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# "ONDC: WILL IT BE THE SLING-SHOT FOR MSMES TO BATTLE AGAINST THE GOLIATHS OF E-COMMERCE?"

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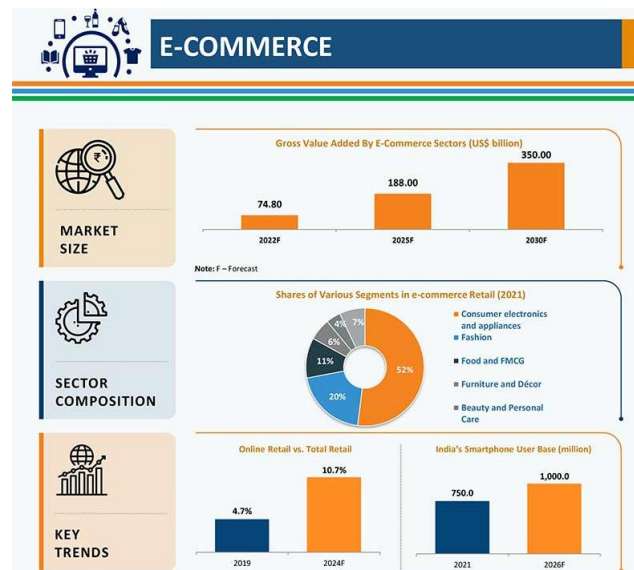
**ABSTRACT**

Think of a future in which small vendors across India have access to an ocean of unexplored business prospects. A future in which they can overcome the obstacles of limited credit availability, low profit margins, and quality assurance in electronic commerce. This future is becoming a reality because of the Open Network for Digital Commerce (ONDC) technology. In India, the digital revolution is transforming the business space, and the Open Network for Digital Commerce (ONDC) platform is at the forefront of this transformation. With less than 10 lakh MSMEs working digitally out of a staggering 10 crore MSMEs throughout the country, it emphasizes the enormous untapped potential in the business-to-business (B2B) space. As established e-commerce giants continue to dominate the market, this study poses a fundamental question: Can ONDC serve as the strategic sling-shot for MSMEs, empowering them to effectively compete against the formidable goliaths of e-commerce? This research aims to dig deep into what ONDC is all about - its core principles and goals. This study is all about exploring how ONDC could shake things up and redefine the whole competition game for small businesses in the world of online commerce.

**Keywords**:
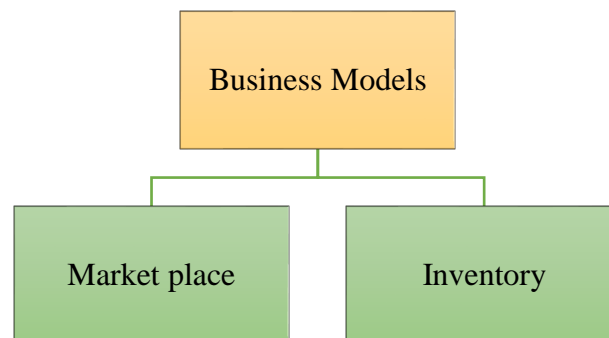Open Network, e-commerce, business-to-business (B2B), MSMEs, UPI

## INTRODUCTION

According to projections, sociodemographic and economic factors like urbanization, income growth, and an increase in nuclear households would cause the Indian retail sector to grow to $2 trillion by 2032. The Indian e-commerce market, on the other hand, is projected to grow at a CAGR of 9% by 2030. The retail industry in India is generally unorganized. The share of modern retail, which includes e-commerce, will rise to 30-35% during the next 3–5 years, while the share of conventional retail will decline to 65-70%. The Indian e-commerce landscape is poised for substantial growth, as reflected in key market indicators. The Gross Value Added by E-commerce Sectors is anticipated to experience remarkable expansion, reaching $74.80 billion in 2022, with projections soaring to $188.00 billion by 2025 and an impressive $350.00 billion by 2030. The sector composition in 2021 illustrates a diverse market, with Beauty & Personal Care commanding the lion's share at 52%, followed by Fashion at 11%, and Consumer electronics and appliances at 7%. Notably, the burgeoning trend of online retail vis-à-vis total retail is expected to increase from 4.7% in 2019 to a significant 10.7% by 2024. Additionally, the proliferation of smartphone usage is a key driver, with the user base projected to surge from 750 million in 2021 to a staggering 1,000 million by 2026.

