Open for Business

Will ONDC be able to break the dominance of Amazon and Flipkart as well as overcome the challenges of an open network in providing a seamless experience for the customer?

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Recent headlines about the Open Network for Digital Commerce (ONDC) speculate that it could "kill" ecommerce giants such as Amazon and Flipkart. Touted as a disruptor that will democratise ecommerce, ONDC aims to transform the sector from a platform-centric model to an open network.

It is loosely compared with the Unified Payments Interface (UPI) and the disruption it brought in the payments ecosystem. Some of the key names behind the UPI also feature in ONDC's advisory council, including Nandan Nilekani, non-executive chairman of Infosys, and Dilip Asbe, MD and CEO of the National Payments Corporation of India (NPCI). While UPI is essentially a transaction of money between two parties, ecommerce entails several moving parts. And therein lies the challenge.

Before we get there, here's a quick look at what the ONDC framework will look like.

ONDC, an initiative of the Department for Promotion of Industry and Internal Trade, will not entail a separate, centralised platform. It is essentially an 'established protocol'. There will be buyer-side apps which will be any application where consumers can search for products or services. Then there will be seller-side apps, which will onboard sellers.

When a buyer searches for a product or service on the buyer app, the search request is multi-casted to all seller apps based on criteria such as location, availability and other preferences. The buyer then selects a seller.

Essentially, ONDC is unbundling the different services of an ecommerce transaction that have so far largely been with a single entity. For example, when you order on Amazon or Flipkart, the products available are from sellers onboarded by the platforms while companies also often fulfil logistics themselves.

In ONDC, the buyer app and the seller app can be different entities altogether. Even the logistics provider can be a separate entity.

So far, among the first to register on ONDC as buyer-side apps ahead of its soft launch expected in April are Paytm and eSamudaay while GrowthFalcons, Gofrugal and Nearshop are some of the seller-side participants. LoadShare and Dunzo are also registered on the logistics side.

According to ONDC CEO Thampy Koshy, there are currently 80 platforms in different stages of integration. Discussions have been held with Amazon, Flipkart, Google and Microsoft, people in the know tell *ET Prime*.

The ONDC strategy paper says the open network concept is "not restricted to the retail sector" and that it can be extended to any digital-commerce domain, "including wholesale, mobility, food delivery, logistics, travel, urban services, etc".

Another unique feature of ONDC will be a network-level reputation ledger, which will track whether sellers are offering genuine products and resolve customer complaints. So, it will be like the seller-rating system on individual ecommerce platforms, except that it will be common across the network.

"A network-level reputation ledger based on the unique identification of sellers will be established and this will be made available to buyers. This is expected to incentivise higher accountability among sellers," Koshy says.

The ONDC infrastructure also entails a gateway between the buyer-side app and seller-side app. The application, as per the strategy paper, will ensure discoverability of all sellers in the network by multicasting the search request received from buyer applications to all seller applications.

CHALLENGES AHEAD

The framework raises several questions — not just on the operability front but also on the overall customer experience. An even more pressing question is: Where does the liability lie? And how do extant rules for ecommerce apply in this new scenario?

According to sources, various participants have already raised questions about liability with the ONDC. As many in the ecommerce industry will confirm, the sector is fraught with issues of cancellations and order returns, and even the sale of counterfeit or defective products. What happens in the case of consumer disputes under ONDC and where does liability lie, especially since the buyer app and the seller-side app could be separate companies?

"There will be a system of proportionate accountability depending on the role played by a participant," says Nikhil Narendran, technology law partner at Trilegal, who advises ONDC. As in the case of current ecommerce activities, Narendran explains, the seller will be responsible for the product offered by them and will sign an agreement with the seller-side app. "The seller-side app as the marketplace ecommerce entity will be responsible to ensure that the seller makes all relevant information needed by the buyer, including a grievance-redress mechanism. The buyer app will just relay the catalogue and relevant information from the seller-side app to buyers. Consequently, their liability will be limited proportional to their activity," he adds.

However, some tech lawyers are of the view that it may be for the consumer courts or the Central Consumer Protection Authority (CCPA) to decide where the liability lies.

The strategy paper says ONDC will also "act as a facilitator of dispute resolution among the participants through fair and transparent practices", and will establish mechanisms adopting from the Online Dispute Resolution (ODR) plan published by NITI Aayog.

POLICY PUZZLE

While there is no full-fledged ecommerce policy, the sector is governed by rules from various departments, including consumer protection, competition, foreign direct investment (FDI) and IT.

