



Open Network for Digital Commerce

For Prelims: [Open Network for Digital Commerce \(ONDC\)](#), Micro, Small and Medium enterprises (MSMEs), [Unified Payments Interface \(UPI\)](#).

For Mains: Open Network for Digital Commerce (ONDC), its potential, challenges and way forward

[Source: TOI](#)

Why in News?

Recently, **Open Network for Digital Commerce (ONDC)** recorded an all-time high of **8.9 million transactions** across retail and ride-hailing segments in May 2024, representing a **23% month-on-month increase** in total transaction volume.

What is ONDC?

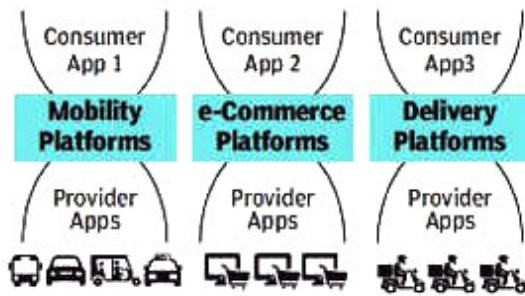
▪ About:

- [Open Network for Digital Commerce \(ONDC\)](#) is a network of **interconnected e-marketplaces** through which sellers, including brands, can list and sell their products **directly to customers bypassing any middlemen** or intermediaries.
 - It allows transitioning from a platform-centric model to an **open source network for buying and selling goods and services**.
- It was launched in **2021** under the [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#) by the **Ministry of Commerce** as part of the [Digital India](#) initiative.
- It offers delivery services for groceries, home decor, cleaning essentials, food delivery and other products.
- It is a **not-for-profit organisation** that provides a network enabling local digital commerce stores across various industries to be discovered and engaged by any network-enabled applications.
- Similar to the [Unified Payments Interface \(UPI\)](#), ONDC aims to level the **operational playing field** among e-commerce platforms.
- The [Quality Council of India](#) has been tasked with **integrating e-commerce platforms through this open-source technology network**, allowing users to modify, enhance, or improve the original code.

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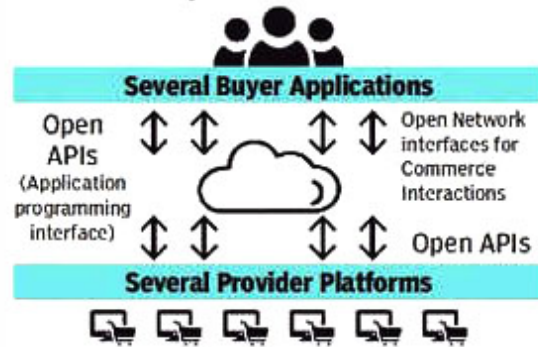
GOVT HOPES TO REPLICATE UPI MODEL'S SUCCESS

Existing: Platform-Centric Model



In the current platform-centric digital commerce model, **buyers and sellers must use the same platform/application** to do a business transaction

Future: Open Network Model



In ONDC's network-centric model, **buyers and sellers can transact no matter what platform/application they use** through an open network

▪ Objectives:

- **Democratisation and decentralisation** of e-Commerce
- **Inclusivity and access for sellers**, especially small and medium enterprises as well as local businesses
- **Increased choices and independency** for consumers
- Making goods and services **cheaper**.

▪ Working Mechanism:

- ONDC functions on the basis of an open network where it will not be a single platform similar to Amazon or Flipkart but rather in the form of a gateway where buyers and sellers across different platforms will be able to connect.

Open Network for Digital Commerce

What is ONDC?

ONDC is a freely accessible government backed platform that aims to democratise e-commerce by moving it from a platform centric model to an open network for buying and selling of goods and services. It aims to enable buying of products from all participating e-commerce platforms by consumers through a single platform. It is an initiative of the Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry.

What is a Platform Centric Model?

A platform is a business model that creates value by facilitating exchanges between two or more interdependent groups, usually buyers and sellers. Buyers and sellers have to be on the same app for a transaction which happens through the same platform. For example, a buyer needs to go to Amazon, to buy a product from a seller on Amazon.

Advantages

Will standardise operations like cataloguing, inventory management, order management and order fulfilment, hence making it simpler and easier for small businesses to be discoverable over network and conduct business. For buyers, there would be access to more sellers and faster deliveries due to access to hyper-local retailers.

How is ONDC different?

The ONDC model is trying to replicate the success of the Unified Payments Interface (UPI) in the field of digital payments. Under ONDC, it is envisaged that a buyer registered on one participating e-commerce site (for example, Amazon) may purchase goods from a seller on another participating e-commerce site (for example, Flipkart). The open network concept extends beyond the retail sector, to any digital commerce domains including wholesale, mobility, food delivery, logistics, travel, urban services, etc.

Potential Issues

Getting enough number of e-commerce platforms to sign up, issues related to customer service and payment integration.



What is Open Source?

- Open source implies that the **technology** or code deployed for the process is **freely made available for everyone to use, redistribute, and modify**.
- For instance, the **operating system of iOS is closed source**, it cannot be legally modified or used.
 - Whereas, the **android operating system is open source**, making it possible for smartphone manufacturers, such as Samsung, Nokia, Xiaomi, etc., to modify it for their respective hardware.

What are the Potential Advantages of ONDC?

