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# HOW TO GROW YOUR BUSINESS VIA A MARKETPLACE



## PAGE INDEX

WHAT IS A MARKETPLACE?	4
.....	
WHY SELL VIA A MARKETPLACE?	5
.....	
THIRD PARTY OR INHOUSE MARKETPLACE?	6
.....	
MAIN CHALLENGES OF SELLING VIA A THIRD PARTY MARKETPLACE	9
.....	
BENEFITS OF SELLING VIA A THIRD PARTY MARKETPLACE	10
.....	
CREATING YOUR OWN RETAILER MARKETPLACE	11
.....	
CONSIDERATIONS FOR CREATING A RETAILER MARKETPLACE	12
.....	
CHALLENGES OF CREATING A RETAILER MARKETPLACE	16
.....	
BENEFITS OF CREATING A RETAILER MARKETPLACE	18
.....	
DO BOTH: SELL VIA A THIRD PARTY MARKETPLACE AND CREATE A RETAILER MARKETPLACE	19

A marketplace can offer an attractive solution for retailers challenged to find ways of extending their reach, building their brand and increasing their range without incurring additional stock, supplier and warehousing overheads.

Written from the perspective of a Multichannel Director, this report focuses on the considerations, challenges and benefits of a retailer selling through an established marketplace - such as Amazon or eBay - setting up its own marketplace and allowing third party sellers on its site, or tackling both.

## ABOUT THE AUTHOR



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Sam Ambrose is a Senior Ecommerce Consultant for Salmon with over 16 years' experience in web technology. Sam has worked for iconic brands such as Halfords, British Airways, Best Buy and WHSmiths. She advises and assists in shaping B2C multichannel strategy and tactical initiatives for retailers to help maximise the potential of their online and offline business.

## WHAT IS A MARKETPLACE?

The formal definition of a marketplace is 'an arena of commercial dealings'. In a retail sense, it is an open market enabling many sellers to offer their products in direct competition with each other, which is great for customers and, in turn, great for sellers.

Characteristics and types of marketplaces include:

### Open Marketplace

Amazon and eBay are examples of this type of marketplace. These offer the same or similar products from multiple sellers and have few restrictions on who can sell. This creates a self-moderating community through seller / buyer feedback and social commentary.

### Closed Marketplace

This type of marketplace works well for niche retailers. Retailers GAME and Halfords have closed marketplaces. Like the open marketplace, closed marketplaces can offer the same product on sale from multiple sellers. However, sellers have to be approved and must meet certain standards around service levels and company credibility.

### Velocity

Selling on a marketplace or enabling others to sell on a retailer's marketplace can increase traffic and sales incredibly quickly. For example, eBay in the UK has approximately 19 million unique visitors per month. On Black Friday 2014 Amazon sold a staggering 5.5+ million items (or 64 items per second) with an average of just 48 seconds taken per purchase\*.

### Growth

A marketplace can bring instant growth. Retailers can extend their range and create a tail as long as they like, whether in existing categories or trialling new product ranges.

### Managed Risk

If a retailer sets up its own marketplace there are no stock, warehousing or dispatch overheads to pay for the sellers products. If a product is not selling or not a good fit with the brand it can be discontinued without large amounts of stock to contend with. If a retailer is selling on a third party marketplace, there are other risks to consider such as brand impact and delivery lead times.

### Choice

This is choice for the retailer and the customer. As a retailer you can make your store the one-stop shop in the market driving customer retention and acquisition by offering as much choice as possible. As a customer, routes to purchase are streamlined and quicker, as they're contained within one site.

\*Source: InternetRetailing.net 9.12.14

## WHY SELL VIA A MARKETPLACE?

### Scale And Reach

For most sellers, particularly those without a significant foothold in a market, this is the most attractive reason to build their own marketplace or sell on a third party marketplace. Other well-established marketplaces can offer rapid access to millions of active buyers, not only for domestic markets but international markets too. The pace and scale of both targeting and reach extension can typically be controlled -allowing for managed growth.

### Range Extension

Holding and distributing stock is a costly business. However customer choice and the transparency of the internet mean that you have to be 'in it to win it'. Therefore extending range is also near the top of the list particularly when it comes to reasons for building a retailer marketplace.

### Customer Retention And Acquisition

Growing the range on-site ensures existing and new customers are offered the choice, pricing and delivery options to keep them loyal.

