Online retail payments have yet to capture the consumer market in India. This is primarily because Indians are uncomfortable with shopping online—they like to see what they are buying, know who they are dealing with and, whenever possible, pay in cash. A study by the Internet and Mobile Association of India (IAMAI) reveals that 33% of Indians internet users just do not trust the internet for their shopping needs, while 32% of those users who do shop online prefer Cash on Delivery (CoD) for online purchases (IAMAI 2013).

Given these preferences, it is essential for merchants and service providers who accept payments online to make the payment experience as seamless as possible for customers who are just getting used to the idea of sharing their financial information online. Nevertheless, it is widely acknowledged that online payments in India is broken—on average, only 6 or 7 out of every 10 transactions succeed (Khan 2013).

Citrus is a startup payments company based in Mumbai that is trying to change all of this. Sun Direct, a prominent satellite television (DTH) operator in South India, brought Citrus on board as one of three payment gateway providers they used on their website to process customer payments. Within a few months, Citrus was processing over 90% of Sun Direct's transactions (Khan 2013). A senior executive at Sun Direct credits Citrus with reducing failure rates for online payments to Sun Direct from 30 to 40 percent to less than 25.

In revenue terms, this can be huge for companies that depend on online payments. According to Kunal Bahl, CEO of Snapdeal, an ecommerce ‘daily deal’ portal, even a one percent increase in transaction success rate adds about $3 million (19 crores) to Snapdeal’s revenues.

Improving Transaction Completion Rates

Online payments transactions typically fail in India due to two distinct set of reasons. The first is user abandonment; this could be due to anything from a patchy internet connection, a clunky interface, to just loss of interest. The second is that banks, which provide acquiring services in any payment transactions, tend to have poor IT systems. According to Jitendra Gupta, CEO and co-Founder of Citrus, bank systems in India can be down for anywhere up to 4-5 hours at a time, which makes the experience extremely frustrating for customers.

Citrus approached the problem of improving transaction success rates in two ways. The first had to do with a set of innovations targeting user experience (UX) interface. A customer using a Citrus gateway to make an online payment faces fewer ‘hops’ to complete the process, usually less than three. In a country like India where internet can be unreliable even in major cities, this reduces the time it takes to complete a transaction, thereby improving chances of completion. Other user experience (UX) improvements include a re-try function—even if a transaction fails, the customer does not have to start again, instead she is taken to the previous payment information page with all the inputs filled in, decreasing the chances of her abandoning the transaction. The final UX innovation Citrus introduced was the option for each user to create a profile with Citrus that securely stored a user's payment information so that the next time she could complete a transaction in just one click.

The second part to the Citrus solution involved designing a technically sophisticated backend software that used a system of logic gates to continuously evaluate acquiring bank servers to
determine which had the highest probability at any given time of successfully completing a transaction.

In Mr. Gupta's assessment, Citrus' technical success rate is close to 100 percent—that is, holding all factors constant, Citrus' software will rarely fail. Nevertheless, he estimates that the overall failure rate for transactions processed by Citrus is about 20%. Of this, he categorizes 16-17% as being due to user abandonment and 3-4% due to card rejections.

In addition to payments processing, Citrus also offers its clients an analytics dashboard that lets them track consumer spending across various categories—which can be an extremely useful tool for smaller online merchants.

Exhibit 1

**The Online Payments Landscape in India**

The growth in the number of internet users in India has for years lagged behind the exponential rise in its mobile phone subscribers. Now, perhaps because of the fact that it has become much easier and cheaper to access the internet through a mobile phone, this is changing. As of 2012, there were 33.8 million active internet users in India, of whom 14.3 million had at some point purchased a product or a service online (IAMAI 2013). In 2010, these numbers were 17.5 and 7.4 million, representing annual growth rates of about 31% for both. The size of digital commerce market in India has expanded from $3.2 billion in 2009 to $7.89 billion in 2012, a CAGR of 34%.

Digital commerce in India is dominated by travel, such as train, bus and airline tickets, and hotel bookings. Train and bus tickets account for a large percentage of travel related transactions volume. The travel category as a whole accounts for 73% of the digital commerce market and is growing at 30% annually. Other online products and services, including retail, financial services, and classifieds, account for the remaining 27%. Exhibit 1 gives a breakdown of different digital commerce categories and their growth since 2009.

