VERTEX

DTC, Marketplace, or Hybrid: How to Choose the Right Path Toward Omnichannel Growth

retail TouchPoints

Two of the biggest retail industry growth trends of recent years have been the multiplication of direct-to-consumer (DTC) brands and the dramatic expansion of online marketplaces.

The DTC landscape has exploded with a small pool of businesses disrupting long-established categories. (Think how **Harry's Shave Club** cracked the **$2.4 billion** dollar men's shaving market or how **Casper** mattresses went from **zero to $750 million** in four years.) Now there are even more CPG brands selling their products directly to shoppers, bypassing traditional wholesale or retail channels.

Marketplaces also have been on a steep growth curve: globally, the top 100 generated $3.23 trillion in sales in 2021, according to Digital Commerce 360, with gross merchandise sales increasing 18% that year. Numerous big name retailers — including **Walmart**, **Target**, **Ahold Delhaize**, **Macy's**, **Bed Bath & Beyond**, **Woolworths**, and **Hudson's Bay** — have established their own marketplaces to expand their reach and product assortments.

With both types of retailing on the rise, sellers seeking to expand their online and omnichannel sales face a choice. Do they use the brand-building power of DTC to cultivate and personalize their customer interactions? Or would it be better to leverage the reach of marketplaces to get their products in front of a larger audience of consumers? Perhaps it's some kind of combination of both.

Truth be told, it's rarely a strict "either/or" decision. Sellers will want to be wherever their customers are, so it's a benefit to offer products via multiple touch points. And savvy brands can use their DTC and marketplace presences for different tactical purposes. On the DTC side, an engaging, content-rich website, strengthened by smart use of social media to build like-minded communities, can promote upselling and cross-selling as it conveys the full brand story to both new and returning customers. A presence on marketplaces can provide a big boost to unit sales and offer access to new consumer markets, including those across borders, with little investment on the seller's part.

Whatever growth path sellers take — DTC, marketplace, or an omnichannel hybrid — they will need to offer a consistent customer experience through all channels.

This E-book will provide decision-makers with a guide to choosing the right retail path(s) by answering four key questions:

1. How 'hungry' are you for data?
2. What types of products do you offer?
3. How broad is your product assortment?
4. Are your logistics and fulfillment operations scalable?

And the interesting ways tax calculation comes into play within each model.

Marketplaces Come in All Types and Sizes

Did you know that there are multiple kinds of marketplaces, each with its own strengths and weaknesses? The broad categories include:

- **The One-Stop Shop Model:** These marketplaces are an “everything store” approach, (think Amazon), and offer anything a consumer or business purchaser might need. Benefits include customer convenience. The downside for both buyers and sellers is the risk of getting lost amid so many SKUs.
- **The Upsell Model:** These marketplaces offer add-ons and related services, e.g., a resort hotel website that also handles airport pickups, reservations at local restaurants, and sightseeing excursions. Or a home improvement marketplace that connects to vetted contractors, electricians, and plumbers. (Such add-ons also are valuable for traditional ecommerce and DTC sites, e.g., Best Buy’s Geek Squad.)
- **The Value-Add Model:** Similar to the Upsell Model, these marketplaces offer additional experience-enhancing services. These are common in the grocery and Quick Service Restaurant (QSR) verticals, where companies like Instacart, DoorDash, and Uber Eats provide the added value of delivery.
- **The Niche Model:** These marketplaces are built around a like-minded community, with multiple sellers offering similar products but differentiating themselves with their own content (from influencers or generated by users). They can also be organized around a cause such as sustainability, or circular retail, or spotlighting offerings from often-marginalized groups such as companies founded by women and/or people of color.

Question 1: How 'hungry' are you for data?

It's not an exaggeration to say that data is the new oil — a vital resource for operating any kind of business today. For brands, the most valuable "oil wells" contain customer data, especially because today there is looming deprecation of traditional consumer-tracking technologies like cookies. And access to customer data is one of the sharpest divides between DTC and marketplace operations.

"Brands will use their DTC site for quite a bit of data collection, customer insights, and customer relationship management," said Melissa Minkow, Director of Retail Strategy at CI&T during a *Retail TouchPoints* webinar sponsored by Vertex. "But with a marketplace, there are going to be gaps in your knowledge from a data perspective on your **customer conversion rates, search optimization data, or just search retrieval data.**

"Oftentimes, brands are sacrificing visibility to a significant amount of data when they have a marketplace presence," she added. "That's a benefit that the marketplace keeps for itself, a 'cut' they take in addition to some of your margin, and [they do it] because they can use it themselves for so many other reasons."

