Syllabus subtopic: Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.

Prelims and Mains focus: about the e-commerce market in India and allegations on e-commerce retailers; about CCI and its role

News: The Competition Commission of India (CCI) ordered a probe into Amazon and Flipkart for alleged deep discounting and unfair trade practices. The matter, once a toss between pricing and convenience, now has jobs and international relations at its heart.

What are the online retailers accused of?

Amazon and Flipkart are accused of offering deep discounts on products to buyers through select preferred sellers. Not all sellers on the platforms are handed this. As such, these deep discounts deny them the opportunity of higher sales. The online retailers are also accused of tweaking their search algorithms, which results in their preferred sellers appearing on top of the websites and thus having a better chance of being chosen by buyers. It is alleged that other sellers are relegated to sell only through the brick and mortar set-up, preventing them from having the pan-India reach that online marketplaces offer.

How are e-retailers able to dominate?

- It is alleged that Amazon and Flipkart are able to cross-subsidize due to the huge amount of funding received from their investors. This allows them to price products below cost through their sellers.

- This, in turn, creates high entry barriers for a new entrant. The online retailers allegedly force sellers, which are not among the preferred ones, to sign skewed agreements that they can terminate as per their will. For products such as mobile phones, they enter into exclusive tie-ups with manufacturers, thereby creating a monopoly and in turn denying the
consumer the option of buying from elsewhere.

What is the sales model that’s under scanner?

Amazon and Flipkart are platforms for sellers and manufacturers to sell their wares. Both have multiple vendors supplying any given product. Both also have private label brands sourced from preferred manufacturers and sold through preferred sellers. The law doesn’t allow them to hold their own inventory or sell directly to consumers.

What’s the fear around online retailers?

E-retailers act as intermediaries between buyer and seller, allowing them to gather critical data, including price, quantities sold, demand of each product, seller and geography. They can use the information to launch their private labels in categories where they think it’s profitable for them or use their preferred sellers for this. It enables them to target consumers better with recommendations for products and customized offerings. Another worry is sellers find that transparency is generally missing in online product reviews.

What do e-retailers say in their defence?

CCI's 38-page “Market Study on E-Commerce in India” says market-place platforms maintain that all sellers listed on their platforms, including those selling private labels, are independent. Thus, it is not incentive-compatible for them to prefer a few at the expense of quality of the platform, given the stiff competition that exists in what is predominantly an offline retail landscape. E-retailers also deny any role in pricing. CCI will take a call on the findings, while ensuring that competition and efficiency are not compromised.