Industry estimates suggest that the payment gateway segment has been growing at a CAGR of 52.9% from 2007-2012 (Ken Research 2013). The size of this segment based on net revenues earned from transactions fees associated with each transaction has been estimated to be about $498.4 million in 2012. Exhibit 2 shows the growth of the payment gateway segment from 2007-2012. Some of the established players in this market include CCAvenue, established in 2001, and Billdesk, established in 2000.
The Citrus Story

Jitendra Gupta, CEO and co-founder of Citrus along with Satyen Kothari, started Citrus after spending 8 years at ICICI bank, India’s largest private bank. When he left ICICI’s strategy group, ICICI had close to 50% of the online payments gateway market through its own in-house solution. Despite all the improvements in consumer banking ICICI had pioneered in India since private banks were authorized by the government in the ‘90s, Gupta was unsatisfied with the user experience on offer when it came to online payments. This was not just true for ICICI’s payment gateway but for others in the market as well. The demand for processing online payments was growing so fast that nobody was thinking carefully about how to improve user experience. A big bank like ICICI, according to Gupta, was not a particularly conducive place for fresh thinking on technology investments, particularly in an area like payment gateways.

He launched Citrus in April 2011. Sequoia Capital, a venture capital fund, came onboard with Stage 1 funding in September 2011. Citrus processed its first payment in December 2011. In the beginning, Citrus’ offering was nothing more than the market standard payments processing solution, practically indistinguishable from similar offering by other payments gateway providers. Gupta characterizes Citrus’ initial offering as “dumb pipes”, with very few incremental improvements in UX that would later become the hallmark of Citrus’ approach. This is what merchants were comfortable with and a necessary strategy to get an initial toehold in a fast growing market.

In August of 2012, Citrus launched a revamped payments gateway that prominently featured their brand name and logo with a completely reengineered backend. The switch to a Citrus branded payment page soured relations with several key clients. Redbus.in, India’s premier bus tickets portal, and one of Citrus’s most important clients, terminated their relationship with Citrus. Despite these challenges, Citrus has soldiered ahead with its branded strategy, determined to make their name synonymous with safe and effective online payment processing. As of July 2013, it has a client list of over 400, one that is steadily growing. Citrus processes 35000-45000 transactions daily, with an average transaction size of Rs 1000 (US $16), according to an executive. Net of fees it has to pay banks and credit card associations, Citrus earns 40 to 50 basis points on each transaction. In a country where online purchase of goods and services is becoming increasingly prominent, growth has been especially good. It has consistently recorded greater than 30% growth in both total volume and value of transactions processed in 2013. In the month June 2013, both volume and value of transactions processed grew by over 60%. Citrus expects this
growth to continue for the foreseeable future as more Indians get comfortable with the idea of paying for things online.

**Future Outlook**

Citrus sees its future as being far beyond just building the anonymous plumbing through which online payments take place. It has set its sights on becoming a recognizable brand in payments in India, something akin to Paypal. In fact, Jitendra Gupta went so far as to reveal that Citrus has recently received approval from the Reserve Bank of India to offer an open loop online wallet with a cap of Rs 10000 (~$166). It also plans on launching a mobile app in the near future that will facilitate peer to peer transfers between two users of such a wallet.

Furthermore, the RBI has allowed Citrus to offer this product without having to fulfill onerous KYC (Know Your Customer) requirements that would otherwise have sunk the project. Citrus also stands to earn interest on 50% of the float value of such a wallet. Gupta describes the RBI's regulatory approach to payments in India as being “very fair”. While it did take the RBI almost a year to process Citrus’ proposal to offer an online wallet, he describes this process as being meticulous and transparent.

Very few competitors exist in India in this new space that Citrus is venturing into. Gupta identifies Paytm, an online mobile recharge vendor, which currently only offers a semi-closed loop wallet to its customers as being a potential threat. Nevertheless, with the size of the pie expanding rapidly every day, Gupta is confident that there is enough opportunity for everyone to grow. One such lucrative growth segment that Citrus is actively pursuing is P2G (people to government) payments, which is set to expand rapidly with a central government mandate that all such payments are to move online by the year 2015.
Reference List

