

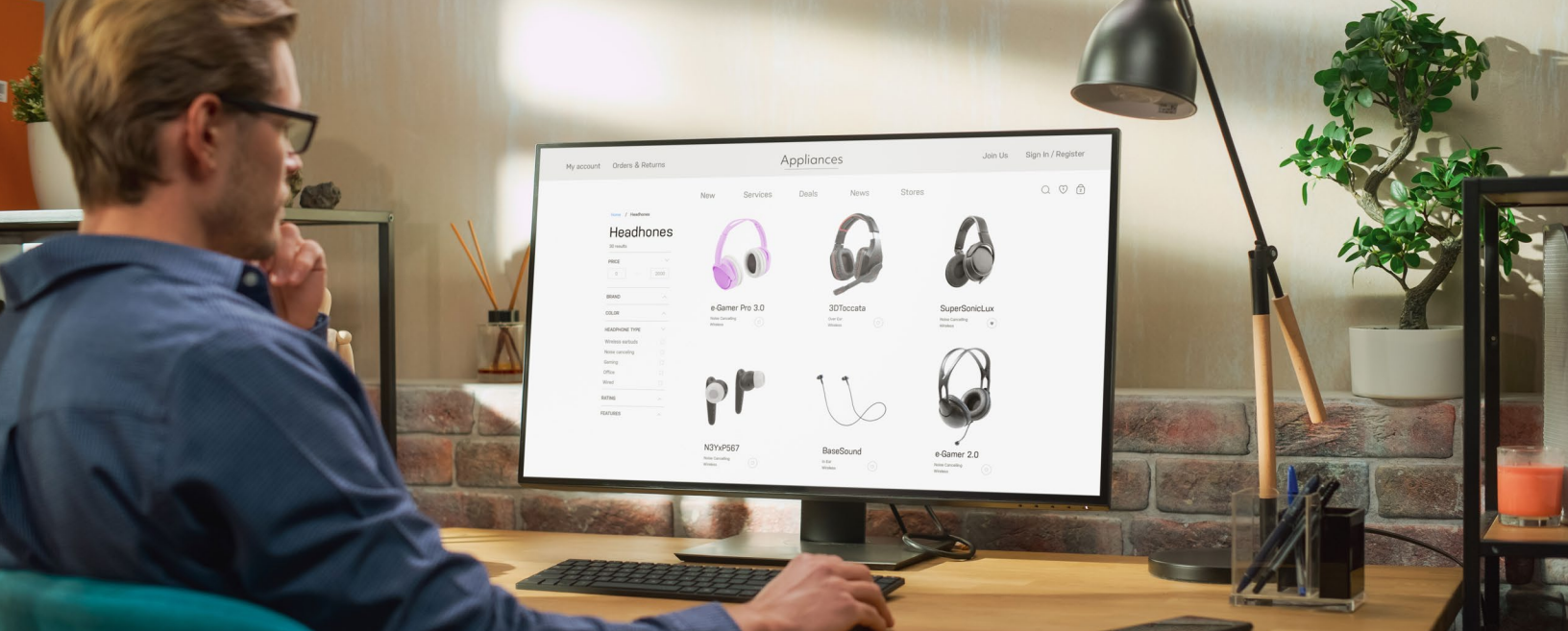
ASK (AND ANSWER) THESE 3 QUESTIONS BEFORE LAUNCHING A THIRD-PARTY MARKETPLACE

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SPECIAL REPORT

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INTRODUCTION

Third-party marketplaces are expected to be the fastest-growing retail channel globally over the next five years, with **Edge by Ascential** forecasting that third-party sales through marketplaces will **add \$1.3 trillion dollars** and account for **59%** of all global ecommerce by 2027.

Not surprisingly, established retailers want in on the action. A growing number have begun to add third-party marketplaces to their omnichannel mix, so much so that **the number of third-party marketplaces operating globally has increased by more than 500% since 2007**. Among the retailers that have recently jumped in are **Macy's, Bed Bath & Beyond, Giant Food, Michaels** and **1-800-Flowers.com**, to name just a few.

