Project Dissertation Report

on

IMPACT OF NEW FDI GUIDELINES ON E-COMMERCE IN INDIA

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CERTIFICATE FROM THE INSTITUTE

This is to certify that the Project Report titled "Impact of New FDI Guidelines on E-Commerce in India**"** is a bonafide work carried out by Mr. Prakhar Chaturvedi of MBA 2017-19 and submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi – 110042 in partial fulfillment of the required for the award of the degree of Master of Business Administration.

Signature of Guide (DSM)	Signature of Head
Ms Deep Shree	Dr. RajanYadav

Seal of Head

Place:

Date:

DECLARATION

I, Prakhar Chaturvedi, Student of MBA 2017-19 of Delhi School of Management, Delhi Technological University, Bawana Road , Delhi-110042 declare that Major Project Report on "**Impact of New FDI Guidelines on E-Commerce in India**" Submitted in fulfillment of Degree of Masters of Business Administration is the original work conducted by me.

The Information and data given in the report is the authentic to the best of my knowledge.

This report is not being submitted to any other university for award of any other Degree, Diploma and Fellowship.

Prakhar Chaturvedi

Place: Delhi

Date:29^{th}/ May/ 2019

ACKNOWLEDGEMENT

It gives me immense pleasure to introduce my project report work entitled on “Impact of New FDI Guidelines on E-Commerce in India (2019)”.

I take this opportunity to express my gratitude to all those who helped me in completion of my project report successfully. I am grateful to my project guide (Dr.Deep Shree) in university, for giving me the opportunity and helping me for completion of my project report and giving their valuable time.

EXECUTIVE SUMMARY

As we all know India is among the fastest growing economy of the world , thus it is very much important to have government intervention and huge investment inflow in form of Foreign direct investment in large economy like India to stabilise and increase the growth of ecommerce industry in the economy. In India digital penetration has increased significantly, according to statistical data internet use has increased to 429.23 million user in India and is expected to reach around 830m by year 2021 .

December 26th, 2018 saw the government launching stricter guidelines that govern foreign direct investment (FDI) in e-commerce firms. The DIPP updated Press Note 3 that provides guidelines on the functioning of an e-commerce marketplace. The guidelines that will come to effect from February are stricter in nature, causing companies such as Amazon India and Flipkart to go back to the drawing board. This study takes a look at how the ecosystem may get impacted with the updated guidelines.

The new norms bar exclusive tie-ups between e-commerce firms that follow the ‘marketplace model’ and vendors using their platform. 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.

To emphasise this point, the new norms said cashback or services, such as quick delivery, offered by e-tailers have to be applicable to all vendors on their platforms. It also said that if a vendor sells more than 25% of its wares through an e-commerce marketplace, the latter will be deemed to have an inventory model, in which FDI is not allowed. The 25% cap was there earlier, but the onus of ensuring it, is now firmly on the e-commerce platform, so that it does not find itself on the wrong side of the law. It further said that e-commerce firms will be barred from selling wares of related parties on the inventory, of which it has a say.

How much the changes are significant as its enforcement will affect the flexibility that e-commerce platforms had in doing business, and force them to be neutral to all vendors will be the major objectives of this research project.

E-commerce companies, such as Amazon and Flipkart, have been luring customers with deep discounts and exclusive offerings. The bar on such firms ‘influencing’ pricing and mandating vendors to sell exclusively on their platforms may have a major impact on customer behaviour. Most customers shop online for deep discounts and exclusive offerings, which may not be available on other online platforms, or in offline stores. This will, in turn, have an impact on the revenue and growth of e-commerce companies in India.

This clause will also have an impact on private labels being sold by e-commerce companies. Over the last few years, companies such as Flipkart, Myntra and Amazon India, among others, have been introducing private label/in-house brands to garner more customers through exclusive offerings at lower costs and higher margins, so that their path to profitability is shorter and smoother.

The profitability target of these companies might now have taken a big hit. Also, the bar on e-commerce companies from selling products from entities they have a stake in, could affect Amazon because it has a stake in its two major seller entities, Cloudtail and Appario.

What are the impacts and how much is the extent of the impacts on the two major e-commerce entities in India? What are the ways these companies can get away with the problems and losses the new guidelines bring in? Which are the other stakeowners of the policy change by the Government of India? What is the rationale behind the changed new guidelines and what overall benefit do they bring to the nation as a whole are the major questions which have been tried to find the answer to in this project. The change in the structure of the of the organization and the business model due to the norms is also one of the main factors for the sustainability of the e-commerce players.

METHODOLOGY ADOPTED

The research design will be used in this study is both ‘Descriptive’ and ‘exploratory’.

The data will be collected using both by primary data collection methods as well as secondary sources.

Primary Data: Most of the information will be gathered through primary sources. The methods that will be used to collect primary data are:

1. Questionnaire

Secondary Data: The secondary data will be collected through:

- Text Books
- Journals
- Websites
- Research Reports

METHOD OF SAMPLING

The technique used for conducting the study will convenience sampling technique as sample of respondents will be chosen according to convenience.

LIMITATIONS OF THE STUDY

1. Sample bias - Sample size is limited to 50-100 only.
2. Respondent bias – One of the serious limitation of research study that individuals Differ so personal bias cannot be avoided.
3. It is limited to one government and its initiatives. Time was a big constraint, so time could not be devoted to individual respondents. Data obtained in some cases may be biased.

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CHAPTER -1

1. INTRODUCTION

Online shoppingis the process whereby consumers directly buy goods, services etc. from a seller interactively in real-time without an intermediary service over the internet. Online shopping is the process of buying goods and services from merchants who sell on the Internet. Since the emergence of the World Wide Web, merchants have sought to sell their products to people who surf the Internet. Shoppers can visit web stores from the comfort of their homes and shop as they sit in front of the computer. Consumers buy a variety of items from online stores. In fact, people can purchase just about anything from companies that provide their products online. Books, clothing, household appliances, toys, hardware, software, and health insurance are just some of the hundreds of products consumers can buy from an online store. .

Despite the convenience of online shopping, not everyone chooses to purchase items and services online. Some people like the idea of physically going to a store and experiencing the shopping process. They like to touch the merchandise, try on clothing, and be around other people. Online shopping doesn't permit shoppers to touch products or have any social interaction. It also doesn't allow them to take the merchandise home the same day they buy it.

Online shopping allows browsing through endless possibilities, and even offers merchandise that's unavailable in stores. If someone is searching for a niche product that may not be distributed locally, they're sure to find what they're looking for on the internet. What's even more useful is the ability to compare items, similar or not, online. He can search through multiple stores at the same time, comparing material quality, sizes and pricing simultaneously.

Online shopping transactions occur instantly-saving the time to get your other errands done. Additionally, unlike a store, online shopping has friendly customer service representatives available 24 hours a day, 7 days a week to assist you with locating, purchasing and shipping your merchandise.

Factors influencing consumer to shop online**:** Though there are several factors that influence consumers to shop online, but there are mainly four factors which influence consumer to shop online after reading literature in the field on consumer attitudes towards online shopping and these factors are discussed below in brief.

Convenience:Convenience factor refers that it is easy to browse or search the information through online is easier than the traditional retail shopping. Through online, consumers can easily search product catalogue but if the consumer look generally for the same product or item in a traditional store manually it is difficult to visit physically and time consuming also. Convenience has always been a prime factor for consumers to shop online. According to the Robinson, Riley, Rettie and Wilsonz (2007) the major motivation for online purchasing is convince in terms of shop at any time and having bundles of items delivered at door step.

Time saving:Time savings is one of most influencing factors of online shopping. Browse or search an online catalogue can save time and patience. People can save time and can reduce effort by shopping online. One possible explanation that online shopping saves time during the purchasing of goods and it can eliminate the traveling time required to go to the traditional store. On the other side, some respondent think that it is also time taken for delivery of goods or services over online shopping.

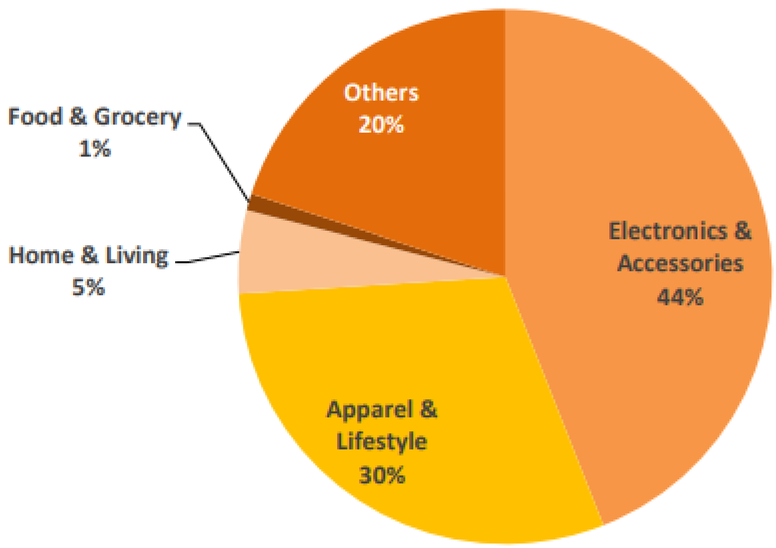
Unexpectedly time saving is not the motivating factor for the consumers to shop online (Corbett, 2001) because it takes time receiving goods or delivery.

Website design/features**:** Website design and online shopping activity is one of the vital influencing factors of online shopping. Website design, website reliability/fulfilment, website customer service and website security/privacy are the most attractive features which influence the perception of the consumer of online buying Shergill& Chen (2005). Kamariah and Salwani (2005) claims the higher website quality, the higher consumer intends to shop from internet. Web design quality has important impacts on consumer choice of electronic stores, stated by Liang and Lai (2000). Website design one of the important factor motivating consumers for online shopping.

