

# India and Cash-on-Delivery

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## Why #CODZarooriHai for Indian Consumers

A detailed analysis of how CoD  
propels Indian e-commerce.

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# 1. Message from the Thirdwatch team

In July 2019, Razorpay announced its first acquisition - Thirdwatch. This was definitely a bold move for the institution, as it moved away from its fintech roots for the first time.

From then on, the journey of Razorpay Thirdwatch has been nothing short of incredibly momentous. Fast forward to September 2020, 500+ e-commerce retail brands trust Thirdwatch for reducing their losses and increasing profitability for their online store.

This is our first, meticulously-planned report on the state of Cash on Delivery in India and all the inferences have been carefully gathered after consulting with many businesses of all sizes.

Our best hope is to bring awareness to all e-commerce problems and change the stigma against Cash on Delivery. In this e-book, we have also analyzed the psyche behind the Indian shopper to the best of our abilities. We believe that understanding the customer is key to building a long-lasting relationship with them. And, that's what we've done!

We hope you have as much fun consuming this e-book as we did making it. Bringing to you the future of e-commerce,

**Cheers!**

**Team Razorpay Thirdwatch**

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## 2. Introduction

India is one of the largest, most populous countries in the world with over a billion people. As India is on the way to claim its throne as the most populous country in the world, there is another record that we're moving towards, too. The Indian e-commerce audience will soon become the biggest internationally and will account for a sizable portion of the world market.

A lot has changed since the advent of COVID-19 in ways that we hadn't predicted. The pandemic has expedited reforms that were estimated to happen years from now. One of the industries that genuinely saw a fall and then a steep rise is e-commerce.

Indian e-commerce has experienced a whirlwind of change, with businesses innovating for 'the now'. One of the biggest characteristics of the Indian market has been its affinity for Cash on Delivery. While most believed that COVID-19 would be the decline/end of the cash market as we know it, Indian shopper preferences surprised us once again.

Join us as we delve deeper into the evolution of Cash on Delivery as a payment method -- its advantages and shortcomings, and the future of cash in India.

## 3. India and Cash - A Love Story

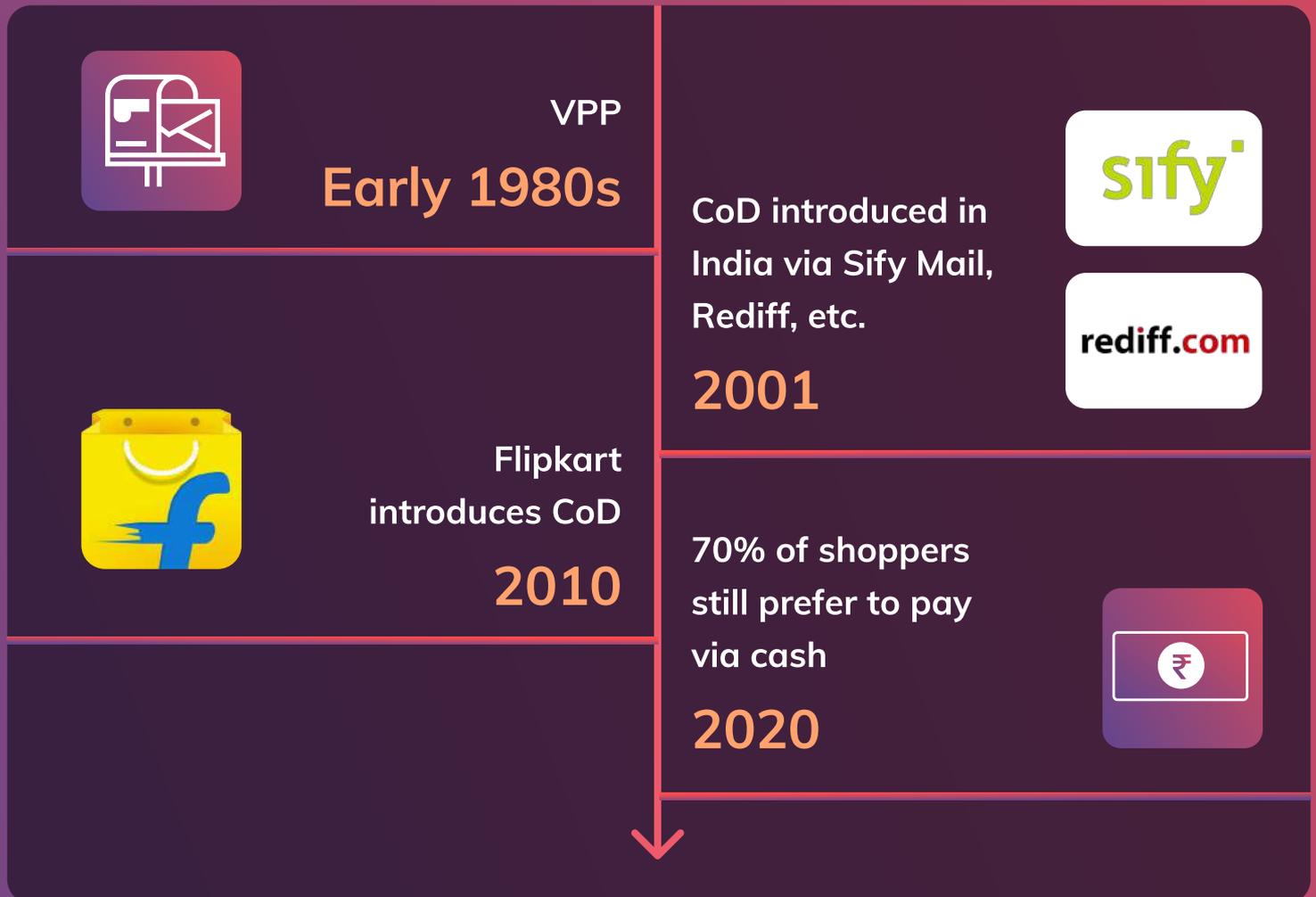
The Indian market has been a unique use-case when compared to the rest of the world. India, being a traditionally offline marketplace, took its own sweet time to get used to digital payments.

