ONDC
Open Network for Digital Commerce

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

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Sub-Report on
Hospitality

May 2023

This booklet is an excerpt from the Hospitality 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.

Hospitality

Travel is back with renewed vigour in India after the pandemic-induced pause on vacations and tourism. Eagerly planning holidays to make up for lost time, travellers are seeking convenience, reliability, and variety.

Thanks to a confluence of factors, India's hospitality sector could nearly double in size by 2030, from $13 billion to as much as $25 billion. Digital commerce could be a critical driver of the sector's growth and represents a significant untapped opportunity. As it scales up, ONDC could support the emergence of a hospitality ecosystem that offers consumers unrivalled convenience and options and provides hotels and homestays with newfound discoverability.

The landscape

The hospitality sector has grown steadily over the past few years to a current value of $13 billion. With rapid expansion expected in the coming decade, the market could nearly double by FY30 with a CAGR of about 6 percent (Exhibit 1). Growth rates for online bookings (direct bookings and through online travel agencies or OTAs) are expected to outpace growth in offline channels. This growth could stem from multiple factors—such as the rising disposable incomes of middle-class and affluent consumers, improved air and road connectivity in tier-two cities and beyond, and the ease and attraction of domestic travel after the shocks to international travel from the COVID-19 pandemic.

However, digital commerce in the sector still has room for growth—penetration in the industry is just 25 to 30 percent in tier-one cities and a mere 8 to 10 percent in tier-two cities and beyond. These levels lag behind other major economies, including the United States (55 to 60 percent)[1] and China (35 to 40 percent).[2]

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[1] U.S. Hotel & Lodging Market Report 2021 – 2025, Phocuswright, March 2022.
[2] China online accommodation market - Growth, trends, and forecasts (2023 - 2028), Mordor Intelligence

Exhibit 1

The hospitality market could nearly double by FY30 with a CAGR of about 6 percent.

$ billion

Offline ▪ Online direct ▪ Online travel agency

| CAGR %
FY22-FY30 | 2-3% | 14-15% | 10-11% |
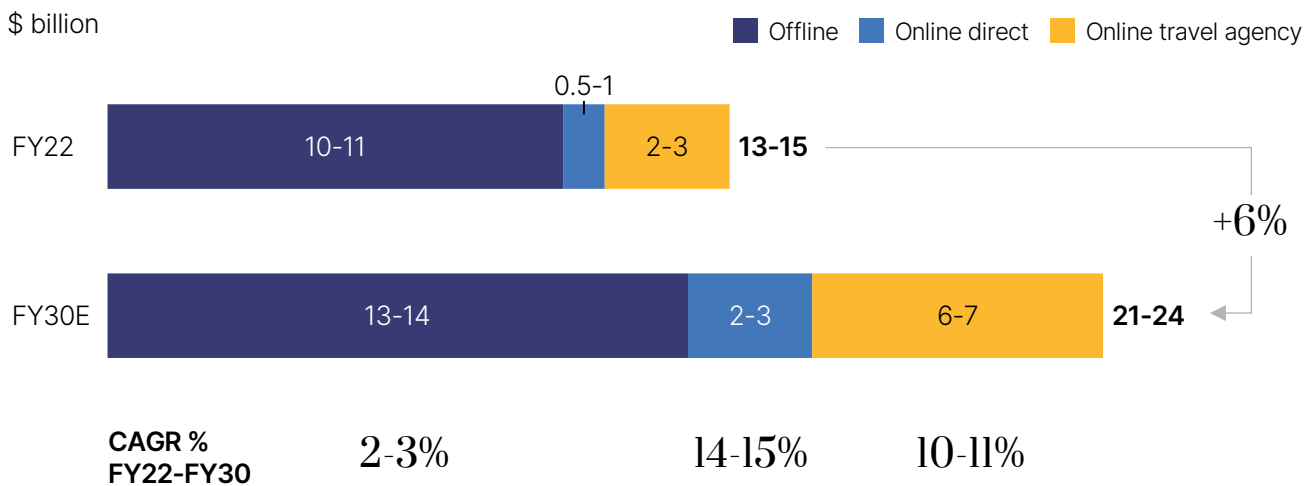
Barriers to digital commerce and potential solutions from ONDC.

