

INDIA'S PLATFORM ECONOMY AND EMERGING REGULATORY CHALLENGES

Rajat Kathuria, Mansi Kedia, Kaushambi Bagchi

Key Highlights

- Indian users of digital platforms spend between 20 -40 hours per week on platform-based activities. The average time spent on platforms for leisure and work are 21.5 hours and 12.4 hours, respectively
- The average estimate of time saved due to platform use is 14 hours every week
- The average estimate of money saved due to platform use is Rs. 401 every week.
- The reported advantages from use of online platforms are (i) less time spent, (ii) less cost incurred (iii) more customization in products and services (iv) more choices (v) on-demand availability and (vi) the ability to do multiple tasks simultaneously.
- The reported disadvantages are (i) disproportionate time spent on activities, (ii) additional cost of online subscriptions and (iii) fake news and misinformation
- The estimated consumer surplus per individual per month is Rs. 438.75, translating into a collective annual surplus of Rs. 3620 billion for India

EXECUTIVE SUMMARY

INTRODUCTION

Platforms are an important part of what is now called the third globalisation, a new paradigm for globalisation itself. 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 economy. Platforms are not only disrupting existing business models such as retail and entertainment, but they have also become a channel for entirely new activities such as social media. The multidimensionality of platforms is reflected in how it has been labelled the creative economy, the gig economy, the sharing economy, the networked economy, on-demand economy, etc. However, none of these accurately sum up the digital platform phenomenon. Companies driving this trend include start-ups, internet giants as well as those belonging to traditional industries that

are now embracing the digital ecosystem. Indians now download more apps than residents of any other country. It is also home to over 350 million social media users. The average Indian spends 17 hours on social media platforms each week, more than users in China and the United States. 'Digital media and Entertainment' is another fast growing sector, with an estimated market size of USD 23.34 billion in March 2019. E-commerce revenue is also estimated to be growing by more than 25 to 30 percent.

MEASURING THE IMPACT OF DIGITAL PLATFORMS

Consumers rarely spend additional money to use free services offered by a majority of digital platforms. To address



this gap between measurement and value, emerging literature considers time spent on the internet to quantify the value of digital services. This is now referred to as the “The Attention Economy”. Recent studies use micro data on consumer demand to estimate welfare that such goods bring to the consumer.). In some of the earlier approaches to value the internet using time spent, Goolsbee and Klenow (2006) provided a simple model in which both expenditure and time contributed to consumption of the internet estimates consumer gains. Their model found that consumer gains from the internet could be more than \$3000 per year for the median person. A new framework adopted by Brynjolfsson and Joo Hee Oh (2012) extend the time and money-based model to incorporate multiple products with varying degrees of substitutability. The model also incorporates data on quality improvements of internet and estimate not only the opportunity cost of time but also the value of time saved due to quality improvements. In this report we estimate consumer surplus using the data of 1874 individuals across 11 Indian cities. The survey recorded time

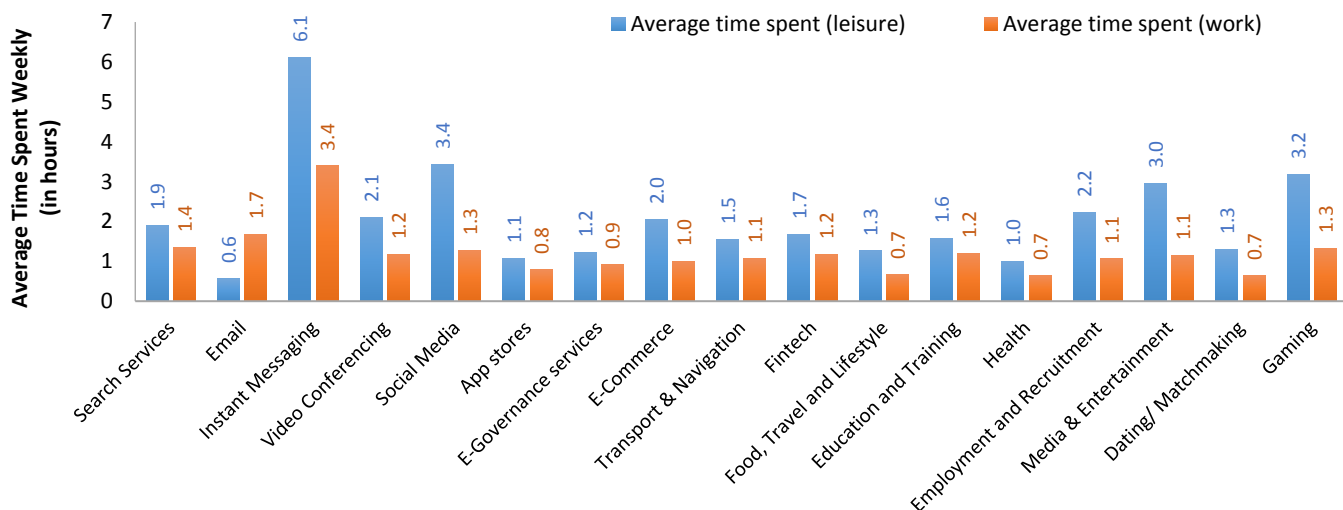
spent on online platforms in terms of the number of hours spent weekly, for leisure and work across 17 different platform categories. Most respondents reported spending between 20 – 40 hours per week on platform-based activities. The mean and median values for total number of hours spent on platforms are 33.9 hours and 31.3 hours respectively. The mean value for reported number of hours spent on platforms for leisure and work are 21.5 hours and 12.4 hours, respectively. In terms of platform categories, *Search Services, Email, Instant Messaging, Social Media, E-Commerce, Fintech* and *Gaming* were the most popular categories, with more than 60 percent of the sample reporting the use of these platforms.