1.1 E-Commerce Industry

E-commerce or Electronic commerce or also known as E-tail (Electronic retailing) is defined as buying and selling of goods and services using the internet along with transfer of money and data for execution of such transactions. E-commerce is expanding steadily in the country with changing the whole operational business model. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Currently India's internet penetration stands at around 35-40%. With growing internet penetration, internet users in India are expected to increase from 446 million in 2017 to about 830 million by 2021. As of September 2018, internet subscribers in India stood at 560 million people. Some of the major E-commerce players in the country are Flipkart, Amazon, Jabong, Nykaa, Myntra, ShopClues, eBay, etc. As of 2018, electronics continues to be the largest contributor to online retail sales in India with a share of about 40-45%, followed by apparel and lifestyle at 25-30%

Chart 1: Category-wise split of E-commerce sales



E-tail in India can be broadly categorized as under:

A. Based on location

- Domestic – sale within India (Amazon, eBay, Flipkart, Snapdeal, Shoppers-Stop, Reliance, Croma, etc)
- Cross-Border – sale in India from outside India. (The U.S. is one of the top ten countries for cross-border shopping for Indian buyers. Baby supplies, toys, clothing, footwear, automotive, wearables and accessories, jewelry, watches, personal care and health products and digital entertainment and educational services are some of the leading categories for cross-border B2C ecommerce. Challenges restricting the growth of cross-border ecommerce include high shipping costs, import duties and complexities in returns and exchanges) –
- B2C – sale between etailer and consumer (Flipkart, Myntra, Jabong, Amazon, Snapdeal, eBay, PayTM, Shopclues, Pepperfry, Zomato, BigBasket)

B. Based on Model followed

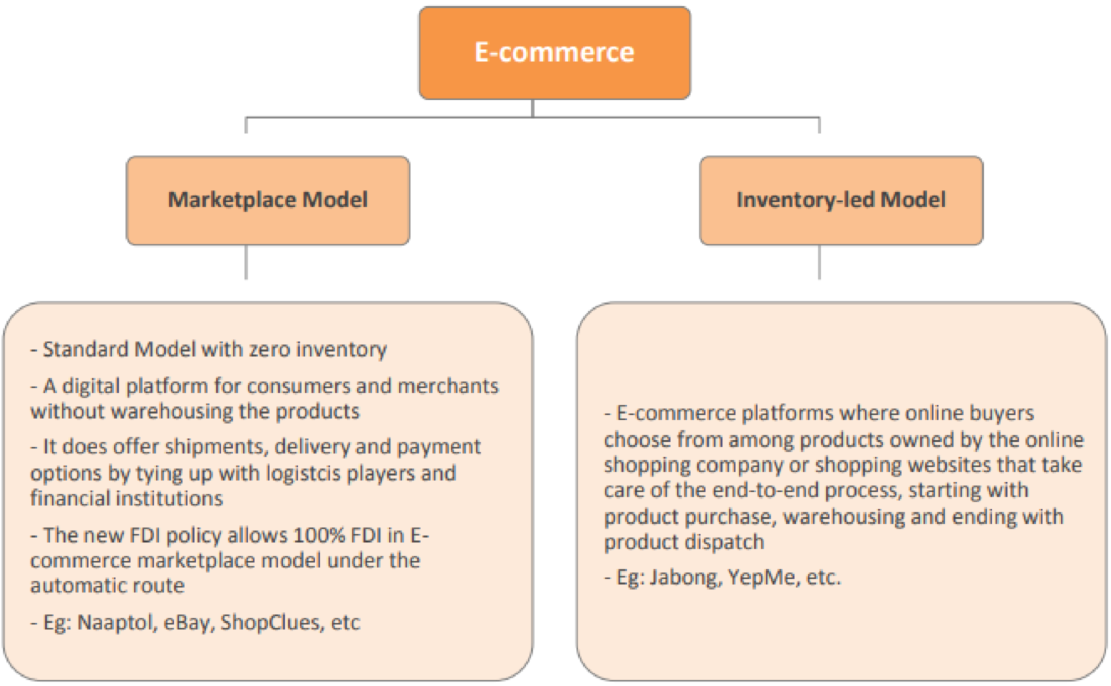


Figure 1.2 Markrtplace and Inventory Model

In December 2018, the government announced several restrictive changes to the FDI policy on online retailers aiming to check deep discounting and predatory pricing. -

According to the new policy, online retailers have been barred from entering into exclusive deals with brands to sell products on their platforms - Also, the government has enforced a 25% cap on the inventory that an e-commerce company can buy from a single vendor - These changes will come into effect from February 1, 2019 as per the notification

C. Based on Number of brands

Single brand and multi brand

a. Company owns and sells goods online under single brand eg. – Sony, Nike, Adidas, etc

b. E-commerce players that sell goods of more than one brand on their websites eg: - Shoppers Stop, Big Bazaar, etc

Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in Tier II and Tier III cities.

E-commerce industry in India at US $38.5 billion, accounts for only 5.7% of the overall Indian Retail industry. According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross US$100 million by 2017.

The online retail growth has followed a disruptive course across markets. In relatively mature markets, like US, where the organised retail penetration is high, multi-channel retail chains lead to online markets. While in newer markets like India (with about 10% organised retail of which about 1.2% share held by e-tail) and China (with 20% organised retail), web-only players are dominating the market given the low organised retail penetration

Key Growth drivers of E-tail in India

1. Increased internet penetration –

Each month, India is adding approximately 10 million daily active internet users to the internet community supporting the ecommerce industry which is the highest rate in the world –

As of June 2018, India’s internet penetration in the urban areas stood at 82.1% and 19.5% in the rural areas - Number of active internet users in the country is the second highest globally and data usage of 8 GB per subscriber per month is comparable to developed countries.

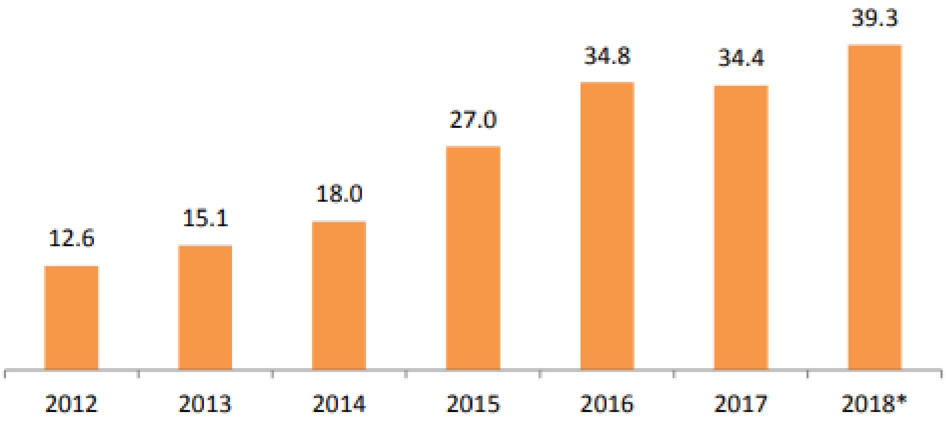


Fig. 1.1 Growth of e-commerce in India

2. Young population –

   With the biggest youth population, India is adopting e-commerce at a quick rate. Indian youth is using technology and shopping online from books to FMCG to apparels. According to data released by India Brand Equity Foundation (IBEF), the retail industry in India is expected to grow to US$ 1.3 trillion by 2020. - Also, the popularity of web series among millennials is growing immensely.

3. Promotional prices by online retailers –

   Indian buyers are price conscious and believe in high bargaining.

   Deals and discounts have been the trump card of these Indian e-commerce players as rates are much lower for most products online vis-à-vis same products available off line –

   Debit card transactions or the Cash-less transactions or digital transactions have been considered more comfortable by customers vis-à-vis withdrawals from ATMs for offline purchases

4. Convenience –

Convenience in terms of time, payment options, wider choice of products, different brands at one place, discounts and EMIs, etc while shopping proves to be an advantage for the e-commerce industry

5. Cash-on-delivery options, manufacturer's warranty:
   Cash-on-delivery is the most preferred payment option with about 45% of buyers opting for it in India
6. Improved supply side –
   Discounts, promotions, product details, hassle free returns, cash on delivery options, etc

Major deals/developments in E-commerce Industry in India:

- Initially, many blue chip PE firms resisted investments in Indian E-commerce industry. However, with the recent upsurge in digital literacy in the country, the industry has witnessed an influx of investment providing market for new firms to set up their base. –
- The industry witnessed 21 private equity and venture capital deals amounting US$ 2.1 billion during 2017 and 40 deals valuing US$ 1,129 million during H1 2018.
- Flipkart, after getting acquired by Walmart for US$ 16 billion, is expected to launch more offline retail stores in India to promote private labels in segments such as fashion and electronics. In September 2018, Flipkart acquired Israel based analytics start-up Upstream Commerce that will help the firm to price and position its products in an efficient way.
- Flipkart is also expected to launch more offline retail stores in India to promote private labels in fashion and electronics segment
- In October 2018, Amazon saw a 60% growth in new India customers. - In the festive month beginning October 10, 2018, Gross Merchandise Value (GMV) expanded y-o-y for Flipkart at about 90% and for Amazon at about 70%. –
- As of December 2018, Amazon is planning to buy stakes in Future Retail to enter into physical retail sector in India. –

- Google and Tata Trust have collaborated for the project 'Internet Saathi' to improve internet penetration among rural women in India –
- E-commerce is increasingly attracting customers from Tier II and III cities, where people have limited access to brands but have high aspirations. They are also expanding their product range to cater to the larger group.

