Chapter 14
Demonetization in India: Opportunity for Digital Payment Industry

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Abstract Digital payments in India are in very nascent stage as compared to other large-sized economies around the world. Demonetization of high-value bank notes has given a positive trigger and opportunity for digital payments industry. This chapter focuses on analysing the environment in Indian economy which has made it conducive for the growth of digital payments industry. It also discusses possible steps that the industry participants could take to leverage this conducive environment to build a sustainable and profitable business. This chapter discusses various environment constraints and drivers that can be used for a strategic marketing exercise. It also discusses the 4 Ps framework which the digital payment industry can focus upon.

Introduction

Indian economy is quickly growing from an adolescent to an adult, and the government is pushing a lot of cultural changes (in the way the business transactions are carried out). Recent decision of the Indian government to demonetize high-denomination (500/1000) bank notes is one such step to bring about a cultural shift. The reasons put forth by the government were to curb corruption, eliminate counterfeit currency and moving towards less cash or cashless economy. The size of the shadow economy was 1490 thousand crore in FY14-15, and the taxes foregone due to it was 3.2% of the GDP (Visa Research, "Accelerating the growth of digital payments in India", exhibit 2).

In this article, we shall focus on opportunities for the digital payments industry; that may arise by the intent to move to a cashless economy. This article intends to discuss barriers that digital payments may face in India, the opportunities that demonetization has created and the strategic shifts that the industry would need to

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make in its marketing approach, in order to capitalize these opportunities, to create sustainable value for customers, shareholders and society at large.

Digital Payments in India

Payments are transfer of value between two people in exchange of goods and services. The payment instruments have evolved over the years and have become more **secure** and **user-friendly**. With businesses stressing more upon the time value of money, the timing (and speed) of payments has also become important attributes of any transaction. Cash and cheques were the most commonly used and traditional way of making payments. However, with evolution in computing and mobile technologies, there had been a dramatic change in tools of making payment. These are often referred to as electronic payments or digital payments.

Digital (Electronic) Payments

The primary instrument of payments has still remained the same (which is money), but the channel of carrying out transactions has become digital. Since there is no formal definition for digital or electronic payments, we shall use these terms interchangeably in our article. Digital payments can be loosely defined as umbrella of tools that allow the payer to transfer money to payee without the use of actual bank notes or coins, in a secure and timely way. The evolution of digital payment began when debit cards/credit cards/ATM cards were offered by the banks as mechanisms of withdrawing money (non-branch transactions) or direct money transfer to the payee (credit and debit cards). It was considered as a revolution in itself, since cash vending at ATMs reduced branch operation costs of banks. This was followed by revolution in digital space. As telecom solutions flourished, the Internet was made available widely and cheaply. With the Internet being widely used in metros and tier 1 cities and with high availability internet services; net banking and online payments picked up the initial traction.

This was followed by another revolution of online shopping. The products were now available in an online marketplace, and buying was as easy as few clicks. This revolution has also fanned the growth of the digital payments, as these payments instruments were being frequently used for making online purchases. Online purchases have been predominantly an urban phenomenon, but with increasing availability of the Internet in semi-urban and rural areas, there is a huge potential for this industry and therefore digital payments options.

How Much Have the Indians Embraced Digital Payments?

Digital transactions have spurred up in India with advent of online shopping companies like Flipkart, Amazon, Snapdeal and others. These companies began offering heavy discounts for online sales in order to attract its customers. Along with this, there has been quick penetration of smartphones (low cost) and increased reach of Internet services. This has created awareness of and usage of mobile wallets and has given thrust to companies like Paytm, Mobikwik.

However, the industry is still at a very nascent stage with the size being around $50 Bn and hardly contributing to the country's GDP. But the recent study by Google (Alphabet) and BCG has shown that the industry is poised to grow at 10 × in the next 4 years and the size of the industry in 2020 would be better of $500 Bn. The industry is expected to contribute about 15% to the country's GDP by then. This would be enabled by **increased penetration** of smartphones, **progressive regulatory framework** and **improved willingness** to adopt this instrument of payment by the customer. However, there are a few barriers to this quick penetration of digital payments.

