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ANALYSYS MASON

INTERNET MONTHLY

Consulting specialists in telecoms,
media and digital (internet)

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Featured in this issue

DECODING INDIA'S CONTENT PLATFORM
PHENOMENON

ONDC: PAVING THE WAY FOR A TRANSPARENT AND
INCLUSIVE DIGITAL ECONOMY

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FOREWORD

Welcome to the June 2023 edition of Analysys Mason's newsletter on the internet and digital markets in India

Dear All,

For Indian internet-first businesses, the last few quarters have been about a focus on unit economics and building strong and sustainable businesses amidst a slowdown in funding activity and deal volumes. While the deal flow has been slow, at Analysys Mason we have been fortunate enough to have supported some of the recent marquee transactions and we continue to support internet-first businesses with their growth strategies. As we wait for a recovery in deal flow in the coming quarters, we have doubled down on our internet team at Analysys Mason, including through some key senior- and mid-level hirings.

The latest edition of our newsletter focuses on two very interesting topics which have also been the focus of our recent discussions with investor clients.

1. Decoding India's Content Platform Phenomenon

2. ONDC: Paving the way for a transparent and inclusive digital economy

Decoding India's Content Platform Phenomenon – The **online content platform industry,** comprised of players across news, entertainment and social/ P2P use cases, is seeing rapid growth in India. Advertising is the key monetization model – **overall digital advertising spending** across such digital avenues amounted to **USD8.5–9 billion in FY23** and is expected to grow at a **CAGR of 20–22% to USD22–23 billion in FY28.**

Even as multiple players have scaled in the sector, the sector continues to witness innovation and the entry of new players trying to address both niche and mass use cases – building on the increasing penetration of content platforms in lower tier cities and vernacular pockets, ever-increasing user engagement and time spent on content platforms, and growth in content creators.

ONDC: Paving the way for a transparent and inclusive digital economy – The e-commerce industry in India has been dominated by a few large players over the last decade. However, overall **e-commerce penetration in India** remains **low (<10% in FY22)** compared to other developed nations and, of the 90–100 million **MSMEs** in the country, only **5–10%** currently sell their **products and services online.** India expects to have an online shopper base of **300–320 million by FY25,** largely driven by the **addition** of **new shoppers** from **lower tier cities** who require **newer avenues** to fulfil their needs.

ONDC is a pioneering initiative led by the Government of India that aims to **democratise e-commerce** across the country. It is based on the ideas of **interoperability** and **unbundling** various aspects of the e-commerce value chain to **bring down the high barriers to entry for MSMEs to the e-commerce space,** allowing all buyers and sellers on the network to be able to interact and transact with one another.

ONDC is expected to transform the e-commerce landscape of India, this will lead to changes in existing business models and the emergence of new winners, especially benefitting e-commerce enabling services.

We hope you enjoy reading the latest edition of our newsletter and continue to find our insights interesting and useful!

Rohan Dhamija
Managing Partner, Director
Head - Middle East and South Asia

Decoding India's Content Platform Phenomenon

Content platforms are seeing rapid growth due to increasing internet penetration and adoption of platforms in tier 2/3 cities and vernacular pockets across India. Overall digital advertising spend across India amounted to USD8.5–9 billion in FY23 and is expected to grow at 20-22% over the next five years to reach USD22-23 billion in FY28. Even as multiple players in the sector have scaled, the sector continues to witness the emergence of new players and interest from marquee investors.

Content platform landscape in India

Content platforms in India can broadly be divided into news, entertainment and social/P2P subsectors, a further split can be made based on the nature of the generated content [UGC] or professionally generated content [PGC] and the use cases served by the platforms [video, gaming, over-the-top [OTT] services, etc.l.

These content platforms compete within the same addressable market of digital advertising spend as the likes of Google and Meta. To maximize the time spent by users on the platforms, many players are trying to address more than one use case, for instance, platform,

meaning whether it primarily supports user provides both news and entertainment. Some players have even built specific platforms to address additional use cases - MoJ by ShareChat and Josh by DailyHunt were both created to tap into the short video format market.

Dailyhunt

> "*We feel that our platform has potential synergies with value e-commerce players like Shopsy, Meesho given the overlap of audience we all are trying to serve, and we are exploring avenues to partner with such platforms which can lead to creation of new content genre or format*"
>
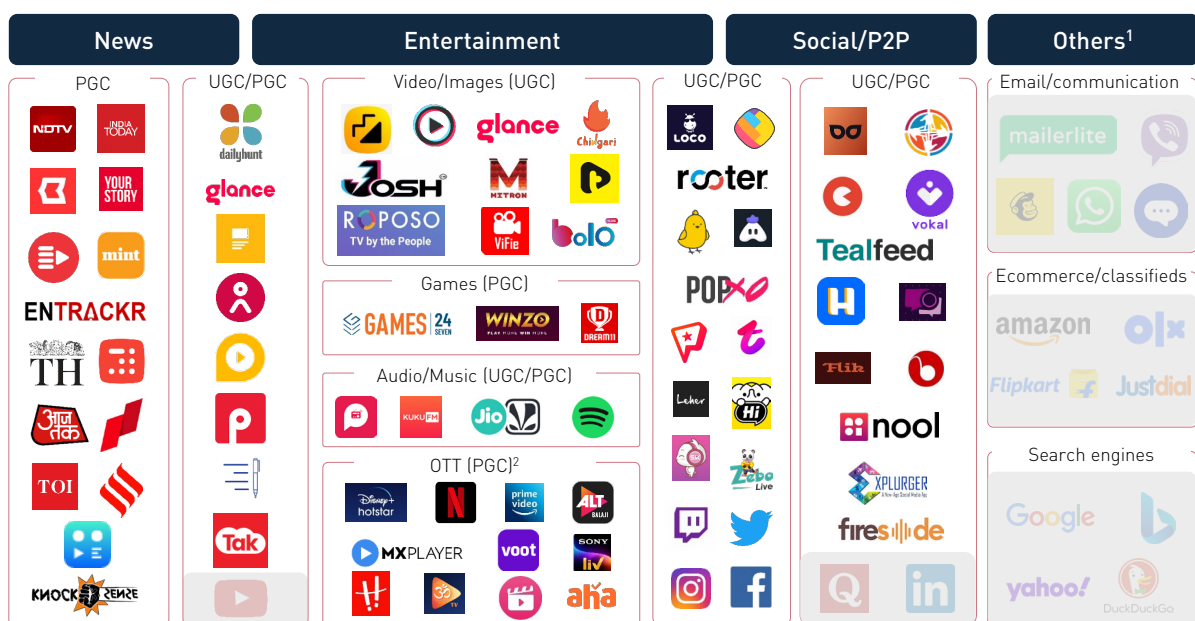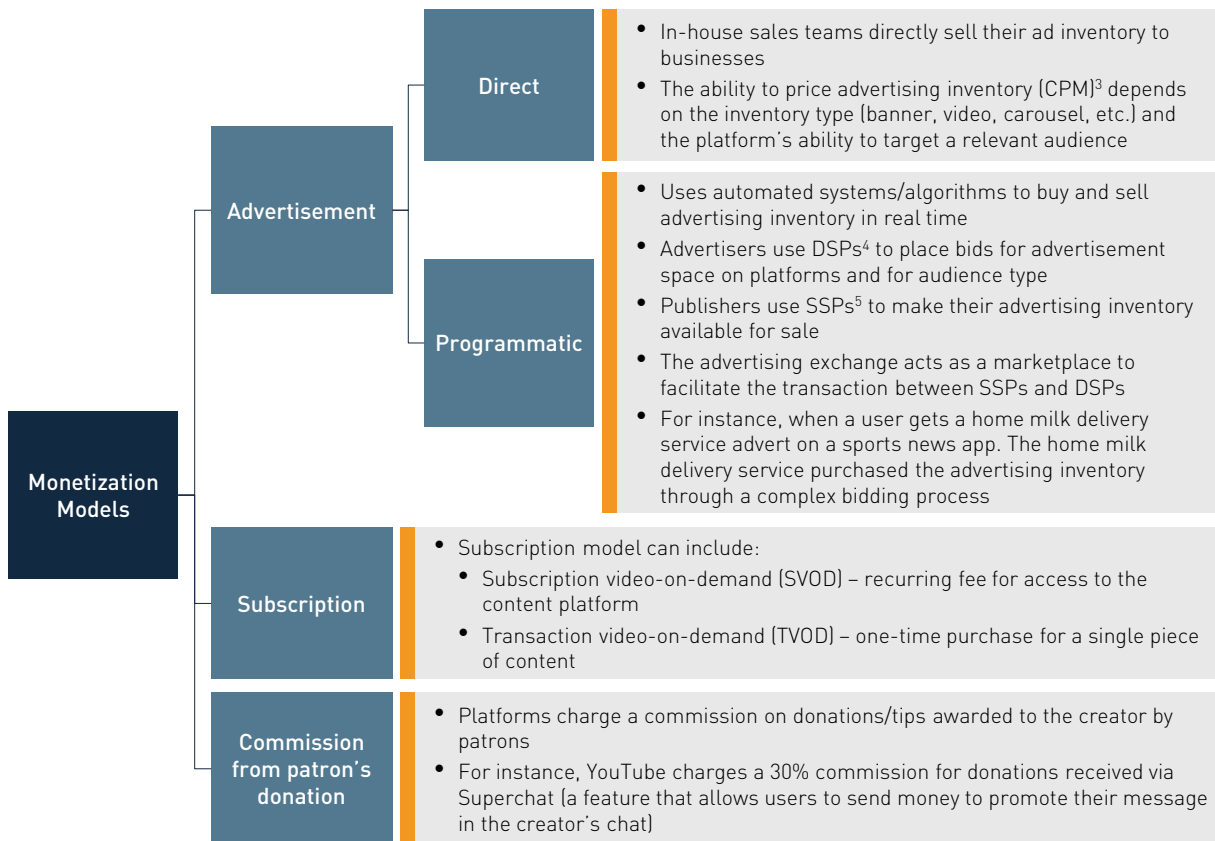> *- Senior Management, Moj*

