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E- Commerce Business in India and Customer Liability's

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ABSTRACT- E-commerce has transitioned to become a multi-billion industry covering variety of goods and services – perhaps each and every product is available online today. It has also helped the manufacturers, big and small to reach out customers in every nook and corner of the country bringing unthought-of logistical dimensions. This paper is an attempt to understand various aspects of E-commerce. For theoretical reasons, it rehashes what is e-commerce, its working models and its types based on operations. The paper dwells on hurdles in e-commerce that is further bifurcated into operational challenges and technical challenges. Aspects related to accounting and compliances applicableto e-commerce in India are also provided.

Keywords - E-Commerce, Business, India, Customer, Liability.

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1. **INTRODUCTION-** E-commerce in India is growing rapidly and according to some estimates, it is likely to grow to 200 Billion US dollars by the year 2027. E-commerce businesses have immense growth potential which is evident from countless e-commerce businesses that have started in last decade. It is also estimated that e-commerce will grow at 27 per cent CAGR over next 4-5 years with online grocery as the biggest growth driver. E-commerce is also seen as solution to some of the policy challenges being faced by the country. Recently, National Small Industries Corporation Ltd. has launched an e-commerce platform in the form of www.msmeshopping.com for Micro, small and medium enterprises as a means of aatmanirbhar bharat. In simple words E-Commerce is "selling or buying of goods and services" over the Internet. E-Commerce is grown up version of traditional commerce in which the complete flow of transactions "right from selecting the product till the payment processing" is completed over internet. The scope of the e-commerce is unlimited. Practically every thinkable product or service is offered through e-commerce. E-commerce transactions in case of physical goods are supported by efficient supporting logistical infrastructure. At the same time many services are also being delivered over internet for speedy delivery overcoming physical barriers. In these times of pandemic, education and medical services are extensively using internet for delivery.

E-commerce based on "their model of work", can be classified as follows:

i) Direct selling of own goods and services on the internet is the first working model in e-commerce. In this model own goods and services are sold online though website or other available means. For Example, A designer is selling designer clothes through own exclusive website. This form of E-Commerce is commonly known as E-Shops. Example of E-shops are microsoft. com, dell.com, puma.com, etc.

ii) ii) Marketplace on internet is another model of E-commerce is another model. Here buyers and the sellers are gather on a platform – e market place - to buy or sell their goods and services. For Example, Amazon, Flipkart, Snapdeal, etc. where sellers can register and sell their products or services to the customers who visit that website. This form of e-commerce is called the electronic retailing or E-tailing.

TYPE OF E-COMMERCE

i) B2B: In B2B (Business to Business) e-commerce, trade takes place between two businesses such as between manufacturer and wholesaler or wholesaler and retailer. For example, www.msmemart.com is a B2B market platform by National Small Industries Corporation Ltd.

ii) B2C: B2C (Business to Customer) e-commerce means offering the goods and services directly to the customer. Examples of B2C e-commerce are flipkart. com and Spotify.com.

iii) C2C: C2C (Customer to Customer) e-commerce brings customers together on a platform to buy and sell from each other. Examples of C2C e-commerce are olx. com and quickr.com.

iv) C2B: C2B (Customer to Business) e-commerce is a platform that facilitates customers to contact the businesses to buy the goods and services. Examples of C2B e-commerce are upwork.com and cj.com (Commission junction).

HURDLES IN E-COMMERCE - Operational Challenges

i) **Product Assortment:** Product assortment means picking the right product and services to offer to the buyer. E-commerce gives option to choose from countless alternatives but also limits the way of buying, that is by viewing the images of the products and reading the description of product and services. Hence product assortment is a new challenge to offer only those products and services that fit best to the customer.

ii) **Pricing Model:** Best pricing is a strategy that will bring back the buyer to the website. But what is the best price? is the biggest question. E-commerce provides effortless price comparison option which makes "Best Pricing" more important to sustain in the market. Also, e-commerce refrains the right to bargain from the customer. Accordingly, Pricing Model should be designed in way that makes the buyer satisfied with the prices even without bargain.