Analyzing this data can give marketplace operators insights into pricing and positioning of products, for example, and essentially provide them with free market research if they're looking to expand their own assortment into a new product category. In fact, a common complaint among sellers is that the marketplace operates as a "walled garden" that shares only the bare minimum of data about customers and transactions.

One area where sellers **must** be given complete and accurate data is taxes, particularly since selling on a marketplace can add to business complexity in big ways. For example, more than 30 U.S. states have enacted marketplace facilitator laws, which shift the burden of sales tax collection from the individual sellers to the marketplaces. While this takes the collection burden off of sellers, they still need to know how much was collected, and on which transactions, in order to file their own taxes accurately and on time.

Additionally, tax rules and liabilities can vary from country to country, even within somewhat similar groups like the European Union. Since one of the key reasons for selling on a marketplace is to access new markets, sellers will need to determine upfront exactly what type of reporting they can expect from a marketplace, how detailed it gets, and what its cadence is.

When a seller opts for a hybrid or omnichannel strategy, both data management and tax issues become even more complicated. On the data side, if a brand operates physical stores and sells its products via a DTC site and/or a marketplace, it's vital that the company understand not just which sales were made where, but also the relationships between them. Shopper journeys now routinely include both online and offline touch points: consumers may become aware of a product via their social networks or online searches but may prefer to make the actual purchase in a brick-and-mortar store, or vice versa.

In terms of tax, different U.S. states have different sales thresholds that mandate when a seller needs to charge sales tax. Sellers need to know about all of the sales made within a sales tax jurisdiction — whether in a store, via a DTC site, or a marketplace — in order to determine whether they have crossed that threshold or not.

Data Collection Opportunities

DTC: Selling brands control virtually all data collection, which can support more personalized experiences, leading to greater customer lifetime value (CLV).

Marketplaces: Limited access to customer and transaction data but good for broad market trends/product performance.

Omnichannel: Sellers can use the data they gather on their own site to supplement what the marketplaces provide.

Question 2: What types of products do you offer?

For products that have a longer marketing funnel — such as luxury or other big-ticket items, or new product types that require extra consumer education — **DTC sites provide far more opportunities for customer engagement and experiential retailing.** Apparel and accessory retailers, for example, may want to offer AR “try-on” functionality or advanced sizing guides to give shoppers more confidence in their purchase. As a bonus, such functionality gives the DTC brand valuable customer data about shoppers’ product preferences and sizes.

CI&T data from July 2021 revealed that when consumers are broadly shopping a category, **52%** are most likely to try a marketplace like Amazon’s first, followed by **33%** who initially turn to search engines. Even when consumers have a particular brand in mind, a majority (**55%**) will visit a marketplace first. **These findings indicate that marketplaces are a great choice for brands selling well-known or low-consideration commodity products**. And because sellers typically use marketplaces to expand their customer bases to new geographies, tax issues can quickly grow more complicated. There can be tax liability down to the line item for products sourced in one country and delivered to another, with tax rates for the same product differing based on which city, state, or country the purchaser is located in.

When taking an omnichannel approach — selling through a DTC site as well as through one or more marketplaces —you must ensure you have correct tax calculations across all channels, particularly because many consumers expect marketplace prices to be lower than those found on a retailer or DTC website. According to a CI&T survey of more than **400** consumers, **43%** expect marketplace prices to be different. Overcharging on tax would quickly erase that competitive advantage for a seller, while undercharging would eat up profit margin on the transaction.

"The upfront tax calculation, made in real time while the shopper is online, must be consistent," between a marketplace and a DTC site, said Peter Olanday, Director of Consulting, Vertical Solutions at Vertex. "Why would I go to **eBay** to buy your stuff when there's less tax when it's sold on your own website?"

Product Categories and Types

DTC: Purchase decisions for complex, big-ticket items can be supported with a wide range of customer engagement and education tools, as well as rich content that goes beyond ratings and reviews.

Marketplaces: Short-funnel or commodity products can be highly successful on marketplaces if their pricing is competitive.