FIGURE 1: KEY DIGITAL ADVERTISEMENT PLATFORM'S MARKET MAP [SOURCE: ANALYSYS MASON]

[1] Excluded from further analysis as they are not the focus area of this article / Google and Meta platforms greyed out as uninvestable players

[2] Includes few large international uninvestable players

Growth story of the content platform sector and its outlook

Content platforms largely rely on three modes of monetization – advertisement revenue, subscription fees, and commission from donations to content creators.

Monetization Models

Advertisement

Direct
- In-house sales teams directly sell their ad inventory to businesses
- The ability to price advertising inventory (CPM)[3] depends on the inventory type (banner, video, carousel, etc.) and the platform's ability to target a relevant audience

Programmatic
- Uses automated systems/algorithms to buy and sell advertising inventory in real time
- Advertisers use DSPs[4] to place bids for advertisement space on platforms and for audience type
- Publishers use SSPs[5] to make their advertising inventory available for sale
- The advertising exchange acts as a marketplace to facilitate the transaction between SSPs and DSPs
- For instance, when a user gets a home milk delivery service advert on a sports news app. The home milk delivery service purchased the advertising inventory through a complex bidding process

Subscription
- Subscription model can include:
  - Subscription video-on-demand (SVOD) – recurring fee for access to the content platform
  - Transaction video-on-demand (TVOD) – one-time purchase for a single piece of content

Commission from patron's donation
- Platforms charge a commission on donations/tips awarded to the creator by patrons
- For instance, YouTube charges a 30% commission for donations received via Superchat (a feature that allows users to send money to promote their message in the creator's chat)

FIGURE 2: KEY MONETIZATION MODELS FOR CONTENT PLATFORMS [SOURCE: ANALYSYS MASON]

Revenue from subscriptions and commissions from donations might be self-explanatory, but revenue from advertisements, which is the primary revenue source for content platforms in India, warrants a detailed discussion.

Advertisers typically decide whether to use direct, programmatic or both, based on their goals. For instance, programmatic adverts which enable them to reach a wider audience (usually lower CPMs and lower CTRs)[6] can be used for building brand awareness, whereas direct adverts (typically higher CPMs and higher CTRs) can be used for conversion.

Over the last five years, digital advertising spend in India has grown at a CAGR of 24-26% to reach USD8.5-9 billion in FY23, even as the industry witnessed sluggish growth during FY21 due to the financial uncertainties created by Covid-19. Digital advertisement spend in India is expected to reach USD22-23 billion by FY28, growing at a CAGR of 20-22% during FY23-28.
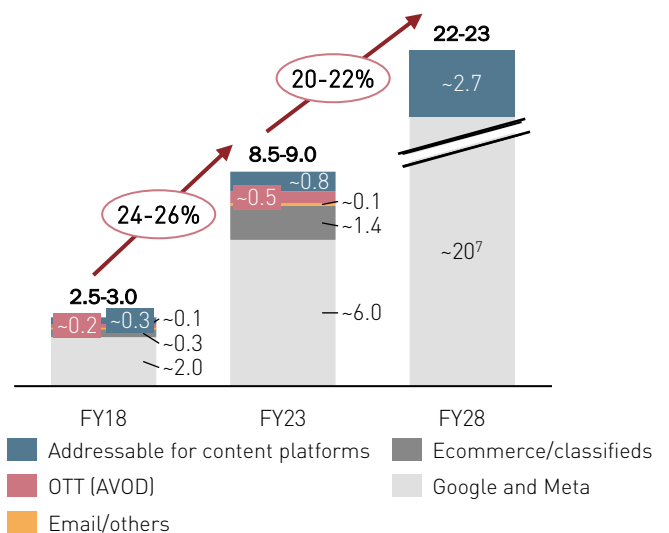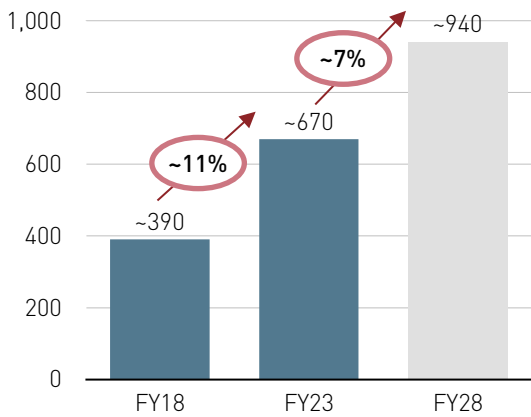
FIGURE 3: TOTAL DIGITAL ADVERTISEMENT SPEND IN INDIA, USD BILLION [SOURCE: ANALYSYS MASON]

[3] Cost per 1000 impressions; [4] Demand-side platform; [5] Supply-side platform; [6] Click-through rate
[7] Represents the share of Ad spend for all the platforms except the addressable market

The key factors driving this growth in digital advertisement spend across India can be summarized as:

- **Increasing internet penetration:** Affordable data plans, the decreasing cost of mobile handsets and network infrastructure improvements have led to a steady growth in internet users, especially in lower tier cities and vernacular pockets. This has enabled businesses to advertise to previously untapped demographics.

- **Adoption of content platforms:** Ramp-up in the adoption of content platforms over the past few years has been impressive and on the back of platform innovation, such as vernacular language support and content format (e.g., short video). The influx of niche creators has also helped to increase adoption through cross-side network effects by providing a diverse content selection for users.

- **Increasing digitization of businesses:** An ever growing number of MSMEs[8] are becoming digitalized by the day and the evolving ability of content platforms to segment and target hyper-local audiences is pushing MSMEs (and large corporations) to spend a higher proportion of their advertising spend on digital adverts.