It was not until demonetisation that Indian shoppers were forced to look for options due to the shortage of liquid cash. The Cash on Delivery origin story dates back to 1985 and has been in place for decades now. The Indian Postal System introduced the earliest known form of Cash on Delivery known as the Value Payable Post (VPP).

A VPP money order slip was attached to a given parcel. After delivery, the customer would pay the charge, and the post office then sent the money to sellers via money orders. VPP started in the 1980s and worked well. A similar version was also provided by e-commerce early birds like Sify Mall, Fabmart.com and Rediff in the early and mid-2000s.

In 2010, a mildly-popular e-commerce website by the name of Flipkart got its first big breakthrough with Indian shoppers after the introduction of “**Cash on Delivery**”. With only a 0.5% credit card usage at the time, CoD was a welcome move in the Indian market.

# Timeline of CoD



The above timeline shows a linear progression of the pay-on-purchase market in India since its inception back in the 1980s. In the years following that, India Inc. experienced a wave of change with more shoppers increasingly preferring to pay via CoD. As the popularity of e-commerce giants such as Amazon and Flipkart soared, the trust in shopping online also increased proportionally.

Fast forward to 2020 and post the invasion of a global pandemic, the Indian CoD market continues to dominate. With many Indians finally going vocal for local, many smaller businesses have come to the forefront. With that, the preference to pay via cash, too.



The current cash preference in India is back to the pre-pandemic levels with close to 70% of customers shopping with small and medium businesses still preferring to pay via cash. Cash on Delivery for customers has become a symbol of trustworthiness, convenience and a strange sense of familiarity. And that's why, for us Indians, **#CoDZarooriHai**.

# **#CoDZarooriHai**

## 4. CoD in the Indian Market

As a country and as an economy, it's safe to say that India has primarily favoured cash. We all have heard the “**Cash is King**” statement too many times in India, and the account is pretty valid, too. Let's look at why this statement holds in India:

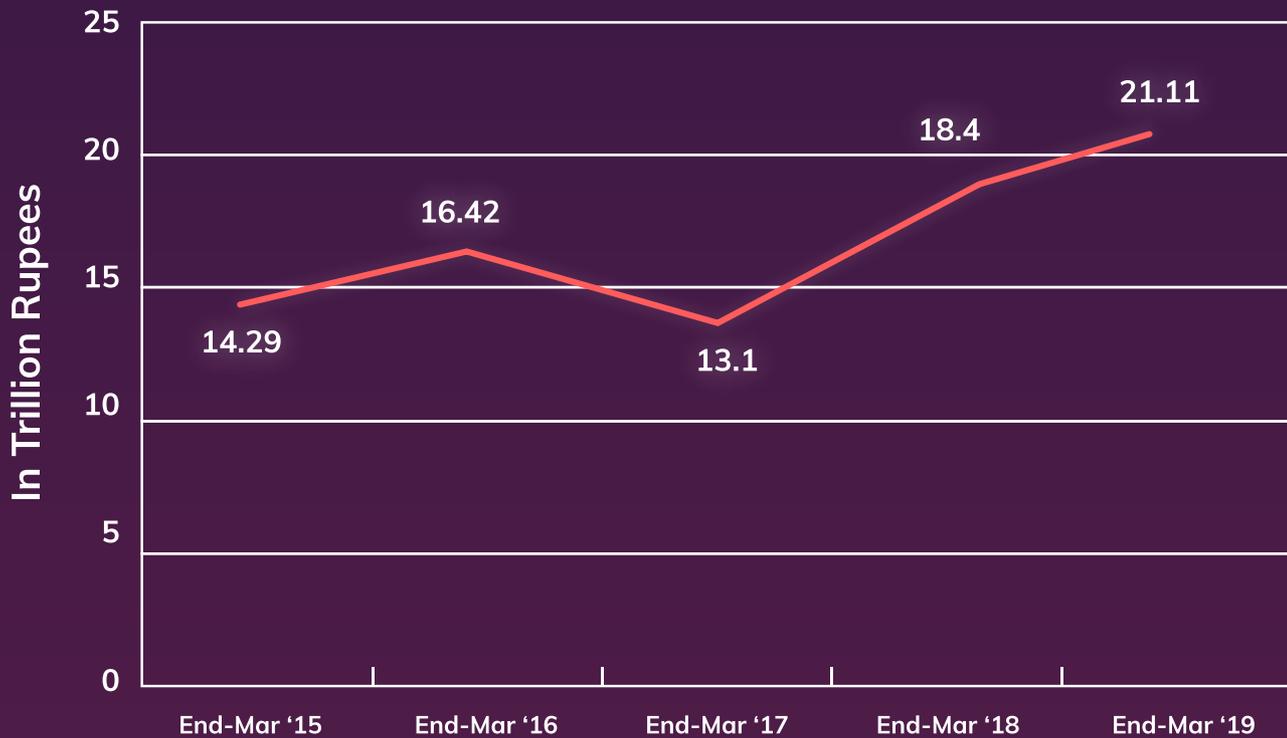
- Cash used to dominate transactions in India even as western countries transitioned to digital modes of payment. It is estimated that more than 90% of all transactions in India used to be made via cash before the Digital India movement starting November 2014
- Cash was such a crucial factor in India that e-commerce companies like Flipkart had to tweak their business models to accommodate Cash on Delivery as a payment method. Tweaking a proven model from e-commerce success in western countries only goes to show the might of cash in India. It is widely believed that the modern version of CoD was popularised by Flipkart and led to the Indian e-commerce surge in the early 2010s.