The reported benefits of platform use were (i) decrease in costs (ii) decrease in time spent and (iii) and overall value derived including efficiency, timeliness, quality, etc. In categories where some of these gains were reportedly higher included *transport and navigation, video conferencing e-commerce, e-mail, and media & entertainment*. The time and cost savings from the use of digital platforms as reported by respondents is summarised in Table 2.1. The average

time savings on account of platforms every week is 14 hours and the average overall money saved per week is Rs. 401.

The analysis borrows from Goolsbee and Klenow’s simple utility model to compute the consumer surplus from platform access in India. For the purpose of estimation, we consider only leisure time spent on platforms. The surplus is estimated at 1.17 percent of full income, i.e., income plus value of leisure time. In absolute terms the surplus is Rs. 438.75 per individual per month. Converting this to an annual surplus with an estimated user base of 687.62 million platform users, this could mean a collective annual surplus of Rs. 3620 billion for India, at the upper end. At current exchange rates this would amount to USD 47 billion. A WIK report in 2017, estimated the per capita surplus from the use of interactive digital communication platforms in India to be US \$74. Our study reports a surplus of US\$ 68.45 from the collective use of all platforms, though undeniably communications generate a large part of the surplus.

Figure 1: Sample Distribution of Average Time Spent Weekly on Leisure and Work across 17 Platform Categories



Source: Based on data collected in the consumer survey for this report.

Table 1: Weekly Time and Cost Savings

Measure	Weekly Time Savings (in hours)	Weekly Cost Savings (in Rupees)				
		Overall	Discounts/ Cashbacks	Leisure/ Non-work related	Work related	Other sources
Range	68	2650	690	1180	910	450
Average	14	401	82	201	102	16
Median	10	200	40	110	0	0
Inter-quartile Range	14	550	120	280	150	10

Source: Based on data collected in the consumer survey for this report.

A case study analysis complementing the survey finds that digital platforms have made considerable inroads into business processes and service delivery. Using the VISOR (value proposition, interface, service platforms, organising model and revenue model, the report illustrates the nature of digital business models across five sectors in India – online retail, social media and communications, media and entertainment, on-demand mobility and digital payments. There is consensus on the benefits of disintermediation as well as the efficiency enhancing role of digital platforms. There is also a tabulation of the impact of digital platforms on the overall ecosystem, platform users and the traditional industry. Sectors such as online retail and digital payments have played a huge role in digitization and modernization of traditional businesses. They have created new opportunities for livelihoods, especially in online retail and social media. While most sectors appear dominated by two or three big players, there is a continuous cycle of innovation that emerge from changing consumer preferences or untapped market potential. Despite

the presence of big players, new entrants can carve out a niche in the market. Online retail and social media provide several examples. With respect to benefits for consumers, the findings are an absolute match to the results of the survey.