FIGURE 4: NUMBER OF ACTIVE WIRELESS INTERNET USERS IN INDIA [SOURCE: ANALYSYS MASON]

[8] Micro-, small and medium-sized enterprises

Key elements for building a successful news and entertainment content platform

Input	**Content**	• Uses cases being served – news (national, regional, hyperlocal), entertainment, social, communication, gaming, etc. • Type of content – text-only, images, videos (long and short formats) • Content sourcing channels and their scalability – PGCs, aggregators, UGCs • Languages served – English, Hindi, vernacular, etc.
	Product	• UI/UX[9] – design and aesthetics, features and functionalities, customer journey, advertising inventory, etc. • Recommendation / ML[10] engine – content tagging, moderation, user profiling • Scalability and infrastructure – architecture and data management, latency, concurrency, security, system performance reports, BCPs[11] • Content digestion capabilities – tools for UGC creation, AI/ML tools for content improvement, APIs/infrastructure[12] for PGC sources, etc. • Product roadmap and historical rate of development – product roadmap for next 12-18 months, historical feature release rate, etc.
	Organizational capabilities	• Tech and product – Team structure, size, growth; Education background - Ivy-Leagues, AI/ML PhDs; Past work experience, Quality/experience of the team in AI/ML, Gaps and improvement opportunities • Sales and Marketing – Team structure, size, growth; Past work experience, ability for direct sales, ability to target and scale user base
Output	**User base**	• Scale and demographics – current DAU/MAU[13] and potential user base; demographic split – geographical, language, age, gender, etc. • Acquisition and stickiness – new user acquisition rate, acquisition channels, CAC[14] key selection criteria (recency, variety, habit, interface, relevance, etc.); user churn / retention rate, habit formation behaviour, NPS/CSAT[15]
	User engagement	• Daily average time spent per user, based on currently addressed use cases – number of sessions per day; average session length; potential addressable use cases and addressable incremental time spent • Engagement by content type (number of pages, images, video views) – language, genre, publisher type, etc. • Engagement by user activity (shares, likes, comments, etc.) – average per user, average per content type, etc.
	Monetization	• Advertising inventory – types of supported ad inventory (banner, image, video-in-video, etc.), cost per impression by inventory type and evolution • Utilization and engagement of advertising inventory – ability to sale inventory (direct, programmatic) and its evolution, CTRs
	Revenue & profitability	• Revenue – potential user base; advertising inventory, CPM, CTR evolution • Costs – evolution of costs (content, product, organization, etc.), CMs[16] and EBIDTA[17]

FIGURE 5: KEY ELEMENTS FOR BUILDING A SUCCESSFUL NEWS AND ENTERTAINMENT CONTENT PLATFORM [SOURCE: ANALYSYS MASON]

> *" There has been good progress made using AI in creating [a] personalized user feed over the last 2-3 years but that hasn't really translated into improved ad CTRs for products. Even though Google and Facebook continue to be the benchmarks in terms of ad CTRs, we are now able to compete or even command higher CPMs than them in a lot of scenarios"*
>
> *- Senior Management, Dailyhunt*

[9] User interface / user experience; [10] Machine learning; [11] Business continuity plan; [12] Application programming interface; [13] Daily active users / monthly active users; [14] Common access card; [15] Net promoter score / customer satisfaction; [16] Contribution margin; [17] Earnings before interest, taxes, depreciation, and amortisation

7

Key players in the content platform market in India

	Name	Description	AMU (million)	Avg. usage/day (million)
News	Dailyhunt	Vernacular news and media aggregator platform	~265-275	~25-30
	Inshorts	News aggregator platform summarizing news articles in 60 words	~55-65	~5-10
	Public App	Vernacular platform for local news, events, job updates, etc.	~50-60	~10-15
	Way2	Vernacular summarized news and information platform	~5-15	~10-15
Entertainment	ShareChat	Social networking platform supporting regional content	~165-175	~15-20
	Josh	Short-video sharing platform by VerSe Innovation	~150-180	~20-25
	Moj	Short-videos sharing platform by Dailyhunt	~115-125	~15-20
	Chingari	Gamified short-video sharing platform	~25-35	~5-10
Social/P2P	Facebook		~165-175	~15-20
	Instagram		~150-180	~20-25
	Kutumb	Social media platform to facilitate community interaction in India	~115-125	~15-20
	Koo	Vernacular microblogging and social media platform	~25-35	~5-10

FIGURE 6: COMPARATIVE ANALYSIS OF CONTENT PLATFORMS IN INDIA [SOURCE: DATA.AI, SECONDARY RESEARCH]

Economics of content platforms

With the rapid growth of digital connectivity and smartphone penetration, India has already emerged as one of the largest markets for online content consumption with huge headroom for further adoption of such content platforms; this has enabled multiple players like Dailyhunt, Glance, Sharechat, Dream11, MPL and Games24x7 to achieve unicorn status and be valued at much higher revenue multipliers compared to the multiplier of their global counterparts. The optimistic valuations seem to be rationalized by the robust demand drivers observed in the Indian markets, as discussed above.

		Category	Location
Sharechat	80-90x	**Social and Entertainment**	India
Deilyhunt	40-50x	**Social and Entertainment**	India
Dream11	20-25x	**Games**	India
Games24x7	10-15x	**Games**	India
TouTiao	15-20x	**News**	China
FanDuel	5-10x	**Games**	USA
Snapchat	4-5x	**Social and Entertainment**	USA

FIGURE 7: COMPARISON OF REVENUE MULTIPLE[18] FOR SELECT CONTENT PLATFORMS [SOURCE: ANALYSYS MASON]

[18] Revenue multiplier determined based on the valuation during the last funding round of each player

Some of the current scaled players in the sector are yet to fully optimize their internal operations as they continue to focus on customer acquisition, this has deterred them from achieving profitability. However, in a stable-state economy of scaled and mature content, platforms in India can be quite promising
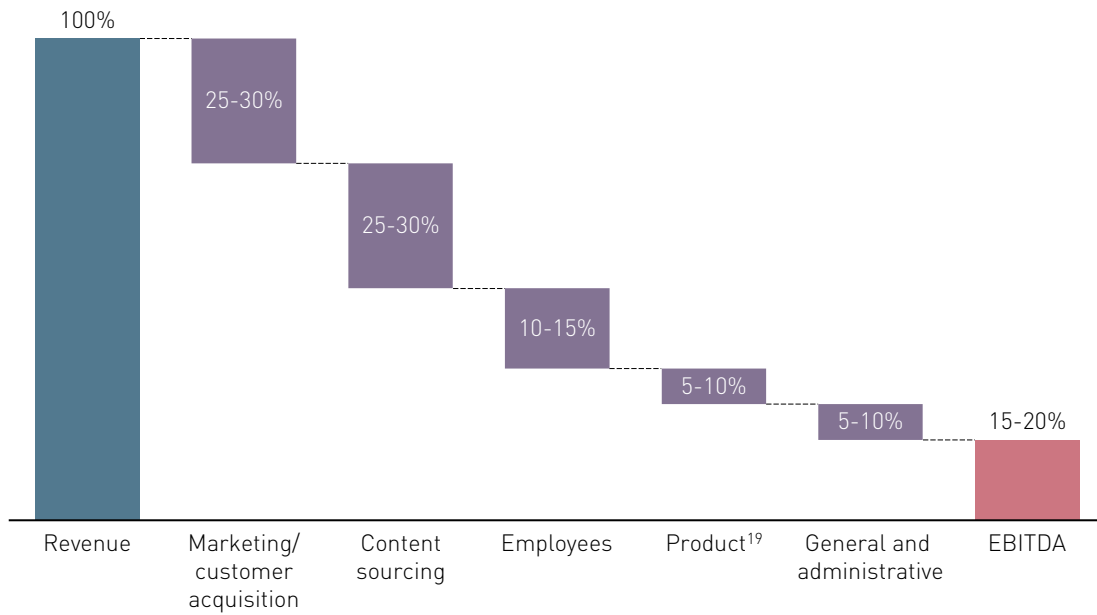
FIGURE 8: DIRECTIONAL ECONOMICS FOR A SCALED UGC AND PGC CONTENT AGGREGATOR PLATFORM (VALUES AS A % OF REVENUE)
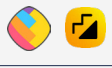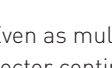[SOURCE: ANALYSYS MASON]