Barriers to Digital Payments

There are several barriers that the digital payments industry will need to overcome, in order to grow exponentially in the coming years. The exhibit beside is an excerpt from the Google–BCG study. It brings out clearly that the habit to use cash is by far the most significant barrier for consumers to move to digital mode of payments. It is followed by complexity to use it and no significant value proposition as reasons for slow transition to digital mode of transfer. Surprisingly, reach is not much a barrier at this stage being at the bottom of the list of barriers. The industry has to strategize to eliminate the top few barriers in order to create more awareness and increase adoption of digital mode by large number of consumers (Figs. 14.1 and 14.2).

Unorganized retail is by far the biggest segment that is being presently addressed using cash transaction, followed by utility bill payments and trade. Medical services and health care are also presently heavily serviced by cash transactions.

Digital payments have tremendous opportunity to move into this space and capture the customer base in these sectors. Google–BCG study has projected the maximum contribution to the industry coming from unorganized retail, utility bill payments and modern trade. There have been progressive steps taken by various governments to facilitate the transition of economy to digitized payments, with recent ones being more aggressive.

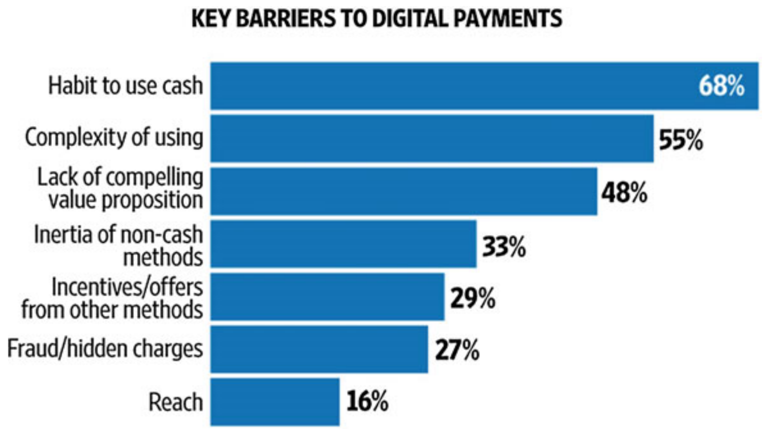


Fig. 14.1 Key barriers to payments

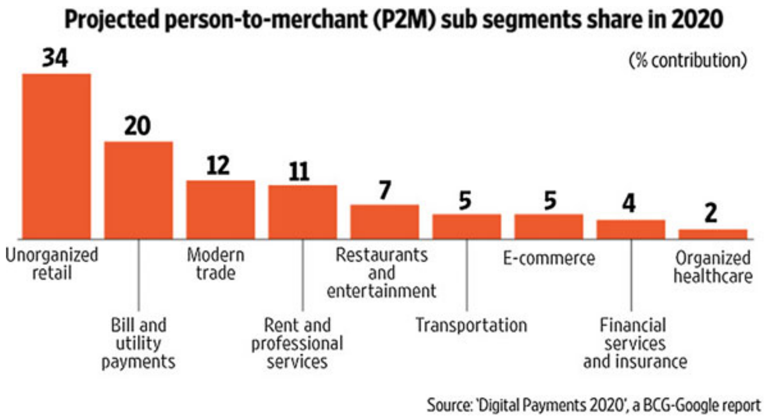


Fig. 14.2 Transaction segments

Demonetization and Reduced Cash in Economy

On the 8 Nov 2016, the Prime Minister of Asia's largest democracy announced a massive demonetization program, in which high-denomination bank notes (500/1000) were rendered invalid from that very night. This removed more than 80% of bank notes from the circulation. The government justified the action by affirming that this action was taken to eliminate counterfeit bank notes, bring the stashed cash into the banking system and subsequently moving to cashless economy.

With this action, suddenly the entire money circulation got dried up and everyone had to move the banks to exchange invalid notes with valid ones or deposit them to the account. What was envisaged was the day-to-day small business would be heavily affected with the prime instrument of payment (cash) suddenly drying up. To add to the troubles, unorganized retail sector started hoarding the smaller denomination notes (20/50/100) to maintain their liquidity. This started affecting the small traders and businesses. The daily milk vendor, tea vendor, roadside eatery vendor and the grocers were beginning to get affected badly with cash crunch.