Private investments in E-commerce

Company	Investor	Funding (US $ Million)
Flipkart	SoftBank	2,500
BigBasket	Alibaba Group Holding Ltd, Sands Capital, International Finance Corp, Abraaj Capital	300
Udaan	Lightspeed Venture Partners US and other	50
Capital Float	Ribbit Capital, SAIF Partners, Sequoia India	45
Bank Bazaar	Experian Plc	30
Droom	Asset Management (Asia) Ltd, Digital Garage Inc	20
1 mg	HBM Healthcare Investments, Maverick Capital Ventures, Sequoia India, Omidyar Network and Kae Capital	15
Gozefo	Sequoia Capital India, Helion Venture Partners and Beenext Pte Ltd	9
Jumbotail	Kalaari Capital, Nexus India Capital Advisors	8.5
Blackbuck	InnoVen Capital	7.7
KartRocket.com	Bertelsmann India Investments, Nirvana Digital India Fund	4.1
The Label Life	Kalpavriksh, Centrum group's maiden private equity (PE) fund	3.1

Fig 1.3 Private Investments in Indian e-commerce

Current rumble:

- The All India Online Vendors Association (AIOVA) in October 2018 filed a petition with the anti-trust body Competition Commission of India (CCI) alleging that e-commerce giant Amazon favours merchants that it partly owns, such as Cloudtail and Appario. A similar petition was filed against Flipkart in May 2018 by the same lobby group, claiming violation of competition rules through preferential treatment for select sellers. – '
- The government also said that the companies will be prevented from entering into exclusive agreements with sellers. The new e-commerce policy is applicable from February 1, 2019. - E-commerce giants Amazon and Walmart-backed Flipkart have sought an extension (of atleast 6 month) for implementation of new rules, stating that they require more time to understand the specifics of the new framework. Also, as per industry sources, the cost of compliance for large players like Amazon and Flipkart will go up significantly with the new policy coming to effect as on February 1, 2019. –

- Confederation of All India Traders (CAIT) has requested the government to make it clear whether private labelling or branding is allowed under the foreign direct investment (FDI) policy in the e-commerce sector.

1.2 Retail Growth in India

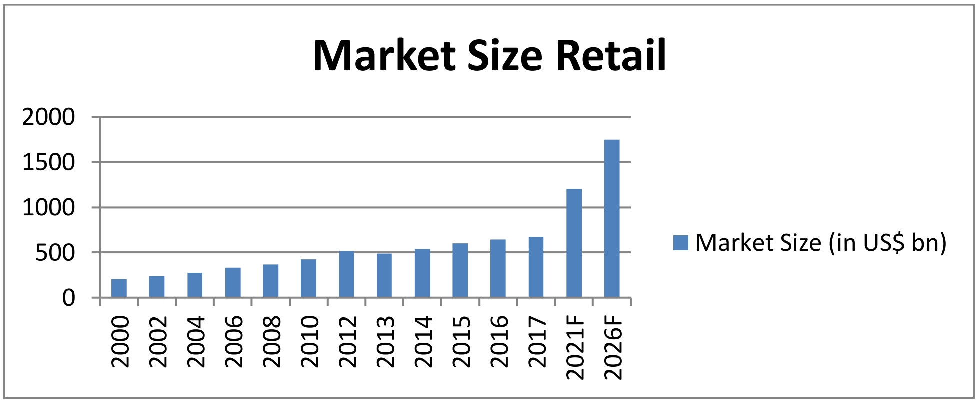


Table 1.1

- Rising income and demand for quality products to boost consumer expenditure.
- Total consumption expenditure is expected to reach nearly US$
- India's modern retail to double in size over the next three years. The modern retail market in India is expected to grow from US$
- 13.51 billion in 2016 to US$ 26.67 billion in 2019.
- Robust consumption, rural markets to augment FMCG market. FMCG market expected to increase to US$ 103.7 billion by 2020 from Rs 3.4 lakh crore (US$ 52.75 billion) in FY2018

Effects of Ecommerce on the traditional retail market:

The Indian retail industry is one of the fastest growing in the world. Retail industry in India is expected to grow to US$ 1,200 billion by 2021 from US$ 672 billion in 2017. India is the fifth largest preferred retail destination globally.

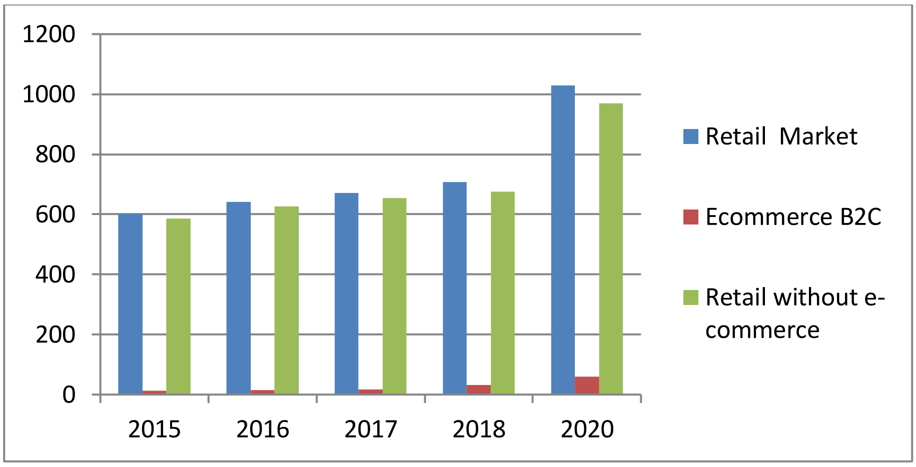


Table 1.2 The comparative growth of ecommerce and retail

The above graphs depict that the retail growth in India stands good in spite of strong ecommerce development. This shows that extent of increment offline retail still remains high in spite of rising e-commerce.

Effect on Offline Stores by Increasing the E-commerce Growth in a Relatively Mature Market (USA)

There are big changes in the way consumers are shopping; simply using the increase in online sales to explain everything is a lazy approach. Secondly, brick and mortar stores aren't being decimated. More stores are being opened than closed. Only certain areas like department stores are doing poorly.

Segment	Net Store Growth
Supermarkets	674
Drug Stores	345
Superstores/WH Clubs	82
Department Stores	-400
Specialty Hardgoods	153
Specialty Softgoods	-3,133
Mass Merchandisers	1,905
Convenience Stores	1,700
Bar / Restaurants	728
Fast Food	2,026

There were 4,000 more stores opened than closed in 2017. That is expected to increase to 5,500 in 2018. Let's review why some areas of retail are seeing weakness because that also helps explain which areas are doing well since one's pain is another one's gain. Firstly, low interest rates have led to an over expansion of stores.

1.3 Objectives and scope of the project

- To investigate the changes in Amazon and Flipkart marketplace models as a result of the changed FDI Policy
- To find if the users are affected by the changed FDI policy of e-commerce.
- To discover the importance of discounts among the Indian customers
- To know the preferences and most important characteristic of ecommerce platform to people

Scope of the project

Scope of study is a general outline of what the study (e.g. class or seminar) will cover. "Scope" defines the parameters of this can be an object, or a theory process, activity, describing either future, current or past knowledge or statements of descriptive activity, experience etc. The topic chosen for this particular study is to analyze the customer perception towards online shopping on ecommerce platforms . The sample size chosen was according to the convenience and the objectives of the study. To know about various aspects of market, the improvements needed in case of features and process, and the effect of factors on the buying behavior of online customers

CHAPTER 2

2. LITERATURE REVIEW

Several researchers have carried out studies in their effort to examine consumers' online buying behavior. For example, Bellman et al (1999) investigated various predictors for whether an individual will purchase online. These authors concluded that demographic variables, such as income, education and age, have a modest impact on the decision of whether to buy online, whereas the most important determinant of online shopping was previous behavior, such as earlier online purchases. This is consistent with Forrester Research which proved that demographic factors do not have such a high influence on technology as the consumers' attitudes do (Modahl, 2000). Steinfield and Whitten (1999) suggested that the combination of the Internet, plus physical presence, provides more opportunities to capture business than the online-only presence, because they can provide better pre-purchase and post-sales services to lower consumer transaction cost and build trust in online stores. However, it is worth mentioning that beliefs and attitudes that are found in the stage prior to the adoption of e-commerce are different to those in the "post-adoption" stage (Gefen et al, 2003; Venkatesh and Brown, 2001; Yu etal, 2005).

Straight cash discount instead of value-added promotion

The trouble with most value-added offers is that they come with caveats. It could be for a limited period, or you may land discount vouchers/coupons that don't appeal to you. What's not to like about saving hard cash? The only drawback is that you are unlikely to find such bargains at shopping malls. Hit standalone, smaller shops instead.

A gadget bought at a discount of 80% on a little-known website

It really should not come as a surprise that you are being ripped off. Online shopping promises discounts, but if just one player offers rebates far more than its competitors, it should be a red flag. Other warning signs are an absence of credible contact information for the company. If the website is legitimate, chances are you are being peddled a counterfeit item.

Renting a car at the airport at a 10% discount

It may be the handiest option for travellers, but the airport is also the most expensive place to rent a car, especially at foreign destinations. Typically, you will shell out 12-15% more than the rental charges at any off-site location, including at or near your hotel. Try to wrangle a complimentary airport pick-up service from the hotel you've booked and then check with the concierge for rental rates, or book a car online.

Accessories, perfumes and cosmetics from duty-free shops

These items, including designer watches and sunglasses, can be had much cheaper online. For instance, perfumes costing $53-55 (around Rs 3,000) at duty-free shops can be bought for around $50 (Rs 2,750) on Amazon.com, including shipping charges. Often, mall/high street sales too offer a better deal. However, duty-free shopping continues to be attractive when it comes to alcohol and cigarettes.

Analysis of consumer behaviour

Author: DejanPetrovic

Published: 2007

The report outlines about the most relevant behavioral characteristics of online consumers and examine the ways they find, compare and evaluate product information. Comparison of the newly collected survey data with the existing consumer behavior theory resulted in detection of a number of issues related to a specific consumer group. The purpose of this report is to translate these findings into a set of implementation activities on strategic and technological level. Execution of these recommendations will result in better conversion of visitors into customers and encourage customer loyalty and referrals.

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Research by Shun &Yunjie (2006) showed that there are product types, which are more likely to be sold online such as software, books, electronics and music. Reason for this is that when purchasing these types of products, one does not require personal inspection and most, if not all features, can be outlined in the product description and images. Most products in the mobile phone family belong to this category.

