

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

Sub-Report on Electronics



This booklet is an excerpt from the Electronics 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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Electronics

Consumer electronics is a popular segment for digital commerce, with 32 to 34 percent of transactions conducted online. The \$75 billion market (FY22) could double to reach \$150 billion by 2030, especially if the untapped potential for digital commerce is unlocked.

Changing this could unleash an exciting new wave of growth. With ONDC, digital commerce could give retailers in small cities and towns wider reach across all consumers for sale of electronic goods in India.



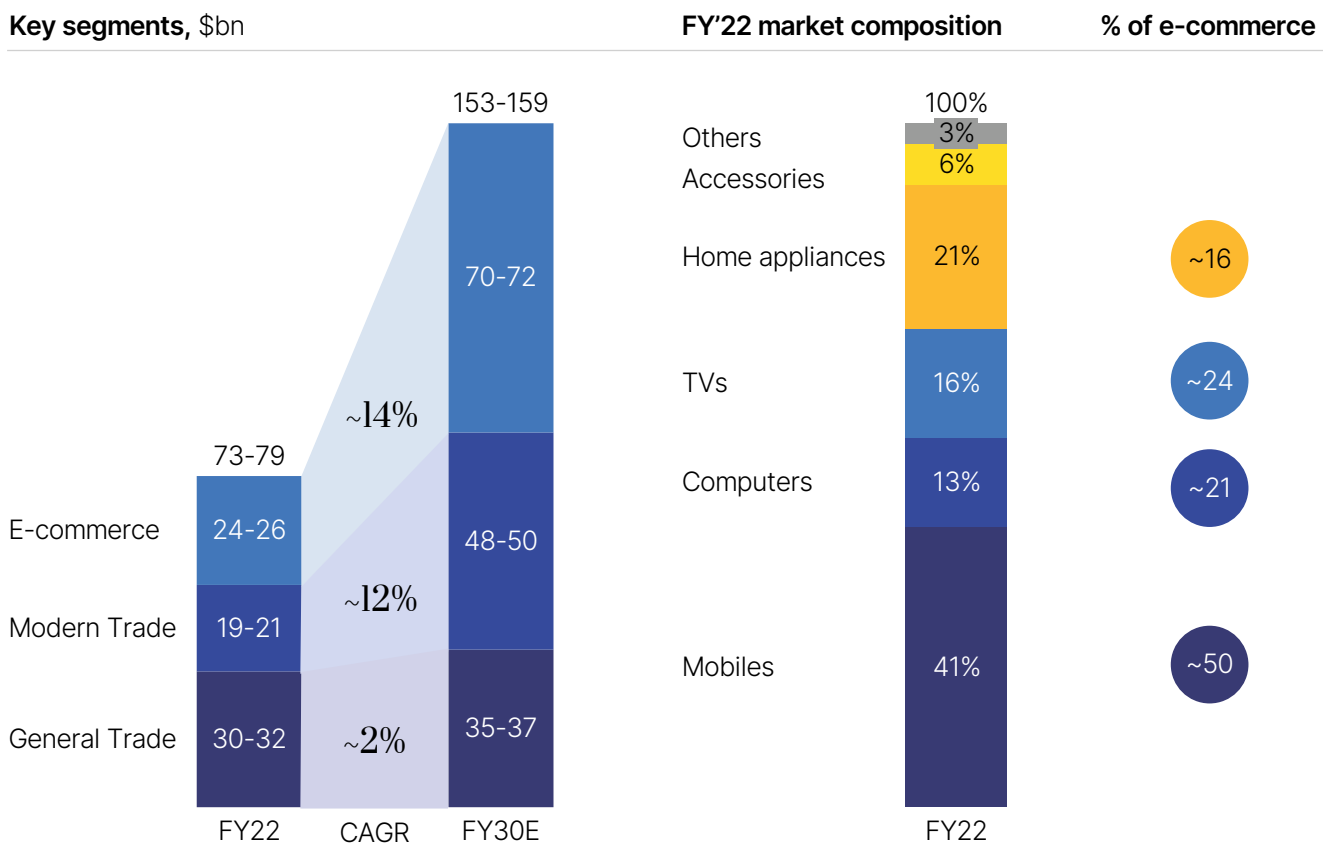
The landscape

The consumer electronics sector in India has been growing steadily. As an example, India has the world's second-largest smartphone market (after China), with approximately 600 million smartphone users. India's consumer electronics market is expected to double from about \$75 billion in fiscal year 2022 to more than \$150 billion by fiscal year 2030 (Exhibit 1).