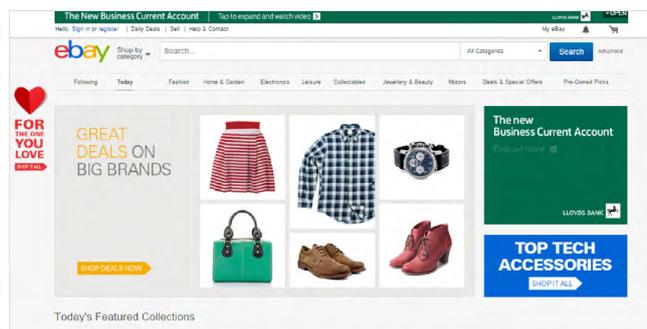
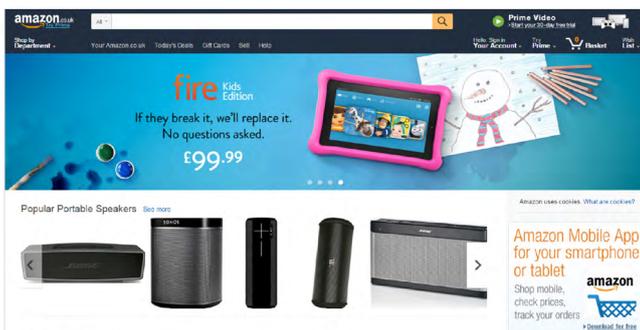
Selling on Amazon or eBay means that not only do potential customers see a retailer's products and brand but existing customers who use those marketplaces now have an option to purchase from the retailer's store.

### Search Value

This goes hand-in-hand with range extension, customer retention and acquisition: a marketplace will have an impact on SEO. If products are being sold on a third party site, it is very likely they will be indexed and ranked within the first couple of pages of Google search as marketplaces spend millions to ensure high rankings through paid search.

When items are sold on the retailer's proprietary site this additional content will be indexed and will enhance the site's natural search strength. If additional product ranges are being sold, bidding on new terms will increase traffic.

Having an increased range or being present on a large marketplace can boost a retailer's search results and drive traffic to its own website too. This is referred to as 'The Search Effect'.



The two leading UK marketplaces: Amazon and eBay (images: 3 Feb 2016)

## THIRD PARTY OR INHOUSE MARKETPLACE?

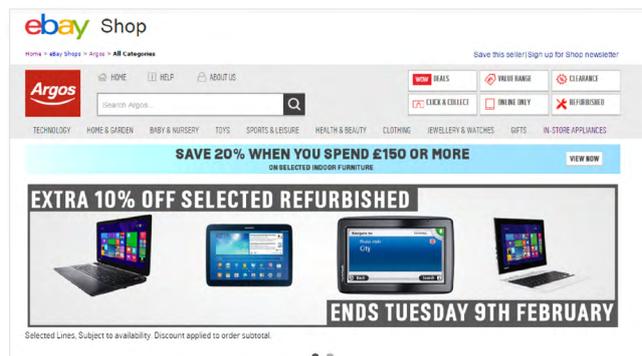
Should a retailer collaborate with an established marketplace such as eBay, Amazon or Rakuten, compete with a new seller base and offer its own marketplace, or do both?

To put it simply, collaborating and selling on a large established marketplace is all about volume and velocity, and less about brand. Competing with other sellers through a retailer's own marketplace is typically a slower process, yet one that allows a greater level of control and improved access to customer data. Let's start by looking at competing on a third party marketplace.

### Third Party Marketplace Considerations

On the face of it, there is no doubt that hooking up to, and selling through, an existing third party marketplace such as Amazon or eBay is less involved than setting up a retailer's own marketplace inhouse from scratch. That's because a third party marketplace offers instant access to a large new customer base.

There have been some very successful eBay stores, such as Argos and Debenhams, that sell large amounts of merchandise through a branded store. Amazon states that it sold more than billion items via its marketplace sellers in 2014\*.



Argos branded store on ebay.co.uk (3 Feb 2016)



Debenhams branded store on ebay.co.uk (8 Mar 2016)

But selling via third party marketplaces requires careful management; one poor customer experience through late delivery, stock availability or technical failure can have a considerable negative impact. It may result in poor feedback ratings and possible account closure.

Halfords marketplace trading manager Nina Morris says: *“This (marketplaces) launch means we can react faster than ever to the needs of our customers, with more choice and access to more brands. Our sector-leading innovation also means we will be able to target new customers who may not have shopped with Halfords before”.*

\*Source: Businesswire.com 5 Jan 2016

<http://www.businesswire.com/news/home/20150105005186/en/Amazon-Sellers-Sold-Record-Setting-2-Billion-Items>

## Where To Sell?

Third party marketplace choice really comes down to the vertical sector each retailer operates in. For mass appeal, the likes of Amazon or eBay are straightforward choices. There are specific marketplaces, such as Etsy, Autotrader and ASOS, for a more targeted audience.



