

# Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

—  
Sub-Report on  
Construction  
materials





This booklet is an excerpt from the Construction Materials section of the report 'Democratising Digital Commerce in India' and is based on joint research conducted by ONDC and McKinsey & Company. The complete report covers 11 sectors. To access the full report, please use the QR code provided below.



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# Construction materials

In fiscal year 2022, the Indian construction and real estate market reached approximately \$550 billion to \$600 billion.<sup>1</sup> Central to the sector are vast numbers of SME contractors that remain underserved by a highly fragmented market by number of players; India currently has 300,000 construction SMEs, and the ten largest players control about 70 percent of the market.<sup>2</sup> Additionally, the limited number of at-scale players has created white space for SMEs to expand their operations. For these reasons, ONDC has the potential to unlock significant value for SMEs in the construction market.

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<sup>1</sup> Crisil Report; EMIS reports on construction sector.

<sup>2</sup> Ibid.



## Key challenges in the current ecosystem

The residential construction value chain comprises four key stakeholder groups—customers, architects, contractors, and manufacturers—each of whom faces a unique set of barriers to widespread digital adoption.

**Customers** struggle to find reliable builders and contractors due to their lack of trust in the quality and price of materials procured and the quality of work delivered by contractors. They must manage a multitude of stakeholders in the process and experience frequent project delays that lead to higher total costs.

**Architects** face challenges in growing their businesses due to limited discoverability (mostly word of mouth) and difficulty in establishing trust and credibility to potential customers.

**Contractors** serve as the linchpin in the current ecosystem. However, their margins are highly sensitive to procurement prices (saving about 2 percent leads to an increase in margins of 18 to 20 percent), and they frequently struggle to secure formal loans and credit, which can increase financing costs. Like architects, the growth of their business is often impeded by low discoverability (word of mouth) and the difficulty of gaining trust from prospective customers. In addition, they have limited ability to engage with and cross-sell to customers who have needs across product categories (such as tiles and sanitary ware). Finally, a lack of coordination among different stakeholders frequently leads to project delays.

## How ONDC can unlock value for the sector

Four use cases illustrate how ONDC can address many existing pain points to drive digital adoption and boost the construction materials industry.

### 1. Sourcing: Discovery for online procurement

ONDC could also enable a large number of MSME manufacturers in this space to connect directly with buyers (Exhibit 1). Buyer apps could access key building materials and products across multiple brands through various seller apps. SKUs across a wide range of product categories could be catalogued in a standardised way, and contractors could achieve lower sourcing costs through demand aggregation that enables multiple product purchases from a single touchpoint.