- The Digital India movement along with the demonetisation of 2016 and the advent of UPI brought about a significant boost to the Digital Payment modes in India. But how much have they grown viz-a-viz cash? Let's take a look:
  - When demonetisation was announced way back in November 2016, 86% of the country's currency was considered null and void. People expected a massive spurt in digital payments and a reduction of cash circulation in the market. Fast forward to 2018, 99.3% of all the cash that was deemed null and void is back in circulation.
  - Cash as a % of GDP is a good indicator of whether cash in the market is shrinking. As you can see in the graph next page, currency in circulation is steadily increasing. Yes, it saw a massive dip in 2017 post demonetisation but it surpassed previous levels anyway.

## India Currency In Circulation

Currency In Circulation

CIC Grows 17% In Fiscal Year 2018 / 19 To 21.1 Trillion Rupees



Swati Bhat - Reuters

Source: RBI

In conclusion, while digital payments are massively increasing with UPI being the torchbearer, cash is still the undisputed king. It will take a continued spurt in digital payments and a copious amount of time before it can actually be compared to the scale of the cash economy in India.

## 4.1 Dynamics behind Cash on Delivery

Understanding the process behind this decades-old preference isn't tricky. By segmenting different contributors, we can understand the dynamics of CoD in the e-retail business. In this section, we will explore how cash changes hands and travels from the online shopper to the store owner once an order is placed.

Let's assume that you are an online shopper who just ordered new shoes from a new-age brand (other than e-commerce giants like Flipkart/Amazon). You choose Cash on Delivery as a payment method. After a week, the consignment has reached your house via a delivery executive.

Now, the delivery executive has the type of payment recorded for every delivery and knowing that yours is a CoD order, he collects cash from you.