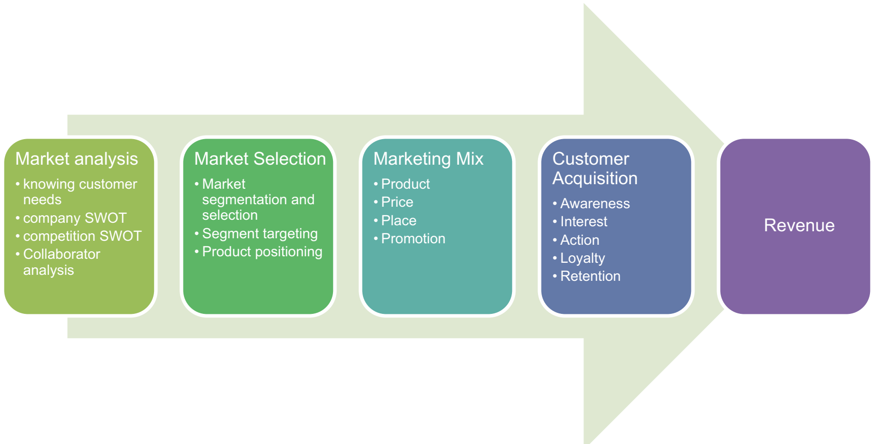
Opportunities for Digital Payment Industry

With unorganized sector being badly affected, unorganized transportation (auto-rickshaws, taxi and buses) also began feeling the pinch. The radio taxis quickly became an easy alternative to these modes of transportation because of their ability to be cashless. Demand for Ola (Ola money) and other such taxi services surged up rapidly. This is a clear opportunity for the digital payment industry. Transportation is just one sector to that can be addressed. Generic digital payment services like Paytm and Mobikwik swung into action to leverage this opportunity. If we look back to what were the key barriers to digital payments, the most significant barrier was habit to use cash (and this was removed overnight with bank notes becoming invalid), followed by complexity to use it (this is where the industry needs to focus to make this simpler) and then lack of compelling value proposition (which was also created by drying up of the cash). The major barriers were eliminated overnight by the government action.

This has created tremendous opportunity for the digital payments industry. However, the industry will have to embark on major strategic shifts to *capture the value* that is potentially created due to their presence in payment systems' ecosystem.

Strategic Shift

To achieve the transition in the strategy employed by the digital payments industry, the analysis can be done with changes in various aspects of the strategic framework. The following exhibit shows the strategic framework.



Strategic Marketing Framework

The digital payment industry was focusing on markets with ***biased product orientation***. This may be because it is a technology-centric service and the industry had invested significant money in developing the platforms and infrastructure to carry out transactions. Besides, the potential customers until now were all the ***innovators*** and ***early adopters***.

With widening up of the segment, the industry would now have to transition to ***market orientation***. There is an opportunity to cross the chasm and move awareness and adoption to early majority. However, in order to achieve this, the industry has to understand the expectations of the new segment. Answers to questions like "**what are the needs of this segment?**" and "**what are their drivers to select a payment alternative to cash?**" are to be sought, and the offering needs to be aligned to the customer's expectations.

In Segmentation and Target Identification

Until recently, the digital payments (mobile and Internet) were targeted by various banks and payment banks, towards a small (**early adopting**) segment. This segment was primarily in the metros and urban areas, where people are used to transacting cashless. With large number of smartphone penetration in this segment, the digital payment industry focused all its resources towards acquiring such customers (Figs. 14.3 and 14.4).

All the marketing decisions like product design, pricing of services and promotion focus were primarily on the above segments. These were the potential customers for digital payment companies.