### 2. Financing: Easy access to credit and loans

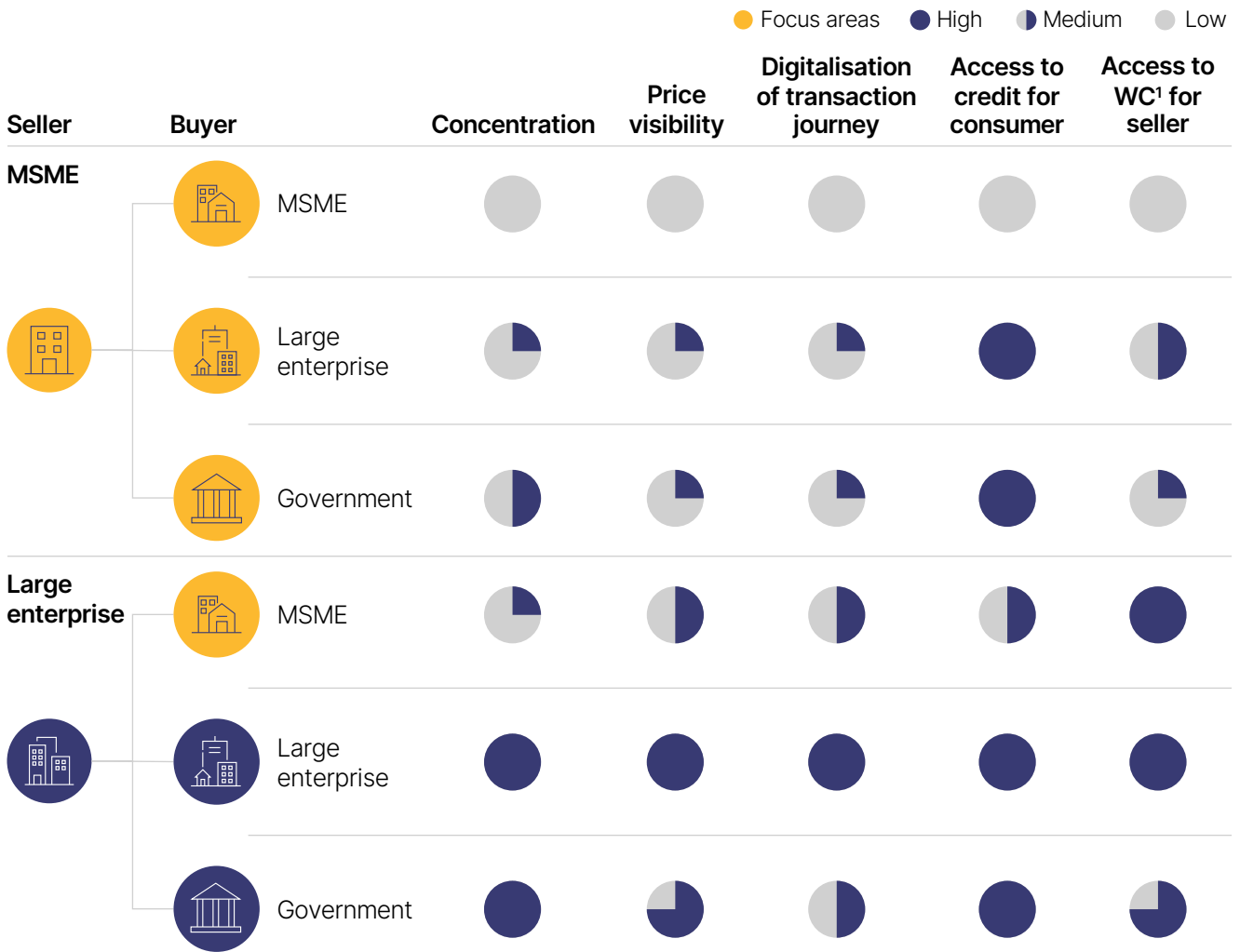
Contractors could qualify for financing at better-than-industry rates through partnerships with non-banking financial companies (NBFCs) and fintech players, which would benefit from a large, untapped customer base. Through ONDC, contractors could take advantage of innovative underwriting (for example, through milestone-based funding and improved transaction visibility). In addition, they can access companies that offer bill discounting, purchase order financing, and asset financing, which could fill working capital gaps and in turn could help them scale their businesses.

### 3. Logistics: Unbundling to improve distribution

Stakeholders across the value chain could take advantage of unbundled logistics on the network to improve the distribution and last-mile delivery for SMEs. For example, they could enhance supply chain efficiency by using logistics players to aggregate and service demand from multiple sources. Similarly, contractors could achieve better inventory management through expanded logistics networks to enable the shift from bulk to frequent purchasing. Such services could enable contractors to access a wider pool of customers and expand their operations beyond local and regional plays.

Exhibit 1

Amongst various B2B archetypes, transactions involving MSMEs stand to benefit the most from digitalisation.



<sup>1</sup> Facilities for working capital financing, such as bill discounting and purchase order financing.