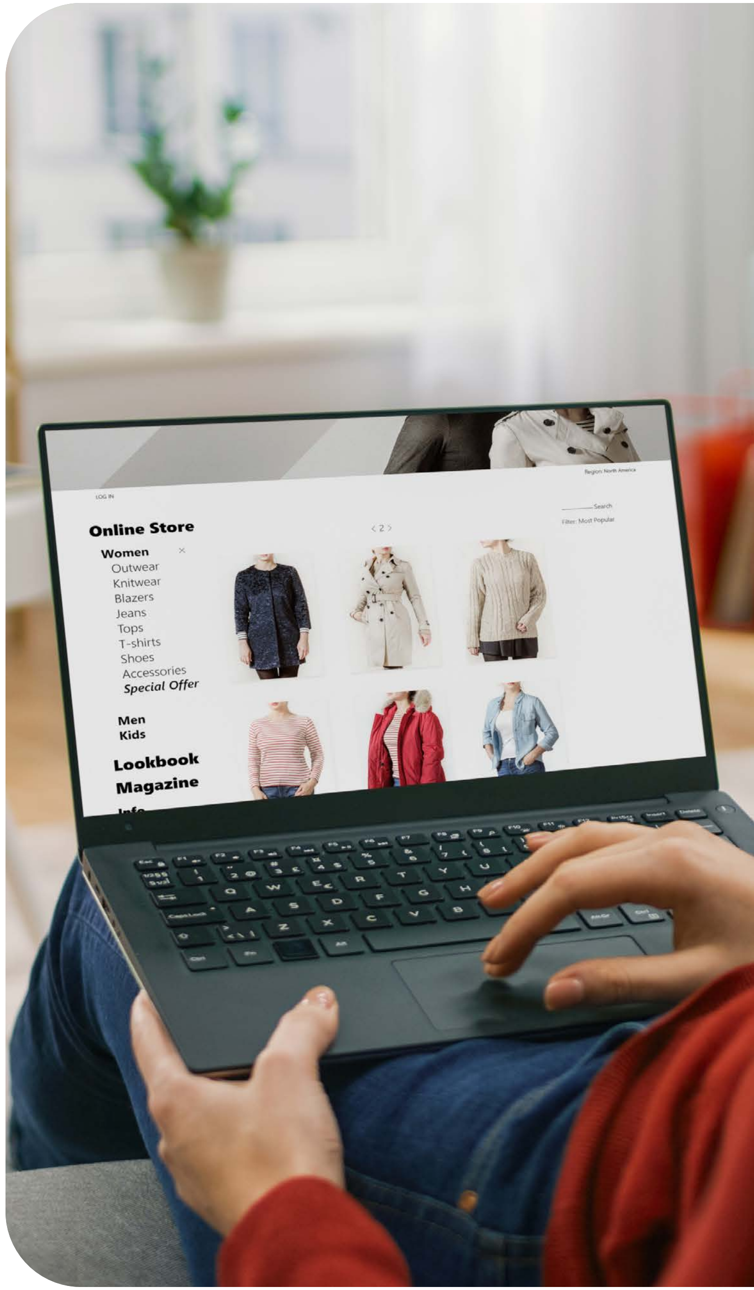
Omnichannel: Brands will need to use multiple methods to direct consumers to the commerce and communication channels that fit their buying needs. This can be as simple as including messaging in a marketplace product description directing new customers to the seller's own site — assuming the marketplace allows these types of links.

Question 3: How broad is your product assortment?

In making DTC vs. marketplaces decisions, it's important to consider not just the *kinds* of products being offered but also how many products are available. **If your product assortment is broad (or is likely to broaden in the near future), a DTC site can support incremental sales by connecting the dots between different items**. If the brand sells a skincare product but has recently added other beauty items to its assortment, DTC sites offer numerous ways to upsell or cross-sell throughout the shopper journey.

For the classic inventor/entrepreneur with one unique product developed in her kitchen or garage, **a marketplace would be the optimal place to test the item's appeal and to generate revenue to fund more efficient manufacturing or increased advertising. However, product variation from marketplaces can bring complexities**. For example, when it comes to tax compliance, a lot depends on the size and sophistication of the marketplace itself. "There's no guarantee that every marketplace is calculating all the taxes and other costs correctly, and it could be on the seller to 'eat' that cost," said Olanday.

Additionally, tax calculation and compliance is inextricably linked to product information, which can be a huge pain point for both sellers and marketplaces. "The bigger marketplaces know this, and have entire departments devoted to ensuring products are categorized correctly," Olanday noted, adding that "for example, in certain jurisdictions, a candy bar that contains peanuts is [classified as] a nutrition bar, but if it's a KitKat, the wafers within it put it in the baked goods category," so each is taxed at a different rate.