"It's probably twofold why [marketplaces are] starting to explode," said Richard Hankin, a former **eBay** executive who is now SVP of Go-to-Market, North America at marketplace SaaS solution **Marketplacer** in an interview with *Retail TouchPoints*. "One, retailers are in a position to do it now. They've got a big population of eyeballs coming to their site, which is an asset they can leverage. Secondly, the technology exists to do it, whereas five years ago it really didn't. I mean **Walmart** did it because they've got something like **5,000** engineers so they can build it themselves, but for other businesses it's not worth the time and effort to build this technology in-house and maintain it — that's expensive and slow. I see it as a bit of a perfect storm."

Now, as economic headwinds intensify, a third-party marketplace can seem like a low-risk way to increase online market share and remove logistical challenges, but truly successful third-party marketplaces aren't simple plug-and-play operations.

"I think the value prop is very, very easy for people to understand — **sell more products without having to own them**," said Hankin. "Who wouldn't want that as an opportunity? But as you start to peel that back, there are concerns and questions that come up." Among the questions retailers should ask themselves before diving into the increasingly crowded marketplace waters are:

- **Is the third-party marketplace model a fit for my business**, and what do we hope to achieve by adding this channel?
- **What form will our marketplace take** and how will it be communicated to customers?
- **Do I have the internal infrastructure and resources in place** to ensure my marketplace is successful?



IS A MARKETPLACE RIGHT FOR YOUR BUSINESS?

Operating a marketplace offers a number of advantages, chief among them **the ability to offer more products to your customers without taking on the risk of holding all that extra inventory**. In addition to **keeping customers on your site longer** and **reducing cart abandonment**, an expanded assortment can have two other beneficial outcomes — **increased traffic** (i.e. new customers) and **deeper consumer insights**.

“Being the marketplace is great, because you own a lot of data, you learn a lot about the customer and you’re helping the brands because you’re driving sales for them,” said Neel Grover, who has operated marketplaces for the last **20** years at **Rakuten** and **Bluefly.com** and now serves as CEO of the marketplace **Shop Premium Outlets**. “It’s definitely beneficial for brands, they’ve got to be where the traffic is, but the marketplace itself is benefiting additionally — just look at **Amazon**.”

Retailers now have the opportunity to steal this page out of Amazon’s book, and in doing so become more competitive with that ecommerce juggernaut. “Retailers are trying to capture as much data as possible, and they are realizing that if they let too many brands have a presence solely on Amazon, or if they have a presence on Amazon but don’t try to pursue their own marketplace strategy, then they lose out on all of the customer insights,” said Melissa Minkow, Director of Retail Strategy at digital transformation consultancy **CI&T** in an interview with *Retail TouchPoints*.



“[A marketplace] really allows you to see what your customers’ preferences are, where their shopping habits are going and really understand your customer a little better.”

— Rich Minns, Capgemini

Larger inventories increase the chances to capture more online shoppers with an expanded SEO presence. “You’re acquiring more customers because you’re now selling categories and products you’ve never sold before, so you are indexing in more search results and becoming more discoverable,” explained Hankin. “It’s like fishing with a bigger net.”