#### 4. Labour: Discovery of self-employed workers

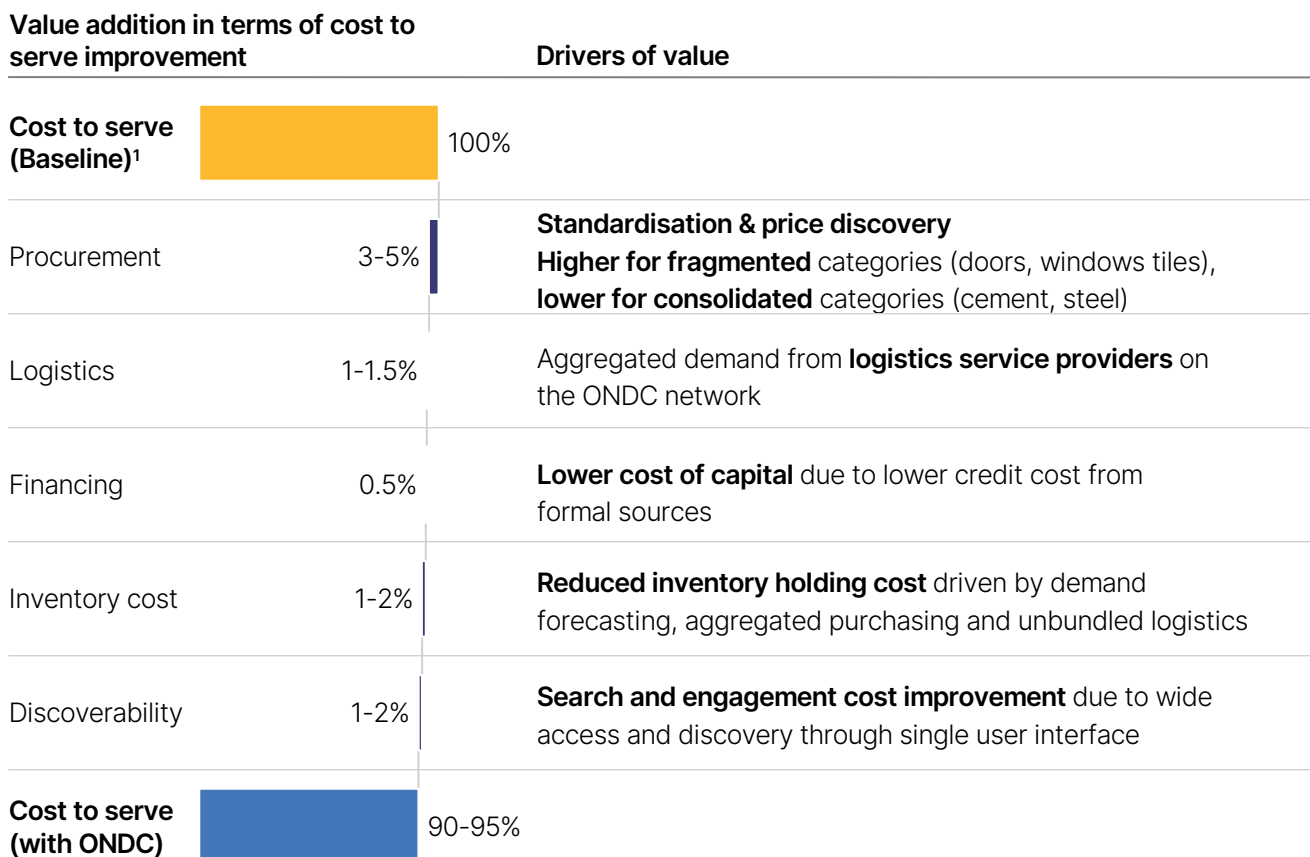
Today, the self-employed economy is characterised by high levels of fragmentation, low discoverability (driven by word of mouth), and low digitalisation. An online ecosystem could enable connections and discoverability among prospective customers, architects, contractors, and self-employed workers. To support this ecosystem, ONDC could facilitate third-party integration with a seller app that includes labour matching algorithms.

And by providing certification and ratings across a federated network, ONDC could support broader discovery and increase the number of meaningful leads for professionals.

