



Demystifying Digital Marketplaces

Content

Demystifying Digital Marketplaces

Introduction	3
What IS NOT a Marketplace?	4
Dropshipping	4
Third Parties	4
Market Expansion	5
What is a Marketplace?	6
Which Are You	9
Marketplace owner	9
A seller or a variation of a seller	9
Brand Recognition and Reputation MATTER	10
Why Consider a Digital Marketplace?	10
Marketplaces vs. Core Commerce Functionality	12
Core Commerce	12
Marketplace	12
What to Avoid	14
Tips on How to Builds a Successful Marketplace	16
Strangle to Change for the Better	17
Choose Best-in-Breed	17
The BIG B2B Opportunity is NOW	18
Conclusion	19
Appendix	20
About commercetools	21
Contact Us	21

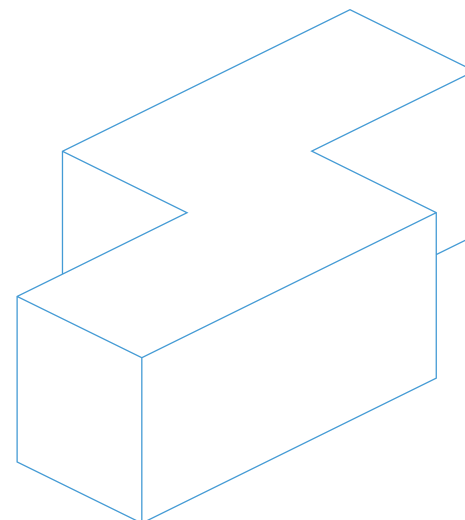
Introduction

We are seeing many organizations interested in adding marketplace functionality to their existing business. The seductive allure of the seemingly free money associated with marketplaces can drive this desire forward. Who wouldn't want to increase top line revenue by using their existing brand recognition and technology while third parties hold the inventory risk and fulfillment effort? After all, Amazon and Walmart have done it. It's easy...if you ignore the years and billions of dollars they've invested into it!

Sure, it seems simple on the surface. However, the concept of a marketplace is not necessarily as straightforward as it may seem. There is no one-size-fits-all definition or recipe for marketplaces. And even more confusing is that some of what we are asked to do isn't actually marketplace functionality at all! This can be both a bad thing or a very good thing depending on the use case. Ultimately, the relationship with the customer and composition of the catalog are the factors that determine whether something is or isn't a marketplace.

Ultimately, the relationship with the customer and composition of the catalog are the factors that determine whether something is or isn't a marketplace.

Digital commerce is now easier than ever — but in order to optimize one's investment it needs to be done thoughtfully. It is costly and painful to switch courses midstream, so interpreting the right business drivers and selecting the right partners is imperative before embarking on the effort. This paper will help you decide if a marketplace is right for you, help identify the kind that might suit your needs, and also provide some guidance through this new and admittedly confusing area of eCommerce. The positive takeaway from this paper for most businesses will be that what you're looking for in the majority of cases can already be accomplished easily with commercetools and MACH™. On top of that, you will gain complete flexibility and the capacity for unlimited scaling and growth.



What IS NOT a Marketplace?

Dropshipping

The term DROPSHIPPING is often used interchangeably with marketplaces and this just isn't the case. Dropshipping is the fulfillment of orders by a third party, typically a wholesaler or the manufacturer. The storefront brand manages the catalog, purchase and customer interactions, but routes the order information to the drop shipper for packaging and delivery. Often, the storefront brand's packaging is used and the customer is unaware of the drop shipper. Dropshipping is not a marketplace — and this is a good thing.