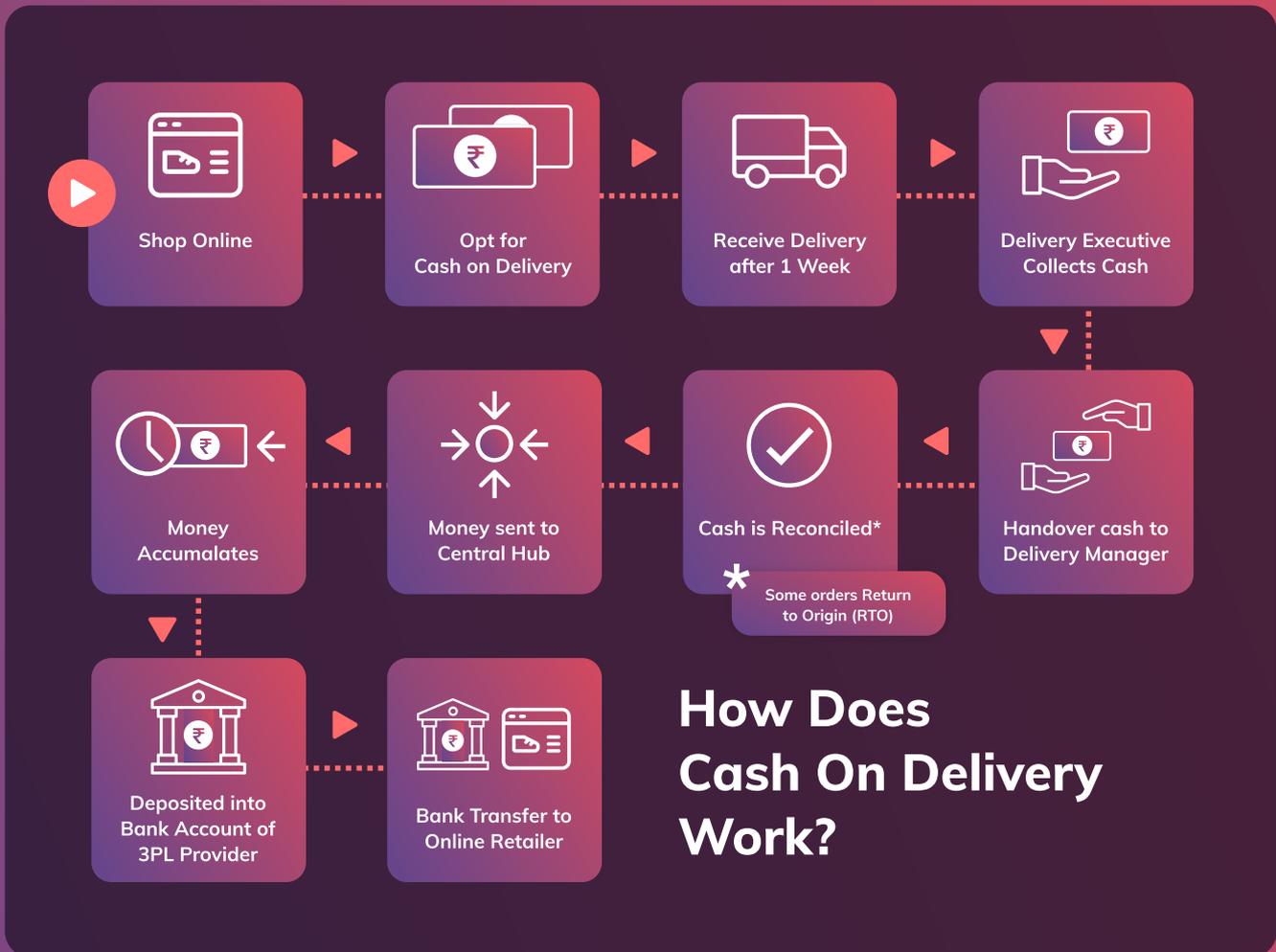
It is imperative to understand that only big players like Flipkart or Amazon can afford to have their own delivery fleet. In other cases, businesses hire a third-party logistics provider to deliver their packages from the warehouse to your house.

Coming back, the delivery executive of a third-party logistics provider collects cash from all such CoD orders and at the end of the day, goes back to his delivery manager and hands over the money received. The delivery manager then reconciles the cash collected against the CoD orders.

It's also safe to assume that there will be a percentage of Return to Origin (RTO) orders as well. Hence, he has to ensure that all RTO orders are counted in his reconciliation as well.

This money is then sent to a Central Hub (every state usually has one or two of them). The number depends on the operating model of the third-party logistics provider. This cash accumulated over a while (typically, 3-4 days or a week in some cases) is deposited into a bank account of the 3PL provider.

It is then transferred to the online retailer via a bank transfer. In certain cases, the online retailer also visits the nearest hub of a 3PL provider and collects all the order amounts in cash as well.



The entire process can take up to 2 weeks. Complexities rise further if the order is an RTO order. These orders are shipped back and reach the warehouse in 1-2 weeks.

**★ BONUS INFO**

The 3PL vendor gets a cut from the cash collected via CoD orders. This is called cash-handling fees and usually ranges from 1-3%.

Now that we've had a look at how the Cash-on-Delivery system works, let's look at who benefits from it:



## The Buyer

The online shopper is happy simply because of the convenience that CoD offers. CoD enables the shopper to make a payment only after the package is physically delivered to him.

This inevitably makes the shopper feel safer and in control. Similarly, it also allows the shopper to safely experiment with new-age brands that do not have a high brand recall with the customers.



## The Seller

The retailer is impacted as he faces a rigged RTO percentage with CoD and has to provide cash handling fees to the 3PL provider, which is typically greater than the payment gateway fees charged for digital payments.

Also, the settlement takes at least 1-2 weeks to reach him, thus impacting his operating capital cycle.



## The Mediator

The 3PL provider is also happy since he receives a cash-handling charge. It's also debatable that he makes more money with RTO orders as he gets both forward and reverse shipping charges from the online retailer. As CoD brings about more RTO orders, he makes more money with CoD.

As new stores open up online, even though CoD as a payment option may negatively impact the store owner, they may still have to offer the same to lure more revenue. This is because shoppers prefer CoD.

Some store owners have consciously taken a choice of doing away with CoD, but have seen their sales flatline due to this. Others have also sought the solution of adding a CoD fee of Rs 50 or Rs 100, but as understandable as this is, it's not a sustainable solution.

In the end, store owners have started considering the cost associated with offering CoD as only, the “cost of doing business”.

## 4.2 CoD share in Tier 1, 2 & 3 cities

It would be fair to say that the continued state of popularity in Cash on Delivery in India wouldn't be possible without India's beloved Tier 2 and 3 cities. While Indian metropolitan cities have pioneered interest in CoD, the baton has been successfully passed on to Tier 2 and 3 cities.