#### Potential impact on a typical contractor

As a result of these use cases, ONDC has the potential to reduce an SME's cost to serve by 5 to 10 percent (see Exhibit 2 for an illustrative example).

By overcoming inefficiencies, ONDC could reduce the cost to serve for small and medium-size enterprises by 5 to 10 percent.



<sup>1</sup> Indexed to 100%.

### Challenges and considerations for successful adoption

ONDC and network participants will need to overcome specific challenges to drive adoption of high-priority use cases and unlock the full potential of ONDC in India’s construction materials industry.

#### 1. Sourcing: Discovery for online procurement

Today, some 60 to 70 percent of business on potential seller apps is conducted through offline channels. More than 90 percent of MSMEs lack the robust IT systems and productivity tools they need for digital commerce. Furthermore, many B2B buyers are looking for high-ticket

items with customised pricing and product specifications, which can result in quality assurance issues when products are procured through digital channels.

ONDC and network participants can alleviate these concerns in several ways. Buyer apps can redirect their people and resources from offline to online customer acquisition, for example, by providing online purchase incentives. Seller apps can help MSMEs digitise their inventory by offering cataloguing services. Meanwhile, technology service providers on the network can improve quality assurance—for example, by implementing a pan-network scoring and badging system.

## 2. Credit: Easy access to credit and loans

Financial institutions face a cold-start problem in providing formal access to credit. A majority of MSMEs still conduct their sales offline, so they have limited operational data to secure credit. Workarounds such as collateral-free lending could be difficult to scale due to collection issues, especially for underserved MSME-to-MSME sales channels.

To address these challenges, ONDC can onboard third-party fintech companies that can provide credit based on alternative data sources—for example, execution-based funding, analysis of utility bills, and social media. Network participants can also digitalise credit processes (such as e-know your customer and e-signatures) to widen MSME adoption.

## 3. Labour: Discovery of self-employed workers

Two forces currently limit the broader use of self-employed in the construction industry. First, customers find it difficult to trust prospective workers because there is no way to verify their professional qualifications and capabilities. Second, the current industry is highly relationship-driven, with exclusive networks of contractors.

Several actions can help build trust among self-employed workers and customers. Buyer apps, which may struggle to generate demand, can partner with large builders and contractors in need of such workers to scale adoption. Seller apps can build platforms to enable accurate search with verification of qualifications and capabilities of professionals. ONDC can provide certification and ratings systems on a federated network to help workers establish their credibility with prospective customers.



MSMEs (Micro, small and medium enterprises) are the backbone of the country with 90-100 million businesses empowering the nation. ONDC will democratise the access across the buyers and sellers, through an Internet like “Network”. Not only this will create a level playing field for MSMEs in ecommerce, but it will be yet another star in India’s public digital infrastructure sky.

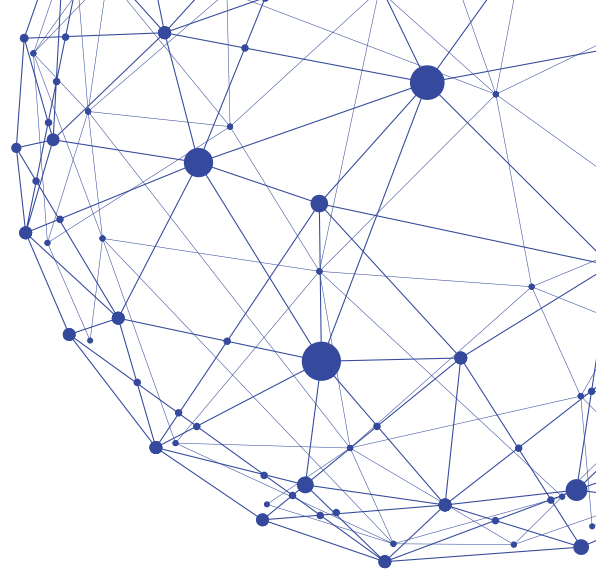
— Gopal Srinivasan  
Founder, Chairman and Managing Director of TCF











# Getting on board with ONDC

**O** NDC holds the potential to create open, inclusive, and competitive marketplaces in the virtual world. It will be important for companies to carefully evaluate the options available to them as they consider entering this space. This could help them to identify plays that maximise benefits from the immense opportunities unlocked by the open network. As company leaders look to make the most of the opportunities ONDC offers, they could explore the possibilities across two themes.

