

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

Sub-Report on Pharmaceuticals



This booklet is an excerpt from the Pharmaceuticals 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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Pharmaceuticals

Crucial to health, vitality, and well-being for Indians, domestic pharmaceuticals is one of the fastest-growing sectors in the country. It is estimated to grow at a pace of 10 to 11 percent, doubling from around \$21 billion in fiscal year 2022 to \$45 to 47 billion in fiscal year 2030. Supportive factors are likely to prompt tenfold growth for the online market over the next eight years, compared to 1.5x to 1.8x growth for the offline market. And yet, digital commerce penetration in the sector is far from the level of global peers. There is immense scope for an open network to change that dynamic and power even greater growth for the online pharma market.



The landscape

In the fiscal year 2022, the Indian domestic retail pharmaceutical market was valued at about \$21 billion, with the digital commerce segment accounting for about \$1 billion. The online pharmacy market could grow at a CAGR of around 33 to 35 percent between FY22 and FY30, far higher than the projected 6 to 7 percent CAGR for the offline market (Exhibit 1).

Five supportive trends are expected to propel this rapid growth:

- **Availability of a broader range of medicines.** While an offline pharmacy has about 5,000 to 10,000 SKUs, an online pharmacy offers consumers more than 50,000 SKUs.¹
- **Buyer comfort with tech platforms as a result of the COVID-19 pandemic.** The pandemic-induced lockdown led to a 3x growth in the number of households that buy medicines online—from around 3.5 million before COVID-19 to around 9.0 million during COVID-19.²
- **The convenience of ordering online.** Home delivery of medicines through

online orders offers great convenience, especially for people with limited mobility due to age or illness. Patients with chronic disease account for a 60 to 70 percent share of the market for chemists.³

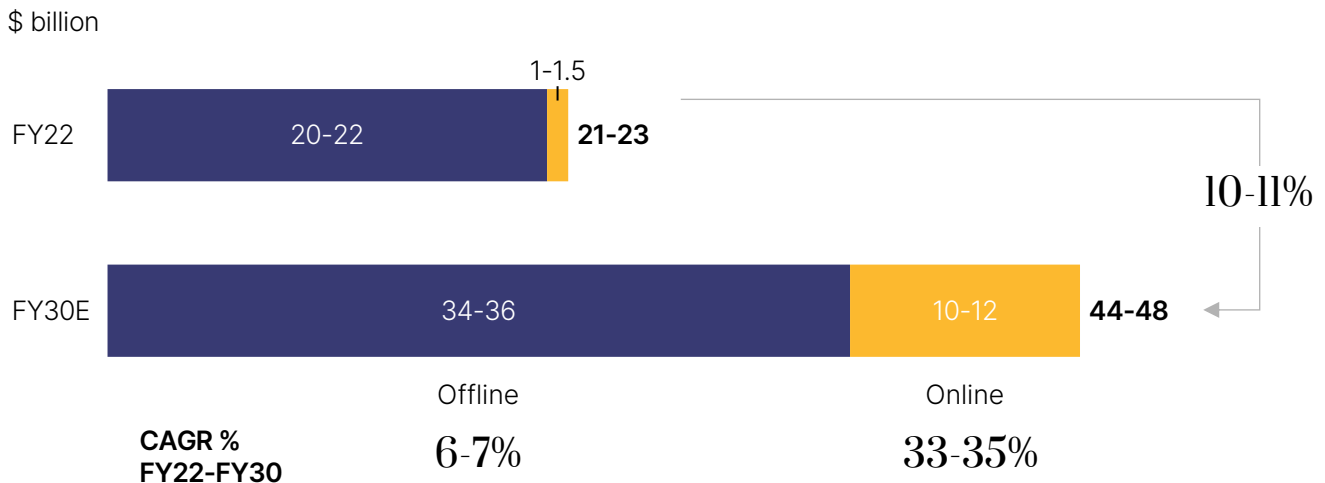
- **Prompt delivery.** Today's online pharmacies aim to deliver products in four to six hours. Just a few years ago, delivery time was three to four days.
- **Lucrative discounts.** Online pharmacies offer discounts of 15 to 20 percent, which is double or triple what local pharmacy shops can offer.

While the future looks promising for online chemists, digital penetration in India (4 to 6 percent) lags behind that of global peers such as China (8 to 10 percent) and the United States (10 to 12 percent),⁴ where advanced digitalisation levels and robust last-mile logistics infrastructure propel higher adoption of digital commerce. In India, a variety of barriers currently restrict the widespread adoption of online medicine purchases.

¹ How technology is redefining retail pharmacy to improve community health; Healthworld.com, from Economic Times, October 2021.
² E-Pharmacies at COVID-19 Frontline: Fighting the Odds: Serving the Nation, a FICCI publication, August 2020.
³ E-Pharmacy: The Growth Story of 2020; Business World, April 2023.
⁴ Pharmacy's new era—in the home, a McKinsey publication, December 2021. Statista.