As per the current FDI rules as well as the Consumer Protection (Ecommerce Rules), 2020, an "ecommerce entity" means any person who owns, operates, or manages digital or electronic facility or platform for electronic commerce; while a "marketplace ecommerce entity" means an ecommerce entity which provides an information technology platform on a digital or electronic network to facilitate transactions between buyers and sellers.

This makes both the buyer app and the seller app marketplace ecommerce entities. But these have some specific requirements. For instance, the Consumer Protection (Ecommerce Rules) say that "every marketplace ecommerce entity shall require sellers through an undertaking to ensure that descriptions, images, and other content pertaining to goods or services on their platform are accurate". It adds, "every marketplace ecommerce entity shall provide the information about the sellers offering goods and services, including the name of their business… their geographic address, customer care number, any rating or other aggregated feedback… for enabling consumers to make informed decisions at the pre-purchase stage". The rules also require that the grievance officer redress consumer complaints within a month.

Moreover, ecommerce companies are mandated to display the country of origin for every product listed on the platform, as per the Legal Metrology (Packaged Commodities) Amendment Rules, 2017.

In ONDC, how will these rules apply? ONDC representatives say there is no dissonance with the rules. "For us, there is no ambiguity. The rules have to be interpreted differently for buyer apps and seller apps," says a senior government official.

According to Narendran, the framework fits within the rules. "The current regulatory framework enables the ONDC model and therefore does not require any changes to the regulations. After rolling out, in case any further clarifications are needed, I believe it will be taken up later in consultation with the market players," he says.

He says the seller-side app will be responsible for most compliances relating to product listing and information as they onboard the seller. "The buyer app, from its side, will display only compliant product listings provided by the seller app," he adds.

Koshy says there will be a digitally signed contract between the buyer app and the seller app for every transaction. "All order consummations in ONDC are through a contract digitally signed by the buyer platforms on behalf of the buyer and the seller through the seller platforms and will include commercial and technical specs they both agreed to," he says.

Koshy says the rules will apply to the extent of the service that the entities offer. According to him, this means as the seller is onboarded by the seller app, it will have to enter into a contract with the seller app with respect to its roles and responsibilities because the seller app is the marketplace ecommerce entity that is helping the seller to solicit business in the network.

"The buyer application enters into a digitally signed contract with the seller at the order-confirmation stage. These contracts together ensure that the seller is responsible for providing all relevant information to help the buyer make a buy decision and then bind the seller to all its commitments that it has made to the buyer," Koshy explains.

Does that mean a change in the definition of an ecommerce entity is necessary to also include the definition of separate services of a buyer app and a seller app? The government official quoted above says that regulations can be evolved if necessary: "If we believe there is scope for clarification, we can evolve the rules." Another lawyer, who did not wish to be named, says there may be a need to mention exceptions for ONDC under the current rules.

DATA DEBATE

Data-privacy activists have always been concerned whenever government-backed bodies are involved in projects on a massive scale. Some of them have raised questions about the nature of data sharing under ONDC, especially with respect to companies that will run the gateways between the buyer apps and the seller apps. As per the strategy paper, ONDC initially intends to offer the gateway between the buyer app and the seller app through its technology partners to kick-start operations. "However, it is envisaged that multiple gateway providers will come into existence with independent service offerings in the network with an increased scale of transactions," the paper states.

Currently, Protean eGov Technologies (formerly NSDL e-Governance Infrastructure) is a technology partner that has supported ONDC in establishing the first gateway. Protean, among the initial promoters of ONDC, also provides technology support to host the registry of all participants on ONDC, says Koshy.

"The issue is whether someone like NSDL (National Securities Depository Ltd), which is operating the gateway, has access to community data that can help them analyse which class of users are buying what SKUs (stock-keeping units) and in which areas," says a data-security activist, who did not wish to be named.

Koshy, an NSDL veteran who has spent a decade and a half in the organisation, says that all checks and balances have been put in place. "The gateway provider cannot run a buyer or a seller application on ONDC. The gateway's role is only to broadcast the search request from buyer apps to all relevant sellers and to forward to the buyer app all the relevant responses received from sellers," he says. Koshy adds that the information transmitted from the buyer application at the time of search to the gateway is anonymised, so that neither the user information nor their specific address is included in this search packet. "Only at the time of order confirmation is this information shared by the buyer platform to the seller and this leg does not go via the gateway," he adds.

Tech experts close to ONDC say a search packet encryption could be added if required. ONDC says that, from a data standpoint, "only the transaction participants (buyer and seller app) have visibility to the same, and ONDC will not be storing or viewing any transaction data".