First, they could determine which use cases have potential to scale fast and which would take longer to yield results. And second, they could evaluate where they are best positioned to play—through the lens of the market opportunity, their own capabilities, and the consequent feasibility of investing in specific use cases. This could support them in making the most relevant investments to achieve their company's strategic objectives.

## Assessing scalability

As a market maker keen to create and democratise opportunities for all participants, ONDC could catalyse a range of business opportunities in the short, medium and long term (Exhibit 3).

This answer emerged after analysing three indicators of potential to scale:

- Short term: Digitisation of existing hyperlocal goods and services
- Medium term: Scaling up and innovating in D2C businesses
- Long term: Digitising new use cases for ONDC-first business models, especially in B2B

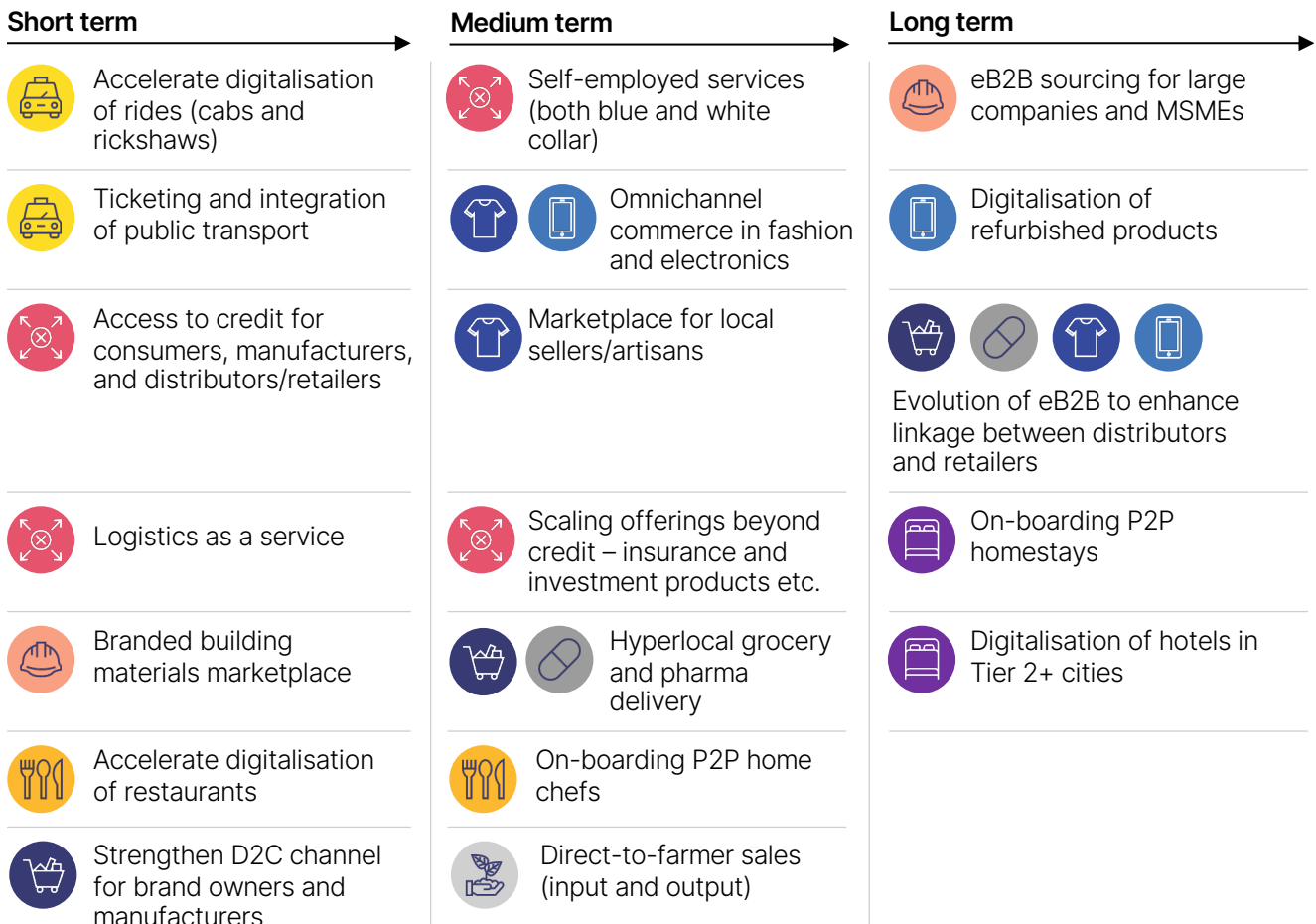
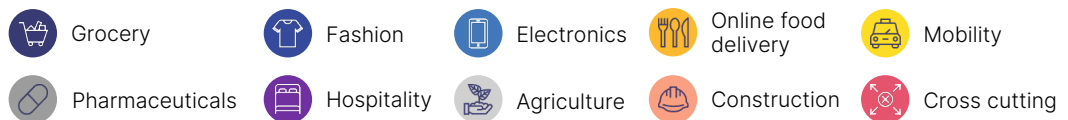
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