Much of the projected growth is expected to come from digital commerce and from modern retail players. These two segments are projected to grow at a CAGR of 12 to 14 percent until fiscal year 2030, far outpacing general trade's growth of approximately 2 percent.

Exhibit 1

India's consumer electronics market is expected to double to more than \$150 billion by fiscal year 2030.



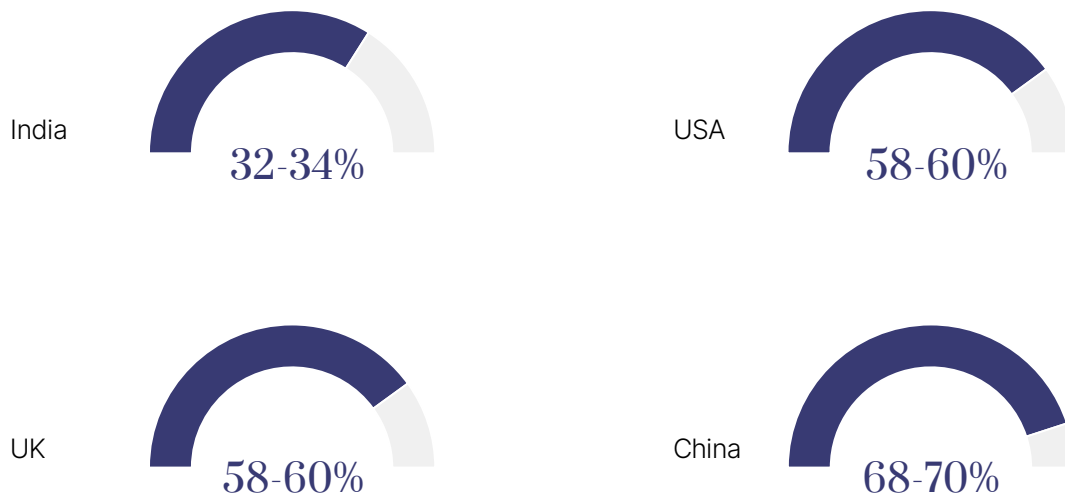
The digital commerce penetration in the industry is 32 to 34 percent, with tier-two or smaller markets accounting for nearly 65 percent of online orders compared with around 50 percent just two years ago.¹ This growth stems from product standardisation, online availability of a wider range of products, a growing number of shoppers from smaller towns, improved delivery timelines and overall customer experience, and the rise of social commerce to influence purchase decisions.

The constraints, too, remain—customers' inability to try out products before purchasing and concerns about the quality of after-sales service impede the growth of digital commerce. This is also a consolidated market, with a small number of sellers generating 60 percent of online sales. ONDC could help to change that by bringing buyers and sellers from India's small towns and villages into the fold of digital commerce, reaching for parity with global peers such as China, the United Kingdom, and the United States (Exhibit 2).

¹ Economic Times

Exhibit 2

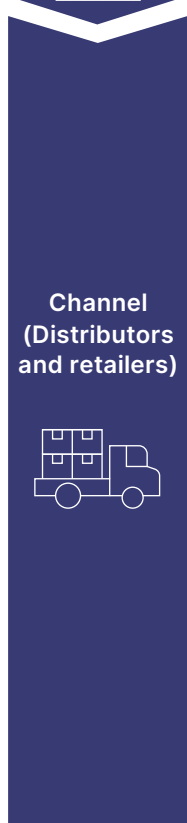
Digital commerce in electronics in India could grow to reach parity with global peers.