## DIY Or Partner Up?

If managing and selling products on multiple marketplace channels seems overwhelming or too big a drain on resource, companies like ChannelAdvisor can help. For a fee, it provides a supporting platform that will help retailers list, manage and optimise products on up to 40 marketplaces, as well as helping to manage orders and fulfilment. These costs will need to be included in any business modelling.

ChannelAdvisor will list and manage products for you on up to 40 marketplaces

Amazon can also help with storage, pick-pack-post, customer service and reverse logistics through its fulfilment enterprise models.

Fulfilled by Amazon (FBA) is a full service proposition, which is fully scalable, and flexible pay-per-use model for fulfilling products sold through Amazon only.

Preferable courier rates are selected, along with savings through combining stock with other retailers. Amazon handles all pick, pack and post worldwide. FBA products are eligible for Prime, and - in many cases - free Super Saver Delivery. FBA can even provide customer service in the native language.

## Commercials

A third party marketplace will incur some or all of these fees:

- Listing fees
- Monthly subscription fee
- Percentage of sales
- Payment fees (e.g. PayPal)
- Distribution costs, including returns
- Third party partners such as ChannelAdvisor

Increasingly, sellers are offering free delivery in order to compete with fellow sellers and the marketplaces own offering (such as Amazon Prime). In this case, delivery costs will also need to be factored in as a cost of sale.

## Technical Impact

The technical effort for a retailer is a lot lighter than building its own marketplace. Generally integration involves sending product data-feeds including descriptions, images, pricing and stock via API's (Application Programming Interfaces). However, a large testing effort needs to take place to ensure data maps to the front-end correctly, and that the end-to-end experience is functioning as it should.

Although the technical effort is lighter, if a retailer sells via multiple marketplaces then the management and maintenance effort could increase. This is where a partner like ChannelAdvisor can help alleviate the workload for the retailer.

## What To Sell?

Selling on Amazon, Rakuten or eBay raises other questions that need to be worked through as part of a retailer's marketplace strategy such as:

- Should the retailer sell the same products as their own site or source products only for sale on particular marketplaces?
- Will it offer clearance only or full range?
- What is the pricing strategy going to be?
- What is the promotional strategy?
- Is it a platform for testing new product categories?

## Who Is Going To Run The Marketplace?

The retailer will need people to manage and run the marketplace, attending to key functions such as:

- Data maintenance and enhancement
- Management of prices and ranges
- Responding to customer queries
- Policies governing customer reviews and brand representation

Even if a partner is used to support the day-to-day trading of the marketplace, a dedicated marketplace team and business owner is likely to be needed.

## MAIN CHALLENGES OF SELLING VIA A THIRD PARTY MARKETPLACE

### Volume

- This is, of course, a good problem to have, but if sales and shipping suddenly increase beyond a retailer's capability, the negative impact could be substantial. This is something that also affects the marketplace's reputation, so it will also be very strict about seller performance and standards.

### Customer Care

- Selling products via a third party marketplace will generate a lot of customer communication that should not be underestimated. Marketplaces themselves set very low tolerances for poor customer care and will restrict trading if substandard performance is identified.

### Brand Protection

- It can be challenging to build a brand in certain marketplaces. On eBay, for example, a branded store can be created; in other marketplaces, such as Amazon, a retailer's products will be listed alongside many others and it can be harder to stand out and brand-build.
- It is key to remember when selling on third party marketplaces, that customers will expect the same brand experience, regardless of whether they are shopping on eBay or Amazon or the brand's proprietary website. It is essential to maintain this level of service at all times. As far as the customer is concerned, they are always interacting with the proprietary brand.

### Competing in the Marketplace

- Amazon offers Prime and same-day delivery, so when selling on third party marketplaces, the delivery offer must be competitive, or free, if lead times cannot be matched. EBay, for example, provides a boost in search rankings for items with free delivery.
- High delivery costs, or long lead times, will have a negative impact on customer ratings and, in turn, retention.

### Customer Data

- One of the challenges of selling on a third party marketplace is that retailers do not own the relationship with the customer. The marketplace does. Future marketing to these customers is not possible, as customers have not given the retailer permission to use their details.

## BENEFITS OF SELLING VIA A THIRD PARTY MARKETPLACE

Although there are challenges and overheads to running a third party marketplace, there are substantial benefits to be gained. These are mainly driven by the reach of major players. For example, in the third quarter of 2015, Amazon had 294 million active accounts, and eBay, 159 million globally\*.

