NASS & GUILD
SOLICITORS & ADVOCATES

Introduction to E- commerce business model

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The article explains the important regulations of Ecommerce industry in India.

Over the week we have seen many similar queries and find out that startups need to understand e-commerce model little thoroughly and its current scenario in India and its FDI policy, here is an attempt for it. First of all, there are two types of e-commerce Business model

1. Marketplace based e-commerce business model.

2. And other is inventory based e-commerce business model.

First marketplace based e-commerce business model means providing an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.

Now inventory-based model, if FDI funded then there are a different restriction and its applicable to B2B e-commerce business model, but we are not saying that B2C can't be funded under FDI policy, yes it can be also be funded and through subject to terms and condition of manufacturing and inventory.

Inventory based on the e-commerce business model means an e-commerce activity where an inventory of goods and services is owned (manufactured) by e-commerce entity and is sold to the consumers directly. And if startups business category falls under this category, is most difficult to get funding because Govt. of India doesn't permit easy funding under this model, this is typically B2C where DIPP allows with lots of compliances and bylaws.

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1. Under this model no group company or seller on a marketplace can contribute more than 25% of the sales generated, your total sale for 100 or comes from A, B, C who are manufacturer & vendor on your e-commerce website, it's very important that at any cost you should not breach the bylaws. In this model A sales cannot be more than 25 or in your total sale of 100 crores or vice versa i.e. should not exceed one vendor portion of 25% of your total sales. Applicable to both inventory and marketplace e-commerce model.

2. E-commerce company cannot influence product prices means it's time to say goodbye to heavy discounting price. Jabong, Flipkart everyone has to soon revise their strategy to follow new compliances.

3. Small sellers will now have to take responsibility for the quality of goods and after sales support; liability on vendor and e-commerce business, both are also responsible for this service model (bylaws)

4. Other than the e-commerce business model you need to consult CA for taxation and compliances if you are selling international goods. Consult a lawyer for all necessary documents and policies like the disclaimer, vendor agreement, privacy policy to avoid any heavy statutory fines.

5. Also, you need to make sure that you are following Cybersecurity & related cyber crimes and financial frauds, data privacy, mobile wallet, cybersecurity due diligence and cyber law due to diligence. Online payment legal compliances in India are diverse and complicated in nature.

In coming days we are expecting Govt. of India will come with strong laws for e-commerce business. Startups have to be more careful with an e-commerce business model, whoever hires please hire a lawyer who is not just want to have you for documentation work but do proper business modelling.

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