With the demonetization decision and government's push towards less cash economy, the **segment** that is now willing to move to digital payments **has suddenly widened**. In addition to the above segments, following potential segment was added *overnight.*

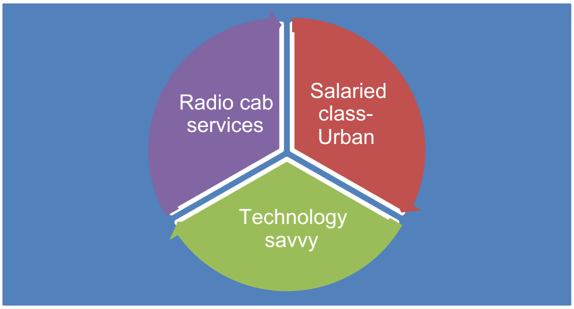


Fig. 14.3 Traditional customer segmentation

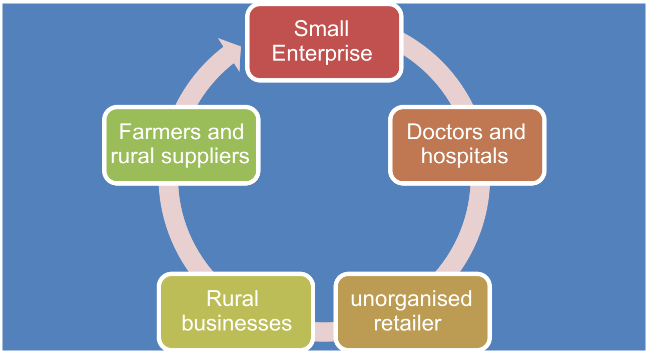


Fig. 14.4 New customer segmentation

This opportunity is there to pick up but needs thorough understanding of how these segments transact and what are their characteristics.

Digital payments industry should therefore revisit many of their strategies (from offerings to positioning their offering to communication and promotions.

In Offering

The newly added segments are the ones who are extremely comfortable with the use of cash for their transactions. With the new regulations, they are feeling the need to use the digital payments. The industry should quickly identify the needs of this new segment and attempt to address them with variety of shifts in their marketing mix.

Promotion is perhaps the first thing that the industry would have to work upon. At present, their offering is in line with most requirements of the potential customers. What is needed is to quickly create awareness about it in the new segment. A typical buying (usage) cycle for any customer is shown in the figure. Creating awareness is the very first stage that needs to be quickly worked upon in the new segment. After evaluation of the alternatives, the risk factors need to be alleviated. This is important in case of digital payments, since the new segment is wary about safety of their money and quality of transactions. Their concerns have to be effectively addressed by building their confidence on the payment systems and communicate the security features. It should also focus on ease of use, to encourage new customers to not be worried about complexities in using it. For instance, Paytm has been making significant marketing efforts to educate the users about the simplicity of transactions and safety. There are radio advertisements that show a fairly low smartphone-literate person using and endorsing the Paytm for ease. The common population tends to relate to them. Besides creating awareness, they are also providing free recharges as part of their promotion (buy Snickers and get a rupee 20 free recharge on Paytm) and so on (Fig. 14.5).

Fig. 14.5 Customer buying behaviour

Pricing is important aspect in case of serving an Indian customer. Indian customers in any segment are price-sensitive from medium to high level of sensitivity. With digital payments offering being an alternative to cash, the pricing needs to be lower than that of cash transaction. Government has begun this by providing tax/surcharge waivers on digital transaction for certain goods. The industry should also provide discounts on large volume (or value) of transactions, encouraging fence-sitting customer to make trial transactions and adopt this new mechanism of transaction. The pricing here consists of two parts: the cost of using a digital payments instrument and the discounts (or motivation) to use them. Both these costs need to be minimal to successfully engage with an Indian customer. Government has been encouraging digital payment banks to reduce surcharges. In addition to this, the industry needs to work on reducing costs of moving money from wallets to bank accounts, which is a showstopper at this stage.

Place is by far the most important driver for digital payments in India at this point in time. With demonetization, the rural and semi-urban economy is bound to be badly affected. This is because both rural and semi-urban economies have been traditionally depended heavily on cash transaction and credit for business operations. If the digital payment industry wants to capture significant market, they will need to quickly move into these geographies. The place for delivery of service should be widened, so as to cover larger sections of the segment.