Exhibit 1

India's retail pharma market.



Source: McKinsey and Company article: "Pharmacy's new era—in the home", Statista, IBEF and Expert interviews

Barriers to digital commerce and potential solutions from ONDC.



Barriers to digital commerce

- **Pharmacos may face pricing pressures** in the future with the consolidation of channels online, potentially impacting profit margins.
- **Lack of technical know-how** to go online and **resistance to change** prevents distributors from exploring the online channel at full potential.
- **High customer acquisition costs may inflate cost structures online**, crushing the margins of the pharmacy.
- **Additional costs incurred in digitising and managing inventory** (>5,000 SKUs in a pharmacy), handling product returns, and performing BTL marketing could hold back pharmacists seeking to move online.
- **Lack of enough online demand in Tier-3/4+ regions** due to customer preference for offline purchases.
- **Concerns around counterfeit medicines**, particularly in Tier 3/4+ towns, further deter consumers from shopping online.
- The lack of **online access to medicine delivery** in Tier 2 and Tier 3 towns due to logistical constraints could mean some medicines might not be available.
- **Lack of credit availability that restricts ability to subscribe to high-priced drugs** (e.g., year-long subscription for chronic medicines) due to lack of credit availability.

Potential use-cases

- An open network **enables the standalone chemists to go digital and operate an omnichannel play.**
- Going online enables the **chemists to compete in an omnichannel world.**
- **Technology support providers on the network** (e.g., cataloguing, inventory management) could enable traditional distributors to establish an online presence with greater ease.
- **The evolution of eB2B** could enable the distributors to conduct business with more retailers and grow their revenue. Margin erosion is less likely in an open network, given that the transaction price is largely negotiated between the distributor and the pharmacist (e.g., pricing, discounting, etc.).
- Buyer app and seller app could **pass on cost savings achieved via synergies from the existing business** to the pharmacist, making online a profitable and attractive proposition for them. For example, the buyer app could monetise its existing user base to lower customer acquisition costs. And the buyer and seller apps could use their existing business functions such as Finance, Human Resources, and infrastructure such as IT, call center, etc., to realise cost savings.
- The pharmacy can **also cut procurement costs** by accessing a wider distributor network to find the best-priced distributors and wholesalers.
- The digitalisation of the local pharmacists whom buyers trust **could boost online demand in Tier-3/4+ regions**, attracted by a wider product assortment and better discount offers.
- Sellers could gain credibility on the open network as reliable, genuine medicine providers by **aggregating seller and product ratings across buyer apps.** This could create transparency and trust.
- **Increased digitalisation of pharmacies** at the local level could allow customers to discover more products online.
- Hyperlocal logistics could flourish with the **aggregation of demand across multiple use cases** (e.g., grocery delivery, online food delivery, etc.), providing convenience and quick delivery.
- The **availability of credit** from lending institutions based on customer's past purchase behaviour could allow customers to make a high-value purchase.

Five considerations to shape digital commerce in the **pharma** sector

01

Create a great customer experience

To spur greater adoption of online pharma on the network, buyer apps must offer a user-friendly interface with robust customer acquisition strategies. Financial institutions could accelerate the momentum by offering credit on high-ticket purchases (for example, a subscription plan for chronic disease medication).

02

Tap systemic cost efficiencies

Buyer and seller apps need action-oriented cost reduction strategies through automation (for customer management, return handling, prescription verification, and other actions) and cultural changes (such as leadership-driven interventions to create lean teams that optimise speed with quality of output). This could enhance the unit economics for each stakeholder.

03

Digitalise the inventory

Given the vast numbers of SKUs in the industry, pharmacists need to develop real-time online inventory management capabilities to fulfill orders in an optimal way. Technology service providers (e.g., cataloguing agencies) on the network could support this endeavour.

04

Build robust logistics and storage capabilities

Logistics players will need to develop cold-chain-storage capabilities, particularly in smaller regions, to store and distribute medicines properly.

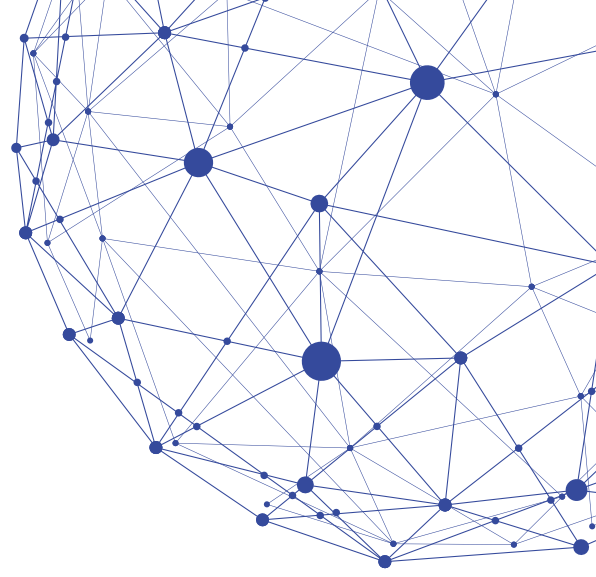
05

Offer additional support services

Buyer and seller apps need to offer customers add-on services such as prescription verification (for example, Optical Character Recognition technology) and doctor teleconsultation (some customers might require online consultation to obtain a prescription). This could create a comprehensive, end-to-end offering that attracts customers to online pharma.