### Key Benefits

- Increased bottom line. According to The Telegraph, companies that have revenues of more than £250,000 increased by 32% in 2014
- Instant exposure to a large amount of traffic, for example, 19 million unique monthly visitors on ebay.co.uk
- Higher and more frequent ranking in Google search
- Customer acquisition through opening products up to new markets
- Customer retention – ‘The Search Effect’ means that products are more easily found by existing customers, and it is highly likely that any existing customer base will shop on these marketplaces already
- International reach: Amazon sellers can offer their products on all of their its European sites, which reach users in 28 countries.

For most sellers, reach is a key determinant in selecting a marketplace.



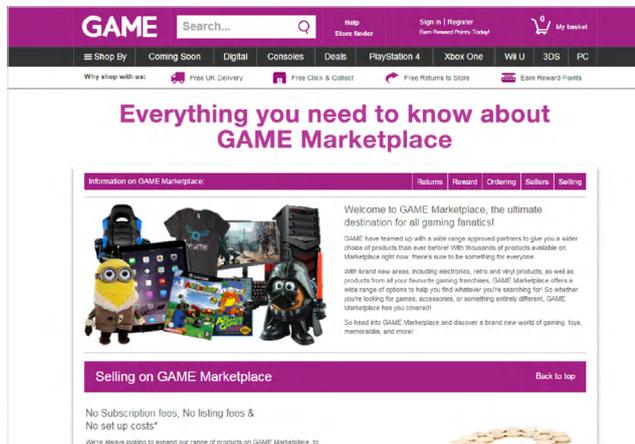
\*Source: Statista.com 2016. By comparison the Chinese marketplace giant Alibaba claims 407 million buyers. Currently focused on its home market, Alibaba (trading as AliExpress) is certainly one to watch, with its newfound mission to become a major global force.

## CREATING YOUR OWN RETAILER MARKETPLACE

Moving on from third party marketplaces, let's look at the considerations, challenges and benefits of setting up a retailer's own marketplace.

For the retailer, setting up its own marketplace is definitely a more involved route to undertake, and takes a lot more consideration than trading via a third party marketplace. To successfully design, build, execute, and integrate a marketplace offering into a retailer's business model is likely to take more than 4 months, and up to 18 months in some cases. Whilst this may seem like a long time, the duration will be wholly individual to the retailer. It will depend on their technical implications and capability, and whether a marketplace partner is involved or not.

However, this level of investment is worth considering, as a marketplace can facilitate rapid growth and revenue return. For example, GAME partnered with the global marketplace platform provider **Mirakl** and **launched** its marketplace early in 2015, with over 50,000 additional offers on their site.



GAME marketplace website (image: 3 Feb 2016)

*“Marketplace sales can quickly climb from 30 to 50% of online sales. With between 5% to 20% margins on average, depending on the product category, this represents a significant incremental revenue lift for the retailer.”*

Adrien Nussenbaum  
Mirakl US CEO and co-founder

## CONSIDERATIONS FOR CREATING A RETAILER MARKETPLACE

### Partner Choice

Choosing the right partner during this time of change and growth is critical. If a retailer is setting up its own marketplace, choosing a partner with a track record of working with similar size retailers is a good place to start.



Mirakl is a marketplace platform provider that has helped brands across B2C and B2B including Halfords (above right), GAME and Best Buy (images 3 Feb 2016)

Alternatively, if the infrastructure supports it, the retailer could go it alone and build a marketplace themselves without a platform partner.

This could seem like the attractive option. However, the initial project could take longer, and day-to-day support will need to be considered. In terms of cost, although this option negates any ongoing partner fees, there are maintenance and enhancement costs to consider. Additionally, specific expertise and rules around the marketplace business model could be difficult to replicate with the right level of features and processes.

### What To Sell

One major consideration is what products sellers are allowed to offer on a retailer's marketplace.

Before a marketplace is launched, retailers are already competing with open marketplaces. Having a marketplace means the retailer is in a much stronger position to compete against these major players by opening up the retailer's marketplace to its sellers and increasing breadth of range.

Questions that need to be addressed are:

- Does the retailer allow the sellers to offer products that it already sells?
- Does the retailer set a pricing strategy for the sellers?

Answers to these questions depend on each retailer's strategy and business model, and will need to be considered carefully. The answers usually change over time as the marketplace matures.

Fundamentally allowing sellers to openly compete with a retailer's own offer is what makes a true, fair and successful marketplace.

