

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 6 | Issue 6

2023

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Regulatory Challenges of Online Platforms and their Impact on Traditional Business Models

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ABSTRACT

Global reach, low marginal and distribution costs, economies of scope, and growing returns to scale are all advantages of digital platforms. Serving more customers in conventional marketplaces requires paying for physical distribution. On the other hand, manufacturing in digital markets especially information services imply minimal variable costs and fixed expenses. This makes it possible for digital platforms to grow quickly. In order to better understand customer preferences and likes and provide higher-quality services, platforms gather user data and apply machine learning algorithms. Larger platforms outperform smaller ones because algorithmic technologies' predictive capacity performs better on larger datasets. Because of this, bigger platforms may charge more for their tailored advertising services.

Keywords: NPCI - National Payments Corporation of India ; UPI - Unified Payments Interface.

I. INTRODUCTION

As a new paradigm for globalisation itself, platforms play a significant role in what is currently referred to as the third globalisation. They are driven by computable algorithms that are different in function and structure, provoking a profound economic reorganization of markets, work arrangements, and more fundamentally value creation in the economy⁴. In addition to upending traditional business models like those in retail and entertainment, platforms are also serving as a conduit for completely novel endeavours like social networking. The fact that platforms go by many names, such as the sharing economy, the gig economy, the creative economy, the networked economy, and the on-demand economy, illustrates their multifaceted nature. None of these, meanwhile, truly captures the phenomena of digital platforms. Start-ups, internet

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⁴ Kenney, M. and Zysman, J. 2015, "Choosing a Future in the Platform Economy: The Implications and Consequences of Digital Platforms", Kauffman Foundation New Entrepreneurial Growth Conference <https://brie.berkeley.edu/sites/default/files/platformeconomy2distributejune21.pdf> (last accessed on DEC. 22, 2023, 08.33 PM)

behemoths, and conventional industry players that are embracing the digital environment are the companies driving this movement.

Currently, Indians download more applications than anybody from any other nation. More than 350 million social media users call it home as well. More time is spent on social media platforms by Indians on average than by users in China and the US, with 17 hours spent weekly. Another rapidly expanding industry is "digital media and entertainment," which was valued at USD 23.34 billion in March 2019. Additionally, it is predicted that e-commerce income would increase by more than 25 to 30 percent. The government-commissioned McKinsey analysis, "India's Trillion Dollar Digital Economy," outlined the country's digital ecosystem's potential contribution, which was pegged at USD 1 trillion by 2025—roughly 18 to 23 percent of the country's nominal GDP. A few studies have used surveys that represent consumer preferences for platforms and digital content to carry out the micro-level assessment of these implications. For instance, according to the 2019 Asia OTT Research Report, 25% of Indian respondents preferred to pay a reduced cost in exchange for fewer advertisements, while 25% of respondents wanted to see OTT material for free. Nearly 14% chose to forgo advertisements in exchange for a greater charge. In their 2017 research "The New Indian: The Many Facets of a Changing Consumer," BCG observed 35 Indian consumers' online behaviour over the course of five weeks, tracking both their online and offline purchasing across a variety of categories. Not only did the research assist organisations create more successful business models and marketing tactics, but it also helped dispel myths. Eight user behaviour categories that together defined Indian internet users were identified by the study.

II. DIGITAL PAYMENT PLATFORMS

In India, digital payment systems have completely changed the financial services industry. Digital payments have grown in India after demonetisation. The sector has now bounded ahead of online banking in terms of the quick adoption of mobile wallets and UPI platform transactions. Interoperability was brought to the industry with the establishment of the UPI platform by the National Payments Corporation of India (NPCI), and in January 2021, 3.4 billion transactions totalling INR 14 trillion were made. Some of the leading digital payment businesses in India are government-owned BHIM, Google Pay, Paytm, and Phone Pe. Certain websites, like Paytm, also function as banks for payments. Synergies between digital platforms and the financial industry are essential if we are to properly benefit from them. Digital payment companies are still experimenting with developing new financial services or lending products, as well as providing merchants with new devices or point-of-sale systems. To increase the

appeal of their products to both retailers and customers, the corporations continue to spend heavily on cashbacks and discounts.