Trust in the offline pharmacy going online with its "reputation" could be a big unlock to attract customers. ONDC could help create this reputation through a seamless ecosystem on the open network.





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 2).

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

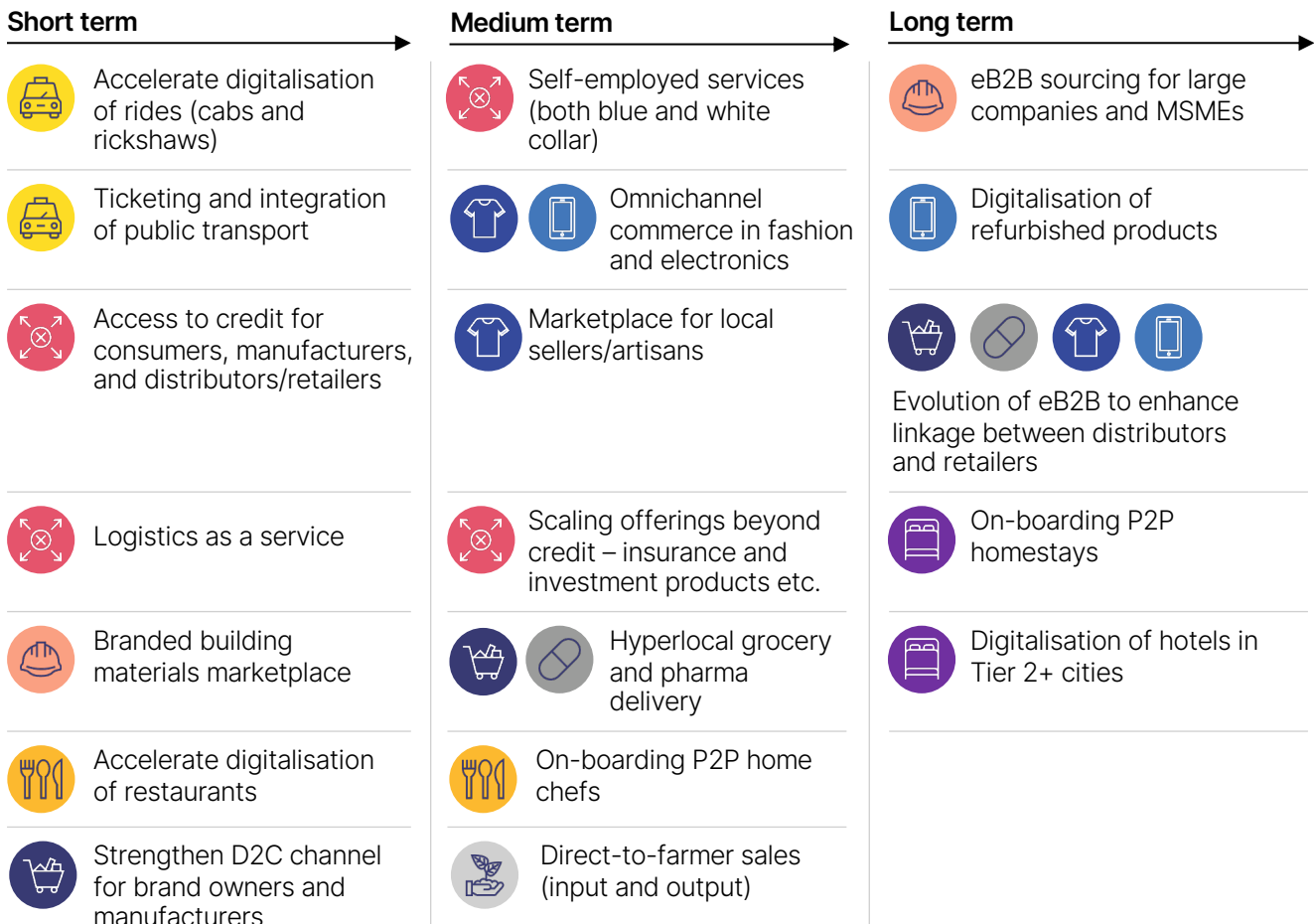
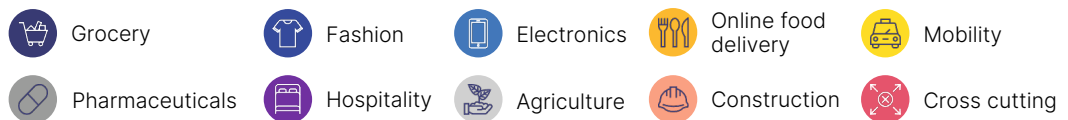
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

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 2

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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