Deal flow and potential opportunities for funds

The growth potential and opportunities in the content platform sector have attracted huge interest from both global and domestic funds over the last 3–4 years. Overall, the sector witnessed ~USD0.5 billion and ~USD1.8 billion of funding, during CY21 and CY22 respectively, from marquee investors like Temasek, Tiger Global, CPP Investments, Peak XV Partners, Carlyle, Qatar Investment Authority, Google, Meta, Reliance, and others.
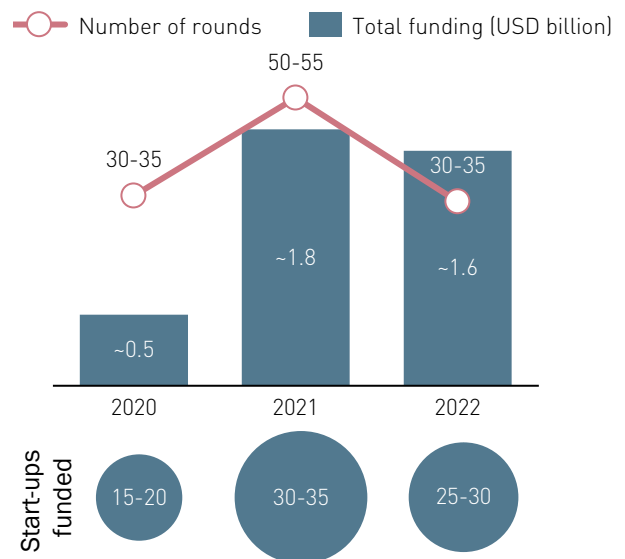
FIGURE 9: DEAL FLOW FOR CONTENT PLATFORMS IN INDIA
[SOURCE: CRUNCHBASE, TRACXN, SECONDARY RESEARCH, ANALYSYS MASON]

[19] Product costs include server and back-end maintenance costs

Name	Founded	Total Funding to date (USD million)	Subsector	Key investors
VerSe Innovation	2007	~1790	News and entertainment	CPP Investments, Meta, Google, Carlyle Global
Sharechat	2015	~1750	Entertainment and social	Twitter, Tiger Global Management, Tencent
Dream11	2008	~1600	Entertainment	Tiger Global Management, Alpha Wave Global
Glance	2019	~390	Entertainment	Reliance Jio, Google
MPL	2018	~380	Entertainment	Peak XV Partners, Telstra Ventures
gaana	2011	~200	Entertainment	Tencent, Times Internet
Inshorts	2013	~160	News	Tiger Global Management, A91 Partners, Vy Capital
PocketFM	2018	~110	Entertainment	Naver, Tencent
Chingari	2018	~90	Entertainment	Aptos, Republic Capital
Games24x7	2006	~80	Entertainment	Malabar Investment Advisors, Tiger Global Management
Trell	2016	~60	Entertainment and social	LB Investments, Samsung Ventures
KUKUFM	2018	~50	Entertainment	Krafton, 3one4 Capital

FIGURE 10: OVERVIEW OF INVESTMENT ACTIVITY IN KEY INDIAN PLAYERS [SOURCE: CRUNCHBASE, TRACXN, SECONDARY RESEARCH]

Even as multiple players have scaled in the sector, the sector continues to witness innovation and the entry of new players trying to address both niche and mass use cases. These are on the back of increasing penetration of content platform usage in lower tier cities and vernacular pockets, ever-increasing user engagement and time spent on content platforms, and a growing base of content creators. There are a number of such emerging platforms, some of which are illustrated below -

Loco: Live-streaming platform focused on video games and e-sports

" The likes of Twitch and Youtube are not able to serve the Indian streaming market where the penetration of Android is much higher as compared to other nations where iOS, web or consoles are way more prevalent. Android in India is used for both, as a platform for players and for content consumption"

- Senior Management, Loco

eloelo: Short-video platform focused on health, beauty and lifestyle content

Koo: Vernacular microblogging and social media platform

Kutumb: Social media platform to facilitate community interaction in India

Public: Vernacular platform for local events, commerce, jobs, classifieds, etc.

Hood: Anonymous social media platform

frnd: Gamified social media and dating app with a focus on developing a positive user experience

bolo live: Live-streaming platform for showcasing talent

Turnip: Live-streaming and community development platform for gamers

Mayhem Studios: Indian game development studio by MPL

ONDC: Paving the way for a transparent and inclusive digital economy

Over the past few years, incumbent players across online categories like food delivery, e-commerce, and grocery (among others) have garnered large proportions of the e-commerce market and their sheer scale has created an uneven playing field for MSMEs across all categories. To counter this and democratize e-commerce, the government of India has established the Open Network for Digital Commerce (ONDC), which aims to disrupt e-commerce by unbundling the supply chain and providing more opportunities to sizes of player. With the penetration of e-commerce in India still at <10% and only 5-10% of MSMEs selling their products online, the ONDC could prove to be a masterstroke at the correct time. In this article, we explore how the ONDC is transforming the e-commerce landscape in India, who can emerge as the new winners and considerations for incumbent businesses that stem from this transformation.

What is the ONDC and how does it work?

The ONDC is a pioneering initiative led by the government of India in conjunction with non-profit think tanks like the National Payments Corporation of India and the Digital India Foundation, among others, to **democratize e-commerce and fuel economic growth** in the country. The ONDC is expected to do for e-commerce what Unified Payments Interface (UPI) has done for digital payments. It has raised ~INR1.8 billion in capital from multiple investors, including private and public sector banks and other financial institutions, to accomplish this goal.

The ONDC introduces an **open network model** that allows **cross-platform interaction between parties** and enables **transactions independent of platform/ application.** It is based on the ideas of **interoperability** and **unbundling** different aspects of the e-commerce value chain – i.e., separate entities can now take on the functions of seller, logistics, payments, and redressal in a single transaction. Thus, **all network participants stand to derive value** from the open framework.