Hotels

Barriers to digital commerce

- Online travel agencies (OTAs) charge **commissions for small ticket sizes** and hotel transactions.

- Smaller hotels find it difficult to get on board; they are **resistant to digitalisation and lack sufficient digital capabilities**, such as inventory management.

- Homestays (especially offline ones) find it difficult to **build credibility** with travelers.

- Hosts are also wary of giving their houses to strangers and there is also a **fear of damage to property.**

Potential use-cases

- ONDC could bring down commission charges due to **reduced marketing and customer acquisition costs** on buyer apps.

- Hotels that list on a single seller app could **sell their rooms across buyer apps,** and no longer need to maintain inventory and price parity across platforms.

- Homestays and consumers could gain credibility through a **positive feedback loop created through interoperable ratings** across seller apps and a higher volume of transactions (due to access of home stays to a wider market).

Customers

- The frequent **mismatch between rooms displayed at booking versus the reality** erodes trust in online travel agents—this is the challenge of a non-standardised inventory (especially for home stays).

- **Access to ratings and reviews** on the back of a robust and interoperable reputation economy coupled with a high volume of ratings could make it easier to trust the online hospitality market.

ONDC could make it possible for consumers to find multiple solutions on the network, such as accessing all their vacation needs in one place (Exhibit 2).

Exhibit 2

New possibilities: ONDC could transform India's hospitality sector.
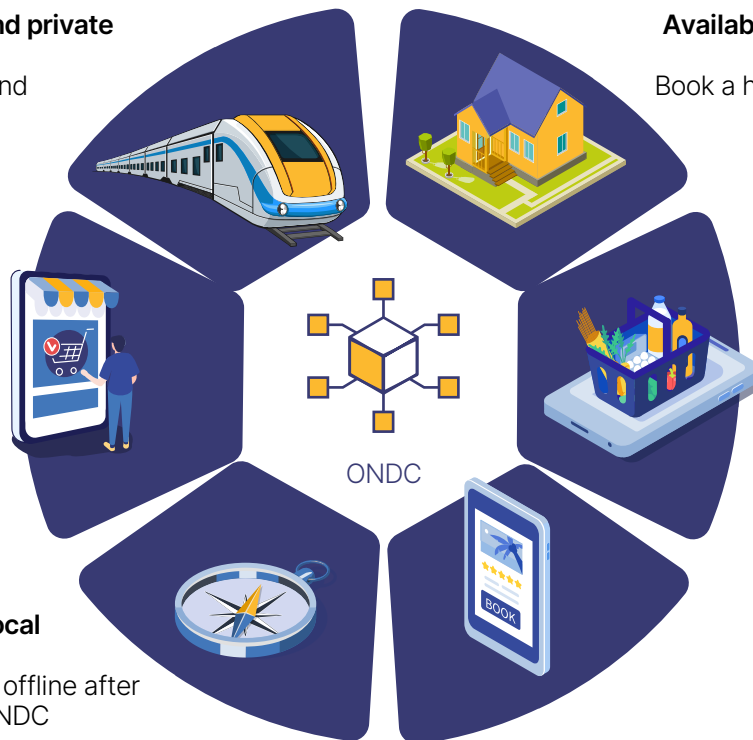
Illustrative

Madhumita, a Chennai resident, wants to visit Sikkim for a vacation. She uses a **buyer app** focused on enabling **vacations.**

Integration of public and private transport with ONDC
Book a train to Sikkim, and cabs for local commute

Availability of small homestay owners on ONDC
Book a homestay for two nights

Availability of financial services
Like BNPL to fund the vacation

Order food online
from regional eateries

Omnichannel play for local business owners
Buy souvenirs online, or offline after discovering shops on ONDC

Book tickets to a nearby museum

ONDC

ONDC could connect multiple value chains, such as hospitality, mobility and online food delivery, to create an end to end ecosystem.