Source: Forrester and syndicated McKinsey research



Barriers to digital commerce and potential solutions from ONDC.



Barriers to digital commerce

- **High customer acquisition costs** make it difficult to scale direct-to-consumer (D2C) channels. Both traditional and digital-first brands rely on aggregators for more than 90 percent of their GMV and are increasingly looking to grow their D2C reach.

- Small sellers find it hard to compete in an aggressive price market.
- Small sellers are unable to dynamically change prices.²

- The **inability to try out or experience products** could discourage a segment or long tail of consumers from online purchases, particularly in the case of more expensive categories such as \$400-plus mobile phones.
- **Concerns about damage-free delivery**, especially for high-value bulky items, and after-sales services (such as installation and grievance redressal) pushes consumers to shop from physical stores.
- Lack of **access to credit** could also be a constraint.

Potential use-cases

- Registering as a seller or seller app on the network could bring the D2C brand **traffic from multiple buyer apps** at a potentially **lower marketing spend**.¹
- The network could enhance customer experience by allowing the ability for cross-model comparison, something that a D2C website cannot do.
- The open network could also make it possible for channel participants to be **cost-efficient and increase profitability**.
 - A greater omnichannel play could increase store footfall, boosting both online and offline sales.
 - Synergies with the existing business for buyer and seller apps could lead to cost savings that could be passed on to the sellers.³
 - Digitalisation of the wholesale/in-store inventory could boost eB2B and help retailers easily discover the best-priced wholesalers.
 - Enhanced availability and discovery could boost community group buying, particularly from smaller towns, which could result in the consolidation of orders served at a potentially lower cost with a more efficient supply chain.
- The open network could allow small sellers to discover the **best-priced technology professionals** to support them with a pricing strategy for competitive advantage online.
- Resellers could discover **quality certification agencies** at the best price that could verify and certify their products to enhance their credibility online (Exhibit 3).
- An enhanced omnichannel offering could allow consumers to try products at the nearest store and then buy online for a **more informed purchase decision**.
- The **aggregation of the seller and product ratings** across buyer apps, as facilitated by the open network, could strengthen trust.
- **Digitalisation of the resale and refurbished products** market on the network could offer the buyer additional options for price and product discovery.
- Consumers could be more willing to buy when supported with credit options such as EMI, BNPL, and discounts.⁴

¹ Brands do not need to register on multiple platforms; by joining the open network as a seller app, the brand could enjoy traffic from all buyer apps catering to the electronics segment.

² Sellers charge much higher prices during the initial months of product launch, when most sales happen, and then allow deep discounting.

³ Buyer and seller apps could utilise existing infrastructure (e.g., IT, office space, etc.) and human resources for the new business to realise some cost savings.

⁴ Access to consumer data could allow banks and NBFCs to design new financial products and expand their portfolio (win-win for both parties).

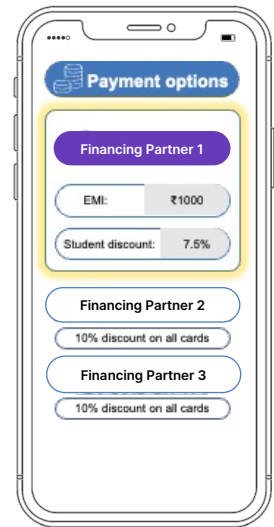
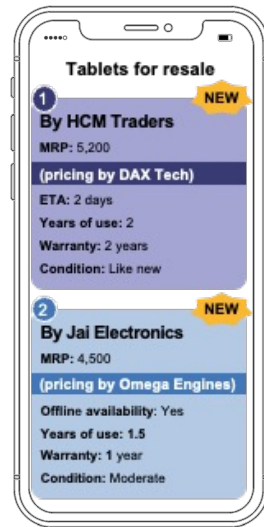
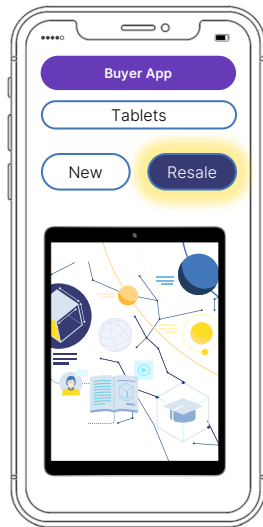
New possibilities: ONDC could spur digitalisation of the market for refurbished electronics goods, creating a support ecosystem for small resellers.