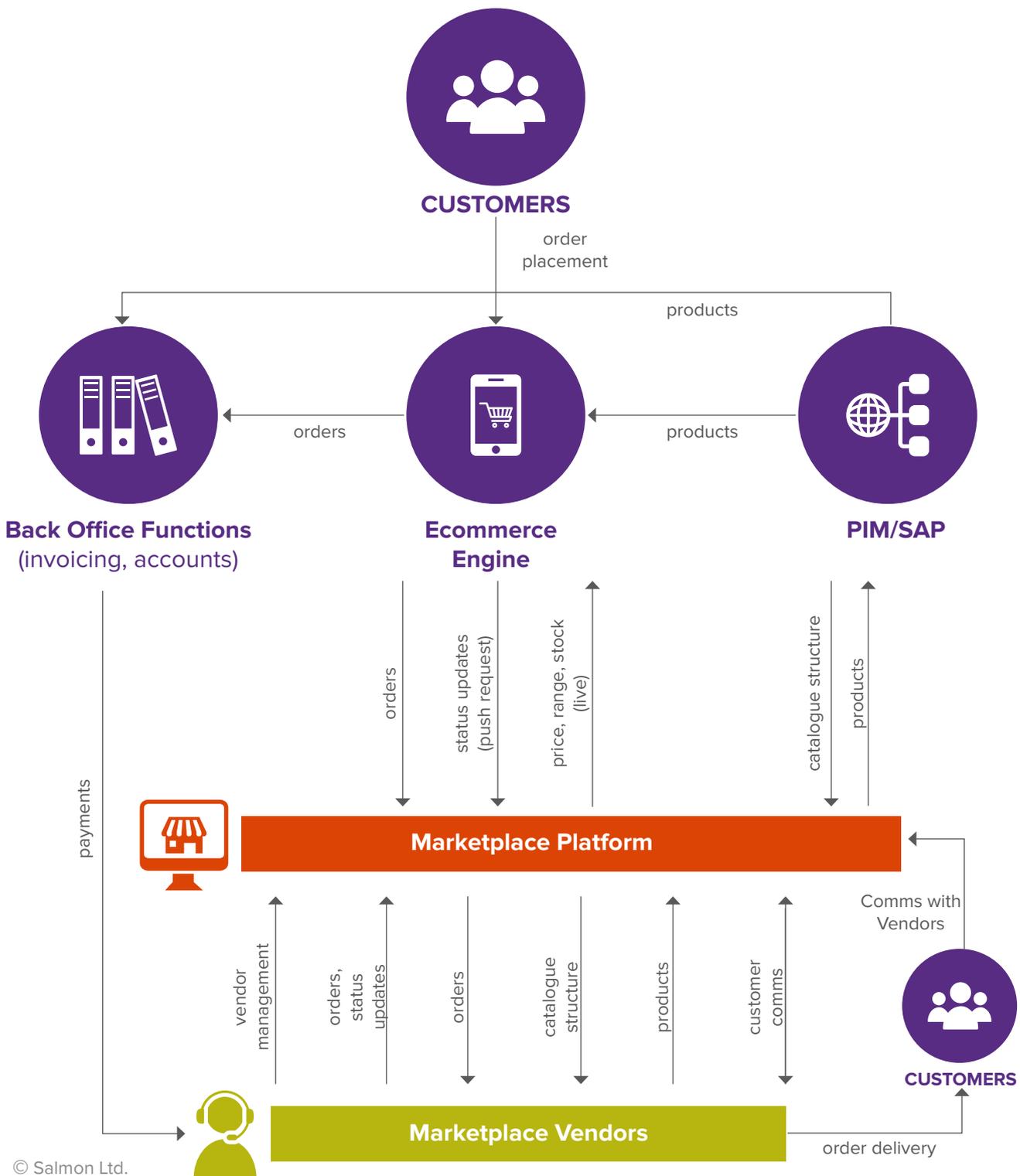
## Technical Build

If a retailer decides to go ahead and build a marketplace, this will become a web and IT project, with collaboration needed with the chosen partner from the solution design phase to launch.

Integration could be as simple as hooking up to the APIs or may require an entirely new PIM (Product Information Management) to enable the platform effectively. This is something each retailer would need to work through in the design phase.