According to the recent research on consumer behaviour on the Internet users (Cotte, Chowdhury, Ratenshwar& Ricci, 2006), there are four distinct consumer groups with different intentions and motivations:

- Exploration
- Entertainment
- Shopping
- Information

Shun &Junkie (2006) in their study showed that there are product types, which are more likely to be sold online such as software, books, electronics and music. Reason for this is that when purchasing these types of products, one does not require personal inspection and most, if not all features, can be outlined in the product description and images. Most products in the mobile phone family belong to this category. According to the recent research on consumer behaviour on the Internet users (Cotte, Chowdhury, Ratenshwar& Ricci, 2006), there are four distinct consumer groups with different intentions and motivations:

- Exploration
- Entertainment
- Shopping
- Information

Introduction to the E-Commerce & Internet Business: The global Internet audience continues to grow rapidly, with the worldwide base of Internet users in the 2 billion range as 2012 began, including a large base of mobile broadband users. This vast base of Internet users encourages businesses to innovate and to offer an ever-evolving array of online services. Sectors that are growing very rapidly online include the sale of entertainment, event tickets, travel, apparel and consumer electronics. The most powerful trends on the Internet include access via wireless devices, migration of entertainment to the web and cloud-based software as a service.

CHAPTER -3

3. CASE STUDY: CHANGED FDI E-COMMERCE POLICY AND ITS EFFECTS

On the date of 26th Dec, 2018, the Department of Industrial Policy and Promotion released a substitute of the FDI policy for e-commerce of the Consolidated FDI Policy Circular 2017.

Press Information Bureau

Government of India

Ministry of Commerce & Industry

Review of policy on Foreign Direct Investment (FDI) in e-commerce

1.0 **To provide clarity to FDI policy on e-commerce sector, Para 5.2.15.2 of the Consolidated FDI Policy Circular 2017 will now read as under:**

5.2.15.2 E-commerce activities

Sector/Activity	% of Equity/FDI Cap	Entry Route
E-commerce activities	100%	Automatic

Subject to provisions of FDI Policy, e-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

Definitions:

i) **E-commerce-** E-commerce means buying and selling of goods and services including digital products over digital & electronic network.

ii) **E-commerce entity-** E-commerce entity means a company incorporated under the Companies Act 1956 or the Companies Act 2013 or a foreign company covered under section 2 (42) of the Companies Act, 2013 or an office, branch or agency in India as provided in section 2 (v) (iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.

iii) **Inventory based model of e-commerce-** Inventory based model of e-commerce means an e- commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.

iv) **Marketplace based model of e-commerce-** Marketplace based model of e-commerce means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.

Guidelines for Foreign Direct Investment on e-commerce sector

i) 100% FDI under automatic route is permitted in marketplace model of e-commerce.

ii) FDI is not permitted in inventory based model of e-commerce.

Other Conditions

i) Digital & electronic network will include network of computers, television channels and any other internet application used in automated manner such as web pages, extranets, mobiles etc.

ii) Marketplace e-commerce entity will be permitted to enter into transactions with sellers registered on its platform on B2B basis.

iii) E-commerce marketplace may provide support services to sellers in respect of warehousing, logistics, order fulfillment, call centre, payment collection and other services.

iv) E-commerce entity providing a marketplace will not exercise ownership or control over the inventory i.e. goods purported to be sold. Such an ownership or control over the inventory will render the business into inventory based model. Inventory of a vendor will be deemed to be controlled by e-commerce marketplace entity if more than 25% of purchases of such vendor are from the marketplace entity or its group companies.

v) An entity having equity participation by e-commerce marketplace entity or its group companies, or having control on its inventory by e-commerce marketplace entity or its group companies, will not be permitted to sell its products on the platform run by such marketplace entity.

vi) In marketplace model goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller. Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.

vii) In marketplace model, payments for sale may be facilitated by the e-commerce entity in conformity with the guidelines of the Reserve Bank of India.

viii) In marketplace model, any warrantee/ guarantee of goods and services sold will be responsibility of the seller.

ix) E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field. Services should be provided by e- commerce marketplace entity or other entities in which e-commerce marketplace entity has direct or indirect equity participation or common control, to vendors on the platform at arm's length and in a fair and non-discriminatory manner. Such services will include but not limited to fulfilment, logistics, warehousing, advertisement/ marketing, payments, financing etc. Cash back provided by group companies of marketplace entity to buyers shall be fair and non-discriminatory. For the purposes of this clause, provision of services to any vendor on such terms which are not made available to other vendors in similar circumstances will be deemed unfair and discriminatory.

x) Guidelines on cash and carry wholesale trading as given in para 5.2.15.1.2 of Consolidated FDI Policy Circular 2017 will apply on B2B e-commerce.

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

xii) e-commerce marketplace entity will be required to furnish a certificate along with a report of statutory auditor to Reserve Bank of India, confirming compliance of above guidelines, by 30th of September of every year for the preceding financial year.

Subject to the conditions of FDI policy on services sector and applicable laws/regulations, security and other conditionalities, sale of services through e-commerce will be under automatic route.

3.0 The above decision will take effect from 01 February, 2019.

D/o Industrial Policy & Promotion, M/o Commerce & Industry, New Delhi

Regulatory Framework for FDI in India

FDI in India is regulated under the Foreign Exchange Management Act, 1999 (FEMA). The Ministry of Commerce comes out with the investment policy and the amendments in consultation with the DIPP. This is then notified by the Reserve Bank of India (RBI) through press notes and circulars. It is the Directorate of Enforcement (ED) that carries out investigations when it comes to possible violations of FDI Policy. Penalty under the Act can go up to thrice the sum involved for the guilty entity resulting in the possibility of Flipkart facing a whopping 1400 crore penalty had the earlier ED probe in 2014 found them guilty. This kind of penalty can reduce a company to bankruptcy quite easily.

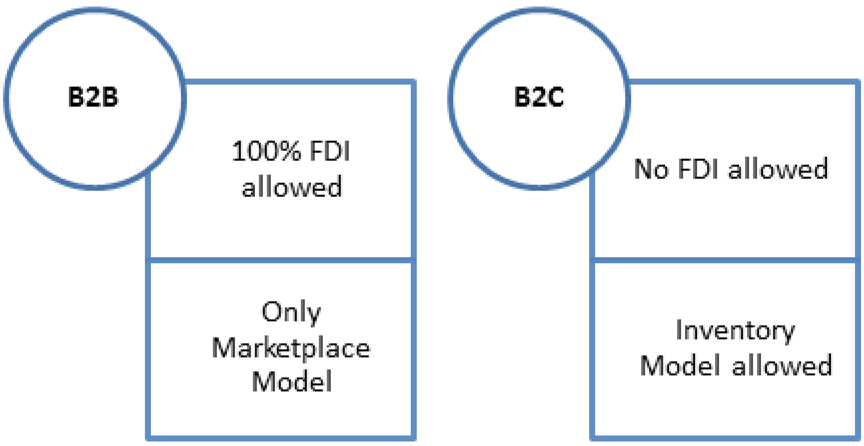


Fig 2.1 This is what Amazon's options look like currently

Now India‘s FDI Policy (Consolidated FDI Policy, 2015) permits FDI up to 100% in e-commerce activities. This however applies only to B2B ecommerce (under the Automatic Route) and not to online retailers/e-retailers also known as B2C ecommerce. B2B stands for Business to Business where the trading is between business entities such as manufacturers and wholesalers or between wholesalers and retailers. B2C on the other hand stands for Business to Consumers where online businesses sell directly to the customers.

In September 2012, the Indian government allowed 51% FDI in multi-brand retail, subject to certain conditions. Whereas retail trading in ecommerce for companies with FDI (single or multi brand) is not allowed under the FDI Policy. The 51% FDI limit in multi-brand retail is subject to some conditions where the states take the final call, which might be difficult to translate into ecommerce which has no geographical boundaries.

All this is not to say that Amazon and the rest haven't found a way out under the existing FDI framework to attract foreign investment. Amazon follows what is known as the marketplace model that is compliant with the FDI Policy of India

What Amazon can't do is run an inventory based model. In this model, ownership of goods and services and the marketplace vests with the same entity. As a comparison India is said to be the only one among a list of developed and developing economies that does not allow FDI in inventory based ecommerce. Keep in mind that in the marketplace model, ownership of the inventory vests with the enterprises who are the ultimate sellers of the goods/services.

Does Ecommerce fall under B2B or B2C?

This section looks at what CAIT, AIFMRA and other brick and mortar associations are complaining about when it comes to e-commerce companies like Amazon, Flipkart among others. Their primary concern is that e-commerce companies are acting like B2C retailers while enjoying foreign investment that is only legal for B2B enterprises.

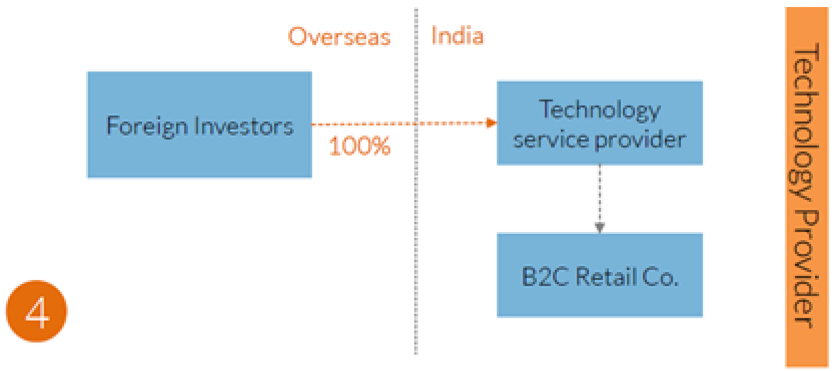


Fig 2.2 One of the possible FDI Models as laid out in the paper

The CAIT has pointed out that the intensive advertising campaigns carried by the marketplaces should not be considered B2B activity as these initiatives are directed towards the consumers to promote their sales.

The other accusation made against these companies is that they do in fact have inventories and do not perform as mere marketplaces. In September 2014, the ED was directed to look into Amazon and examine if they are making the sales instead of the vendors.

FDI in Ecommerce: Over the years

India's foreign direct investment (FDI) policy went through successive relaxations since the process of economic liberalisation was initiated in 1991. The scope of FDI expanded gradually from manufacturing to services and infrastructure sectors. As of now almost all the sectors are open for FDI to varying degrees except for a very few prohibited ones.1 The domestic trading sector was also opened in various phases. Full foreign ownership was allowed in wholesale trading as early as in 1997. Wholesale trading would include resale, processing and thereafter sale, bulk imports with ex-port/ex-bonded warehouse business sales and business to business (B2B) e- Commerce.2 The government allowed FDI up to 51 per cent in single brand retail trading (SBRT) in the year 2000 with the stated objective of attracting foreign investment in production and marketing, improving availability of various products and encouraging competitiveness among Indian enterprises. Along with opening SBRT, India also allowed 100 per cent FDI in ecommerce with the restriction that the companies can engage only in B2B ecommerce activities.