Three considerations to shape digital commerce in the hospitality sector

01

Improve UI/UX and grievance management

The disaggregated nature of the open network makes grievance management and dispute resolution more complex. Buyer apps will need a user interface and grievance management process at par with those of current OTA leaders to execute this use case. Third-party service providers could also build solutions using augmented and virtual reality to allow potential guests to preview properties in detail before booking, providing an enhanced level of transparency and confidence in their decision making.

02

Ensure fair visibility for all hotels and homestays

Buyer apps can create ranking algorithms for impartial visibility to all accommodation options based on customer preferences. Network participants can have transparency on how rankings work.

03

Establish comprehensive onboarding rules and accurately represent inventory

Seller apps will need to define a comprehensive set of onboarding rules for hosts while addressing potential safety concerns around the home-sharing model. To reduce listing discrepancies and build credibility among consumers, seller apps will need to accurately represent hotel rooms and homestays online.
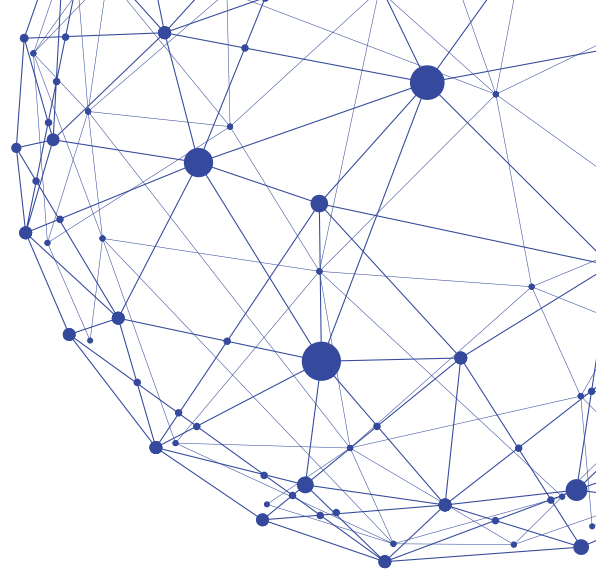
These important details can make or break a vacation for customers, and attending to them could create a virtuous cycle of business in the hospitality ecosystem. The digital advantage could enable a transformed experience for all network participants and rapidly unlock growth for the sector.