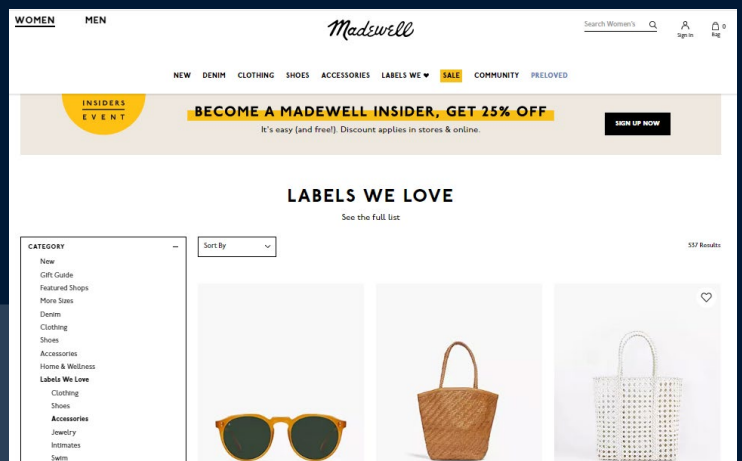
The insights that come with that increased traffic can do more than inform your marketplace strategy as well. “You can actually look at those marketplace products and see if you want to change your business model, change your inventory planning,” said Rich Minns, Group Commerce CTO at IT consulting firm **Capgemini** in an interview with *Retail TouchPoints*. “It really allows you **to see what your customers’ preferences are, where their shopping habits are going and really understand your customer a little better.**”

Finally, marketplaces can allow retailers to **quickly adapt to those changing preferences**, which is one of the key benefits Macy’s is anticipating: “Our marketplace will enable us to add additional breadth and depth in our existing categories or easily move into new or adjacent categories to stay ahead of trends and serve customers immediately as customer preferences change,” said Matt Baer, Chief Digital & Customer Officer of Macy’s at an **NRF event** earlier this year. “[It will] also help us accelerate some of our strategic initiatives like the success that we’ve had in terms of selling diverse- and women-owned brands and more sustainable products. **We really see the marketplace as an enabler to help support our current enterprise and assortment strategy.**”

Despite all of these advantages, there are some businesses for which a third-party marketplace simply won’t be a fit. Some red flags include:

- **Your ecommerce business is struggling.** Marketplaces aren’t a “problem-solving opportunity,” cautioned Hankin, who recommended that companies have “their house in order” before adding a marketplace to their toolbox. That means your ecommerce business already operates relatively smoothly and performs well both functionally and financially.
- **You’re a relatively small retailer.** In order to be successful as a marketplace operator you generally need to have already placed your stake in the ecommerce ground — that is you should be a destination in some form or another. Smaller retailers are likely better suited to become marketplace sellers rather than operators.
- **You’re a vertical brand.** There is nuance here, as many brands have moved beyond the vertical in which they made their name with a marketplace (case in point: **Madewell**). Hankin advised vertical brands ask themselves, “Is it palatable to you as a business to sell a brand that isn’t yours on your site?” to determine if a marketplace fits into your strategy.

Madewell has used its marketplace to expand into additional categories such as accessories and beauty.





WHAT WILL YOUR MARKETPLACE LOOK LIKE (AND WHAT FUNCTION IS IT DESIGNED TO SERVE)?

When considering the marketplace opportunity, many retailers often think first of Amazon, but the reality is that most of the new marketplaces popping up today are very different from the “Everything Store.” Indeed, the millions-of-SKUs, general store-style marketplace model won’t work for most brands.

What Do you Have a Right to Sell?

To determine the shape your marketplace should take, “market research, consumer insights and just knowing your customer journey is really important,” said Minkow. In essence, know thyself (and thy customer). While category expansion might be the goal, those categories should make sense within the brand ethos you’ve already built.

“If I’m a flower retailer, is my next step to start selling car tires and spare parts? Probably not,” said Hankin. “You might have enough traffic and technically you could, but it’s not going to be meaningful. This is about having an understanding of your customer and what else you have a right to sell them. **Put your consumer hat on and ask, ‘What else would I buy if you offered it to me?’**”

As an example, Richard points to **Barbeques Galore**, an Australian purveyor of high-end grills. The path to purchase for these grills is “a very considered purchase journey; no one just buys that on a whim,” explained Hankin, but it’s also a “first consideration” purchase for the backyard, meaning it’s one of the big items that consumers outfitting a space will buy first. Now Barbeques Galore is expanding its offerings, via a marketplace, to help customers equip their whole backyard, bringing on sellers across umbrellas, pool toys and other outdoor gear.