1. The use case should solve an unsolved problem.
2. It should have a ready ecosystem (for example, digitalised supply chain, standardised goods and services, or ease of logistics and fulfilment).
3. It should be economically viable.

Exhibit 3

## Use cases in the short term could prove the most beneficial for driving early adoption and scale.

Not exhaustive



## Identifying the best-fit use case for a company

Companies looking to develop innovative business models that tap the open network can examine the opportunity against two considerations: how to participate immediately in a fast-developing space, and how to reimagine their business for an open network and its possibilities.

Businesses need to zero in on the most relevant use cases that map to their chosen stance as a shaper or a fast follower. They can accordingly identify a pool of investable resources to help them pursue the opportunity.

If the collective investments of companies across industries can support the expansion of ONDC, they could unlock the full potential of digital commerce for buyers, sellers, third-party providers, and India as a whole. Companies and entrepreneurs must carefully consider several strategic questions:

- **Evaluate the opportunity.** How will an open network disrupt the sector? What is the problem that it will solve, and for whom? Which are the most relevant use cases for the business? What are the

potential benefits of addressing this problem? What are the potential risks and challenges in implementing these use cases?

- **Identify the capability required.**

Which role (e.g., seller, buyer, tech service provider, etc.) is the company best positioned to play? What are the key capabilities needed to execute the use case? What are the resource requirements (for instance, people, time, or money) in building out these use cases? How should governance be managed, including engagement with the ONDC core team and network participants?

- **Evaluate feasibility of the use cases.**

When should a company decide to implement or pilot a use case? Should the organisation be a leader or a fast follower? What are the feasibility considerations for executing the use case (for example, market, financial, or legal)? What should be the pilot structure for prioritised use cases including the initial investment and scale-up milestones?

ONDC presents a unique avenue for India to revolutionise its digital commerce landscape and set an example for the world, much as it did with UPI. With vast potential for a robust buyer and seller ecosystem, ONDC represents an opportunity that arises once in a decade. Stakeholders—government, industry players, and consumers—can determine how to seize this ‘tech-ade,’ putting their best, most innovative selves forward to democratise digital commerce for all.

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7/6, August Kranti Marg,


Siri Fort Institutional Area, Siri Fort,


New Delhi – 110049

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