

# Are e-commerce & direct selling a part of wholesale or retail trade?



ARPITA  
MUKHERJEE

The government in September 2012 notified one of the most widely debated FDI policies: the policy of allowing 51% FDI in multi-brand retail. Through another notification the government amended the existing policy of allowing 100% FDI in single-brand retail. In both the policies, an additional clause prohibiting retail trade through e-commerce portals has been added. This leads to the broader question of how the government is going to treat different non-store retail formats such as e-retailing and direct selling. Are they part of wholesale trade or retail trade? As of now, companies in both the direct selling and e-commerce sector are allowed to undertake wholesale activities where only B2B trade is permitted. They are not allowed to do B2C transactions.

As the retail sector in India is evolving, it is likely that different non-store retail formats will evolve and grow. Easier access to credit card facilities and convenience of getting the product delivered at home or workplace have made these a growing component of retail trade. E-commerce and other non-store retail formats like direct selling have grown at an average rate of over 20% in the past few years and have successfully penetrated into smaller cities. A number of Indian entrepreneurs such as the Future Group have ventured into e-commerce. Since FDI is allowed in non-store retail formats through the wholesale sale, cash and carry route and other routes like test-marketing and own-manufacturing, foreign companies have invested in these segments. For example, in direct selling, companies such as Amway, Avon, Oriflame and Tupperware have invested in India.

Among the different non-store formats, direct selling has a huge potential for employment gener-

ation, especially for women. A number of direct selling companies in India source over 60% of their products from small and medium enterprises, and these have led to technology percolation. In spite of these benefits, direct-selling companies are grappling with their image in the market in the absence of clearly defined guidelines and definition for the sector. Sometimes they are mistaken for pyramid schemes. This is a cause for concern. Similar concerns are shared by many retail companies operating in the non-store segment. Most of them operate through a hybrid model where they use more than one non-store format to reach customers. For instance, direct-selling companies have their own websites and they sell products through the internet. Restrictions on different formats of operation create an uncertain operating environment for these companies.

The government needs to understand that, with technological development, companies will use different technology to access customers. Hence, in future, most retail companies will operate on a hybrid model. Moreover, it is not very easy to control technology, such as enables shopping on the internet. There should be a definitional clarity as to what is covered under retail. While across the world e-commerce and direct selling are considered as non-store retail formats, in India



the DIPP had earlier allowed FDI in these two segments under B2B wholesale trade. By contrast, the latest industry classification NIC 2008 classifies e-commerce and direct selling as part of non-store retail format. Thus, there are differences within the same government on how to classify non-store formats. Companies have in the past not protested against these differences in classification since at that time there were restrictions on FDI in retail and the ambiguity in definition enabled the companies to access the Indian market through the B2B route. However, foreign non-store format retailers like Amazon are now at a disadvantage under the conditions attached to the FDI in retail policy.

While designing policy, the government also has to consider that there are some unique features of e-commerce and direct selling (especially the multi-level marketing format). Both these modes have B2B and B2C operations. Thus, logically they are neither a part of retail trade nor wholesale trade; rather, they are sui generis in nature, with properties of both retail and wholesale trade. Some experts, therefore, define direct selling and e-commerce as neither wholesale nor retail but as specialised channels of distribution.

To reduce uncertainty in definition and encourage inflow of FDI, there is need for a proper definition of retail and wholesale trade and of different compo-

nents of retail trade, especially the different non-store retail formats. Herein India can learn from the examples of other countries like Malaysia, which has specific regulations for direct selling in which this mode of distribution is well defined. It is worth a mention that while announcing the policy of liberalisation of FDI in retail the government had proposed to set up a High-level Group under the Minister of Consumer Affairs, to look into issues related to internal trade and make policy recommendations. One of the major tasks of this group is to define different types of distribution, different forms of store and non-store formats in retail and wholesale trade. For definitional purposes, in the Indian case, it is important to follow either the NIC 2008 classification (which is compliant with international industrial classification) or the United Nations Central Product Classification which is used in the WTO and bilateral negotiations. The definition of non-store formats is similar in these two classifications. A clearly defined legislation and domestic regulatory regime for budding industries such as e-commerce and direct selling will help to attract investment and generate employment in these sectors.

The author is Professor,  
ICRIER. Views are personal  
arpita@icrier.res.in