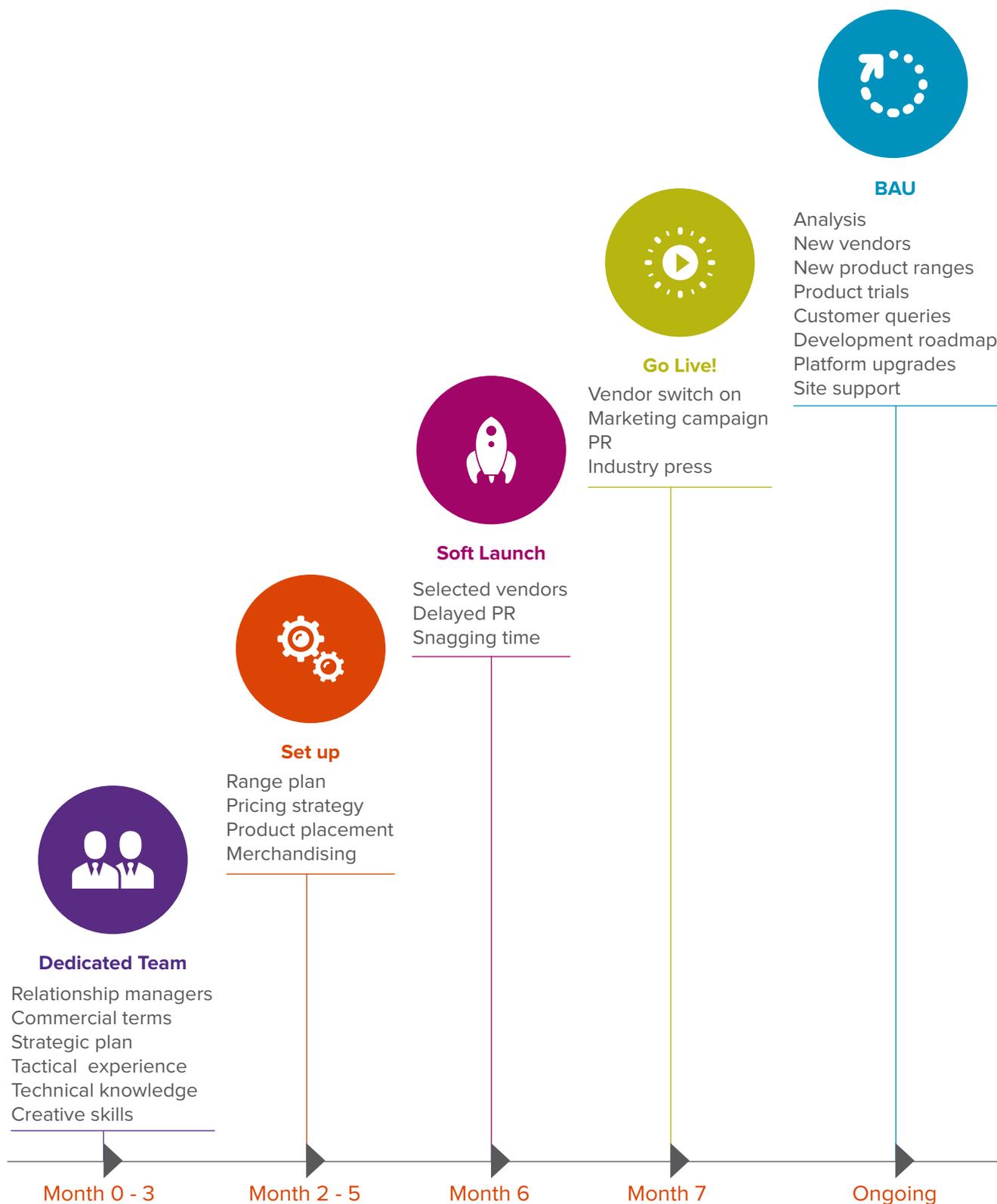
### SAMPLE ARCHITECTURAL CONTEXT

Inhouse Marketplace Approach



## Planning A Go Live Date

Once the technical build is completed, launching a marketplace is not something that happens overnight. This diagram shows an example of the possible steps it takes to go from zero to business-as-usual (BAU) and the support needed to launch, and trade on, a retailer marketplace.



## Resource Planning

A retailer's marketplace will not run itself - it's a team effort. The type and size of the marketplace dictates the size of the team and the skill-set needed.

This team, or at least part of it, will need to be in place before the marketplace goes public. A good time for recruitment, which can take as long as 3 months, is post-build and during testing.

Certain aspects such as analytics, customer service, development, marketing, finance and live technical support could be absorbed into existing teams and daily functions. However, more specific tasks such as managing sellers, range strategies, merchandising and customer escalations will need a focused team of people that sit within these sample functions.



## Commercials

The bottom-line will be impacted and should of course register a positive impact, with retailers well positioned to sell more. However with increased volume comes increased margin erosion.