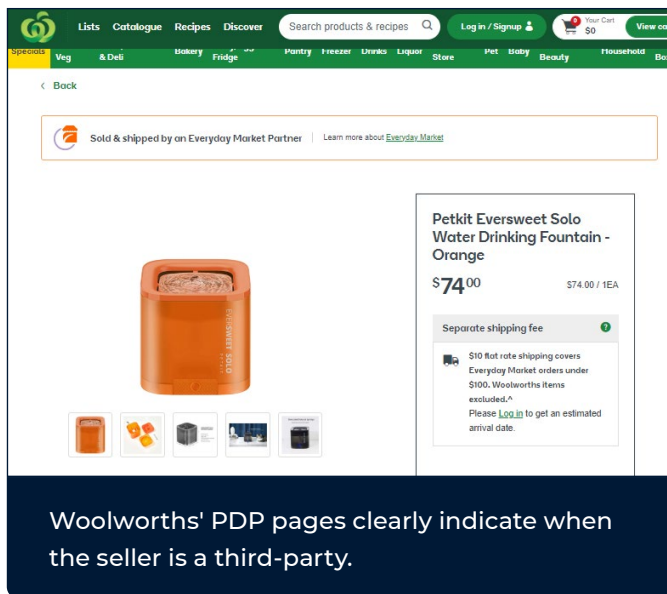
“If I’m going to replace something or renovate a room, I don’t go to the lamp store first,” said Hankin. “I go for the big things, the washing machine, and if [the store where I buy the washing machine] has the lamp too, I might buy it. What I don’t do is say to the lamp store guy, ‘While I’m here, I’ll buy a washing machine.’ It doesn’t work that way. The pool toy retailer probably can’t sell \$1,000 barbecue grills, but Barbeques Galore can sell pool toys. **Look at categories and opportunities that are complementary, adjacent and non-competitive to what you already do.**”

Macy’s Baer called this “curation at scale,” and noted that by carefully picking the right sellers with the right products, a marketplace “becomes a really powerful tool to unlock new opportunities for the merchant to achieve their goals.”

Curating the Sellers on Your Site

Another common concern among brands is that expanding in this way will erode brand equity or experience, but that’s where **seller acquisition strategy** comes in. No one can sell on your marketplace without you approving them and putting in place a Service Level Agreement (SLA) to regulate the relationship.

“Many retailers worry about the impact to the customer experience and brand image, but there are protections in place,” said Minns. “You have SLAs to ensure products are shipped on time, the delivery experience [is on par], and more. At the end of the day, if you write the right SLAs you can protect yourself.”