Retailers considering a hybrid or multi-marketplace approach have the opportunity to differentiate their product offerings. “We’re now seeing several beauty brands rethinking not only which marketplace they’re on, but also whether or not they should roll out a separate line specifically for a marketplace presence,” said Minkow. “That suggests that they understand the need to make their product line more expansive, so that it makes more sense to be on different platforms and have these different channels.

“It goes back to positioning, and what your customer thinks from a price point and a service perspective, and what they’re expecting your brand to provide,” Minkow added. “But if you don’t have that range, maybe you only need one of these platforms for the time being.”

Product Assortment Opportunities

DTC: Brands with fuller assortments or a range of products organized around a common theme (e.g., craft supplies, gear for a particular sport or activity) will benefit from the expertise and rich information that can be shared on a DTC site.

Marketplaces: Brands with limited selections can use marketplaces to generate sales and gain exposure to consumers, particularly if the items are priced competitively or offer immediately obvious points of differentiation.

Omnichannel: Sellers that are growing by entering new product categories can use a marketplace presence as an initial testing opportunity, then bring these purchasers to their DTC site in order to discover more about these shoppers, which can be accomplished via zero-party and first-party data collection. Zero-party data is information a consumer directly shares with a brand, such as responses to a questionnaire or marketing communication cadence preferences. First-party data is information that a brand itself collects based on customer interactions, such as website activity tracking.

Question 4: Are your logistics and fulfillment operations scalable?

Whatever a brand's product offerings, it's absolutely vital that it has the capability to fulfill orders in ways that accomplish **two** goals simultaneously. 1. Providing quality customer service, and 2. Keeping costs under control to protect margins. As with other decisions, both DTC sites and marketplaces offer benefits and drawbacks in these areas.

For DTC brands that have not invested in distribution centers and shipping capabilities — or those that simply don't have the human resources to manage these functions, even on an outsourced basis — such services allow the brand to focus on product development and customer relationships rather than the demands of order management and last mile fulfillment.

One DTC player that has invested resources in taking ownership of the entire shopper experience is furniture retailer Article, which has "built its own team for fulfillment operations so they literally can control everything," said Alicia Esposito, VP of Content for *Retail TouchPoints*.

"They show up in Article-branded gear and they help with the setup — they make sure the customers are happy," Esposito added. "So they have that quality control, but they also have all of that data, so they can leverage that insight so they can improve the experience."

Given consumer expectations around fast delivery and streamlined return processes, marketplace logistics offerings are an attractive option. **However, the downside of choosing such services is a loss of contact between the brand and the customer.**

"I definitely can see many brands thinking twice about pursuing marketplaces simply for this operational control reason," said Minkow. "With a marketplace, you're giving up a lot of different touch points with the consumer and opportunities to demonstrate that you can please them in that way. You are giving up all of these opportunities to own the relationship and for the consumer to ultimately associate your brand with every single step of the path to purchase."

Marketplaces, particularly the largest ones, provide warehousing, logistics, and fulfillment support to their sellers for a fee. FBA (Fulfillment by Amazon) is the best known, and others have modeled their services on it, including Walmart Fulfillment Services. For sellers on smaller marketplaces, a small "cottage industry" of independent warehousing, logistics, and distribution providers has sprung up.

One critical area that can benefit from third-party solutions is tax management and compliance. Whether a brand is handling fulfillment directly, outsourcing key elements or relying on a marketplace, correct sales and other taxes must be calculated and applied to every transaction. This is particularly important as brands expand into new regions or countries, since tax laws can vary widely from state to state.

In a DTC model, the seller retains more control over the taxes charged to the consumer, for full alignment between taxes charged and taxes paid. Marketplaces, meanwhile, typically cover the expense of calculating tax on the sale, making them ideal for brands that lack the technical or tax expertise or the resources to do so. Those taking an omnichannel approach will require a complete understanding of tax obligations on every sale, with the ability to combine transaction lists and pay once in fulfilling compliance.

Logistics and Fulfillment Capabilities

DTC: Brands that have already invested in their own fulfillment and tax capabilities can use the post-sale experience as another valuable customer touch point and data-gathering opportunity while maintaining control over the entire shopper journey.

Marketplaces: FBA and other marketplace logistics offerings are ideal for brands that lack the human and/or capital resources to manage warehousing, order management, fulfillment, and tax calculation and compliance on their own.

Omnichannel: These brands need to gain a deep understanding about what services can be offered to marketplace customers, so they can use them to create repeat customers that know their options for a more holistic experience with future transactions.

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