

Can ONDC be the UPI moment for India's digital economy?

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ONDC is a novel initiative that has still not been attempted anywhere else in the world. However, looking at the potential value that this initiative can generate, its success will be greatly beneficial for the digital economy of the country.



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Image

Open Network for Digital Commerce (ONDC)

United Payments Interface (UPI), since its launch in 2016, has not only revolutionized the digital payment ecosystem of India but has also been an exemplar for the rest of the world. Riding on the success of UPI, India is now getting ready with another revolutionary innovation that may transform not just the e-commerce industry but may also alter the power dynamics in the digital ecosystem of the country.

On 22 December 2022, the Open Network for Digital Commerce (ONDC) has gone live for beta testing in Meerut, Uttar Pradesh. The feedback received from participants in the real environment will prepare ONDC for a countrywide launch, possibly in 2023.

But what really is ONDC about? More importantly, why is it being hailed as the UPI moment for the e-commerce industry in India?

ONDC is an initiative promoted by the Government of India that aims to provide an open network where goods and services can be exchanged between buyers and sellers. It is based on open network protocols that will be independent of any specific platform. It is basically a marketplace to connect buyers, sellers, technology providers and financiers on a common platform for the seamless facilitation of online commerce.

Democratisation of e-commerce

ONDC is like a mega platform where any seller can list themselves; any buyer can place orders with any of the sellers they wish to; and the buyer can even choose the logistics partner for delivery of the order. Put simply, this is the democratization of the e-commerce space where no single company can control the listing, pricing, or delivery of items to buyers.

At present, small retailers are left at the mercy of giant e-commerce platforms such as Amazon and Flipkart for their listing and visibility. Since ONDC is not an e-commerce company (unlike Amazon or Flipkart), any small retailer will be able to list themselves on ONDC without the fear of any platform bias. It is to be noted that ONDC will not just facilitate smaller retailers to list themselves, even giant companies such as Amazon and

Flipkart can also list themselves on it. Furthermore, food aggregators such as Zomato and Swiggy, online grocery companies such as Big Basket and Blinkit, can also list themselves on it.

Current e-commerce models

There are two business models which are being followed in the Indian e-commerce industry: the 'Marketplace model' and the 'Inventory model'. In the 'Marketplace model', the e-commerce company simply acts as a platform to connect independent buyers and sellers. The company takes a commission on every transaction that happens. In the 'Inventory model', the e-commerce company procures products in bulk at cheap rates from different sellers, then stores the products in its inventory, and then sells these products to buyers through its website at higher prices.

If you compare these two models, the profit margins in the 'Inventory model' is much higher than the 'Marketplace model'. If a company can undertake efficient demand forecasting and inventory management, the 'Inventory model' is a better proposition. However, if you look at the largest e-commerce companies in our country, they run the 'Marketplace model'! But why is that so?

That is because in India, foreign direct investment in retail is allowed only for the 'Marketplace model' and not for the 'Inventory model'. The two largest e-commerce companies, Amazon and Flipkart, which occupy over 60 per cent of the total e-commerce market in India, are both foreign-owned. Hence, they cannot run the 'Inventory model'. Thus, these companies run the 'Marketplace model', where the listing and visibility of independent sellers are completely at the discretion of these two giants. And that is where the problem lies for smaller retailers!

These giant e-commerce companies running the 'Marketplace model' have access to huge amounts of data pertaining to every product on their platform. For instance, these companies know the price points at which an item becomes attractive for buyers, the timing when certain items are mostly searched and sold, the location where an item is mostly in demand, the specific features which an item should have for it to become a best-seller, and so on. Now, various reports have suggested that these e-commerce companies tend to misuse these data for anti-competitive practices.

Providing level playing field

These e-commerce companies set up or invest in different firms that act as sellers on these very e-commerce platforms. Since these e-commerce companies have data regarding usage behavior, the firms (sellers) owned by these very e-commerce companies leverage that data to offer products that they know will become best-sellers quite easily. The products offered by these sellers are listed at the top and are pushed through recommendation engines quite vigorously. This practice discriminates against smaller retailers who essentially have no means to fight against such anti-competitive practices.

In addition, these e-commerce companies also tend to provide favorable treatment (by providing superior listings) to sellers that have tied up with them. The introduction of ONDC is an attempt to curb such malpractices and provide a level playing arena to small retailers.

ONDC is not an e-commerce company. It merely provides a platform where buyers and sellers can interact. ONDC is not owned by any privately owned company; it is set up by the Government of India. Hence, ONDC does not have an ulterior motive to show any platform bias. Any retailer, be it large or small, has an equal opportunity to list themselves and based on their merit will occupy a place in the listing order. Thus, malpractices such as the one discussed previously will not happen within the ambit of ONDC.

Can ONDC be a game-changer for the entire digital economy? Though ONDC is hailed as a revolution for the e-commerce space, its success will, in fact, have far-reaching implications for the entire digital economy. That's because ONDC will not just facilitate business for e-commerce players, but even logistics companies, food aggregators, payment companies, and companies from diverse industries can participate in ONDC. This means more options for consumers and a better competitive environment for all companies, irrespective of their size and status. Consumers will have a one-stop shop where they can compare prices, choose their own items from any company of their choice, select a delivery partner they wish to, and even pay using any payment gateway they are comfortable with. Thus, the revolution that ONDC will bring forth will not just impact the e-commerce industry but will rather have an enormous impact on the entire digital ecosystem of the country.

Challenges to success

While ONDC certainly has enormous prospects, its success is certainly not guaranteed yet. There are a lot of challenges that needs to be addressed before this initiative can witness the kind of success that UPI has been able to garner.

To begin with, ONDC is quite revolutionary for sellers. But for buyers, it really does not matter who is selling them until what they purchase is worth the value. The established e-commerce platforms have already generated trust among buyers. With deep discounting, efficient services and timely return policies, these companies already occupy the top slots in any buyers' consideration set. For ONDC to catch up with these e-commerce firms will certainly be a mammoth challenge.

Next, though it is quite certain that there would be no platform bias against small retailers/SMEs on ONDC, it does not mean that small retailers/SMEs will have it easy on ONDC. They will still have to compete among themselves and with giant companies to gain superior listings. To deal with listing challenges, usually platforms build algorithms that tend to rely on customer reviews, prices etc. to provide a superior listing to a given seller over another. But this very aspect may put smaller retailers at a disadvantage since

bigger players tend to have resources to play around with the algorithm of any platform. So, encountering this disadvantage that smaller retailers would face is going to be quite a challenge for ONDC.

Brightest Indian minds

ONDC is a novel initiative that has still not been attempted anywhere else in the world. However, looking at the potential value that this initiative can generate, its success will be greatly beneficial for the digital economy of the country. If it becomes successful just like UPI, this initiative may also be emulated by various other countries.

However, the road to success is not going to be easy. There are multiple challenges that need to be dealt with. Nevertheless, with some of the brightest Indian minds (e.g., Nandan Nilekani, Thomas Koshy) leading this project, one can be hopeful of yet another revolutionary innovation coming out of India. The world certainly is watching!

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