Relaxing the FDI policy in 2012 in trading sector, the cap on foreign equity in SBRT was removed, thereby allowing 100 per cent foreign ownership. Simultaneously, FDI up to 51 per cent was allowed in multi brand retail trading (MBRT) in 2012. But FDI was specifically excluded from the retail ecommerce sector. The Consolidated FDI Policy (Circular 1 of 2013) stipulated that "Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of single brand retail trading or multi brand retail trading". As such, the extant FDI policy does not permit FDI in B2C e-commerce. The efforts of many of the foreign as well as Indian ecommerce firms like yebhi.com, fashionforyou.com to make a case for allowing FDI in this sector did not bear fruit.6 The main focus of the present note is on B2C ecommerce which is not open to FDI yet.

Amazon in India

Amazon Sellers Services Private Limited was incorporated in Karnataka, in 2012 as a subsidiary of Amazon Asia-Pacific Resources Private Limited, Singapore. Its other shareholder was Amazon Eurasia Holdings S.A.R.L, Luxembourg. The company started its commercial operations through the website www.amazon.in in 2013. Within one year of its operation Amazon reached the $1 billion sales in India. Amazon indeed mentioned that India was the first country to reach $1 billion sales in such a short duration.

Allegation against Amazon

In September 2014, Amazon India was accused of violating the FDI policy in retail trade by Reserve Bank of India. It was suspected that Amazon was selling directly to consumers and showing the sale as being made by the vendors registered with it. The Enforcement Directorate (ED) was directed to investigate the possible violations of FDI norms by the company. As a part of the same investigation, commercial tax authorities in Karnataka issued a notice to some of the vendors who sell their goods through Amazon India's website. The authorities asked them to stop storing their goods in Amazon's warehouse.

Restructuring of Flipkart

Flipkart Online Services Private Limited (FOSL) was incorporated in 2008 and started its commercial operations through its website flipkart.com. During April -- July 2009 it was involved in online retail distribution of goods and services. Afterwards, it started operating as a wholesale distributor. The promoters of FOSL incorporated another company called WS Retail in June 2009. WS Retail was selling various goods through the Flipkart website. In other words, Flipkart was selling goods through its retail entity WS Retail. Moreover, the remarks of the auditors of FOSL for the year 2011-12 suggest that, WS Retail was the only seller at the Flipkart website.22 Between 2009 and 2012 FOSL raised around US $ 180 million from different foreign PE investors.23 These fund raising activities led to the ED investigation against Flipkart in 2012 for possible violation of FDI rules which restrict FDI in online retail trade. Probably sensing trouble, the promoters of Flipkart resigned from the Board of f WS Retail in February 2011. They had also transferred their shareholding to others. WS Retail continued the same business under the new ownership and management. From April 2013 onwards Flipkart.com started following the marketplace model of e- commerce business24. Thus Flipkart.com (now under the control of Flipkart Internet Private Limited) started providing a platform to several third party sellers. One of these registered sellers is WS Retail. While there does not appear to be any direct relationship between Flipkart and WS Retail either at ownership or at the board level, it is interesting to note that the products sold at flipkart.com by WS Retail are sourced from Flipkart India Private Limited which is a cash and carry entity of Flipkart group. Indeed it was reported that around 75 per cent of the business in the flipkart.com comes from WS Retail25. It has been noticed that some of the bestselling products on flipkart.com like

Analysis of the New Clauses in DIPP Guidelines:

The Department of Industrial Policy and Promotion (DIPP) has issued Press Note 2 on 26 December 2018 which shall come into effect from 1 February 2019 (Press Note). The Press Note seeks to amend the Consolidated FDI Policy issued on 28 August 2017 (FDI Policy) in relation to foreign direct investments in the e-commerce sector.

The changes are material and significantly impacts the structure and business models of various e-commerce marketplaces (E-commerce Marketplace) which are owned by entities with foreign direct investments (E-Commerce Entity). Further, there are reports of India announcing a new draft e-commerce policy "in a few weeks" and even appointing a regulator for the sector.

1. **Equity participation in seller entities**

The most significant change has been the addition of the stipulation that any entity shall not be permitted to sell its products on an E-commerce

Marketplace run by an E-commerce Entity if:

(i) The E-commerce Entity or its group companies has an "equity participation" in such entity; or

(ii) The E-commerce Entity or its group companies has control over the inventory of such entity.

Analysis: Many e-commerce entities operating in India have made (or entities controlled by them have made) investments in entities (First Level JV Entity) that are owned and controlled by an Indian resident. The First Level JV Entities establish further subsidiaries (Second Level JV Entity). In light of the current guidelines on downstream investments, these Second Level JV Entities or group entities are not subjected to similar obligations as applicable to foreign direct investment in First Level JV Entity.

The Press Note has introduced the ambiguous term "equity participation" and now, if an E-Commerce Entity or its group companies has any "equity participation" in a company, such company shall not be permitted to sell goods on the E-commerce Marketplace.

- First, whether in the structure set out above, Second Level JV Entities would be deemed to have "equity participation" by E-Commerce Entities or its group companies, especially since downstream investment rules indicate that Second Level JV Entities do not have any indirect FDI if its holding company is Indian owned and controlled.
- Second, the usage of the term "equity participation" in Clause (v) of Paragraph 5.2.15.2.4 as compared to the usage of the term "direct or indirect equity participation" in the following Clause (ix) of Paragraph 5.2.15.2.4, begs the question as to what the correct position is.
- Third, whether there is an 'grandfathering' for the existing structures – although It appears that since the Press Note comes into effect from a prospective date (1

February 2019), all E-Commerce Entities should comply with the provisions of the Press Note.

- Finally, the FDI Policy defines ‘capital instrument’ as referring to equity shares, CCPS, CCDs and warrants. It is therefore unclear whether the term “equity participation” refers solely to equity investments or whether it includes investments using other instruments (such as CCPS, CCDs or warrants) as well.

Entities facing the Impact:

1. The Online Retailers

The online retailers which fall under the FDI norms are the ones to be the most affected by the new regulation.

Amazon India:

- There’s the matter of sales contributed by a single seller. Flipkart’s largest seller WS Retail Services Pvt. Ltd easily generates more than 25% of the company’s sales;
- While Cloudtail's sales in 2016-17 increased 24% to Rs 5,688 crore.
- The commission it pays Amazon India for selling on the marketplace dropped 25% to Rs 315 crore.
- *Cloudtail allegedly fulfilled more than 25 percent of all Amazon India orders, and calculations show it makes up around 42.19 percent of the group’s revenues.*
- The changed norm means the share of Cloudtail in Amazon India will reduce to null due to non permissibility for Cloudtail in Amazon.

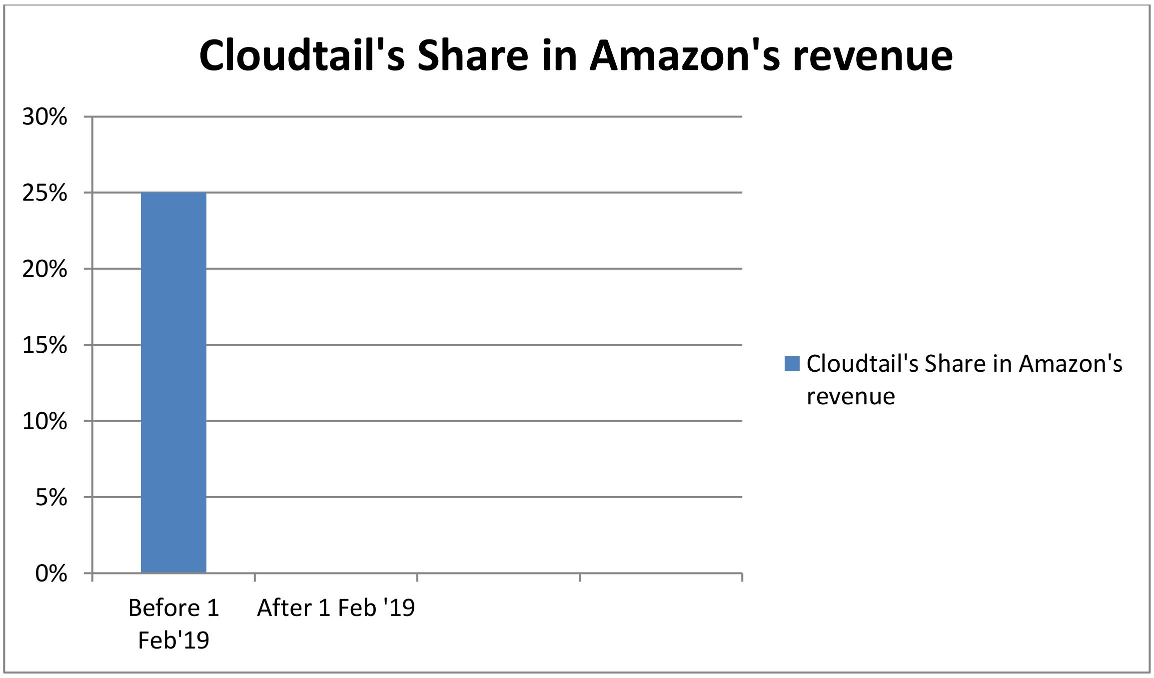


Table 2.1 The fall of Cloudtail revenue by Amazon

- While Cloudtail and Appario did sell non-Amazon branded products as well, being a marketplace the same products were being sold by other third-party vendors, ensuring they are still available on the marketplace.]
- Amazon Seller Services' delivery charges also surged 68% to Rs 2,549 crore in 2016-17. This, some sellers said, indicated that Amazon subsidised logistics costs for specific sellers.