With increased internet usage and the availability of affordable smartphones across the nation, more and more Indian cities are witnessing a surge in e-commerce orders. While bigger cities like Mumbai, Delhi, Bangalore, etc. have a significant uptick in prepaid orders, the vast majority of shoppers (90%) in Tier 2 and 3 cities still prefer to pay via cash.

To begin with, let's look at the average preference of CoD across popular Tier 1, 2 and 3 cities:

### Tier 1

City	Cash on Delivery (%)
Mumbai	58.5%
Chennai	54.3%
Delhi	72.4%
Bangalore	56.2%
Hyderabad	68.3%

### Tier 2

Jaipur	77.6%
Mangalore	74.7%
Kochi	62.8%
Ahmedabad	68.0%
Pune	62.1%

### Tier 3

Nasik	76.6%
Baroda	89.2%
Mysore	75.7%
Trichy	75.5%
Guwahati	86.7%

## Some interesting takeaways

- Delhi is the only metropolitan city to have >70% CoD rate, Hyderabad being a close second
- CoD rates increase as we move away from Tier 1 cities
- Cities like Patna, Jaipur and Ranchi, despite digitisation, still prefer CoD

City	CoD% ↑
Guwahati	86.7%
Patna	85.7%
Ranchi	84.5%
Lucknow	78.9%
Jaipur	77.6%
Raipur	77.1%
Mysore	75.7%
Tirunelveli	75.5%
Mangalore	74.7%
Delhi	72.4%
Hyderabad	68.3%
Ahmedabad	68.0%
Kochi	62.8%
Pune	62.1%
Mumbai	58.5%
Bangalore	56.2%
Chennai	54.3%

It's worth noting that Cash on Delivery orders are more likely to be prone to RTO and cancellations.

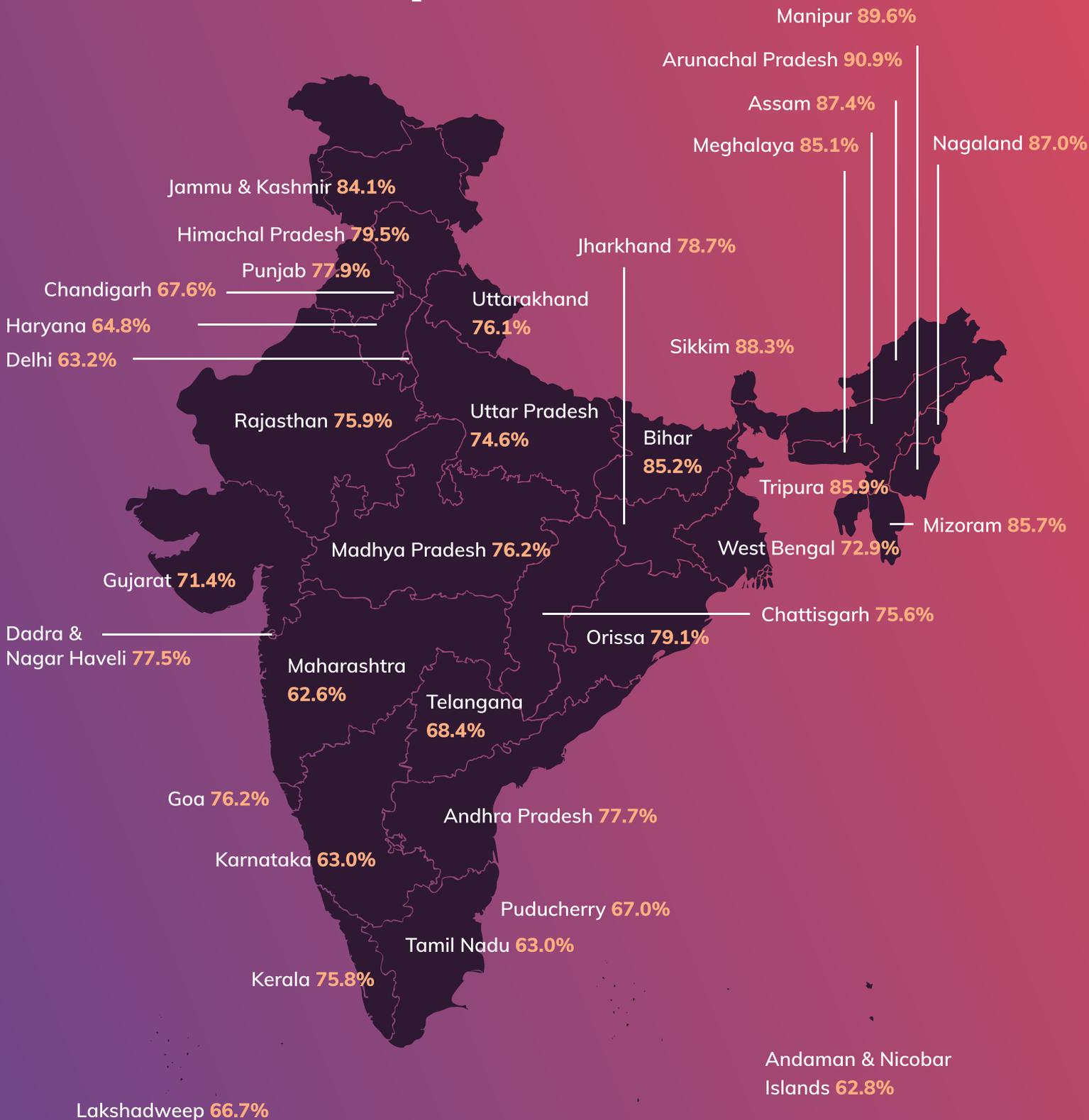
E-Commerce businesses that cater to Tier 2 and 3 cities have also seen higher returns and RTO due to their CoD preference and non-deliverable addresses. We will also be analysing how non-deliverable and incomplete addresses play a role in the stigma against CoD later in this e-book.