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*Source: IBEF e-commerce Report, Dec 2023*
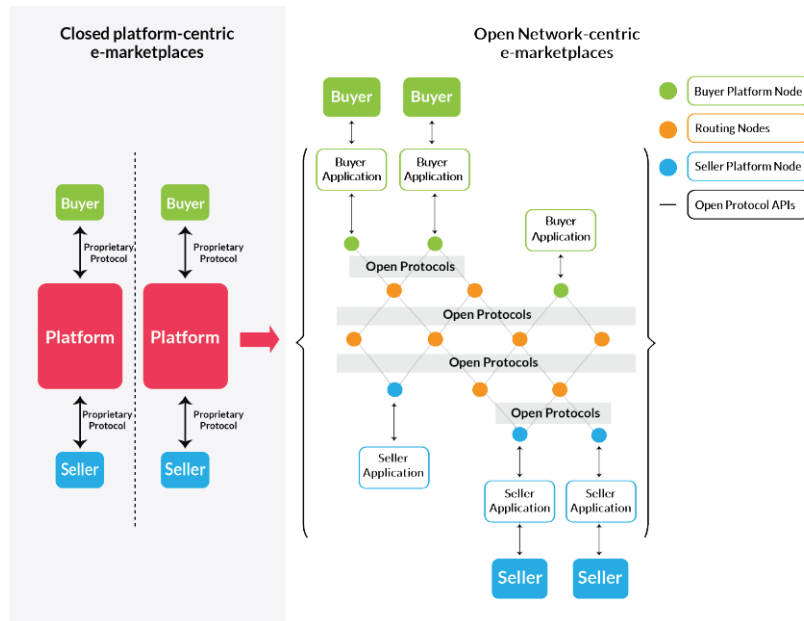
**CURRENT E-COMMERCE BUSINESS MODELS**



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. In India, foreign direct investment in retail is allowed only for the 'Market place 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'.

## DEMOCRATIZING E-COMMERCE

Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industries conducted a massive outreach during the outbreak of the COVID-19 pandemic in the country to understand its impact on small sellers and hyperlocal supply chain functioning. ONDC is being established as a first-of-its-kind initiative globally to pave the way for reimagining digital commerce in India and establishing a globally replicable model for digital commerce. This will be an open network developed on open protocols based on open-source specifications with established registries, enabling wide-scale participation by digital commerce ecosystem players in India through multiple gateways. In-order to truly democratize digital commerce in a country such as India, ONDC needs to focus on communicating the concept of scale to the owners of the presently un-digitized kirana (grocery) stores.

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## ONDC APPROACH



*Source: ONDC Report, 2022*

ONDC brings together all stakeholders: seller apps (e-Samudaay, Snapdeal, GoFrugal); logistic players capable of covering 90% of India's pin codes (Ekart, Shiprocket, Delhivery, Dunzo); and buyer applications (Paytm, Magic Pin). PhonePe and CSC Grameen e-store are among the other applications that will follow suit. There are 400 thousand rural Grameen e-stores, which have the potential to provide jobs for rural youth in last-mile logistics. Starting with meal ordering, grocery delivery, and mobility, ONDC has recently expanded into business-to-business (B2B) commerce (wholesale trade). On June 5, 2023, it registered 160 transactions during the alpha testing phase. The network includes conglomerates like ITC, Hindustan Unilever Limited (HUL), and Proctor & Gamble (P&G), as well as Kancheepuram saree dealers. ONDC is standardising loan and insurance standards, as well as inputting hotel and vacation bookings, with the goal of influencing every part of everyday life.



*Source: Capgemini Insights, August 2023*
*PILLARS OF ONDC*

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ONDC identifies 4 types of players - Buyer Network Participant, Seller Network Participant, Technology Service Provider and Gateway. In an unbundled network, there needs to be a seamless interaction between all participants to facilitate end-to-end e-commerce transactions.

Buyer Network Participant

Connects buyers to the ONDC network via a buyer application and handles buyer-facing activities such as customer service, guaranteeing a seamless shopping experience, and offering a single checkout experience across categories.

- Businesses with a significant client base can join ONDC as buyer network participants.
- This may be done through your existing app, a customized app, voice assistant, chatbot, or any interface that integrates with the network and meets the feature criteria listed below.
- Buyer network participants may choose to collaborate with a technology company to develop a buyer-facing interface that integrates with ONDC.

Seller Network Participant

A Seller Network Participant is responsible for connecting sellers to the ONDC network via a seller application. They are also in charge of digitising the seller's catalogue and distributes money. They must also teach vendors on optimal e-commerce procedures to ensure excellent fulfilment and give customers with a nice shopping experience.

A Marketplace Seller Node (MSN) does not create or manufacture any merchandise of its own. It functions as a marketplace, offering products and services given by merchants.

Inventory Seller Node (ISN) is any application managed by a seller who produces or manufactures and sells its own inventory. It does not contain items or services from other merchants.
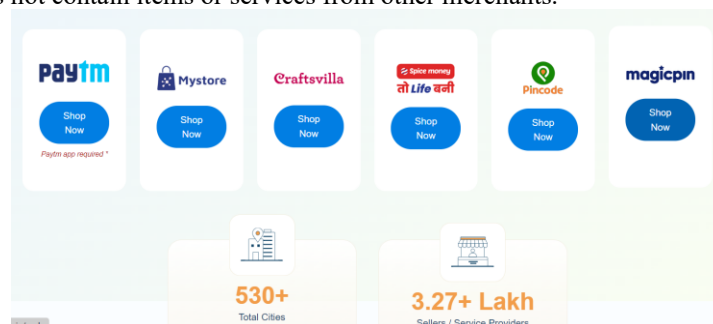


*Source: Sellers on the ONDC Network*

Technology Service Providers (TSP)

Technology Service Providers (TSPs) are critical in providing a variety of software applications, either as standalone solutions or through cloud-based services. TSPs, as outsourced software providers, offer smooth network-based company operations, allowing participants to participate in e-commerce without the need for in-house technical skills. TSPs also act as catalysts for attaining ONDC objectives and enticing companies of all sizes to join the network.