The Immediate Aftermath with Amazon:

- The online retail giant had earlier pulled down all product listings from its preferred sellers Cloudtail and Appario Retail.
- India’s top two online marketplaces, Amazon and Flipkart, have seen as much as a third of sales volume disappear on their platforms since the new foreign investment rules in e-commerce came into effect three days ago, people privy to the matter told ET.
- Since Friday, the platforms have pulled product listings from their joint-venture and preferred sellers, and capped inventory, leading to fewer selections, higher prices and longer-than-usual delivery time.
- Amazon’s private labels like Symbol, Myx, Solimo and Basics were unavailable\
- e-commerce giant also delisted products sold by Shoppers Stop, in which it had taken a 5% stake in September 2017

2. Applicability of 25% threshold now on seller entities

Earlier, the FDI Policy stipulated that an E-commerce Entity shall not permit more than 25% of the sales value on a financial year basis from one seller orits group companies (Earlier Condition). The Earlier Condition has been omitted and the Press Note states that an E-commerce Entity shall be deemed to control the inventory of a seller (which is prohibited by the FDI Policy) if more than 25% of the purchases of such seller are from the E-Commerce Entity or its group companies (New Condition).

Analysis: Sellers that predominantly procure products from an E-Commerce Entity (or any of its group companies) may seek to comply with the New Condition by procuring products directly from other wholesalers, distributors or manufacturers. This may mean that each of such sellers may be required to build additional channels / relationships such that they comply with the New Condition

The most significant set of changes are around control over inventory, and the relationships between e-commerce entities and sellers on their platforms. The existing FDI Policy provides that e-commerce marketplaces should not exercise ownership over goods sold on such marketplaces (as doing so would make it an inventory-based marketplace).

Press Note 2 of 2018 has introduced a new provision under which an e-commerce platform will be deemed to exercise 'control' over a seller's inventory, if 25% or more of such vendor's purchases are from the e-commerce entity or its group companies.

If an e-commerce marketplace is deemed to control the inventory of a vendor, Press Note 2 of 2018 also prohibits the vendor from selling their goods on such e-commerce marketplace. The regulatory objective here might be to limit the ability of e-commerce marketplaces (either themselves or through affiliates) to sell products to a vendor on a B2B basis (FDI regulations permit B2B sales), and thereby control pricing or reduce the inventory-carriage risk for the vendors themselves (e.g., through buyback or make-whole arrangements).

and its implications on all the stakeholders have been discussed in detail in this article.

Impact On:

- **The small sellers**: Amazon enabled a large number of sellers (400,000+ sellers) on its marketplace to offer the widest selection to our customers
- **Online buyers** : Of course, people who buy goods online will no longer get deep discounts. They will also not get other services such as free or faster delivery and cashbacks.
- Before the laws changed in 2016, they (Flipkart and Amazon) were driving 70-80% sales through captive sellers, but since then have been reducing that amount. However, even now putting together sellers in which they have equity and others who buy exclusively from their wholesale units, over 50% of their sales are being driven this way
- **The Fintech industry:** The new guidelines could have indirect effect on digital payments and the broader fintech industry, especially regarding non-discriminatory pricing. The new norms on non-discriminatory pricing has the potential to be extended to exclusive partnerships that e-commerce platforms strike with banks and payment companies on specific products or with specific retailers only.

3. **No exclusivity**

An E-commerce Entity cannot require any seller to sell its products exclusively on its E-Commerce Marketplace only. More Stipulations to Ensure Level Playing Field for All Sellers

'Cashback' offers to buyers are required to be given on a fair and non-discriminatory basis.

Analysis: In spirit, an E-commerce Entity should endeavour to run the E-Commerce Marketplace as a 'level playing field' by not favouring any particular sellers and undertaking transactions on an arm's' length basis.

Press Note 2 of 2018 requires that an "e-commerce marketplace entity will not mandate any seller to sell any product exclusively on its platform only". This restriction is expected to adversely impact exclusive arrangements between e-commerce marketplaces and telecom or white goods manufacturing companies, to sell products exclusively on their online platforms (e.g. OnePlus sells its popular smartphones only via Amazon

India, and not any other marketplace). There is no guidance on how enforcing authorities would determine if a seller has been "mandated" to sell its products exclusively on an e-commerce platform, or if the seller is choosing to do so voluntarily

Impact:

This policy has impact on three major groups, i.e. the online retailers themselves, the small brick and mortar retailers which compete with the online retailers and finally, the end consumers. The small, local retailers have welcomed this policy as they will benefit from it, whereas the online retailers have labelled it as authoritarian. End consumers will not be able to make use of flash sales , high discounts which seems to be a prima facie loss to them. The key features of the policy and its implications on all the stakeholders have been discussed in detail in this article.

- OnePlus sells its popular smartphones only via Amazon India and not any other marketplace.
- Rival Amazon India did not specify the exact number of units sold but said consumers bought smartphones on its portal from Lenovo, Moto, Xiaomi, Samsung and OnePlus with sales in first three days comparable to an entire month's sale

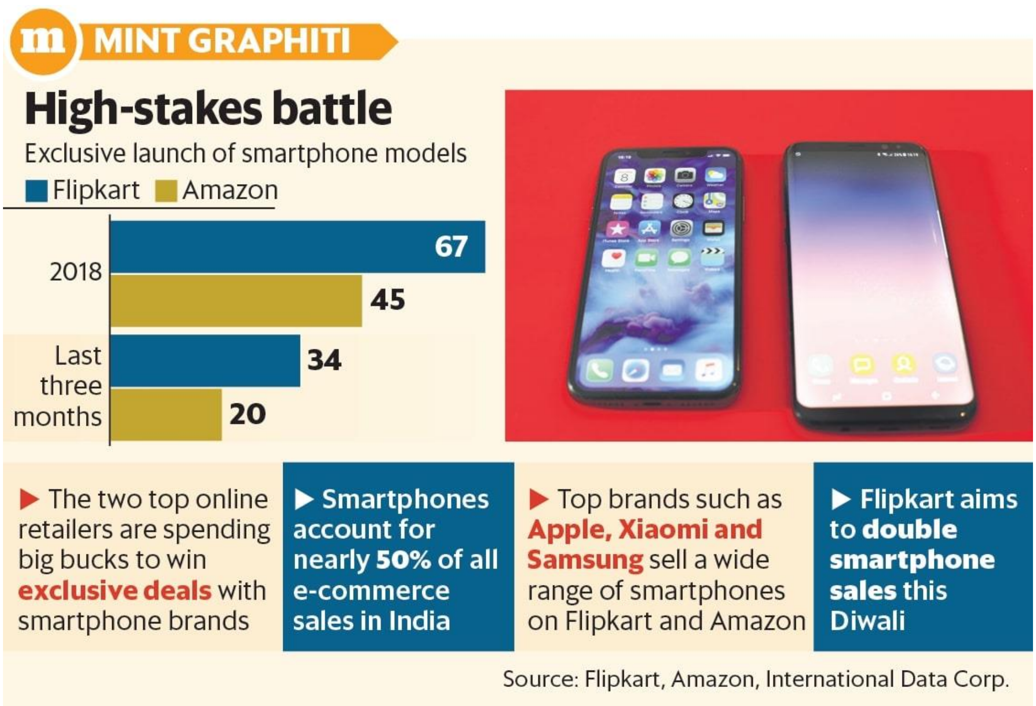


Fig. 2.3 The exclusive brands

4. Relationship with Vendors: Level Playing Field

Press Note 2 of 2018 requires that services provided by e-commerce entities (such as warehousing, logistics, order fulfilment, advertising, marketing, payments, financing, etc.) should be provided on an arm's length basis, and generally in a fair and non-discriminatory manner (including, any cashbacks provided by group companies of e-commerce entities

Impacts:

- **Brick-and-mortar sellers**
  The biggest winners from the new guidelines will be the traditional brick-and-mortar sellers. In the past few years, online marketplaces had hit the brick-and-mortar hard.

Payments and e-commerce firm Paytm offers discounts through so-called cashbacks. Often, the company gives cashbacks—anywhere between 10% and 80%—on products instead of direct discounts; these cashbacks are then returned to customers' Paytm wallets and are used to buy other products.

Other entities affected:

Amazon and Flipkart: According to the report, the PwC analysis also stated that the gross merchandise value (GMV) of the products sold online could be $800 Mn (INR 5, 683 Cr) lower than industry expectations in the current fiscal year which will end in March.

Related parties: Cloudtail and Appario

Impact on investment and jobs: The new guidelines will discourage foreign investment. While Amazon has put billions of dollars into its India operations, Walmart spent $16 billion this year to buy Flipkart. While Amazon and Flipkart were thriving, they were creating a large number warehouse and supply jobs.

The **e-commerce industry** in India is set to grow from $35 billion at present to over $100 million by 2022, according to a recent report by industry body Nasscom and PwC

India. This is expected to trigger more than a million jobs, said the report, making this sector an important avenue for employment generation in the country.

- As of early this year, around 350,000 delivery personnel were working with e-commerce companies, according to industry estimates, with jobs expected to grow 18% over the next year. This may change if the norms retain their present form.
- Amazon and Flipkart have been deeply impacted due to the new FDI policy. *Firstly,* it is reported that Amazon and Flipkart together lost $ 50 Bn. in market capitalization with Amazon's share price falling by 5.38% on NASDAQ and Flipkart's by 2.06% on the New York Stock Exchange.
- Secondly, online sales worth Rs.35,000 to Rs.40,000 crores, which makes up for 35-40% of the online retail industry could be impacted through the new policy for the fiscal year 2020.
- **Brick-and-mortar sellers:** The biggest winners from the new guidelines will be the traditional brick-and-mortar sellers. In the past few years, online marketplaces had hit the brick-and-mortar hard. They had started luring away so many customers with discounts and cashbacks — and of course the ease of buying without stepping out — that brick-and-mortar retail was seen to be dying off soon.
- **Smaller ecommerce companies**: The smaller ecommerce companies which don't have piles of money to compete with giants like Amazon will stand to gain from the new norms. \.
- **Small sellers**: Smaller sellers on online platforms, which have been contesting the preferential treatment meted out by Flipkart and Amazon to their entities, have reason to cheer. Any service on an ecommerce platform – logistics, warehousing or easy financing options – will now have to be offered to all sellers and not to only preferred sellers. Ecommerce companies cannot charge additional prices from third-party sellers for these services. Even for private labels, etailers may not be able to advertise or promote their own brands while charging third-party sellers for pushing them.

