

India's Open Network for Digital Commerce - Next Big Digital Revolution after UPI?

*Ayushi Chauhan**

By giving small businesses a level playing field and dismantling monopolies and duopolies, the government-backed Open Network for Digital Commerce (ONDC) is anticipated to be as revolutionary as UPI (Unified Payments Interface) and aims to shift Indian e-commerce away from the current platform-centric model dominated by market leaders. This article attempts to explain what ONDC is, the market issues that led the government to introduce the ONDC initiative, how it will promote small sellers and businesses against large corporations, and most importantly, what are the most challenging obstacles that could turn this very initiative into a flop project. This article also makes an attempt to illustrate how, if implemented correctly, ONDC might completely alter the way online businesses currently function in India.

Introduction

THE government-backed Open Network for Digital Commerce (ONDC) mentored by Nandan Nilekani, Co-founder of Infosys, is believed to be a game-changer and is expected to be as revolutionary as UPI (Unified Payments Interface) since the government hopes it will democratize e-commerce and give small sellers access to systems and technology that currently only giants like Flipkart and Amazon enjoy. ONDC promises to provide a level playing field to small merchants. Its proponents say that ONDC will break the monopoly and duopoly, hence moving Indian e-commerce away from the current platform-centric model dominated by market leaders. This article attempts to explain the problems in the market that prompted the government to start the ONDC initiative, how it will promote the small sellers and businesses against giant companies, and most importantly what are the most difficult hurdles that could turn this very same initiative into a flop project.

* Ph.D Student, Batch 2021, Indian Institute of Foreign Trade, New Delhi.

To understand this, the first thing we need to know is what is ONDC and why is there even a need for the government to intervene with ONDC because we already have super high-tech companies who have invested billions of dollars into researching and developing world-class tech for e-commerce in India.

What is ONDC?

ONDC, set up as a non-profit company, is a network that lets sellers voluntarily display their products and services across all participating apps and platforms. Since this network uses open specifications and protocols and isn't tied down to any platform - it doesn't require buyers and sellers to use the same platform to complete a transaction. So long as the platforms are connected to this open network, buyers and sellers can transact irrespective of the applications they use.

Why is there a Need for ONDC?

There are majorly three reasons for this, and all these reasons come

under the canopy of just one factor which is the abuse of aggregator-superpower through monopolization of e-commerce. There are mainly two models through which e-commerce companies do business in India, namely, the marketplace model and the inventory model which are explained as under.

The Marketplace Model

According to the FDI policy guideline, "Marketplace model of e-commerce means providing of an information technology platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller."

Marketplaces are platforms that enable a large, fragmented base of buyers and sellers to discover prices and transact with one another in an environment that is efficient, transparent, and trusted.

The main feature of the marketplace model is that e-commerce firms like Flipkart, Snapdeal, Amazon, etc. will be providing a platform for customers to interact with a selected number of sellers. When an individual is

purchasing a product from Flipkart, he will be actually buying it from a registered seller on Flipkart. The product is not directly sold by Flipkart. Here, Flipkart is just a website platform where a consumer meets a seller. Inventory, stock management, logistics, etc. are not supposed to be actively done by the e-commerce firm.

The Inventory Model

According to the FDI policy, “Inventory model of e-commerce means an e-commerce activity where the inventory of goods and services is owned by e-commerce and sold to the consumers directly.”

The main feature of the inventory model is that the customer buys the product from the e-commerce firm. He manages an inventory (stock of products), interfaces with customers, runs logistics, and involves in every aspect of the business. Alibaba of China is following the inventory model.

Using the inventory model, the e-commerce companies generate way more profit as compared to the marketplace model. So, if an e-commerce company wants to make money, it by default must buy products at a cheaper cost and then increase its own margins. In the case of Amazon, it had two companies named Appario Retail and Cloudtail which are huge sellers through whom Amazon bought its products, stored them, and sold them in the market. In fact, according to a leaked internal document of Amazon, Cloudtail and Appario contributed to 35 per cent of total sales on Amazon India in 2019 and they even use these sellers to strike exclusive deals with smartphone companies like Apple, Xiaomi, and other tech companies to outplay both small

players and their rivals. But in 2016 the Government of India came out with regulation in this regard. The new FDI policy regulation in the e-commerce sector has allowed 100 per cent FDI in the marketplace model of e-commerce under an automatic route. Correspondingly, no FDI is allowed in the inventory model. The new policy comes as clarification by the FDI policy think-tank, the DIPP (Directorate of Industrial Policy and Promotion). Even after this, the government felt that the giants will come up with strategies to increase their margins and outplay small retailers so there arises the dire need to come up with something to protect the MSMEs. This is the first reason behind the ONDC initiative.

The second reason is Deep Discounting. India is a land of festivals and around these festivals, we see a series of sales on these e-commerce platforms luring the customers with heavy discounts and this kind of deep-discounting directly hurts the brick-and-mortar stores which cannot match the prices offered by these e-commerce giants. Hence the government felt the need to support the offline small players of our economy and came up with the idea of ONDC.