For instance, when a customer searches for a product on any of the buyer applications like Paytm or PhonePe (registered with the ONDC) they will be able to see relevant products from all the seller applications such as Mystore and ITC store. The gateway will relay the customer's search query from the buyer apps to all the seller apps through the ONDC framework and retrieve
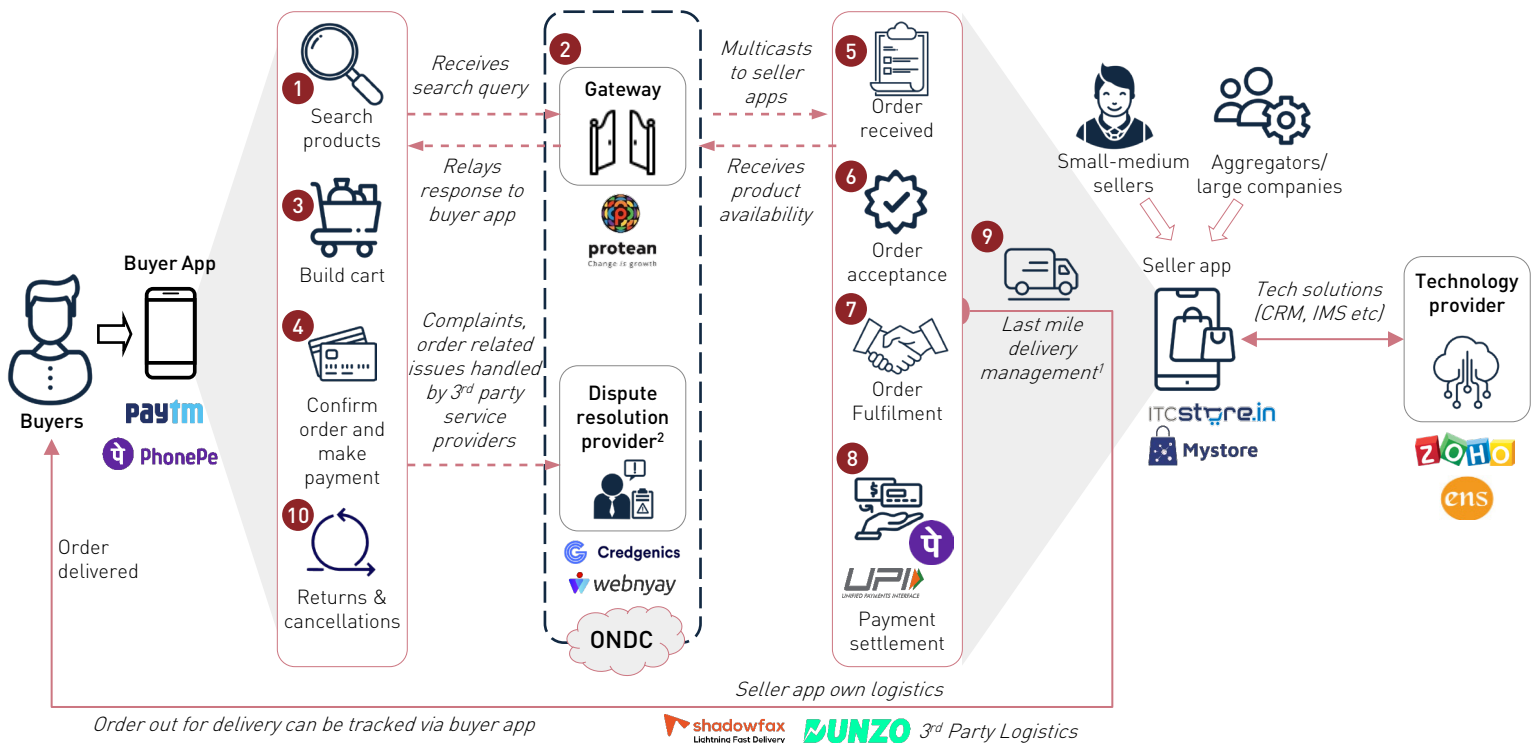
FIGURE 1: REPRESENTATION OF THE ONDC ECOSYSTEM AND ORDER FULFILMENT MECHANISM [SOURCE: ONDC, ANALYSYS MASON]

relevant results and information regarding the product, pricing, seller, location, etc. to be displayed to the customer on the buyer app.

Sellers can register their stores for free on any seller app by providing their personal and store details. Once registration is complete, the onboarding team from the seller app reaches out to the seller to verify the details and get additional information such as GSTIN,[1] bank details, SKU[2] details and images, pick-up location and fulfilment partner. After this, the store can go live on the network. The seller can manage orders through a custom dashboard on the seller app and has the flexibility to sell in hyper-local regions as well as across the whole of India.

How things stand today

At present, the ONDC is **live in NCR and Bengaluru** and is undergoing testing in ~240 cities. Categories like **food, grocery and home decor are live on the network** whilst fashion, electronics, mobility and financial services are expected to be added soon.

The network has attracted over **35 000 sellers** and is currently comprised of **43 live network participants** (across buyer/seller apps, logistics, payments, technology providers, etc.). Large organizations like Microsoft, Amazon, Boat and Paytm have also been onboarded to the network and many more are set to join.

" Technology is the only way to provide financial services to the bottom of the pyramid. ONDC will facilitate easy access to loans in 10 mins through streamlining processes for financial entities like banks, NBFCs, neo-banks etc. on the network. Lenders will be free to decide who to lend and at what rate. ONDC will also enable data driven credit worthiness for MSMEs in the future. The Financial services feature will be live on ONDC within couple of months but timelines for rollout to buyers/sellers is not yet decided.

Additionally, ONDC also plans to offer services like BNPL, Insurance (motor, health, marine etc.) with specific focus on sachet insurance (bite-sized Insurance to covers specific needs for short duration) and Investments (liquid mutual funds, equity index funds etc.) to manage the financial needs of both buyers and sellers on the network in the future."

- Senior management, ONDC

[1] Goods and Services Tax Identification Number

[2] Stock-keeping unit

However, the ONDC is yet to translate this enthusiasm into orders. While the network has scaled daily orders from ~1,000 in March 2023 to 10–15,000 in May 2023, many questions remain unanswered.

- **Unsustainable discounts:** a large proportion of initial order volumes can be attributed to deep discounts provided by the ONDC to acquire customers, its economic viability per unit and customer acquisition ability in a long run is yet to be tested.

- **Subsidized commissions:** Current seller app commissions on the network do not include network fees toward the ONDC and commission towards buyer apps. However, they are likely to raise their commissions in future to maintain profitability in the long run.

- **Operational challenges:** the ONDC has faced difficulties with inventory listings, payment reconciliations, logistics management, customer support and delivery fraud. This has discouraged participants and flagged the drawbacks of the nascent system.
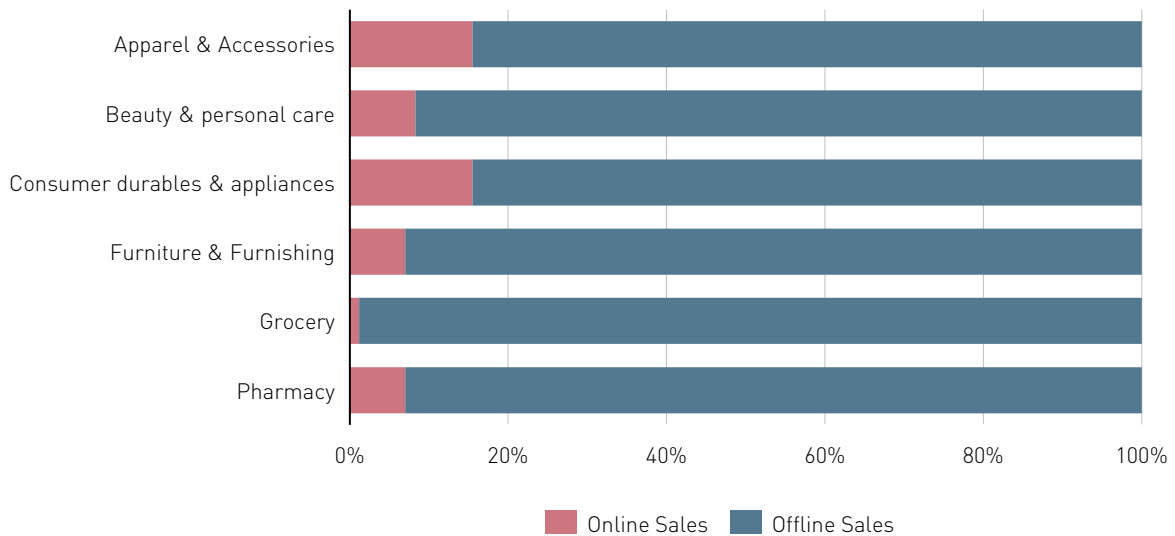
Why focus on the ONDC?