A large marketplace platform will most likely incur a flat fee and ongoing licencing costs. This can balance out, because there are no stock-holding or distribution costs to consider, and there will be new income from supplier listings, monthly subscription fees, supplier prominence and general commission on sales. Sample costs to consider include:

AREA	REQ-UIRED	COMMENTS
Licensing Cost	✓	Variable
Website Build	✓	Front-end and integration
PIM	✓	A product database
Business Team	✓	Onboarding, set up, account management, trading and development
Other Systems	✓	Reviews, payments, etc
Hardware	✓	Increased volume could impact architecture

## Marketing

Marketing teams will need to consider new marketplace products and customers. It can take time and money to build search engine rankings for new products. This will therefore need to be part of the planning and onboarding phase of each seller as well as the marketing budget allocation.

## CHALLENGES OF CREATING A RETAILER MARKETPLACE

### Business Champion

Digital teams within large retailers work in pressured environments, and a team will already be in place trading and supporting the existing proprietary website. It is important that the marketplace team has a business champion at a senior level who can be its voice to ensure it is included in all wider business decisions around:

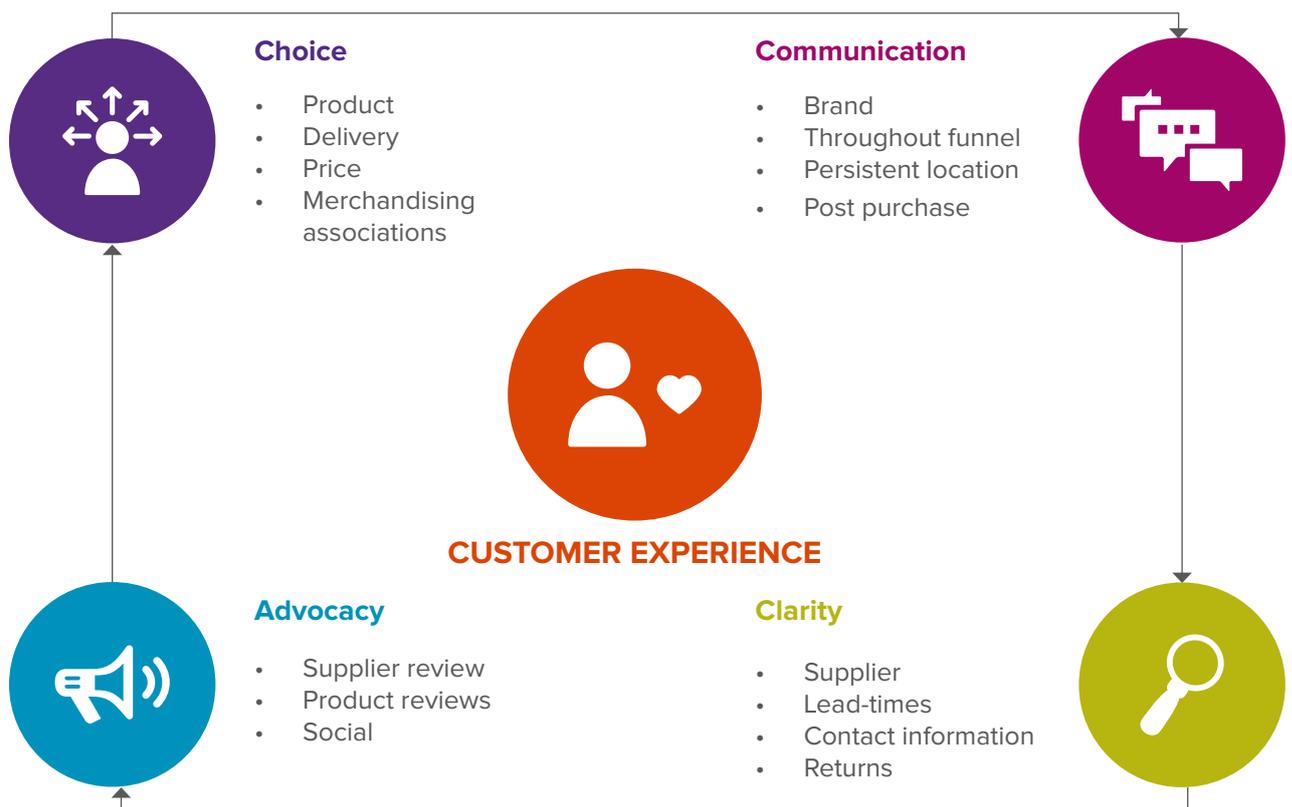
- Marketing spend
- Head count
- Content creation
- Promotional activity
- Development budget and planning
- Live support issues
- Customer service training

### Customer Experience

If a customer is buying a product from a branded website, that product belongs to that brand. The customer therefore expects the same levels of quality and service in the way the product looks, its price, the delivery and any post-purchase care they may need.

Generally, the seller on the marketplace handles all communication with the customer. However, there may be times where escalation to the retailer's customer service team is needed. Here the marketplace team may need to step in to resolve seller or product specific queries, particularly if the product is not sold as part of the core range.