iii) **Order Management:** E-commerce had shattered the barrier of "time to shop" and nowadays one can go for shopping at anytime from anywhere. This brings another challenge for the e-commerce is order management. Each order is important, and it should be delivered on time is the key to success in e-commerce but on the contrary order management is the also biggest challenge for e-commerce. Only way to handle this challenge is to treat "Every Customer as GOD" and treat every order on maximum priority without thinking about any other factor like order value, order volume, order margin etc.

iv) **Customer Management:** E-commerce had made buying quite simple and easy for the customers. Customer is expecting services related to the product, delivery, refund, return, replacement, warranty, copyright, and other similar issues on priority. Highlevel Expectations by customers makes customer management extremely complex and critical task. The only way of customer management is "minimal human interventions" and "more automation".

Technical Challenges

i) **Data Management:** E-commerce is largely based on the data collected during each transaction. What makes data management complex?

- Size of data that becomes bigger and bigger as the business grows.
- Dynamic Nature of data that will keep the data updated on real time basis.
- Storage of data Structure which provide the data whenever asked for.
- Sorting and filtering of data to keep only valuable data.
- Backup of data to keep it secure.

Data should be management in way that optimizes its size by eliminating all the non-useful information and stored in robust and secured structure.

ii) **Data Privacy and Security:** Customer's shares various personal data while transacting on e-commerce platform. Personal data is private information of the customer merely shared for completing such transaction. To keep customer's trust intact each detail collected should be stored and processed in a way in which our own personal data is stored.

Following practices should be followed to comply with the best practices or regulations related to data privacy:

- Explicit consent must be taken from the customer for the data to be collected.
- Notice must be given to the customer stating the purpose, use and time for retention of data to be collected.

RISK ASSOCIATED WITH E-COMMERCE BUSINESS -Risk in intrinsic in every business so as in e-commerce. To mitigate the risks of e-commerce, first step is to understand the associated risks.

i) **User's Privacy:** Customer's data could be compromised even after having a secure database due to reasons like hacking, cyber-attack, security failure, and malware, etc. and could be used for spamming, identity theft and unsolicited marketing.

ii) **Data integrity, authentication, and transactional risk:** E-commerce delivers the order only if the basic authentications like phone number and e-mail verifications are completed. But who knows that even after such verification the order placed is genuine or not, actual sale or not, payment will be received or not? Nobody knows until the order is successfully delivered there is always a question mark on the data integrity, authentication, and transactional risk.

iii) **Customer Loyalty:** Customers are more loyal towards the brands not towards the e-commerce services. Customer can easily switch to competitors because every e-commerce provides the same product or services what customer buys. Then what makes the customer loyal towards e-commerce? An extra effort by e-commerce to retain the customer can minimize this risk in the competitive world of e-commerce but cannot reduce it to zero.

iv) **Product Warehousing and Logistics:** "Committed to timely delivery" is one of the most satisfying attribute of e-commerce and to manage this e-commerce have to assume the risk of loss, theft, damage and many more associated with managing the warehousing and logistics. In case e-commerce does not manage warehouse and logistics than at every order e-commerce have to confirm the seller about the inventory and wait for seller to confirm the product as "ready to ship" and then fully depend on logistics partner to pickup the order and deliver on timely basis but even after so much struggle e-commerce cannot guarantee delivery on time. Hence risk associated with product warehousing and logistics management is directly proportional to guarantee to on-time delivery.

v) **Customers Charge backs and Disputes:** In e-commerce rate of customer dissatisfaction is higher owing to the fundamental property of e-commerce i.e. no personal interface between the seller and the buyer which begins various confusions and misunderstanding. These confusions and misunderstandings give rise to disputes and charge backs which not just results in monetary loss but also the brand image loss.

vi) **Intellectual Property Rights:** Photo's, video's, content, description, logos as well as the products could be copied easily or violate someone else's intellectual property.