(A) Impact Generated by Online Retail Platforms

a. Industry Ecosystem

- Creating jobs is a significant spillover advantage. Over a million jobs might be created in the e-commerce industry by 2023, according to projections from PwC and NASSCOM. By 2022, the market is anticipated to be larger than \$100 billion USD.
- In our sample, a major e-commerce company stated that it employs 1.4 lakh people with the help of its full-time logistics team and subsidiary platforms. They said that by assisting MSMEs and craftspeople, they have supported the ecosystem and produced 6-7 lakh new employment.
- Approximately 200,000 merchants on a major online retail platform in our sample, half or more of them were from tier 2 and tier 3 locations, according to the site's claims. Additionally, most of their clientele consisted of middle-class residents in Tier 2 cities. Tier 2 cities might be held responsible for over sixty percent of their total income.
- The spread of online shopping in tier 2 and tier 3 cities has been fueled by the use of voice search on platforms and local language content. Online purchasing is now more inclusive thanks to these initiatives.
- Voice searches currently account for 28% of all search inquiries, with voice searches in Hindi increasing at a 400% annual pace.
- Infrastructure development, such as investments in logistics and effective delivery and distribution services, is another important aspect.
- Online grocery platforms aim to integrate kirana shops and facilitate the digitalization and modernization of their business processes.

b. Platform Users (Businesses and Consumers)

- MSMEs and lone artists/craftsmen can quickly list on internet retail platforms to expand their clientele.
- According to one online retail platform in our sample, commission fees are frequently waived for individual craftsmen and artists, but they charge brands and sellers commission in accordance with industry norms.
- A supermarket selling platform in our sample claims that funding allowed them to

expand and provide savings of between 15 and 20 percent. This platform also said that they are able to provide discounts since they receive better margins from manufacturers based on the volume of sales.

- A value-driver is convenience.
- A B2C platform emphasised the value of user feedback in the advancement of both their platform and technology-driven platforms generally. Their staff of customer insights assists manufacturers and sellers in anticipating demand for certain items far in advance. The insights team considers customer preferences, regional per capita incomes, and frequently recommends that manufacturers and sellers stick to a specific price point when assessing demand.
- The platform itself also handles the administration of many of its vendors' back-end supply networks.
- Supply side inefficiencies have been eliminated and the distribution channel has been consolidated with the aid of online B2B platforms.
- Aspects like loan availability, price discovery, logistics, and so on have made it possible for wholesalers and retailers to grow their businesses, diversify into new markets, and boost their profit margins.

c. **Traditional Industries**

- Funding makes it possible for online platforms to scale and provide large discounts in the online grocery market, something that is challenging for their physical counterparts.
- Big retailers or internet platforms just cannot match the unquestionable benefits of cheap prices, convenience, and in-person interaction that kirana businesses offer.
- In the sample, an online grocery platform presently collaborates with about 5000 network retailers, and these stores handle 85% of the platform's deliveries. During their initial interactions, they assisted Kiranas with improved supply chain management, analytics, and inventory control, as well as lowered distributor rates.
- As a result of customers switching to internet shopping, Kiranas has lost market share. In India, there are trends in terms of demographics and internet platform usage. For everyday purchasing requirements, for instance, kiranas are the best choice.
- Kiranas are adjusting to the digital world. Traditionally, they have taken orders over the phone, but these days, they use WhatsApp. Online platform partnerships with kiranas

have contributed to a 15–25% rise in foot traffic at these establishments.

- A sizable portion of sales in markets like electronics and clothing have moved online. Customers are starting to utilise physical stores as experience centres, claims a B2B platform. Giants in e-commerce are making partnerships and investments in large retail establishments to provide customers a seamless online-to-offline experience.
- In the B2B space, offline sales and distributes may be the ones most impacted by digitization. A B2B platform predicts that upheaval in this market would probably lead to the demise of independent distributors. They expect these distributors to someday be connected to online platforms.