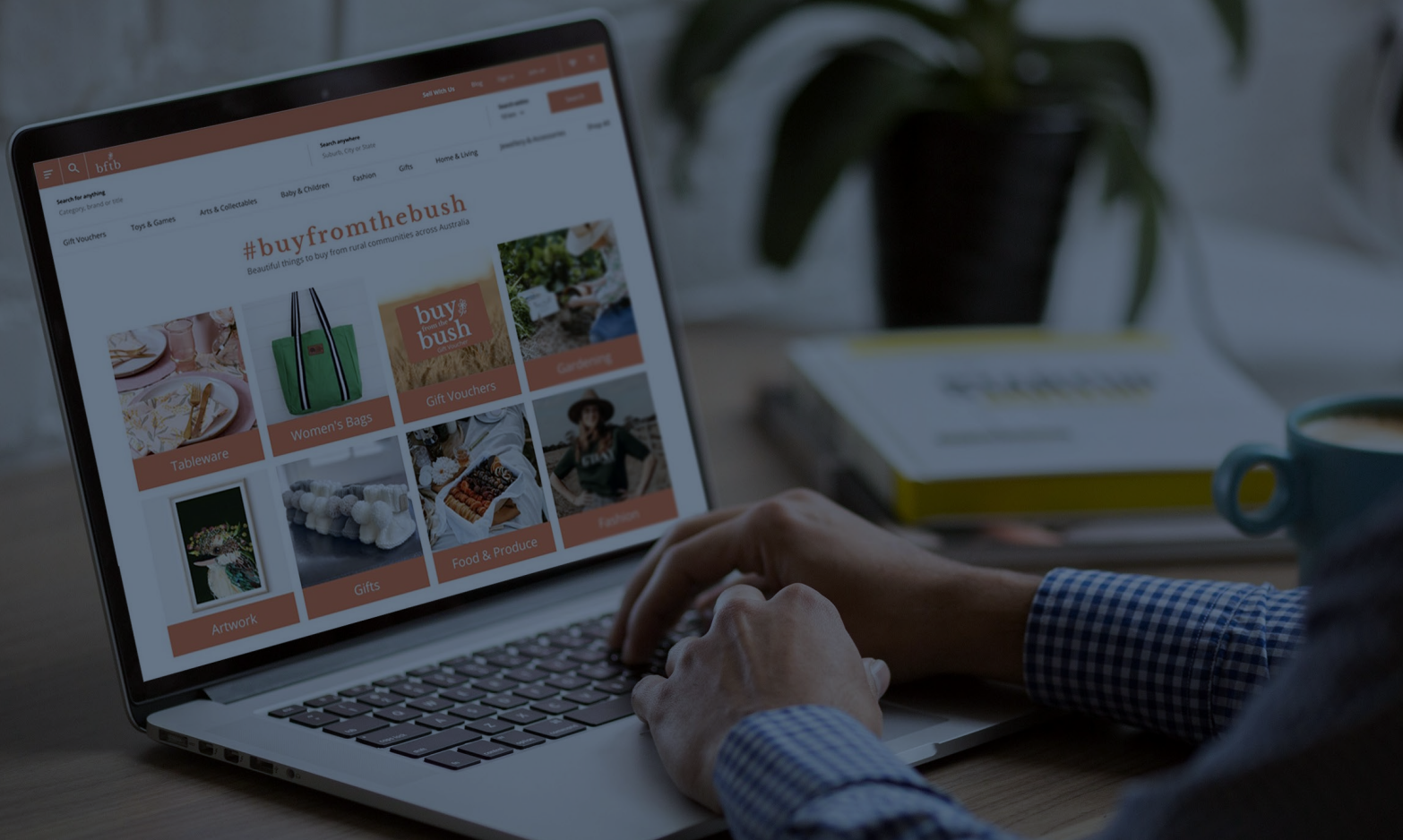


Marketplace Presentation Strategies

After the sellers have been picked, the next decision retailers have to make is how to present their marketplace offerings to consumers. “The vast majority of businesses don’t create a new domain or a new part of the website. These new products are just interwoven into the categories and hierarchy that you have already,” said Hankin. “What those PDP pages look like compared to your first-party product, if there’s any difference at all, might simply be a communication on delivery.”

For example, Barbeques Galore simply indicates that marketplace sellers are “online only,” primarily so that customers don’t expect to see those products when they come into stores. Other retailers take a more explicit tack. Australian grocer **Woolworths** indicates marketplace sellers with an icon on search results and PDPs. Madewell also includes an icon for marketplace sellers on PDP pages, and has a separate tab in its nav bar for its marketplace. Meanwhile, Walmart lets consumers know who they’re buying from with a “sold and shipped by” line in the product details.

“I think the most important thing is that **the customer has a seamless experience** and that their relationship with the assortment or the seller is the same or maybe even better when they’re purchasing a marketplace item,” said Baer.



CASE STUDY: BUY FROM THE BUSH

Buy From the Bush started in October 2019 when founder Grace Brennan saw a need to create a path to market for regional bush businesses in Australia that had been devastated by the impact of drought, floods and bushfires. She launched an Instagram account to build stronger connections between bush businesses and Australians across the country by showcasing beautiful items available to buy from rural communities. The results were instantaneous: within **seven** weeks the @buyfromthebush account amassed over **130,000** followers and saw shipping volumes from rural postage numbers increase by 30%.