Gateway

Gateways are critical components of an open-network ecosystem, acting as technology providers to guarantee that all sellers on the ONDC Network may be identified. They enable multicasting by transmitting search queries from buyer apps to all seller applications and vice versa, as outlined in the ONDC Network Policies. The Gateway service allows end users to do manual searches by supplying relevant product/service information from ONDC's seller universe.

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## CHALLENGES AHEAD FOR ONDC

1. Adoption and Awareness: A key issue for ONDC is promoting widespread adoption among MSMEs. Many smaller firms may be unfamiliar with ONDC or unwilling to switch from their current systems. Raising awareness and giving education on the benefits of ONDC will be critical to overcome this barrier.

2. Tech Infrastructure: ONDC's performance depends on strong technological infrastructure, such as dependable internet access and digital literacy among MSMEs. In areas with inadequate internet connectivity or technological skills, ONDC adoption may be constrained.

3. Interoperability: ONDC intends to establish an open network for many parties to join. However, establishing interoperability across systems, platforms, and stakeholders is a big technological problem. Integrating several e-commerce platforms with ONDC may cause compatibility concerns.

4. Ensuring Data Privacy and Security: Since ONDC includes the transmission of sensitive corporate and consumer data, strong data privacy and security safeguards are essential. Protecting against cyber risks, data breaches, and unauthorised access will be critical to maintaining user confidence.

5. Managing regulatory compliance: ONDC faces challenges in adhering to current rules and anticipating future changes. Adherence to data protection laws, consumer rights rules, and other legal obligations will be critical in avoiding legal challenges and fines.

6. Established e-commerce platforms provide a substantial challenge due to their established consumer base and market dominance. Convincing MSMEs to transition to ONDC from these platforms may be difficult, especially if the present platforms have more reach, stronger infrastructure, or lower pricing.

## IMPORTANT MILESTONES

The ONDC platform showed a phenomenal growth with a peak of 25 thousand orders per day in mid-May, but thereafter it slid down to nine thousand orders/day in the first week June – a 64% fall. A similar pattern was witnessed in food delivery owing to decrease in discounts and delivery subsidies. The platform is still at a nascent stage in terms of reach and categories however frequent iterations are planned approximately every three months. As per reports of May 2023, since the launch of beta testing on September 29, 2022, ONDC has scaled to 36,000 sellers, 45+ Network participants and 8+ categories, with a weekly average of 13,000+ retail orders and 36,000+ mobility rides per day with peak transactions reaching 25,000 retail orders on a day. Chennai Metro Rail became the first metro service to join the ONDC Network, representing a significant advancement in digital commerce for metro services. Following its inauguration in Chennai, ONDC announced ambitions to expand its network to include Kochi Metro, Kanpur Metro, Pune Metro, and others. By adding Chennai Metro into the Open Network, ONDC hopes to transform mass transportation by delivering a seamless combination of services and reinventing mobility. Farmers producer organisation (FPOs) joined the ONDC platform in April 2023, after which 4000 such entities have sold as much as 3,100 types of value-added agricultural goods through the facility. Officials stated that the goal is to introduce 6000 FPOs into the nationwide digital market place by the end of FY24.

## CONCLUSION

The Open Network for Digital Commerce (ONDC) has the potential to be a revolutionary force in redefining the marketplace for Micro, Small, and Medium Enterprises (MSMEs) in the face of powerful e-commerce giants. As our study shows, the current issues encountered by small businesses, such as market access, fair competition, and innovation limits, may be reduced by ONDC's inclusive ideals and open nature. However, the realisation of ONDC's promise is dependent on successful implementation, overcoming possible hurdles, and securing widespread acceptance within the digital commerce ecosystem. As the ONDC programme progresses, regular assessment and strategic improvements will be critical to maximising its impact and creating a more dynamic and equitable digital commerce market for firms of all sizes. In the past, India has led the world and shown that it can innovate such population-scale initiatives with the power to fundamentally disrupt and democratize markets, be it Unique Identification Authority of India (UIDAI) - Aadhaar, or Unified Payment Interface (UPI). As UPI helped to transform the payment system in India, there is a similar need to make digital commerce in goods and services available equitably to all Indian citizens. In my perception, MSMEs have got their sling-shot, but needs some training and practice in using the tool for their betterment in the e-commerce industry.

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