1. Huge headroom for growth in e-commerce

Of the 90-100 million MSMEs currently in India, ~70-75% are connected to the internet and use social media or other communication tools to reach their customers. However, only 5-10% MSMEs currently sell online through any e-commerce platform or their own website.
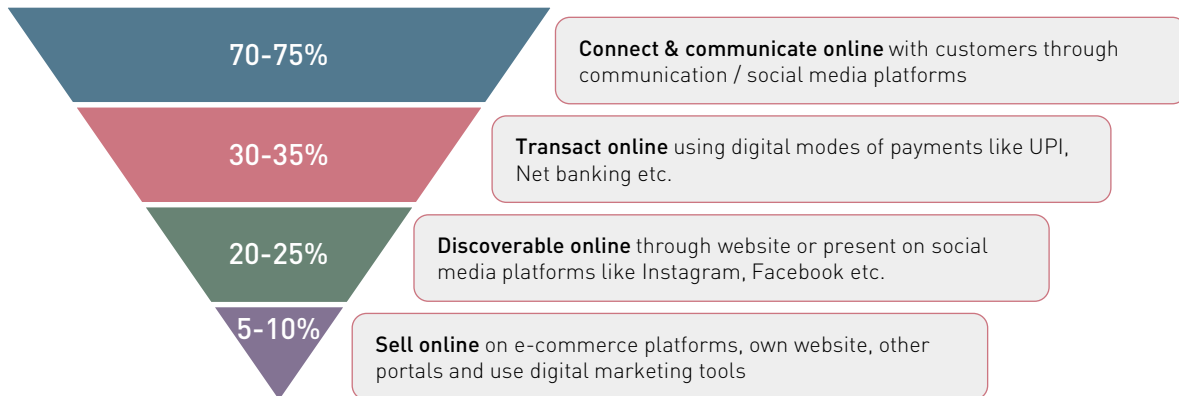
With such huge untapped potential, the Indian government believes ONDC can become the primary channel for online sales in the future and can help increase the e-commerce penetration in India to

40–50% (of India's overall retail) from the current ~5% by enabling MSMEs across the country to sell online. If digitized successfully, MSMEs could add ~USD200 billion to India's GDP by FY25.

FIGURE 2: E-COMMERCE PENETRATION ACROSS KEY INDUSTRIES, CY22 [SOURCE: ZINNOV, ANALYSYS MASON]

70-75%	**Connect & communicate online** with customers through communication / social media platforms
30-35%	**Transact online** using digital modes of payments like UPI, Net banking etc.
20-25%	**Discoverable online** through website or present on social media platforms like Instagram, Facebook etc.
5-10%	**Sell online** on e-commerce platforms, own website, other portals and use digital marketing tools

FIGURE 3: DIGITAL PENETRATION IN MSME'S ACROSS INDIA, CY22 [SOURCE: ZINNOV, ANALYSYS MASON]

India is expected to have **300–320 million online shoppers** by FY25 (of the total ~770 million internet users in FY25), which is significant growth from ~185 million online shoppers in FY21. A large proportion of the new online shoppers have emerged from lower-tier cities, and many belong to low-middle income segments.

These buyers have different shopping needs and behaviors, they will not be limited to purchasing from known platforms such as Flipkart and Amazon. The success of direct to consumer brands, value e-commerce and hyper-local delivery over the last couple of years has already created awareness amongst online shoppers of a world beyond the top 3–5 marketplaces.

As ONDC is not another marketplace or platform, but rather a **network based on open protocols** that connects all buyers to all sellers, it can benefit the buyers and sellers across India in multitude of ways:

- **For buyers:** it offers far more choices across the value chain of their online shopping journey, such as a large seller base, multiple logistics partners and payment channels – all of which can enable more competitive pricing and enhanced user experience.

- **For sellers:** it enables **millions of MSME**s and large organizations to sell their products and services online and create a level playing field to compete with e-commerce giants like Big Basket, Amazon, Zepto and Swiggy.

| **Buyers** | • **Greater Discovery:** Each search is broadcasted to all sellers on the network enabling a wider selection for the customer to choose from
• **Greater reach:** Customers in previously unserviceable pin codes will also have access to e-commerce
• **One stop shop:** Customers does not have to toggle multiple applications to make a purchase, they can find everything from a pizza to a cab on the same network
• **Competitive pricing:** Customers can compare the prices of products across sellers resulting in higher pricing competition
• **Choice of Delivery:** Customers can choose their delivery partner based on SLA, price comparison etc. |
| **Sellers** | • **Level playing field:** MSMEs across the country will be able to compete directly with the likes of Amazon, Big Basket by leveraging technical and operational capabilities on the network
• **Larger customer base:** Sellers will have access to a much larger customer base previously unreachable and at much lower customer acquisition costs through the buyer apps
• **Reduced cost per sale:** Open network will bring down commissions and overhead costs for sellers across categories
• **Choose terms & conditions:** Sellers can choose their own return policy, commission structure and payment settlement terms with participants on the network
• **Switch across seller apps:** Seller Ratings, feedbacks etc. remain on the network and are transferrable between seller apps, allowing them to switch easily between seller apps
• **Access to Business analytics:** All sellers can get access to data insights from seller apps to help grow their business |

Existing platforms and Enabling services also play a critical role in the ONDC ecosystem and the impact of emerging trends on these participants is discussed in the next section in greater detail.

FIGURE 4: KEY BENEFITS FOR END USERS AND SELLERS ON ONDC [SOURCE: ONDC, ANALYSYS MASON]

2. Impact of ONDC on incumbent platforms and enablers

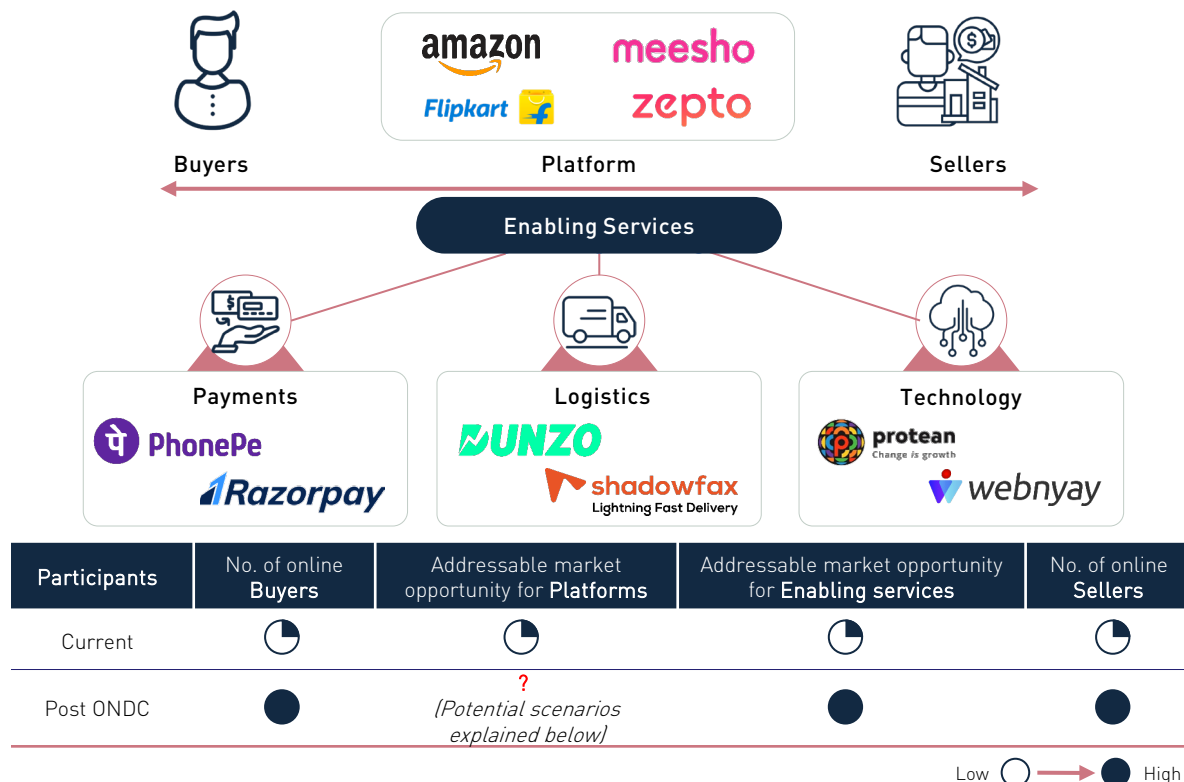### 2.1 Changing business models of incumbent platforms

ONDC is based on **UPI's principles of democratization and interoperability**. Like UPI, ONDC has the potential to become the next catalyst for innovation and rapid business growth. But unlike UPI (which was comprised of a single product – Money), ONDC will be comprised of millions of products and services, ensuring that power is not concentrated in the hands of a few big players.