THE CHALLENGE: Turning A Social Following into an Ecommerce Business

Buy From the Bush needed a **scalable revenue generation strategy** to support its ongoing efforts. As awareness grew, the team launched a directory to help shoppers find and support local businesses.

What was missing was a way to connect customers directly with merchants in a robust and full-featured shopping experience. There was also a need for onboarding and managing the volume of sellers, many of which were new to ecommerce and needed promotional tools to increase their capacity to deliver and be successful.

THE SOLUTION: Implementing an Online Marketplace

Buy From the Bush sees itself as a marketing platform to celebrate the work of participating sellers, and its executives viewed a marketplace offering as the critical infrastructure needed to support that mission. The company worked with Marketplacer to build a marketplace that provided:

- **A dedicated seller portal** to empower sellers to list and manage their own products, promotions and storefront pages;
- **An integrated shopping experience** for consumers that offers a depth of product while maintaining a curated offering; and
- **A powerful revenue model** that supports multiple revenue streams such as seller subscriptions and commissions.

Also of critical need were key marketplace capabilities such as global seller payout; multi-vendor shopping cart and checkout functionality; platform design and customization; advertising, listing and customization; and a platform that would be fully hosted.

THE RESULTS

The Buy From the Bush marketplace went live in October 2020 with **100** businesses and **1,000** products, and expanded to 260 businesses within the first year. To date, **more than 1,200** rural small businesses have applied to sell on the marketplace.

The company has transitioned to a successful purpose-driven business with more than **550,000** followers across Facebook and Instagram, consumers from **100** different countries, processed more than 50,000 transactions and generated more than **\$9 million** in revenue for rural small businesses.

Buy From the Bush Key Stats

260+
sellers



Consumers from
100 countries



50,000+ transactions
processed



\$9 million
in revenue





WHAT INVESTMENTS ARE REQUIRED TO MAKE MY MARKETPLACE A SUCCESS?

Despite the option of plug-in tech, retailers do still need to account for the added workload of selling hundreds, often thousands, more SKUs on their site. The first is to **align with the finance team on expectations**.

“Many businesses have a mandate of 60% gross margin, for example, on every transaction on the website, but this is a completely different business model,” explained Hankin. “Yes, you might make 20% commission instead of 60% gross margin, but the net might be the same or even be better. When **you don't own the product, don't inventory or warehouse or fulfill the product, all the costs associated with that go away**, so that 20% is clean. It's also 20% on the sale price, not on a wholesale price. It's just understanding that you're going down a slightly different path, but finance teams need to understand how to reconcile that revenue.”

On the technology side, Minns said major site changes aren't typically necessary — “maybe a little bit of **UI/UX remodeling** and you might have to **change your taxonomy** a little bit,” he said. He also added that retailers should “**test the boundaries of your tax solution**” to make sure it can handle the expansion. “The one thing we do see is that as you bring in these new customers, you start to realize **there might be some solutions on your ecommerce site that you need to evolve**,” Minns added. “It could be the ability to customize product data or your payment capabilities or providing a unified tracking process, but all of those things can come in a phased approach.”

Of course, it's unreasonable to think that this kind of expansion could happen without expanding staff as well, although Minns said if additional headcount is needed it's typically “a fraction of what it would take to support this type of expansion” on a wholesale or first-party basis.

For its part, Macy's plans to integrate marketplace management within its current merchandising structure, which will certainly also help with the curation of sellers: “Macy's has the best merchants in the world,” said Baer. “They're going to put together an assortment strategy, and in order to execute that strategy **the marketplace becomes another tool in their toolbox**.”

One final piece of advice from Hankin — this isn't a set-it-and-forget-it solution or something that stays stagnant, so retailers should **have a long-term plan** for their marketplace: “This is not a quick thing,” he said. “It takes a few years to get going, so retailers should ask, ‘What's my crawl, walk, run strategy? What categories will I go after in year one, then year two, year three?’ This is a multi-year journey in terms of that growth.”

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