THE NETWORK EFFECT

ONDC, the government-backed ecommerce platform, has put in place both a horizontal as well as a vertical growth strategy to scale up. **Suraksha P** takes stock of the ecosystem around the marquee project

The government e-commerce platform, Open Network for Digital Commerce (ONDC), had set an ambitious target to go live in 100 cities by August. Yet, by August 17 it was live only in 45 cities, after starting pilots in five from April 29.

ONDC chief executive Thampi Koshy is unfazed though. "We will go live in another 10 cities in the next few days," he told ET. "We are trying to onboard merchants in several cities and add more cities." ONDC has put in place a horizontal as well as a vertical growth strategy. Horizontal growth will happen when more cities go live, and the network is counting on frontrunner merchants to act as catalysts in towns. "We are asking our merchants to bring all their regular users with them so that transactions can be continued," Koshy said. Vertical growth will entail opening up to the public at large, but in only one city to begin with.

"We are actively working to finalise one of the five early pilot cities

> "We are trying to onboard merchants in several cities and add more cities. The network has a horizontal and a vertical growth strategy. Horizontal growth is to have more cities"
>
> **Thampi Koshy,**
> CEO, ONDC

that will be opened to the public," Koshy said. This will be one with the highest number of merchants on the platform. The pilot cities are Delhi, Bengaluru, Bhopal, Coimbatore, and Shillong. To make this happen, the network needs more participants. "In the next one month, we will have at least 15 participants -- who are under advanced stages of integration -- go live," he said. ONDC is currently live in categories including grocery, food and beverage, and home and décor.

EASE OF BUSINESS

A buyer and seller do not have to be on the same platform to conduct business with each other on ONDC. The network will enable them to be digitally visible and transact, no matter which platform or application they use. The ONDC platform lies at the intersection of the interfaces hosting buyers and sellers. When a buyer searches for an item on the buyer app, it will connect to the ONDC platform, which will in turn connect to seller side interfaces that will show all the sellers that have listed their item.

On the buyer side, only fintech firm Paytm is active as of now. On the seller side, Digiit, eSamudaay, Gofrugal Technologies, Growth Falcons, and Seller App, have gone live. Dunzo and LoadShare are currently

HOW ONDC WORKS

- **ONDC or** Open Network for Digital Commerce is a market and community-led network that aims to create an open, inclusive and competitive marketplace

- **Currently, incumbent** e-marketplace platforms follow a platform-centric model whereby they have end-to-end control over the entire ecommerce transaction process, right from seller onboarding, customer acquisition, order fulfilment, complaint redressal and managing payments

- **ONDC's open** network will 'unbundle' or break down this complex system of granular activities into **separate micro-services** that can be addressed separately by any entity that chooses to perform one or more of these activities

- **It is** currently live in 45 cities and hopes to open to public in one of the five pilot cities first

- **While 20** companies will be going live on the network soon, another 161 companies have just initiated integration

- **On the** buyer side, only Paytm is active but on the seller side, Digiit, eSamudaay, Gofrugal Technologies, Growth Falcons and Seller App have gone live

- **Dunzo and** LoadShare are currently the only two logistics service providers ONDC has onboarded

> "We're also going to have a handshake mechanism with the buyer app, where we can have all consumer issues coming in"
>
> **Girish Pai,** Founder-CEO, Growth Falcon

> "Apps like ours need to manage the service quality delivery. Seller apps that are purely thinking of themselves as digitisation agents can't feign ignorance when it comes to fraud sellers. Buyer-side apps can't take responsibility"
>
> **Anup Pai,** Founder & CEO, eSamudaay

the only two logistics service providers that ONDC has onboarded. On the buyer side, those in the advanced stage of development include Kotak Mahindra Bank and PhonePe.

Some, such as CSC Grameene-Store, Hippo Innovations, and Plotch.ai, are on both the buyer and seller side.

Seller side platforms in advanced stages of integration include Bizom, EnStore by Innobits, Global Linker, NowFloats, nStore Technologies, Petpooja (Prayosha Food Services), Shopalyst, Snapdeal, Sonata, UShop (Unilever), Zoho, uEngage Services, EKart, Grab and ShipRocket (Bigfoot Retail Solution). While these companies will go live on the network soon, another 161 companies have just initiated integration.