Prior to the introduction of UPI in 2017, digital payments accounted for only 10% of the transactions in India and were dominated by traditional means like credit/debit cards and internet banking. The ecosystem of digital wallets (Paytm, MobiKwik, etc.) was a walled garden wherein users had to use a common application to transfer amounts across wallets. UPI enabled direct transfer of funds across bank accounts through a single interface irrespective of mobile application. It enabled digital inclusion by providing financial services to the previously underserved in the country and, with UPI, digital payment transactions grew ~4.5x from ~INR21 billion in FY17 to ~INR89 billion in FY22.

UPI not only helped grow the market for digital transactions in the country, but also revamped the entire payments landscape. Soon after its launch, the share of UPI as of total number of payments grew exponentially to surpass payments by cards and e-wallets. The growth of digital wallets stagnated as customers and merchants began to prefer UPI for its interoperability, lower costs, and ease of use. Flipkart via PhonePe was the first to launch its UPI app. A year later, the market forced **leading e-wallet players like Google Pay and Paytm to integrate UPI in their applications to avoid losing shares** in the payments market.

As of FY22, UPI accounted for 52% of the total financial digital transactions in India. The success of UPI has been the driving force for ONDC, but the effect of ONDC on the current e-commerce landscape will not be as straightforward.

Whatever the future may hold, it is **certain that as ONDC grows, it will grow the e-commerce market** by bringing underserved buyers and sellers to a common network with built-in capabilities. However, the long-term impact of ONDC on incumbents remains unclear and **will be determined by the performance of ONDC and the subsequent route taken by incumbents** to coexist in the industry.

Participants	No. of online **Buyers**	Addressable market opportunity for **Platforms**	Addressable market opportunity for **Enabling services**	No. of online **Sellers**
Current	◗	◗	◗	◗
Post ONDC	●	❓ *(Potential scenarios explained below)*	●	●

Low ○ ⟶ ● High

FIGURE 5: SIMPLIFIED E-COMMERCE VALUE CHAIN, PARTICIPANTS & POTENTIAL IMPACT OF ONDC ON THEIR GROWTH
[SOURCE: ANALYSYS MASON]

In our view there are two possible scenarios in the near future.
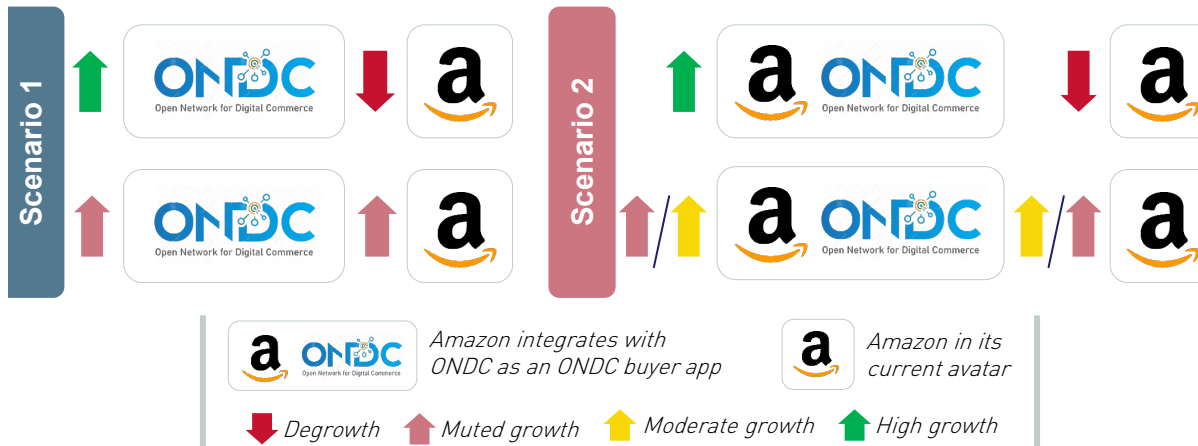
FIGURE 6: REPRESENTATION OF POSSIBLE SCENARIOS BETWEEN INCUMBENTS (AMAZON USED AS AN ILLUSTRATIVE) AND ONDC
[SOURCE: ANALYSYS MASON]

Scenario 1: *Incumbents do not integrate e-commerce with ONDC and continue to exist separately.*

- ONDC grows rapidly and threatens the market share of incumbents as customers and sellers start to prefer ONDC over existing platforms. (Similar to the response to Paytm and GooglePay wallets when UPI entered)

- ONDC has muted growth and incumbents maintain their market share.

Scenario 2: *IIncumbents integrate with the ONDC network (as an ONDC buyer app)*

- Incumbents' ONDC platform grows rapidly which can threaten their own platform (in its existing form).

- Incumbents' ONDC platform grows at a muted or moderate pace, which would enable their own platform to continue to grow at moderate or muted pace.

2.2 Emerging opportunities for enablers

As more MSMEs join ONDC, customers will flock to order products from local stores online, **resulting in an increase in last-mile deliveries, digital transactions, and need for technological infrastructure and services.**

Recognizing this potential opportunity, Amazon and Flipkart's logistics arms (ATS and Ekart) and Reliance Retail-owned Dunzo have already partnered with the ONDC platform by integrating their logistics services with the network while running their e-commerce arms separately.

As ONDC achieves scale, it could create a **snowball effect** and **indirectly benefit other ecosystem players** across the gig economy, analytics, inventory management, and digital advertising, to name a few. ONDC could be a great opportunity for such service providers to achieve scale and unlock their true growth potential and it can provide opportunities for the emergence of new entrants and business models.

Changing industry dynamics due to ONDC?

Even as we are yet to witness how ONDC will perform at scale, as it achieves enough traction and economies of scale, **ONDC can threaten the value proposition of incumbents across categories** in multiple ways.

Breaking down the unit economics

Customers and sellers have been drawn to ONDC for its competitive prices compared to incumbents. While it is difficult to make a direct comparison between existing platforms and ONDC, given its evolving granularities, we have tried to analyze the current unit economics for food delivery through both channels i.e., incumbent food delivery apps and ONDC.

Platform commission: incumbent food delivery apps charge a commission rate between 25–30%, whereas currently seller apps on ONDC are charging less than 10%. Commissions on ONDC presently do not include the 3–5% network fee to ONDC and 3–4% commission for buyer apps. These lower charges are likely to increase the network commissions in the future.

| Threat/ Industry	Food & Beverages	Grocery	Horizontal e-commerce	Commentary
New Entrants / Market Fragmentation	Medium	Medium	Medium	• Unbundling of value chain could enable MSMEs and niche players to enter the market catering to specific use cases / categories
Delivery Charges	Low	Low	Medium	• Last mile delivery costs are highly competitive between in-house logistics and 3PL providers and are eventually borne by the consumers with occasional expectations during promotional events. • Potential shift in demand to regional MSMEs may impact National / Regional goods movement to Milkruns / Hyperlocal with lower costs structures (especially for smaller ticket size items)
Seller-side Commission	High	Medium	Medium	• ONDC is set up as a non-profit entity with currently much lower commission rates across categories
Ad Revenue	Medium	Low	Medium	• ONDC provides equal visibility to all registered sellers and the protocol does not differentiate between sellers currently. This discoverability attribute for SMBs could lead to a reduction in Ad spend on major platforms
Seller Diversity	High	High	Medium	• ONDC will provide almost every seller the opportunity to set up their shop on the network enabling a wide selection of merchants for Buyers
Grievance Redressal	Low	Low	Low	• ONDC will act only as facilitator, not a regulator. No central authority takes accountability on the network currently. Third party 'Online dispute resolution providers' will manage grievances, the mechanisms for which are not clear yet.
Quality Control	Low	Low	Low	• Existing players command superior quality control due to continued investment in established processes. In ONDC, ratings/reviews will be portable across seller apps enabling a network-wide reputation, which would encourage them to have quality controls
User Experience	Low	Low	Low	• Vertical players have refined their products over the years to provide a smooth user experience which will be difficult for ONDC to emulate consistently across all buyer apps

FIGURE 7: POTENTIAL THREATS TO INCUMBENTS ACROSS CATEGORIES FROM ONDC [SOURCE: ANALYSYS MASON]

Discovery/Marketing fee: Incumbent food delivery apps are known to charge restaurants up to 5% of their revenues for adverts and increasing visibility on the platform. ONDC is currently not charging any discovery fee, ensuring equal visibility to all sellers.

