern and adopt best practices that will delight customers. RAI has a three charter aim of Retail Development, Facilitation and Propagation and conducts various programs aimed at the betterment of employees in the sector.

RAI welcomes the Government's decision to initiate discussion on allowing FDI in B2C e-commerce. Opening of FDI in B2C e-commerce will not only empower consumers, but will broaden the reach of modern retail to tier II and tier III cities and provide them with global expertise, technology and finance. By broadening the scope of foreign investments in e-commerce to include inventory apart from marketplace, the government would be placing the Indian industry at par with other emerging markets where both marketplace and inventory models are able to operate freely.

It has been observed that the flourishing e-commerce has provided impetus to the growth of SMEs, manufacturers and service providers. However, due to lack of technological expertise and financial constraints, growth of e-commerce in India has not been as good as other developing countries. FDI in B2C e-commerce will provide for this much needed technology and finance to develop back-end infrastructure and encourage transparency and inclusive growth.

Please find our views on DIPP's discussion paper on FDI in B2C e-commerce in India as follows:

S. No.	Question	Pros	Cons
i	<b>Should FDI be allowed in B2C e-commerce?</b>	<p><b>YES</b> FDI in B2C e-commerce will:</p> <ul style="list-style-type: none"> <li>• Provide impetus to manufacturing, especially for the Small and Medium Enterprises (SMEs) in the country.</li> <li>• Encourage development of infrastructure (e.g. warehousing), logistics (courier/postal service).</li> <li>• Create additional skilled, semi and even unskilled jobs in customer care (BPOs), IT and ITeS, warehousing, logistics/transportation, shipping, etc.</li> <li>• Contribute in building for a more equitable society and inclusive growth as the rural consumer will be able to access similar products like its urban counterparts.</li> <li>• Create transparency in financial transactions.</li> </ul>	<p>It may negatively affect business of small neighbourhood stores. However, limiting FDI to non-food products (as we recommend at this juncture), would mitigate any negative impact to the neighbourhood stores.</p>
ii	<b>Should it be open for all products or only for non-food products?</b>	<p>At this juncture, it could be restricted to non-food products only.</p>	<p>The market in India has a long way to maturity for marketing of perishable items through E-commerce.</p>
iii	<b>Should a limit for minimum capitalization be laid down?</b>	<ul style="list-style-type: none"> <li>• For majority Single Brand foreign investment e-commerce and minority foreign investment in single and multi-brand, US\$25 million</li> </ul>	

		<p>should be the minimum capitalization</p> <ul style="list-style-type: none"> <li>• For Multi-brand e-commerce, US\$50 million can be imposed as minimum capitalization.</li> <li>• A period of 3 years may be allowed for infusion of equity into India by the foreign investors.</li> </ul>	
iv	<b>Should a limit for percentage of sourcing from domestic manufacturers be prescribed? If yes, what should be the limit?</b>	<ul style="list-style-type: none"> <li>• For a majority foreign investment, 30 % SME sourcing can be made mandatory.</li> <li>• For minority foreign investment, 20 % SME sourcing can be made mandatory.</li> <li>• It should not be made mandatory to source from a defined SME sector</li> </ul>	The Indian industry would recommend practicable limits of domestic sourcing for the industry. It should not be restricted on the size but should be applicable to all manufacturers.
v	<b>How will retail sale under MBRT be restricted to States that have agreed to open front-end stores?</b>	E-commerce players with FDI in inventory led processes can be restricted from establishing physical front end stores in states that do not support FDI in MBRT.	Location based restriction is against the very tenets of E-commerce. The basic principle of Ecommerce is to provide national and global access of products to consumers, irrespective of physical boundaries.
vi	<b>What should the entry routes and caps be in FDI in B2C E-commerce companies? Should it be automatic up to 50%?</b>	Foreign investment should be restricted to 49 % initially under the automatic route. It may then be gradually increased to 100 %.	None
vii	<b>What are likely benefits to Indian economy particularly in terms of-</b> <ol style="list-style-type: none"> <li>1. (a) FDI inflows (amount)</li> <li>2. (b) Additional employment (numbers)</li> <li>3. (c) Back-end infrastructure (amount)</li> <li>4. (d) Efficiency (e.g.</li> </ol>	1) Liberalisation of the sector could see hundreds of millions of dollars in investments. It would help in the creation of a more transparent funding structure for the domestic players. Further the industry will have easier access to capital. This is especially critical for the local players who are mainly first generation entrepreneurs. Moreover, it will help in rupee appreciation and thinning current	None

	<p><b>lower price to customers, higher price to producers/manufacturers, ease of operations etc.</b></p>	<p>account deficit.</p> <p>2) An average warehouse of 1 to 2 lakh square feet size would require approximately 400 employees, direct or contract, to operate and manage it. Were regulatory restrictions eased the establishment of at least 15 to 20 warehouses per E-commerce company, would have a tremendous net effect in employment generation.</p> <p>3) Currently e-Commerce accounts for 15-20 percent of the total revenues for some of the big logistics companies. The revenue for logistics industry from inventory based consumer e-Commerce alone may grow by 70 times to USD 2.6 Billion (INR 14,300 crores) by 2020 (IAMAI-KPMG report, 2013).</p> <p>4) The e-tailing model does not follow the traditional distribution supply chain and saves costs and passes the benefits to end consumers in terms of higher discounts. In fact, as the business matures, the realized efficiencies in the business and the economies of scale, allow E-commerce players to retain customers by offering even lower prices.</p> <p>The share of online buying (around 50 percent) from Tier 2 and Tier 3 cities as well as by consumers in rural areas shows that E-commerce provides access to the products and services desired by the consumers in these areas. Out of this 50 percent share, around 40</p>	
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		percent of the business is from consumers in Tier 2 and Tier 3 cities. Industry players also estimate that as the E-commerce reach increases, a large portion of online shoppers (more than 60 - 70 percent) would come from beyond the top 8 metros. (IAMAI-KPMG report, 2013).	
viii	<p><b>What should B2C E-commerce encompass-</b></p> <ul style="list-style-type: none"> <li>-Goods</li> <li>-Services</li> <li>-Intellectual Property</li> </ul>	<p>B2C E-commerce should encompass all three; Goods, Services and Intellectual Property. With continuous technological advancements it will be difficult to create distinction between products and services as several products or goods are now available more in digital formats than the traditional physical format.</p>	<p>Disallowing specific formats or excluding certain formats of products will create confusion. It will also exclude many independent creative producers of content and digital products access to online channels to promote their original ideas and creative content to larger audiences.</p>

We hope you will receive our views favorably and acknowledge the same.

Yours sincerely,

For Retailers Association of India



Gautam Jain  
Head – Advocacy & Finance