ACCOUNTING AND COMPLIANCES

ACCOUNTING- Accounting of E-commerce companies are guided by the Accounting Standard issued by ICAI and notified by the Ministry of Corporate Affairs. Accounting standard 9 "Revenue Recognition" and Indian Accounting Standard 115 "Revenue from contracts with customer" will be applicable for E-commerce companies to recognize the revenue. As of now, there is no specific accounting standard issued by ICAI for "Accounting for E-commerce". Recently, an Exposure Draft is issued by ICAI specifically for "E-commerce accounting" as ICAI proposes a comprehensive Guidance Note on accounting in e-commerce and cloud services.

REVENUE RECOGNITION- Service Sector: As per Accounting Standard-9 and Indian Accounting Standard -115, in case of selling services revenue will be recognized only when the services are provided and there is no uncertainty on the realization of payments from the customer.

Further as per Ind AS-115, if a certain amount is received at the time of proving services for after support services like maintenance of software after the sale then revenue relating to support services will be recognized only after providing the support services.

WHOLESALING AND RETAIL SECTOR (E-TAILING): - As per Accounting Standard-9 and Indian Accounting Standard-115, in case of selling goods revenue will be recognized only when the ownership/ control of the goods is transferred and there is no uncertainty on the realization of payments from the customer. In the case of sale of goods through e-commerce, an option of return is given which impacts the revenue of the e-commerce. Accordingly, there are two ways to book the revenue:

a. Revenue should be booked after the expiry of the return period or
b. Revenue should be booked after deducting the average amount of return.

RECOGNITION OF CUSTOMER'S LIABILITY

Customer's liability means the amount that belongs to the customer until the service/ goods are not provided, but this amount cannot be treated as an advance in case the e-commerce is not the actual seller.

For Example, an e-commerce platform is providing online digital content from a registered seller to a particular customer. E-commerce is accepting only prepaid orders. Till the time content for customer is not delivered by the seller, the amount received by the platform will be lying in a nodal account named as "Customer's Liability".

When the seller transfers the content to the customer only then e-commerce platform will transfer the amount from Customer's Liability Account to Seller's Account after booking its service income for providing e-commerce platform.

Compliances E-commerce is working under a bundle of regulatory requirements in India. Apart from the normal regulatory requirements that an e-commerce must comply with GST Act, Income Tax Act, ROC regulations if registered as a company, etc. following are the regulations specifically apply on e-commerce in India:

i) **GST -TCS:**

GST-TCS means tax collected as a source as per the GST Act. As per section 52 of the CGST Act, 1% of the sale amount (Sale Price excluding GST) transferred to sellers should be deducted as GST-TCS and paid to the GST department on seller's behalf.

For Example: On an e-commerce platform, one of the sellers is selling handmade pen for Rs. 1000. While transferring the payments to the seller, the platform provider must deduct GST-TCS @1% i.e Rs. 10 and deposit the amount with the government on behalf of seller.

ii) **TDS:**

As per the Finance Act 2020, section 194O was introduced to impose TDS liability on e-commerce operators. From 1st October 2020 onwards, every e-commerce must deduct 1% TDS on the gross amount transferred to the seller for providing goods services through the e-commerce platform.

If the seller registered on the e-commerce platform is an Individual and HUF, then TDS should not be deducted if the sales amount transferred to the seller is up to ` 5 lacs in a year provided the PAN or the Aadhar is provided. TDS Rate will be increased to 5% in case PAN or Aadhar is not provided by any seller.

For Example: One seller is providing tuition services through online platform to a student. After rendering the services by the seller, platform provider will transfer the fee amount to the seller after deducting TDS @1% if the total amount transferred in a year is more than Rs. 5 lacs. If PAN or Aadhar is not available seller, the TDS rate will be 5%.

CONCLUSION- On such basis it is concluded that Customer's liability means the amount that belongs to the customer until the service/ goods are not provided, but this amount cannot be treated as an advance in case the e-commerce. Traditional commerce businesses e-commerce businesses have their own nuances, advantages, challenges, and risks that run together. E-commerce has also entered the area finance in a big way. Banking services, investments, loans, share transactions, tax advisory and many more services are being delivered using internet. With technology moving evolving at stupendous speed and with the potential of Indian economy, e-commerce business shall continue to grow.

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