Delivery fee: Delivery costs depend on the restaurant, delivery partner and distance from the customer. However, on average, food delivery apps charge 13–15% while ONDC is charging only <5% as it currently subsidizes INR75 for the delivery charges (capped at INR225000 per seller app, per day), however, if actual delivery costs are passed on to the customer, the price differential would be wiped out.

Platform discount: Incumbent food delivery services run various loyalty programs (Zomato gold, Swiggy one, etc.) and offer promotional discounts to the customer based on the order value. On average they provide 5–10% discount as a platform and the remaining discount is borne by the restaurant. ONDC currently offers a discount of INR50 per order for customers (capped at 3 orders per day per user, and 2000 orders per day per buyer app). These discounts are provided to incentivize initial sales with ONDC and might be phased out soon.

So, while the order value to customers may seem lower on ONDC today, only time will tell if the open network with unbundled services will be able to compete with the economies of scale already achieved by existing platforms over the last decade.
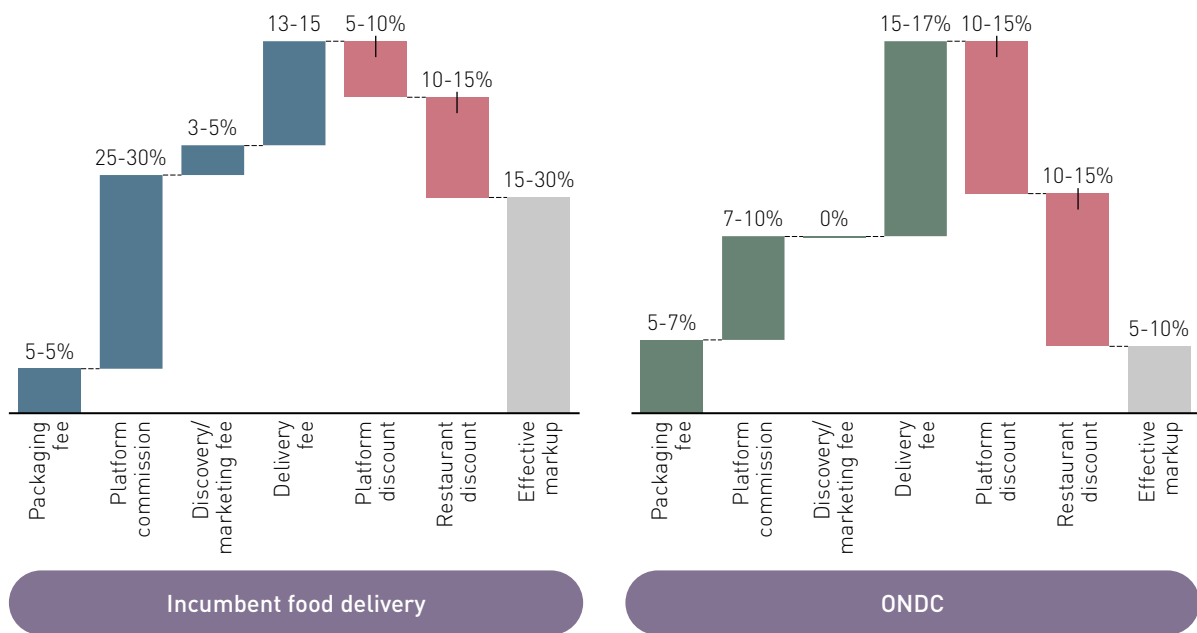
FIGURE 8: UNIT ECONOMICS OF INCUMBENT FOOD DELIVERY APPS VS ONDC [SOURCE: ANALYSYS MASON]

About Analysys Mason (including a view into our internet transaction advisory experience)

Analysys Mason is a global specialist adviser on telecoms, media and technology (TMT), including consumer internet. Through our worldwide presence, we have delivered strategy advice, operations support and market intelligence to leading commercial and public-sector organizations in over 110 countries.

We have successfully completed around 775 strategy and operations advisory engagements for TMT clients in over 60 countries in the last three years alone.

Offices located in Europe, the Middle East, Asia and the Americas

For more than 30 years, our intellectual rigor, operational experience and insight have helped our clients resolve issues ranging from development of operator strategy, evolution of national sector regulation and execution of major financial transactions, to the deployment of public and private network infrastructure. Analysys Mason consistently delivers significant and sustainable business benefits.

We are respected worldwide for the exceptional quality of our work, our independence and the flexibility of our teams in responding to client needs. We are passionate about what we do and are committed to delivering excellence to our clients. The company has over 430 staff worldwide, with headquarters in London and offices in Bonn, Cambridge, Dubai, Dublin, Hong Kong, Kolkata, Lund, Madrid, Manchester, Milan, New Delhi, New York, Oslo, Paris, Singapore and Stockholm.

Key highlights of our consumer internet experience

1 • 150+ due diligence assessments of internet assets in South Asia, South-East Asia, the Middle East, Africa and Europe over the last couple of years

2 • 75+ commercial due diligence and market assessments in India/South Asia alone

3 • First port of call for due diligence assessments of internet assets for marquee investors globally

4 • Provided advice on investments worth over USD15 billion over last five years

Diligence experience in Consumer Internet verticals

Ecommerce
- We have conducted 10+ full commercial due diligence assessments of horizontal e-commerce majors in the India and South-East Asia region
- In more recent years (after the market changes on horizontal e-commerce), we have also conducted 5+ diligence assessments and market scans of vertically focused e-commerce players

Hyper-local delivery
- We have been advisors to marquee private equity funds and financial institutions on over five commercial diligence assessments of leading hyper-local delivery players in the grocery and food delivery market
- We have performed due diligence assessments for the leading players in grocery and food delivery twice recently

Payments and mobile wallets
- We have supported 10+ commercial diligence assessments of leading digital wallet providers in India, South-East Asia and the Middle East including of a leading wallet provider in India
- We have also assisted telecoms operators in developing their commercial and technical digital wallet strategy

Cab aggregation
- We have conducted commercial due diligence assessments of the leading cab aggregator in India four times for different marquee hedge funds and financial institutions in the last seven years
- We have also provided diligence support for the self-drive commercial car market and its leading player in India

Content including OTT
- We have conducted full commercial and technical diligence assessments of multiple players across the video and music content value chain – from producers to distributors and streaming assets
- We have also supported leading mobile operators in the region in developing their content and OTT strategy

Others
- Over 15 diligence projects in the classifieds and online travel space
- Multiple diligence assessments of mobile advertising, cloud computing, SaaS, and AI firms in various geographies
- Full commercial diligence assessments of multiple ed-tech firms in India
- Assessment of the fintech (online mutual funds, trading, and insurance) in India, with a focus on two emerging companies

About the authors

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Ashwinder has over 12 years of consulting and investment advisory experience in the TMT sectors, having advised clients in the South Asia, South-East Asia and Middle East regions. His areas of expertise include due-diligence, cost transformation, digital transformation, pricing and business planning.

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