Getting on board with ONDC

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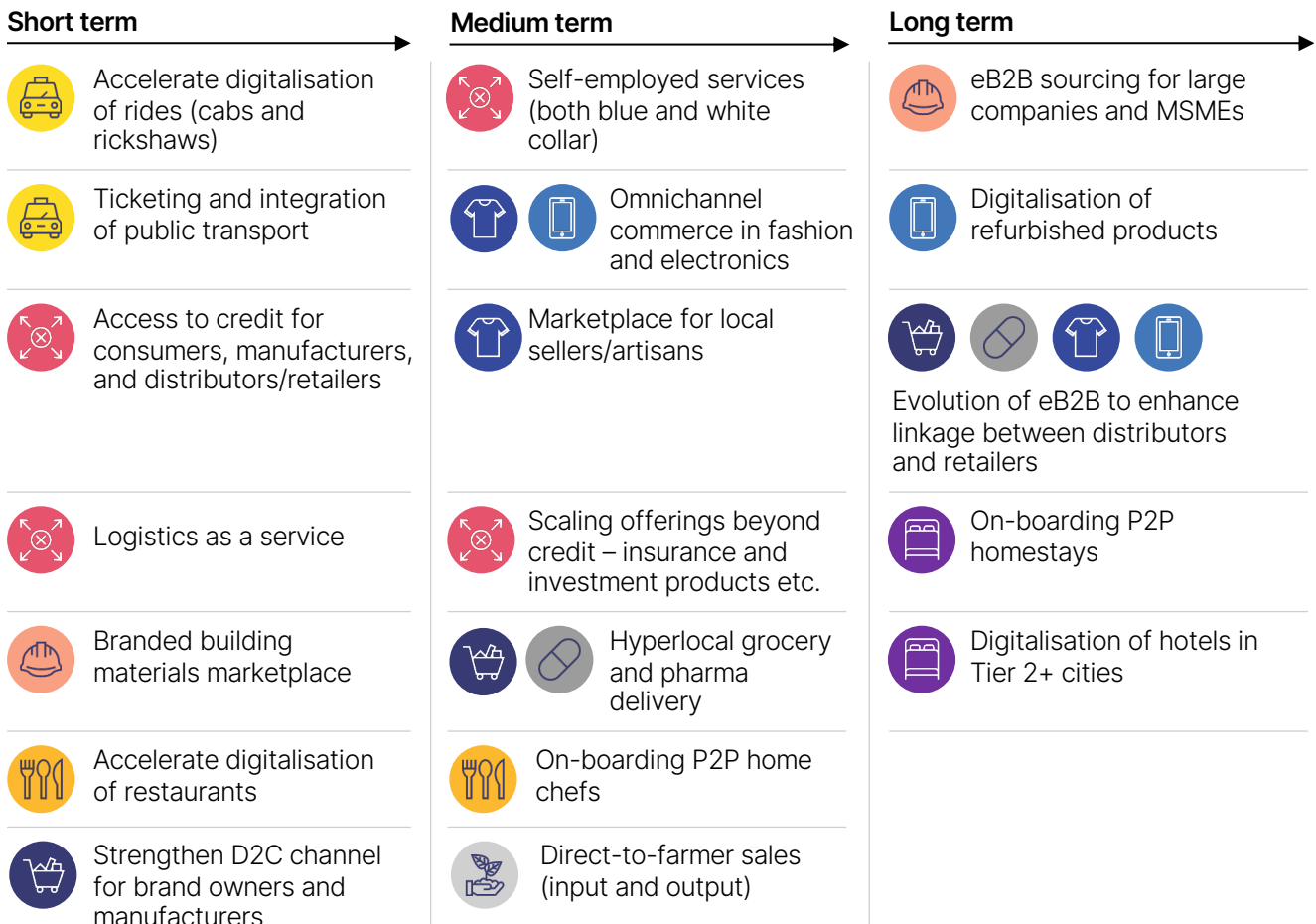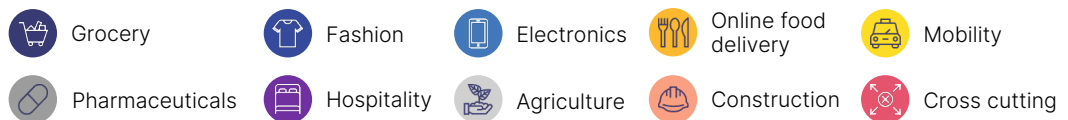
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

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

🛒 Grocery	👕 Fashion	📱 Electronics
🍴 Online food delivery	🚕 Mobility	
💊 Pharmaceuticals	🛏 Hospitality	🌱 Agriculture
⛑ Construction	⊗ Cross cutting	

Short term →

- Accelerate digitalisation of rides (cabs and rickshaws)
- Ticketing and integration of public transport
- Access to credit for consumers, manufacturers, and distributors/retailers
- Logistics as a service
- Branded building materials marketplace
- Accelerate digitalisation of restaurants
- Strengthen D2C channel for brand owners and manufacturers

Medium term →

- Self-employed services (both blue and white collar)
- Omnichannel commerce in fashion and electronics
- Marketplace for local sellers/artisans
- Scaling offerings beyond credit – insurance and investment products etc.
- Hyperlocal grocery and pharma delivery
- On-boarding P2P home chefs
- Direct-to-farmer sales (input and output)

Long term →

- eB2B sourcing for large companies and MSMEs
- Digitalisation of refurbished products
- Evolution of eB2B to enhance linkage between distributors and retailers
- On-boarding P2P homestays
- Digitalisation of hotels in Tier 2+ cities

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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Notes