It is hard to deny the value created by digital platforms, though in part, it comes at the cost of disrupting traditional businesses. Traditional businesses that have not upgraded or integrated, find the onslaught of digital platforms difficult to survive. There are also relatively resilient components within the traditional business that have been less affected by digital platforms, at least so far. Good examples would be the market for rented luxury cars, sale of drugs for acute illnesses, TV viewing, etc. There is no doubt that the online and physical components of most of these sectors are likely to coexist. Though the equilibrium is hard to predict at this point. As is the case for most industries, innovation and growth are closely tied to government policy. The government’s huge push towards digitization has helped trigger this growth, though its sustained benefits

to the economy will require some oversight.

REGULATORY CHALLENGES AND RECOMMENDATIONS

The rise of digital platforms has raised regulatory concerns, globally. The ambiguity around a precise definition of digital platforms is perhaps the most jarring of all concerns, paralysing any questions around *what* to regulate. However, through the lens of law, there are three primary concerns - (i) privacy/ data protection (ii) consumer protection and (iii) competition/ antitrust. Besides these, platforms also raise concern with regard to the spread of fake news and misinformation on social media platforms. Ongoing efforts by companies as well as the government stand insufficient to counter this problem. With the rise in online retail, sale of counterfeit goods has found new avenues to reach consumers. This is despite efforts from companies to check proliferation of fake products through their digital platforms. Finally, the platform economy has created a new class of

gig workers that do not necessarily fall within the classic employment categories. The government is working towards creating safeguards for the employment of gig workers who may be subject to inadvertent vulnerabilities, given the contractual nature of their employment. New thinking around each of these issues is under way. However, from our review of existing regulatory issues and their institutionalised mitigation, it might suffice to say that self-correction in digital markets is a myth, but overregulation can also be harmful. For the percolation of benefits accruing from the platform economy, an approach that combines ex-ante

monitoring through a set of predefined guidelines and ex-post enforcement on a case-by-case basis, along with the overall strengthening of laws and regulatory institutions, will create a welfare enhancing ecosystem for the long run.

ABOUT AUTHORS

Rajat Kathuria, is Senior Visiting Professor at Indian Council for Research on International Economic Relations (ICRIER).

Email: rkathuria@icrier.res.in

Mansi Kedia, Fellow at ICRIER, Email: mkedia@icrier.res.in

Kaushambi Bagchi, PhD Scholar at LKYSPP, National University of Singapore Email: k.bagchi94@gmail.com

ABOUT ICRIER

ICRIER, one of India's leading think tanks, was established in August 1981 as a not-for-profit research organisation to provide a strong economic basis for policy making. Over the years, ICRIER has continued and reinforced the pursuit of its original vision and in the process significantly expanded the scope of its research activities. ICRIER is ably supported by its current Chairperson Mr. Pramod Bhasin and a Board of Governors, which includes leading policy makers, academicians, opinion makers and well-known representatives of the corporate world. ICRIER's success lies in the quality of its human capital. Led by Dr. Deepak Mishra, Director & Chief Executive, ICRIER's research team consists of highly qualified professors, senior fellows, fellows, research associates and assistants and consultants.

ICRIER conducts thematic research in eight thrust areas, namely, Macroeconomic Management, Financial Liberalisation and Regulation; Global Competitiveness of the Indian Economy – Agriculture, Manufacturing and Services; Challenges and Opportunities of Urbanisation; Climate Change and Sustainable Development; Physical and Social Infrastructure including Telecom, Transport, Energy and Health; Skill Development, Entrepreneurship and Jobs; Asian Economic Integration with focus on South Asia; Multilateral Trade Negotiations and FTAs.

International conferences, seminars, public policy workshops, public lectures and publications form an integral part of ICRIER's outreach activities. ICRIER maintains a wide network of resource persons from India and abroad. It strives to attract well-qualified researchers, provides them a stimulating and scholarly work environment and encourages researchers to work in teams. ICRIER's research is widely cited by both academia and the popular press, and has over the years provided critical inputs for policy making.



Indian Council for Research on International Economic Relations (ICRIER)

Our Offices:

4th Floor, Core 6A, India Habitat Centre, Lodhi Road, New Delhi-110003

Plot No. 16-17, Pushp Vihar, Institutional Area, Sector 6, New Delhi-110017

O: +91 11 43112400 | F: +91 11 24620180 | W: www.icrier.org

Follow us:  /ICRIER |  /ICRIER |  @ICRIER

Scan QR and read full paper:

http://icrier.org/pdf/Working_Paper_407.pdf