(B) Impact Generated by Online Platforms in Financial Services

a. Industry Ecosystem

- The payments sector was transformed by UPI, which made it more transparent and competitive.
- Digital payment solutions save businesses money on costly physical networks and IT infrastructure, which benefits customers indirectly.

b. Platform Users (Businesses and Consumers)

- Digital platforms demonstrated how their extensive merchant network, years of established trust, and flawless services had benefited retailers. They also offer channels for resolving disputes. As a result, in the event of a disagreement, customers may approach the platform directly and avoid going via retailers or banks.
- Platforms that act as intermediaries ensure that merchants do not have to maintain a credit-card database, hold online records of customers' financial information, or ensure data security. These aspects are handled by the platforms, including authentication of customers.⁵
- Trust is strengthened by features including ease of use, adaptability, P2P transfers, smooth end-to-end transactions, and, in some situations, security protection against unauthorised withdrawals.

c. Traditional Industries

- Unbundling financial services has caused upheaval, according to a payment platform,

⁵ Jones, Russ. "The PayPal Phenomenon: Lessons from the Leading Edge of Online Payments." *Commerce Net Security and Internet Payments Research* (2001).

where platforms are now providing some services more effectively than banks.

- Collaborations between digital platforms and the traditional financial services sector have sparked innovation in services. The ecosystem is smooth now that incumbents have embraced technology.
- Cutting-edge businesses like digital gold let users purchase, sell, and store gold on digital platforms; they only have to pay for the actual cost of having the gold sent to them.
- For the most part, digital platforms and the conventional financial services business complement one other. The primary goals of disruptions are to increase convenience and service quality.

(C) Regulatory Challenges

Perhaps the most startling of all the issues is the lack of clarity surrounding a proper definition of digital platforms, which paralyzes any discussions on regulations. But when seen through the prism of the law, there are three main issues: (i) consumer protection; (ii) privacy and data protection; and (iii) competition and antitrust. The economies of scale and network externalities that are intrinsic to platforms push the market in the direction of monopoly. Another perspective holds that platforms are regulated entities unto themselves, subject to the laws that are in place as well as the regulation of users, operators, and other parties. Additionally, experts in competition law believe that it could be more beneficial to consider whether governments should regulate a larger portion of the platform economy and determine the appropriate circumstances for doing so, as opposed to debating whether or not platforms should be controlled. In addition to the three main sectors mentioned above, platforms also bring up regulatory issues with the dissemination of false material on social media platforms, such as fake news. Businesses' and the government's continued efforts are insufficient to address this issue. Second, the growth of internet retail has opened up new channels for the sale of fake items to reach customers. This is true even when businesses are making an attempt to stop the spread of phoney goods on their internet channels. Lastly, a new class of gig workers that do not always fit into the traditional job categories has emerged as a result of the platform economy. Because their job is contractual in nature, the government is trying to create protections for gig workers who could be unintentionally vulnerable.

III. CONCLUSION

Freemium, ad-supported, and crowd-funded firms are just a few of the different business models

that are emerging as the influence of digital transformation develops. Freemium business models, which offer a basic version of a service or product for free while reserving more sophisticated features for subscribers, may be improved to offer more individualised user experiences. Businesses that run advertisements will profit from more individualised content and promotions that are more precisely targeted. By giving varying degrees of service and support in response to changes in client purchasing patterns and demographic variances, all firms will be able to better optimise their pricing strategies. Simultaneously, privacy issues, modifications to legal and compliance mandates, and the increasing influence of cybercrime on enterprises will provide continuous obstacles. Regardless of the business strategy that is chosen, it is critical to acknowledge these limitations. This implies that anticipating them and responding to them has to be a key component of corporate strategy. All firms will find it more and more crucial to strike a balance between their desire to develop and change and their obligation to take ethical and legal obligations into account. Investment in upskilling and training is essential as the persistent skills shortage in technology is expected to result in new obstacles. In the end, though, as technology advances more quickly, we may anticipate that business models will continue to change. Leaders will need to embrace a continuous awareness, education, and innovation mentality in order to achieve this. The secret to prospering no matter what changes are around the corner is to embrace these changes while realising the dangers and difficulties they represent.