## 4.3 Statewise CoD Split

To understand the true impact of the cash on delivery market in India, we must look at a broad classification of CoD preference. The easiest way to do so is to segment data state-wise.

Here's a visual representation of Cash on Delivery preference across different states in India. This is a summary that we at Thirdwatch, have collated after examining millions of online orders over several months:

# Statewise-Split



Despite widespread digital adoption over the last few years, customer payment preference has still stood tall over the years. Many states are also seeing higher adoption rates for e-commerce majorly due to the fact that Cash on Delivery is offered. In the Northeastern states in particular, CoD is seeing a major uptick and is making e-commerce last-mile penetration easier than ever!

## 5. Impact of COVID-19 on Indian E-commerce - Pre-lockdown

COVID-19 shook the world to its roots. India imposed one of the strictest lockdowns in the world for over 40 days, with many businesses and industries coming to a standstill.

As we stand in the midst of a path unknown, here are some questions that we can't help but ask ourselves-- 'How will this situation unfold?' 'Will we go back to a complete lockdown or will we continue to carefully wade around the pandemic for as long as we can?'

One of the most popular debates that COVID-19 has revived is, of course, 'Will cash continue to be king?'

This holds true, especially for e-commerce retail. 'Will online shoppers continue to prefer Cash on Delivery as a payment option?' Let's take a look at a few exciting trends during and post-lockdown to make our decision.

## During the lockdown



Only essential goods were allowed in e-commerce during the lockdown. Since cash can act as a potential medium for the virus to spread, for the first time ever, CoD was deemed disadvantageous for everyone-- the shoppers, the delivery agents and e-commerce businesses.



Naturally, even bigger companies such as Big Basket, Flipkart etc. temporarily halted CoD and only operated on prepaid mode of payments. This led to an overall rise in digital payments and almost seemed like the end for the liquid cash in e-commerce.



In certain cases, 'Card on delivery' or 'Scan and pay on delivery' was seen as a fitting alternative. Note that this alternative is still convenient to online shoppers and should contribute more to RTO because old habits die hard.

## Post the lockdown

As India began easing its lockdown on May 21st, non-essential e-commerce finally resumed after a long pause. On June 1st, more restrictions eased amongst all states, except for those in containment.

As e-commerce geared up for business again, we noticed three popular trends here at Thirdwatch:

- A few e-commerce sellers have still opted to go with only prepaid/digital modes of payment, but that is slowly changing. Those sellers who are offering only prepaid modes of payments are seeing a reduction in sales, too, because of this move.
- Here is the most surprising trend we found, to further cement our argument-- out of the e-commerce sellers who chose to stick with CoD as a payment option, could you guess the customer split? ~70% of orders were placed via CoD and 30% via digital channels! Yes, CoD has bounced back and is almost back to pre COVID-19 levels.
- Overall, shoppers preferred e-commerce over brick-and-mortar stores owing to safety reasons, post COVID-19

## Cash On Delivery % In 2020



\*Minor fluctuations due to sale seasons

## 6. Consequences of Offering CoD

To understand any preference completely, it's important to look at it from both sides of the story. In this section, we will be looking at the good, the bad and the ugly of offering CoD and preferring CoD.

### From the seller's eye



Cash on Delivery has experienced a lot of ups and downs over the years. While customers love choosing CoD, sellers have had mixed feelings offering it. Let's look at some consequences that sellers are likely to face after offering Cash on Delivery:

#### **Increased probability of RTO**

Cash on Delivery orders can cause an increase in RTO and cancellations, simply because it's easier to cancel a CoD order. Studies show that 1 in 3 orders are likely to result in RTO. As we specified earlier, there is a possibility to be considered that when a seller offers CoD, he should be prepared to expect RTO too. RTOs are expensive and can put a high cost on operations and processing.

## **Customer satisfaction**

Although CoD comes with its fair share of disadvantages, customer satisfaction is good enough to trump them. One of the oldest e-commerce players in the world, eBay, started operations in India from the early 2000s but was unable to gain any significant traction.

One key reason was shoppers' hesitation towards paying upfront. Indians were used to the “pay-after-service” mindset that reflected their preference in the offline world.