Strategies the ecommerce giants implemented

- **Retail to wholesale: Retail to wholesale:** If Cloudtail and Appario were to become wholesale vendors instead, then they would only be supplying their products to third-party 'prefered' vendors through Amazon Business in India — Amazon's Indian B2B marketplace.
  These third-party 'preferred' vendors would then sell those products on the Amazon India portal. Every wholesale vendor has the right to pick its preferred retailer for the products they are selling.
- Some items might be unavailable on Amazon India right now but that will soon change as Amazon India is reportedly turning two of its largest vendors — Cloudtail and Appario — into wholesale companies.
- According to a 2013 notification of the Reserve Bank of India with regard to FDI in India, a group company means two or more enterprises, which, directly or indirectly, are in a position to exercise 26% or more voting rights in the other enterprise or can appoint more than 50% of the members of the board of directors in the other enterprise.
- In both Cloudtail and Appario, Amazon's group companies will now hold 24% stakes and will not have any directors on their boards, making them compliant with the laws.
- NR Narayana Murthy's Catamaran Ventures has increased its stake in Cloudtail's parent company Prione Business Services to 76% from 51% earlier, reducing JV partner Amazon Asia's stake to 24% from 49%, people aware of the matter said. With this change, Cloudtail ceases to be an Amazon group company and becomes eligible to sell on the marketplace. Cloudtail also has independent plans. It will list on online marketplaces Snapdeal, Indiamart and other sites, and will also have its own website. However, it will not list on Flipkart.
- Equity holdings in Appario, the other large seller, will be similarly rejigged to make it
    - eligible to return, the people said
- Online marketplaces has returned to normal levels after New Delhi's changes to overseas ownership rules disrupted sales early February at the two biggest

industry platforms, Walmart-owned Flipkart and Amazon.

- Executives said these brands expanded upward of 10% last fiscal and have lined up aggressive growth plans built around big-ticket summer events, such as the cricket World Cup.

- Amazon hasn't completely set aside the idea to sell off its stake to order to comply with the new guidelines, but the wholesale route is a faster process, it will comply with the new forms and Amazon still continues to enjoy the value from the both the companies.
- This optimism comes on the back of scepticism from industry analysts that online sales would slow for categories such as smartphones due to the new regulations, which would impact discounting and promotions. Smartphones and electronics are the two largest categories online, accounting for about 55-60% of the total business.

CHAPTER -4

RESEARCH METHODOLOGY

Research Design

"Research means different things to different people" and the intention behind it are to investigate innumerable data, theories, experiences, concepts and law. "The procedural framework within which the research is conducted" is the definition of research methodology. The two broad and distinct approaches to social research cover the Quantitative and Qualitative methods of enquiry.

The quantitative paradigm on the other hand intends to gain a deeper understanding, knowledge and insight into a particular situation or phenomenon, by providing answers to questions of 'how?' rather than 'what?'. Unlike qualitative research which occurs in natural settings, quantitative research is where hypotheses are established.

Data collection

The data required for understanding will be collected from various online customers. In order to conduct the study digital survey was conducted through facebook and e-mail. And those responses are collected in a spreadsheet and further analysis was done.

The data collection method in this particular research comprises of two forms: namely primary and secondary data. One needs to be careful while using secondary data as maybe the collected data may be biased as the collector of that original data might have highlighted only a partial picture or another aspect may be that data may be quite old and also the data quality could be unknown.

Primary data

"Data collected specifically for the research project undertaken" is the definition of primary research as provided by Saunders et.al (2003: pp. 486).

Primary data is generally originated by any researcher to address any specific problem or issue at hand, where the only drawback is that it can be expensive and time-consuming. The various ways of gathering primary data is through surveys, focus group and observations.

In this study, the primary data is collected through well-formed questionnaire with the help of a digital survey. The questionnaire consists of quantitative and qualitative multiple choice questions and the respondents are asked to choose the one choice which suits them the best amongst the multiple choices.

Secondary Data

Prerequisite to the collection of primary data is a careful scrutiny of the existing secondary data. The Data that is collected from existing journals, reports and statistics from private and public institutions are called Secondary data. For this specific study the collection of secondary data was done primarily from marketing journals already available on this topic. Secondary data helps the author to comprehend the perception of Indian consumers on online shopping.

Thus the study carried out has analyzed the primary data with the rationale and validation of the present secondary data.

Sample technique

Choosing a study sample is an important step in any research project since it is rarely efficient, practical, or ethical to study whole populations. In this study the sampling strategy used is convenient sampling. The sample size is 100. A small part of something intended as representative of the whole, or a subset of a population. In this research simple random sampling is being used.

Data collection

The data collection would be:

PRIMARY DATA:	Questionnaire
SECONDARY DATA:	Journals, Internet, newspaper etc.

Sample design

Online customers of Delhi-NCR are included under this research and tell their satisfaction level.

Data source

Both Primary and Secondary source of data would be used .The major type of information is used from primary data.

Hypothesis

H0(Null Hypothesis): The people are indifferent purchasing online and offline, knowing the absence of discount online.

H1(Alternative Hypothesis): People are affected by the change in discounts between the online and offline mode.

CHAPTER -5

4. DATACOLLECTION AND ANALYSIS

This chapter aims obtain the objective of the study by critically analysing the qualitative data through thoroughly examining the interviewee’s responses and beliefs. This has been achieved through evaluating the most relevant responses by the participants. The data has been analysed and discussed by comparing the comments made by the respondents with the literature review keeping in mind the research objective of the study. Thus, the rationale of this analysis is based on the personal answers provided by the respondents.

An appropriately designed questionnaire was used to collect the primary data for the study. The data for 100 respondents was organized systematically in tables and graphs and then was subjected to analysis using appropriate statistical tools. The results of the analysis are presented in the following section in order to assess the customer perception towards online shopping on Flipkart.com in India.

Here for analysing, we are considering two factors. That is:

- Demographical factors
- Behavioural factors

4.2 Data Analysis

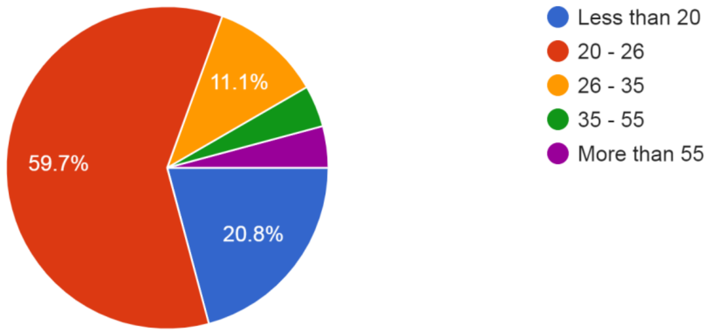
Hypothesis Analysis

H0(Null Hypothesis): The people are indifferent purchasing online and offline, knowing the absence of discount online.

H1(Alternative Hypothesis): People are affected by the change in discounts between the online and offline mode.

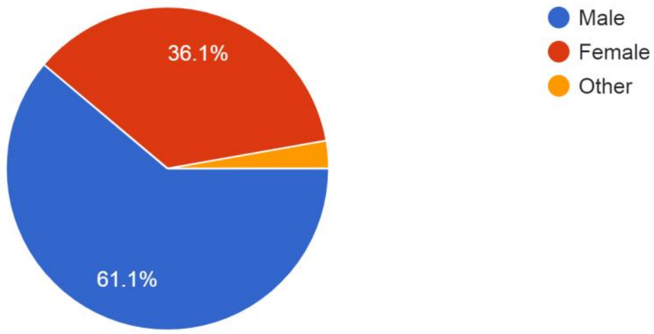
Your Age

72 responses



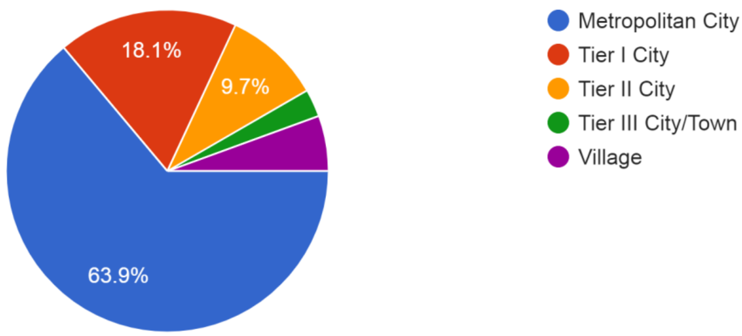
Your Gender

72 responses



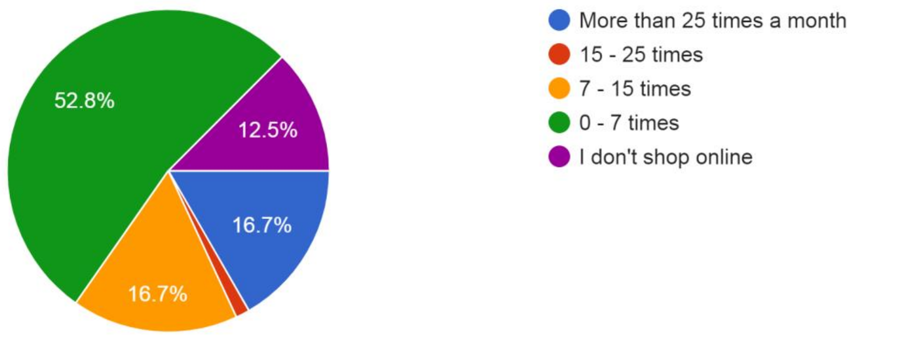
Area of your Residence

72 responses



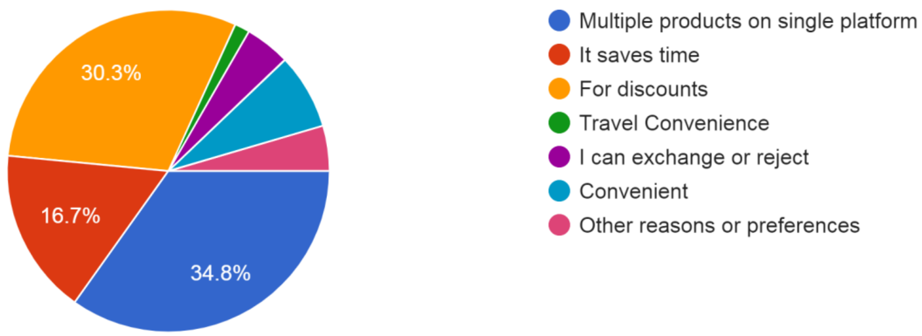
How often do you shop online in a month?