## CUSTOMER EXPERIENCE TOUCH-POINTS



## Delivery Options

If a retailer sets up its own marketplace, it may be competing head-to-head with established and formidable rivals like Amazon and eBay. Both of these promote and incentivise free and speedy delivery, via delivery services such as Amazon Prime. Consequently, the retailer will need to have a delivery strategy and promise that matches these services.

Expensive and/or long delivery lead times are a real turn-off for most customers.

Delivery options, pricing and lead times become increasingly difficult to manage when operating a marketplace, and should be made part of the seller onboarding process. Each retailer will have different service levels that are acceptable, and will need to decide if all delivery options should be made available for its marketplace products, such as:

- Click and Collect
- Next day delivery
- International shipping

## Order Tracking

“Where is my order?” Once a customer has placed an order, this is typically the most common question asked. A marketplace product must be as easy to track as the retailer’s proprietary products. Therefore, as the sellers manage the shipment, it is important to have a solution that can collect order updates from sellers so that service level agreements can be tracked. It is essential that any sellers operating on the retailer’s site keep the order status updated, and answer any customer queries within an agreed or reasonable timeframe.

*“To launch a successful Marketplace, there are 3 key factors that need to be carefully considered: technology, commercial strategy and marketing.”*

*“Choosing a robust, scalable marketplace platform that makes onboarding sellers fast and simple is essential. Which sellers you partner with, and how you communicate to customers, will also drive the marketplace’s success”.*

Adrien Nussenbaum

Mirakl US CEO and co-founder

## BENEFITS OF CREATING A RETAILER MARKETPLACE

Setting up a retailer's marketplace means that the retailer owns both the offer and the customer relationship, thereby gaining insight into customer behaviour and purchase habits. This is invaluable when it comes to considering ranging marketplace products into the retailers' core inventory as well as enhancing the customer/retailer relationship.

As highlighted in the checklist below, building a marketplace is a serious consideration; it is a major project that involves not only a development CAPEX but also, ongoing revenue costs.

MARKETPLACE CHECKLIST	REQUIRED
Collaborate	✓
Compete	✓
Partner Choice	✓
Technical Build	✓
Commercial Model	✓
Resource Planning	✓
Customer Experience	✓
Products and Pricing	✓
Delivery Options	✓
Marketing	✓

However, strategically, and commercially, there are benefits:

- Incremental growth of both product ranges and traffic
- Increased conversion and average order value (cross-sell and upsell; eliminate out-of-stock)
- Attracting more sellers, which drives competition between sellers and better pricing, service (or value) for customers
- Low overheads, as there are no warehousing or distribution costs, which, in turn, increases gross margins
- Increased search value increases through the long-tail
- Creating a one-stop shop, which facilitates both acquisition and retention of customers
- Trialling new product categories without expensive product development
- Insight intelligence around customer behaviour and demand

French retailer **Galeries Lafayette** credits 10% of its online revenue to marketplace sellers. It opened 5 new categories trialling and adding more than 60,000 products in less than 6 months.

## DO BOTH: SELL VIA A THIRD PARTY MARKETPLACE AND CREATE A RETAILER MARKETPLACE

So when is it applicable to do both: using a third party marketplace, *and* the retailer building its own?

To realise this model, a retailer would need to be either of a certain size or specialism.

For example, a large high street enterprise level retailer could build its own marketplace; it has the size, the infrastructure and the resources to support it, and the brand to attract sellers.

It could also sell effectively via a third party marketplace due to its brand profile and sheer number of products.

Alternatively, a smaller, more specialist retailer could set up a marketplace to capture a niche market by inviting other specialists in its field to sell on its site. Additionally, it could sell via a third party marketplace to drive volume and attract new customers.

## HOW CAN SALMON HELP?

Salmon has delivered leading marketplace solutions for Halfords and GAME.

We have enabled clients to sell their products on Amazon and eBay via our strategic consultation, technical feed integration and live support.

Salmon can help at every stage, whether a business is looking to select a partner to build a marketplace from scratch, sell on other marketplaces, or optimise a marketplace that is already in place.

Salmon can help you explore the right solution for your business.

## ABOUT SALMON

Salmon is a global digital commerce consultancy – the largest in WPP’s network of companies. We define and deliver market-changing solutions and customer journeys for the world’s leading brands.

Established in 1989, with operations in London, New York, Sydney and Beijing, Salmon clients include AkzoNobel, Argos, Audi UK, DFS, Halfords, Premier Farnell, Sainsbury’s and Selfridges.

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