The open APIs developed for ONDC are based on the open-source interoperable specification of Beckn protocol. It was developed by Nilekani's Beckn Foundation, initially to solve for mobility, with a pilot in Kochi in 2020. It has been extended to digital commerce.

At the time of the Kochi project launch, concerns were sparked by a trademark filing of 'Beckn Mobility' under a classification that included "surveillance services" as part of the services. But according to people close to Beckn Foundation, the filing was a standard procedure done to ensure that no one misuses the trademark of Beckn.

One of the teething challenges for ONDC is likely to be the absence of the biggies of ecommerce, like Amazon and Flipkart, food-delivery platforms such as Zomato and Swiggy, and conglomerates like Tata and Reliance. Discussions are being held with many of these players.

Sources at Amazon and Flipkart say that the companies have the intention to join the network and are currently evaluating the model and engaging with the ONDC team. "We look forward to engaging with the ONDC team to better understand the proposed model and if there is a role Amazon can play to better serve Indian customers and sellers," an Amazon India spokesperson tells *ET Prime*.
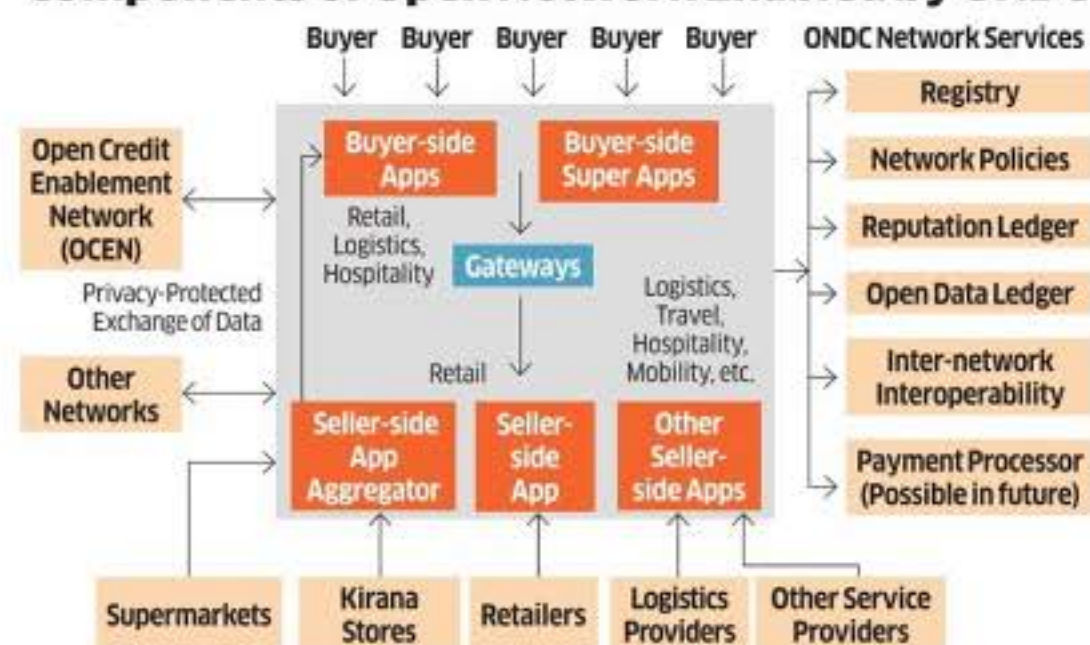
Flipkart's payments arm, PhonePe, is in advanced discussions to join ONDC as a participant. "We will go live on ONDC on both the buyer and seller side. This will help our merchant partners grow their business. In terms of timelines, we are working with ONDC to launch as soon as possible," says Vivek Lohcheb, head of offline business, PhonePe.

But a concern among some ecommerce players revolves around the powers of the ONDC and whether it could limit the market share of participants — just like NPCI did by putting a cap of 30% on every third-party app.

Meanwhile many smaller retailers and merchants are looking to come on board, according to the Retailers' Association of India (RAI) and the Confederation of All India Traders. RAI CEO Kumar Rajagopalan is on the ONDC advisory council. "ONDC will bring a lot of visibility to small sellers at a low cost," says Bijou Kurien, chairman of RAI. ONDC also hopes to tap online users from smaller towns through Common Service Centres (CSCs), which has a stake in the organisation. Among the institutions that have invested recently in ONDC are State Bank of India and ICICI Bank.

As it prepares for a soft launch in five cities in April, ONDC's aim is to expand to 100 cities by August and bring on board the big players. But as of now, it is a work in progress.

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Components of Open Network Enabled by ONDC

Source: ONDC Strategy Paper