- **Empowering Consumers:** ONDC fosters a **more transparent environment** by potentially increasing access to information.
 - This **empowers consumers** to make informed choices and benefit from a wider array of sellers, potentially leading to lower prices.
- **Boosting Competition:** By breaking **down the dominance of existing platforms**, ONDC creates a level playing field. This **incentivizes competition among sellers**, ultimately translating into a wider variety of products and potentially lower prices for consumers.
- **Innovation:** The open-source architecture of ONDC **fosters innovation**.
- **Cost Efficiency:** ONDC's decentralised structure has the potential to **streamline operations and reduce redundancies** and lead to significant cost savings.
- **Boosting Small Businesses:** ONDC removes entry barriers for **small and medium-sized enterprises (MSMEs) and local vendors**. This paves the way for greater participation in the digital marketplace, fostering a more inclusive e-commerce ecosystem.

ONDC & its potential

Grow India's digital consumption to \$340 bn by 2030 with 500 mn transacting users



Bring the next **500 mn** consumers & 100 mn sellers to trade online



Scope to connect **80-90 mn** self-employed workers



Get **6-7 times** more MSMEs into a diverse ecosystem



Increase a farmer's net income by **25-35%**, enhance the agricultural ecosystem



Further inclusion in digital commerce which is only 7% of total market with **165 mn users**

What are the Challenges to ONDC?

- **Complexity Factor:** Compared to user-friendly systems like UPI, **ONDC's underlying mechanisms are intricate.** The ease of adoption witnessed with UPI might not be easily replicated with ONDC.
- **Breaking Established Habits:** Consumers are accustomed to the existing e-commerce platforms' user interfaces and functionalities. ONDC will **need to provide a seamless and user-friendly experience** to compete effectively.
- **Dispute Resolution Concerns:** Unlike traditional platforms that manage the entire transaction lifecycle, **ONDC focuses solely on online buying and selling.**
 - This separation might lead to an **increase in disputes related to deliveries, product quality, or after-sales service, as ONDC doesn't function as a direct intermediary.**
- **Lack of a Robust Grievance Redressal Mechanism:** The lack of clarity on **responsibility for customer service and handling complaints** may deter people from joining the platform.
- **Challenges from Existing E-commerce Platforms:** Existing e-commerce giants have fostered **strong relationships with consumers through loyalty programs, bundled services, and other incentives.**
 - ONDC will need to develop compelling strategies to attract and retain customers in this competitive landscape.
- **Price Advantage Uncertainty:** As a facilitator, **ONDC might not be able to directly influence product pricing or offer discounts on the scale** of established players who leverage bulk deals and partnerships.

Note

The **Nandan Nilekani committee, formed by the Department for Promotion of Industry and Internal Trade (DPIIT)**, recommended the following for the ONDC:

- **Open Network Protocols:** Establish open protocols for digital commerce operations.
- **Interoperability:** Ensure seamless interaction across different platforms.
- **Standardisation:** Develop uniform standards for e-commerce.
- **Decentralisation:** Reduce reliance on a few large platforms to foster competition.
- **Inclusivity:** Make the network accessible to small and medium enterprises.
- **Transparency and Security:** Ensure data privacy and fair operations.
- **Regulatory Framework:** Create robust regulations for compliance and consumer protection.
- **Capacity Building:** Train small businesses to participate effectively.
- **Consumer Choice:** Expand product and service options through competition.
- **Tech-Driven Innovations:** Utilize advanced technologies to improve digital commerce.

Way Forward

- **Enhancing Digital Infrastructure:** The government can play a crucial role in fostering a **robust digital infrastructure** that supports ONDC.
 - This may involve investments in **broadband connectivity and initiatives** to bridge the digital divide in rural and remote areas.
- **Promoting Digital Literacy:** A comprehensive **digital education policy that caters to diverse regional languages** is crucial.
 - This will empower both consumers and sellers, particularly small businesses and local vendors, to **navigate the ONDC platform effectively**. User-friendly interfaces that prioritise ease of use will further enhance adoption.
- **Targeted Outreach Programs:** Extensive outreach programs with adequate funding are necessary to attract and onboard small sellers, especially micro, small, and **medium enterprises (MSMEs)** and kirana stores.
 - **Incentives and handholding support** can be instrumental in overcoming initial hurdles and promoting platform adoption.
- **Dispute Resolution Framework:** Establishing a **secure and efficient single window mechanism for addressing issues** like information asymmetry, opaque pricing, quality concerns, and buyer-seller disputes is essential.
 - This will build trust and confidence among stakeholders in the ONDC ecosystem.

Conclusion

The success of **ONDC hinges on a collaborative effort between the government, industry players, and civil society.**

By **prioritising digital infrastructure** development, promoting **digital literacy**, facilitating seller onboarding, and establishing a robust grievance redressal mechanism, ONDC can usher in a new era of inclusivity, transparency, and competition in the Indian e-commerce landscape.

Drishti Mains Question:

Discuss the potential of Open Network for Digital Commerce (ONDC) in the Indian e-commerce landscape. Discuss the key challenges it faces and suggest a roadmap for its successful implementation.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q. With reference to 'Quality Council of India (QCI)', consider the following statements: (2017)

1. QCI was set up jointly by the Government of India and the Indian Industry.
2. Chairman of QCI is appointed by the Prime Minister on the recommendations of the industry to the

Government.

Which of the above statements is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans c

Q. Consider the following: (2022)

1. Aarogya Setu
2. CoWIN
3. DigiLocker
4. DIKSHA

Which of the above are built on top of open-source digital platforms?

- (a) 1 and 2 only
- (b) 2, 3 and 4 only
- (c) 1, 3 and 4 only
- (d) 1, 2, 3 and 4

Ans: (d)

PDF Reference URL: <https://www.drishtiias.com/printpdf/open-network-for-digital-commerce-4>