72 responses



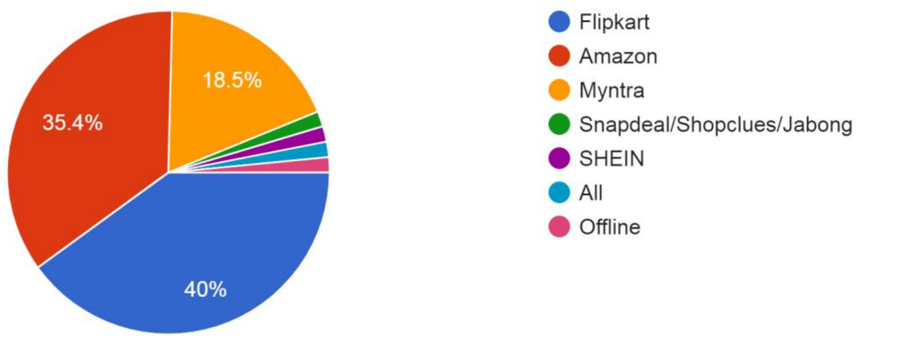
Why do you like to purchase online?

66 responses



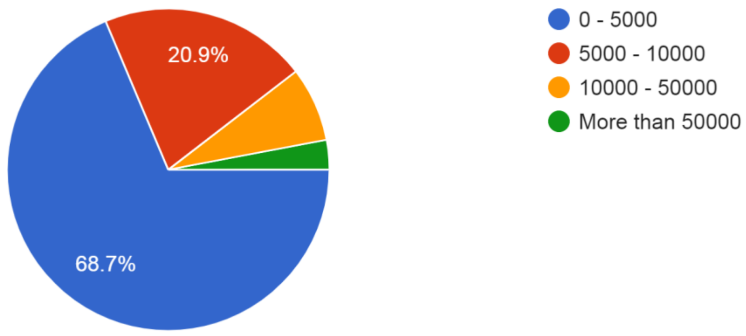
Which website/app do you shop the most from?

65 responses



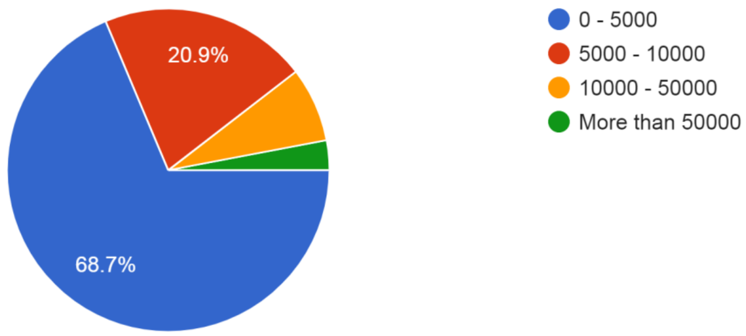
Average amount spent by you per month on e-commerce transactions (in rupees):

67 responses



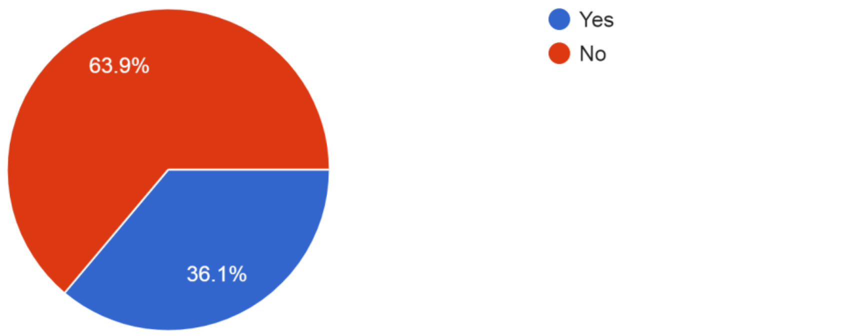
Average amount spent by you per month on e-commerce transactions (in rupees):

67 responses



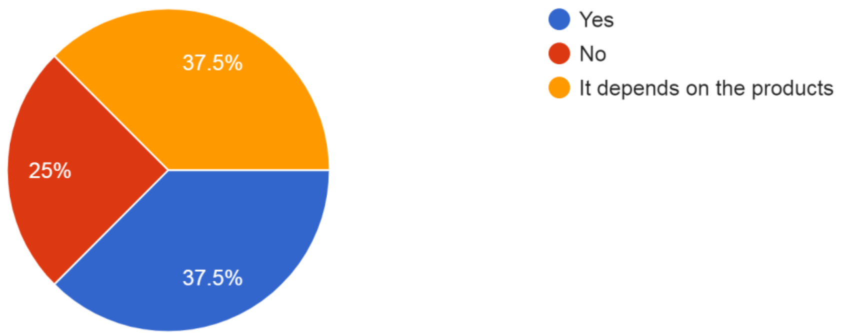
Have you noticed any change in the discounts in the e-commerce websites and apps in last few months?

72 responses



If all the products available online will have the same price as they are offline, will you still buy them online?

72 responses



Degree of Freedom	72-1=71		
Responses	Expected Frequency	Observed Frequency	Chi Square (Calculated)
Yes	18	27	4.5
No	18	18	0
Depends on the product	36	27	2.25
Chi Square (Total)	6.75		
Critical Chi Square	91.67		

Conclusion: Since, Critical Chi square is 91.76, which is much greater than chi square(Total), We conclude that We cannot reject our null hypothesis at 5% level of significance and infer that people are indifferent between purchasing at online and offline platforms, given the absence of discounts**.**

4.3 Findings

- There is not much difference in gender for using online shopping.
- Students and salaried persons are most frequent users of ecommerce.
- Frequency of purchase for electronics, books and music, apparels and accessories are more in Flipkart.
- Word of mouth was more influential in promotion as many people were made aware by their friends and family when customers recommend this website to them.
- Highly discounted products got out of stock quickly, since customers purchased it as soon as they could when they see high discount on good featured product.
- The services provided by Flipkart are good and even more scope of development is there for increasing the customer strength.
- Digital marketing techniques like search engine marketing, links providing other website and advertisement also functioned well for promotion of this website.
- Fast delivery is one of best service Flipkart is providing.

- Different payment options available in Flipkart made customers more satisfied and comfort for paying while purchasing product.
- Customers feeling more secured when purchasing through Flipkart because of different policies and services they have.
- In comparison with competitors, Flipkart is charging free shipping for the purchase of 300 plus rupees, while others free ship the service without any barrier.
- Out of stock is the main issue faced by Flipkart.
- Most of customers have good experience with Flipkart while purchasing products.
- Most of them are satisfied with the services of Flipkart and so that they succeed in retaining the customers.
- Advertising is an important way to have the brand and products familiar to consumers.
- Convenience and time saving are two important factors that customer looking for while purchasing through online.

4.4 Conclusion

The thorough study is based on the consumer behaviour analysis which serves a great idea regarding consumer perception when they go for online shopping. In order to satisfy themselves consumer perceive many things before buying products and they will be satisfied if the company meet their expectation.

The Overall Brand Value of Flipkart and Amazon is good. But it is facing. Talking about domestic marketi.e India, it is the most superior E-business portal which is aggressively expanding& planting its roots deep into the Indian market & at the same time shifting the mind-set of the people from going & shopping from physical store to online stores, which is magnificent!.

Be very focused on consumers and build amazing experiences for the customers.

4.5 Suggestions

- Flipkart has successfully placed itself into the prospects mind making it the India's largest online store with huge range of products. But it still needs to work on their core competence that is books and stationery items.
- Out of stock items can made available as soon as possible and intimate the needed customers.
- Should look for International/ Overseas markets or Neighbouring Countries.
- The group which is most affected by the policy is the end consumers, who made use of offers and discounts of online retailers for all their needs, including the most basic needs of groceries and clothing.
- The new policy can also be seen as a heavy blow in the online retail sector, and has caught online retailers off guard and clueless about their future business policy in India.
- Instead of making the retailers independent and strong enough to compete with MNCs, this policy blocks out competition in the market, and only provides crutches to the local retailers by reduced competition.
- This policy can be Delivery services can be improved mainly in rural areas by selecting appropriate courier service which has services in customer area for dispatching an item.
- Can make free delivery to all priced products.
- Can include more coupon codes and gift vouchers for increasing the traffic of the customers.
- seen as a example of control of the government over trade, as it also restricts what can and what cannot be sold by the entities.
- The policy should try some new incentives to link local offline retail owners to technology.
- The policy should have provisions for ecommerce players too
- This policy should be somewhat less populist one
-
- User Experience: Portal should continuously aim to work to improve the user experience by adding more & more innovative features in the website like virtually shopping basket, virtual trial rooms. In this competitive world to

differentiate via user experience, the ultimate winner will be the Indian online consumer.

- Should comprehensively invest into E-CRM & online reputation management.
- Logistics & Supply Chain: can continuously aim to reduce the delivery time cycle.

Price will still be a factor as amazon being a huge company will use its economies of scale to remove their competitors from the market; therefore they need to be more competitive on that aspect

4.6 Limitation of the study

No research is complete without admitting the limitations that was faced while conducting a study which will contribute to present learning. This study too like the others have certain constrains which has been discussed below.

- The study was restricted to Delhi-NCR city mostly
- The study is mainly concentrated on Flipkart and Amazon
- The sample of the size will be limited to time and resources
- The information will be collected valid until there is no any technical change or any innovation
- The result is assuming that respondents have given accurate information

CHAPTER 5

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