Illustrative



High-school student Ali uses a buyer app to find an affordable, pre-used tablet; he can see a range of product choices with details of quality certification, warranty status and low-cost and innovative financing options¹

Searches for refurbished tablets within ₹5-6k



Unlocks for various stakeholders



Certification agencies

Provide **QC certificate to resellers** based on product testing, to boost seller's reliability on the network



Product pricing partners²

Engage with resellers to **price their products** using robust algorithms, helping resellers earn consumer's trust on pricing



Financing partners

Grow their portfolio by accessing consumer data and offering financial products

¹ Customised offer by the buyer app based on buyer's spend behaviour on the app.

² Price-recommendation engines (for example, DAX Tech and Omega Engines on Screen 2 in the illustration above) on the network could help the sellers in adequate pricing of the product.

Four considerations to shape digital commerce in the **electronics** sector

01

Catalyse D2C for brands

Buyer apps could benefit from effective marketing strategies that harness social media to activate their existing user base. Financing partners on the network could also ease the pinch for consumers with flexible payment options for desirable high-ticket items.

02

Digitalise the inventory

Seller apps on the network could lead the store digitalisation initiative, particularly in the general trade segment, to tap into digital growth momentum. As a start, the seller apps could target well-known modern retail stores in urban areas to build credibility and then attract mom-and-pop stores to their platform.

03

Develop robust logistics capabilities

Sellers must ensure the safe, secure delivery of high-value goods over long distances while minimising the risk of product damage or fraud. One way to achieve this goal is for brands to use their existing store infrastructure and provide inventory locally from nearby stores. Video interactions among sellers, logistics providers, and consumers could enhance this effort, improving communication and transparency throughout the delivery process. Financial-services players could also contribute with micro-insurance products that integrate with delivery offerings to provide additional protection to sellers and consumers.

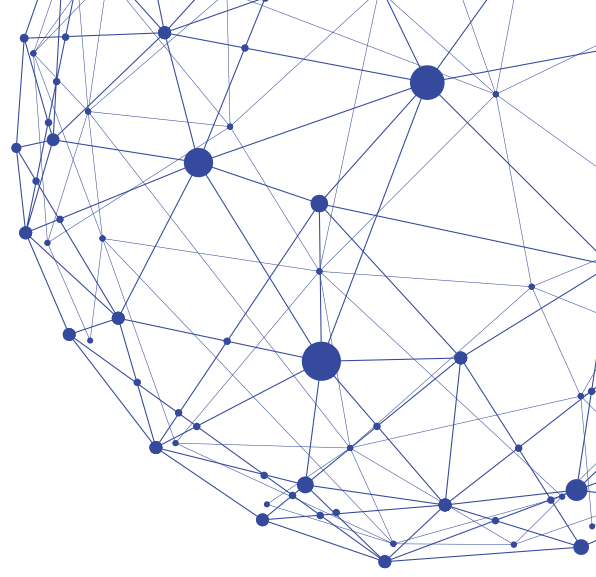
04

Build a support ecosystem for resellers and new sellers

First-time sellers and resellers need to establish trust with consumers on product quality and price. On the network, low-cost technology service providers could facilitate this process by certifying the seller's products on pricing and quality.

The electronics industry is already well penetrated online by digital commerce. ONDC could help offline retailers to compete by capturing part of the local, digital-first demand.





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 4).