## **Reach**

If you're an e-commerce brand looking to spread your wings across Tier 2 and 3 cities in India, then Cash on Delivery is definitely the way to go. Tier 2 and 3 cities see a 90 per cent adoption rate of CoD as a payment method.

This is, obviously, significantly higher than metropolitan acceptance rates. Businesses can definitely expect to see a spike in their overall sales and brand reach when they offer Cash on Delivery as an option to pay, especially in small cities.

## **Impulse purchases**

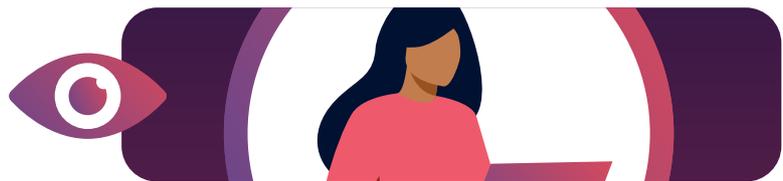
Impulse purchases are a highly underrated problem when it comes to e-commerce. As many e-commerce companies gear up for a winning sales season after a bleak six months, there is a metric that is expected to be on the rise too.

Shoppers usually place orders impulsively, and this leads to a high amount of cancellations. This is especially true in the case of Cash on Delivery orders where the customer simply cancels their order after an impulse purchase while the seller has to go through the painstaking process of shipping the order back and forth anyway.

### **Additional costs**

Courier companies charge for delivering COD orders above the regular charges. This is called a “cash handling charge”, which refers to the money that needs to be paid to vendors for only handling your cash. We spoke to our customers and found out that on an average, cash handling charges can range anywhere between INR 20 to 50 per order. The cost rises even further in case of returns as marketplaces/logistic companies deduct courier fees.

## **From the buyer's eye**



India still manages to surprise everyone. Despite COVID-19 still waging its ugly head, Indian customers still prefer CoD. To understand why, we spoke to some of the shoppers who chose CoD. Here are a few crucial reasons:

## **Uncertainty of delivery**

Because the supply chain was severely hit after the pandemic, deliveries are getting delayed. Deliveries are taking longer than usual, and online shoppers prefer CoD so that their money is not 'locked' for the entire duration in uncertainty. Some people who used to pay digitally have also started opting for CoD now due to the risks involved.

## **Freedom of experimentation**

Over the last few years, smaller brands have come to the forefront and are actively attracting younger consumers. With the "Vocal for Local" campaign too, many shoppers are finally mustering up to try local brands for a change.

As we can see, this wave of change taking over the new consumer, Cash on Delivery makes it a step more comfortable to pursue and 'trust' smaller brands. CoD 'secures' the customer by assuring that payment needs to be done after receiving the product.

## **Convenience**

Indians love cash. During the lockdown, the supply was low, and the demand was high. Hence, shoppers were left with no alternate options and had to opt for prepaid methods. Post the lockdown, we can see that supply is high again, and the customer has become the king again. Indian shoppers have chosen cash, and consequently, cash is king (at least for now!).

# 7. How To Offer CoD Without Consequences

On a broader note, there's little doubt that, to win the Indian shopper's heart, the seller must offer some form of Cash on Delivery to appease them. In this section, we will be looking at some of the ways by which you can offer CoD freely, yet reduce the burden of it on operations.

## 7.1 How does Thirdwatch reduce CoD losses?

Razorpay Thirdwatch is India's first solution to reduce RTO, which double up as CoD losses. As we had seen earlier, a significant share of RTO is accounted to Cash on Delivery orders. Thirdwatch provides a unique offering where we identify and filter out only the risky CoD orders so that the seller can decide on them.

Thirdwatch uses an advanced Artificial Intelligence powered engine to achieve the said results. The Thirdwatch engine analyses over 300 parameters to identify risky parameters that signal a cancellation. Here's how we do it:



## Profiling non-deliverable addresses with ML

Thirdwatch uses Machine Learning algorithms to profile risky, incorrect and non-deliverable addresses. Thirdwatch parses through millions of addresses stored in its database to identify the 'risk score' of an address.

Due to the incompleteness of addresses in Tier 2 and 3 cities, they possess a high-risk of cancellation, which makes it difficult for e-commerce businesses to sustain CoD. By identifying non-deliverable addresses and eliminating RTO due to address issues, Thirdwatch helps e-commerce businesses save up to 30% of their operations.



## Risky Order Profiling

Thirdwatch uses its advanced AI technology to profile all risky orders that flow through your store. Using ML algorithms and its widespread database, Thirdwatch flags your order "red" or "green" depending on the riskiness score. The seller can then take a decision on how to proceed with a risky order. You can also automate these decisions according to your requirements and Thirdwatch can help you filter out those orders respectively.



## Advanced Dashboard Analytics

Get RTO insights at a state/city/pincode level and discover cues that contribute to your RTO losses. Get detailed order review reports to understand delinquent behaviour and incorporate learnings in your business strategy with Advanced Dashboard Analytics. Discover metrics like RTO losses saved and stay updated with fraud profiling on your Thirdwatch dashboard.