Product innovation and quick transition to upgraded offerings are need of the hour. The new segment that has been added is highly price-sensitive and not that tech-savvy. The smartphone users in rural and semi-urban areas would need transactions to be *independent of data.* The other important attribute that they would be expecting is interoperability. There are many players in the digital payments industry (ranging from banks offering services to payments banks to app-based services). At present, the transactions are limited only to same service provider in case of app-based services. The inter-provider transactions are presently not been served, but seamless movement of digital money and users from one provider to the other is urgently needed for growth of this industry. These initiatives are to be taken by the industry participants before the economy is adequately remonetized with cash. There should be interoperability among these service providers to ensure seamless cashless transactions.

In Acquiring Customers

Acquiring new customers for digital payments in India would be a herculean task. Primary reason for this is the first two barriers that we discussed above. Most people are comfortable with cash transactions and lack of faith on systems that are backbone of the electronic payment world. Demonetization has provided that window of opportunity for the industries to quickly acquire a large customer base, which are affected by cash crunch. The unorganized retailers and unorganized hospitality (roadside eatery services, barbers) have been affected by sudden cash crunch along with small enterprises and industries. Most of the unorganized retailers (in urban and semi-urban areas) have immediately moved on to digital payments (like Paytm and Mobikwik). Even doctors and roadside food vendors display their Paytm QR codes. Credit card swipe machines are also made available at many places for ease of transactions. The allied industries which were heavily dependent on cash have seen shift to digital payments within days to ensure their business sustainability.

The industry participants should quickly acquire data on behavioural patterns of transactions and identify fence-sitters that can be easily acquired as customers. Government has announced discounts (or waiver) on use of electronic payments for petroleum products. Analysing behaviour of prospects who move from cash to cashless (with motivation of discount) would be one such segment. Therefore, companies should *track the behaviour and transform their action* to acquire early segments participants.

Companies should also begin to create awareness by adequate and clear communication as part of their promotion. In rural and semi-urban areas, prospects are informed about "cashless transactions" by government through various campaigns. However, these prospects do not have detailed information on how they could complete the transaction. Moreover, they may have inherent resistance, cynicism or fear about fraud and safety of their money. Therefore, campaigns focusing on communicating the benefits, ease of transaction and security aspects in the way that can be easily deciphered is the key.

In Retaining Customers

The sustainable revenue stream could be created only with loyal customers. The companies should start building loyalty in the customer with becoming entirely customer-oriented. The biggest advantage of digital payments is the *market* *research* data is captured while making the payments because of digital identity of the customer. These "actions" give accurate data about the consumer behaviour rather than capturing "what the customers say they do". The buying decision patterns for each customer provides enough leads for creating customized offers, discounts to ensure that high-value customers are retained.

Marketers should leverage upon this data to carve out customized services (or discounts and waivers) to encourage customers to make repeated usage of the services. The revenue streams could come also come from businesses that use these payment options, with money being credited to their account immediately. The industry would eventually be moving to interoperable platform. This is when value delivery would become extremely important. With interoperability in place, it would be quite an effort to retain customers and build loyalty.

Digital Payments in Developed Economies

Developed economies like the USA and European countries have been way ahead in digital payments, since their retail economy is heavily driven by card usage. Various brands have also provided their app (wallets) to building a loyal customer base. For instance in the USA, Starbucks rewards its customers with cashback in its wallet for coffee consumption. Starbucks in wallet payment has been one of the successful options for building loyalty (BCG–Google Report pg 9). Back here in Asia, Alibaba in China has been mobilizing a lot of digital money through its Alipay Wallet. It is believed Alipay has clocked more than 500 bn USD during the year 2015. (BCG–Google Report Pg 10).

The way ahead…

The renewed push by the government for cashless transactions has opened up doors of opportunities for digital payments industry. At present, there are multiple tools to carry out these transactions digitally (NEFT, RTGS, UPI, mobile transfers, wallets). All these tools would be competing with each other for slice of customer segment. Additionally, various service providers will also compete to capture the market share by delivering adequate value to its present and potential customers. In order to capture large market share and customers, the companies would need to start delivery on various platforms and also ensure the customer is retained with value in form of discounts and security against fraud.

From an industry perspective, globally the digital payments may be ahead from what is offered in India; however, they still need to build an entire ecosystem for seamless movement from one wallet to the other. For example, cashback received from Starbucks rewards should be available to buy a product on Amazon. This shall be the ultimate destination for digital payments industry, where it would have truly replaced cash as instrument of transaction.

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