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

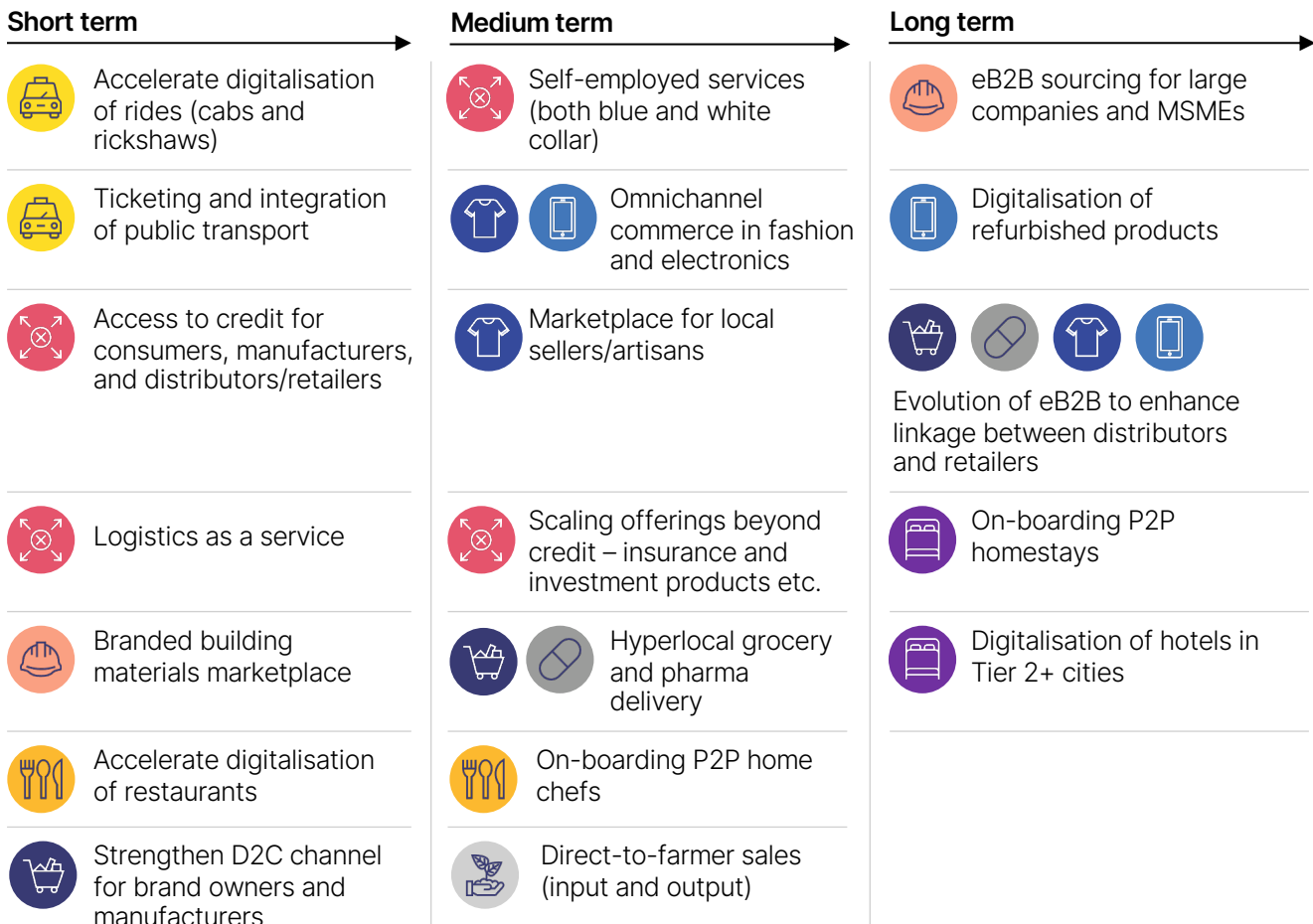
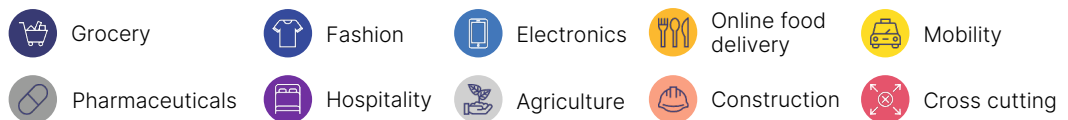
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

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 4

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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