## Order confirmations

With the ‘Order Confirmations’ feature on the Thirdwatch, sellers can now double-verify their risky orders. Thirdwatch identifies incomplete and non-deliverable addresses. You can verify and update the address with the customer via an SMS, WhatsApp or even a direct call and increase order deliverability rates.

## 7.2 Introducing PrePay CoD

What if we told you Thirdwatch could help you convert your risky CoD orders to prepaid orders? Say hello to PrePay CoD, the newest addition to Thirdwatch Apps. Send payment links for risky CoD orders, boost delivery rates, increase revenue and reduce RTO with PrePay CoD. Here's everything you can do with PrePay CoD:



### Discounts

Everyone loves a good deal! Incentivise your customers to make purchases by offering flat rate or percentage-based discounts on your PrePay CoD payment links.



### Automate

You can now automate sending PrePay CoD links to risky orders, orders with high value or just about any other criteria you would like to set.



## Real-time synchronisation

Thirdwatch captures orders directly from your store and passes on the status back to your online storefront once the link is paid. It's that easy!



## Configure

You can now set expiry limits, auto-approve paid orders, add payment reminders and many more with the fully-customizable PrePay CoD.

## 8. Customer Success Stories

When Thirdwatch was acquired by Razorpay in 2019, we started off at the bottom of the table. Today, we have over 500+ e-commerce businesses of all sizes trust the Thirdwatch engine to help make decisions to scale their store and reduce losses.

Below are a few happy stories of sellers who took the leap to try out our innovations and ended up growing their business!

### KaratCart

“

#### Slashes RTO Costs by 36% with Razorpay Thirdwatch!

RTO was the biggest problem we faced, which we failed to predict earlier. Thirdwatch provided a unique and comprehensive solution to solve this problem in the Indian market. At the end of the first month with Thirdwatch, RTO rates were reduced by 10%. Within just three months of usage, we could see visible changes in efficiency and KaratCart was able slash its RTO rates by 36 percent!

 KARATCART

Tanya,  
Partner, KaratCart

# Udyan Tea Store

“

**Using Thirdwatch ultimately lead to savings as we reduce other costs associated with managing and shipping COD orders**

Thirdwatch was easy to deploy and we had everything set up in no time. It is interesting how they are making good use of their learnings to flag risky orders, and we are happy to have such a feature for our store. The PrePay CoD feature is very thoughtful and on point. We started seeing our customers using this option (for just a small discount) since day 1. The team at Thirdwatch is extremely responsive too. A good, satisfying experience.



**Soveet Gupta**  
Director & COO, Udyan Tea

# &Me

“

**We are very optimistic that we will convert a good percentage of our risky CoD orders**

Razorpay Thirdwatch has helped Andme in ensuring that RTO rates remain low over the last few months. It has also helped us in improving our successful delivery rates, especially for prepaid orders by identifying incorrect/incomplete shipping addresses for us. We recently signed up for early access of Thirdwatch's latest feature, PrePay CoD payment links. Since signing up, it has been a fairly great and fresh experience. We are very optimistic that we will convert a good percentage of our risky CoD orders to prepaid and further reduce RTO over time. This feature shows a lot of promise, indeed.



**Ankur Goyal**  
Founder & CEO, &Me

## 9. The Way Forward

As we draw a conclusion to this e-book, there is one thing that we can conclude in retrospect. It is that whether it is liked or not, Cash on Delivery is here to stay. While there has been some hesitation in prolonging CoD as a payment method, there's now a solution that will help you to offer the same with ease.

Razorpay Thirdwatch, now a favourite among 500+ e-commerce brands, solves this very problem. Thirdwatch specializes in minimizing RTO losses and detecting CoD fraud minus the consequences.

In conclusion, here's how we can help e-commerce businesses:

***Store owners face a lot of unsuccessful order deliveries and RTO orders due to incorrect or incomplete addresses?***

Thirdwatch will flag these addresses as soon as an order is placed. Store owners then can contact their customers, update the address and deliver more orders successfully thus boosting revenue!

***Return to origin (RTO) orders costs store owners a lot of money?***

Thirdwatch detects orders with a high probability of an RTO even before it is shipped along with why they are risky. Store owners can then make an informed choice and reduce RTO costs.

## Store owners offer **#CashonDelivery** as a payment method and then face **CoD fraud and losses?**

Thirdwatch successfully identifies fraudulent and duplicate orders and helps reduce fraud losses. With PrePay CoD, you can also automate sending payment links for risky orders and convert them to prepaid orders, further reducing RTO losses.

The past 6 months have been a rollercoaster for everyone. The good news is that the e-commerce industry is already on its way to a fast-paced recovery! We, at Razorpay Thirdwatch, wish to enable all e-commerce businesses to successfully recover from the impact of a pandemic. Get in touch with a Thirdwatch expert today to see how you can start your journey for the future of e-commerce.

Follow us on Twitter and LinkedIn or simply look up “#CoDZarooriHai” to stay updated with more interesting insights from India’s Cash on Delivery market! Write to us at [thirdwatch@razorpay.com](mailto:thirdwatch@razorpay.com) to get in touch!

# #CoDZarooriHai



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