Lastly, we have the imitation game of e-commerce platforms. Through the sophisticated data analysis algorithms of giant e-commerce platforms such as Amazon, these large companies are in a position to predict which product is most popular in which region, at what price, and what features this particular product possesses. After gathering all such information, Amazon can imitate this product and sell it under its own brand, Amazon Basics, at a much lower price and list it above all other top products with the “best seller”

label. By applying this method along with the advantage of having its own warehouses in that particular location, Amazon can undercut the competition in terms of delivery charges also. Considering the price sensitivity in the Indian market, these giant e-commerce platforms can capture the market and drive out the small players out of the competition.

The above-discussed three problems are the major reasons behind the ONDC initiative.

What is the Aim of ONDC?

According to an ONDC strategy paper released in early 2022, 1.2 crore hyperlocal Kirana retailers make up 80 per cent of the retail market in India, and the majority of them are not online. Despite the fact that the COVID-19 virus gave e-commerce in India a significant boost, the big corporations, such as Amazon and Walmart’s Flipkart, which control more than 60 per cent of the market, have primarily benefited from it.

Small retailers and MSMEs are forced to sell through well-established platforms due to the significant expenditure needed to construct end-to-end e-commerce solutions. These platforms are bound since the trust created on them (in the form of ratings) is also non-transferable. By facilitating the transition from an operator-driven, monolithic, platform-centric paradigm to a facilitator-driven, interoperable decentralized network, ONDC hopes to relieve small sellers from these constraints.

Over the next two years, ONDC intends to raise the prevalence of e-commerce from about 8 to 25 per cent, as stated by Reuters. Within the five years, it also hopes to add

\$48 billion to the gross merchandise value by adding 90 crore buyers and 12 lakh vendors.

Hurdles that ONDC has yet to Overcome

1. Protection to buyers- platforms like Amazon and Flipkart have strict policies to ensure the protection of buyers against fraud, payment security, and data privacy. With multiple platforms involved, the lines of accountability would be blurry.
2. Protection to sellers- sometimes wrong returns are delivered due to a mixup of packages or wrong products provided at the time of return by the customer. Sellers can raise a safety claim on amazon and get compensation but in the case of ONDC, there is still no clarification regarding the compensation clause.
3. Customer service- the large e-commerce platforms are very good at providing after-sale services and making the user experience easy and smooth. It is still skeptical whether small players would be able to match the service quality standards set by these companies.
4. Courier returns- platforms cover the cost for packages that get canceled in transit. This would be impossible to impose on ONDC.
5. Customer returns- currently, e-commerce platforms decide which return requests will be approved or rejected. However, with no skin in the game, local platforms would allow people to raise returns for the silliest of reasons resulting in massive losses for the seller.
6. Listing inequality- the sellers which are more popular, usually the large retailers among the customers are listed above the unpopular ones, i.e., the small retailers. The scarcity of screen space itself brings in inequality.
7. Price wars- the large players can easily undercut their competition through deep-discounting as discussed earlier and smaller players would be forced to decrease their costs which will eventually draw them out of cash and then out of business. Therefore, the purpose of price comparison would be defeated if the larger players start engaging in predatory pricing.
8. Logistics and inventory management- It will be very difficult for ONDC to integrate the logistic services and supply chain of all these e-commerce giants. From a marketing perspective as well, how is it going to target customers with little knowledge of the inventory of other firms. There already have been previous failed attempts by Reliance and many other starts ups to small aggregate retailers on their platform. As Amazon and Flipkart are also coming into logistics, the traditional logistics companies might face threats from these giants who are charging less than one-fourth of what the price charged by traditional logistics firms.

Conclusion

The above-stated list of problems is not exhaustive. However, before the beginning of anything revolutionary, such kind

of problems are destined to occur. Moreover, great minds, such as Nandan Nilekani are behind the running of this initiative which makes us even more hopeful toward the success of this project. If implemented successfully, ONDC might prove to be a complete game-changer in terms of how online businesses operate in India today. Reuters reports that, putting network users aside, the government wants millions of small firms to become vendors on ONDC. For that, it will need to launch a significant awareness campaign through the Confederation of All India Traders, which represents about 80 million firms in India.

REFERENCES

1. <https://www.firstpost.com/business/explained-the-open-e-commerce-network-ondc-that-flipkart-amazon-and-others-are-planning-to-join-10666601.html>
2. <https://www.livemint.com/companies/news/what-is-ondc-india-s-project-for-an-open-e-commerce-network-11654097068290.html>
3. <https://indianexpress.com/article/explained/explained-sci-tech/microsoft-open-network-digital-commerce-india-e-commerce-8082037/>
4. https://www.business-standard.com/article/economy-policy/india-to-launch-open-e-commerce-network-to-take-on-amazon-walmart-122042801460_1.html
5. <https://youtu.be/sBBMRBVvVis>
6. <https://youtu.be/ugykOPSXskQ> ●