"What we are building is not a central system. It is a network. We are actively working with increasing merchants, categories, network participants, locations, horizontally to create the local push and vertically in some places to get the confidence that it is working for the public at large," Koshy said. Will partners need to pay

an onboarding fee to ONDC? "We have not decided that. For the first few months, onboarding is going to be free. Eventually, the fee is going to be moderate as we are not a profit-making entity," Koshy said.

The priority is to get the network up and running. "Since we have no dividends to give or listing ambitions, things like onboarding fees will be marginal," he added, explaining that ONDC will seek a certain service charge only in order to be a self-sustaining entity. "When somebody buys a service, there should be a service fee for it to make financial sense. Nobody can do charity. When we set up and maintain such a large network, onboard players, test them, and provide certification, it costs us. Setting up and maintenance is a huge risk and challenging, and we are undertaking that," he said.

FACILITATORS

Anup Pai, founder and CEO of local commerce platform eSamudaay told ET that apps like his need to manage the service quality delivery. The app is one of the five seller-side apps integrated with ONDC.

"Seller apps that are purely thinking of themselves as digitisation agents can't feign ignorance when it comes to fraud sellers. Buyer-side apps can't take responsibility. It's the responsibility of the seller to get their product to the consumer," Pai said. "It is their job also to ensure good logistics service. The entity that is expected to deliver the product needs to be the first party to take responsibility."

Digital marketing company Growth Falcon said it would have a "handshake mechanism" with the buyer app where it can solve all consumer issues. "For example, if the food is not delivered or if the food is spoiled, we will ensure a full refund. In cases where neither our merchant nor logistics side is at fault, we'll approach the third-party Online Dispute Resolution platform," said Girish Pai, its founder and chief executive.

For sellers, there will be "four to five critical metrics" like defect rate, return rate, and late dispatch, said Dilip Vamanan, cofounder of analytics firm SellerApp.

"Defect rate should be ideally less than 2% of the total number of transactions done by the seller. Whenever these metrics hit a threshold, we analyse it and act on it," Vamanan said.

Sellers will have the primary responsibility in any transaction, said Kumar Vembu, the chief executive of GoFrugal. "Whether it is the buyer app or the network, they're only facilitating the transaction. Whenever

onboarding happens, sellers sign an agreement with ONDC where they agree to its terms and conditions. The seller is responsible for quality of goods and logistics," Vembu said.

US-based technology behemoth Microsoft recently became the first multinational tech firm to join ONDC. The company intends to introduce social e-commerce or a group buying experience in the Indian market through the entry. It will launch a shopping app for Indian consumers, along with their

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social circle, harnessing the ONDC network to discover the best pricing among retailers and sellers.

"By utilizing the strength of our open network users, Microsoft, too, can implement their creative ideas like social commerce swiftly," Koshy of ONDC said. Ecommerce platform Snapdeal made its debut on ONDC in mid-August. The company signed the onboarding agreement to join the platform earlier this month. Snapdeal will provide pan-India access on ONDC.

At the time of launch, more than 2,500 cities and towns will be enabled for access and more towns will be added as per ONDC's network expansion during the year. Snapdeal said various third-party logistics providers who work with it will provide both inter- and intra-city logistics.

> "We see four to five critical metrics like defect rate, return rate, and late dispatch for a seller. Defect rate should be ideally less than 2% of the total number of transactions done by the seller"
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> **Dilip Vamanan,** Cofounder, SellerApp

Snapdeal may also explore using the on-network logistics options available on the ONDC platform.

ESamudaay.com, one of the earliest ONDC participants that was founded in July 2020, has established a working model for a local ownership platform in Udupi (Karnataka), which has been operational for 16 months.

The network has expanded to over 150 active participants and has been activating clusters in five to 10 new districts per week since June. It expects to be initiated in 75 districts by the end of August and expand to all 770 districts of India over the next few months.

DIGITAL TOOLS

To compete effectively, small sellers may need digital tools like the ones mature ecommerce marketplaces provide. Tools such as zero-cost EMI, cashbacks and upgrade offers funded through banks and brands are the mainstay of large e-commerce marketplaces such as Amazon and Walmart-owned Flipkart to drive sales.

Bengaluru-based Innoviti Payment Solutions -- through its collaborative commerce platform -- hopes to address this problem of co-funded offers for small sellers.

Through its seller app integrated with ONDC, Innoviti will help sellers not only publish their products on the network to be visible to all buyer apps but will also help sellers associate with products.