Dropshipping examples:

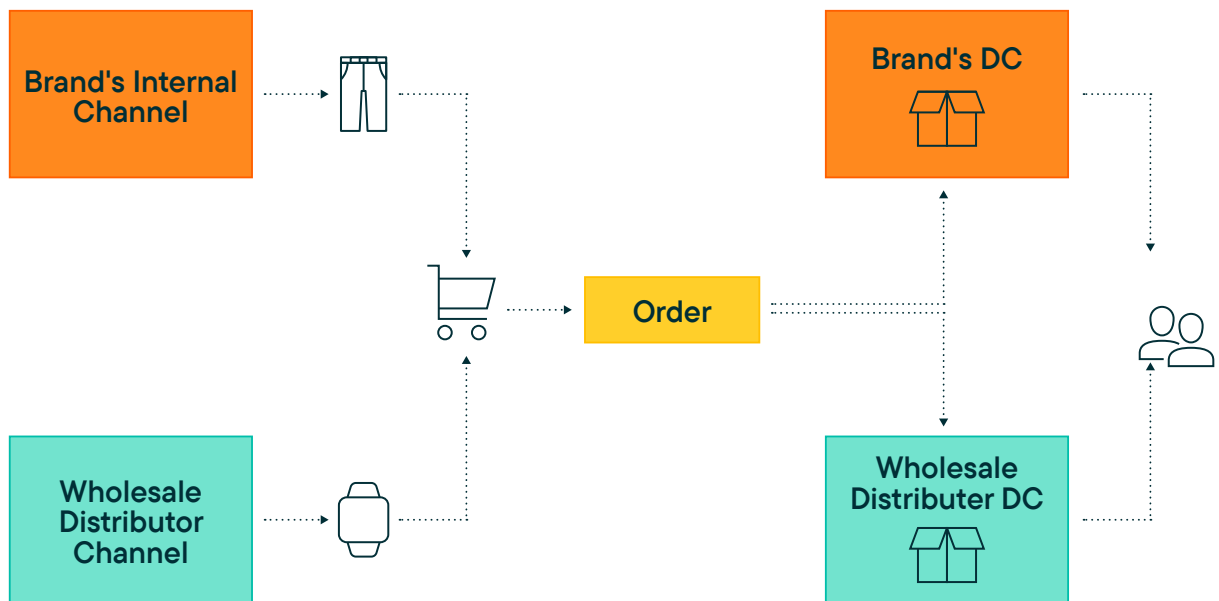
You order headphones from Amazon but, in practice, Beats might ship them to you from its warehouse. This practice isn't necessarily a bad thing. It can be very efficient. For example, in the furniture industry, it is wildly inefficient to ship large items from the manufacturer to a warehouse owned by Crate and Barrel only to have Crate and Barrel reship it to a customer. This leads to wasteful redundancies in shipping, handling and storage costs, along with the added costs of maintaining inventory, which is a big no-no in lean workflows.

Third Parties

Using a third party to sell or fulfill an order does not necessarily make a business a marketplace. There are many use cases for utilizing a third party to fulfill orders or parts of an order. In many instances, it makes sense for brands to augment their catalog with third-party sellers' offerings.

Third party example:

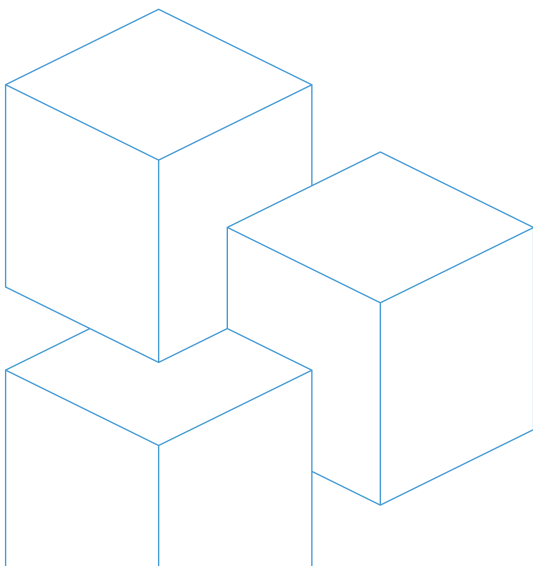
A trendy upscale fitness apparel brand could make extra revenue and add to its brand prestige by offering Apple Watches, which are shipped directly from a wholesaler. There can also be co-marketing opportunities for mutually beneficial relationships. This scenario offers a complimentary product to the brand's customer without introducing inventory risk, costs and the complexities of managing a wholesale product internally. It's a win-win-win.



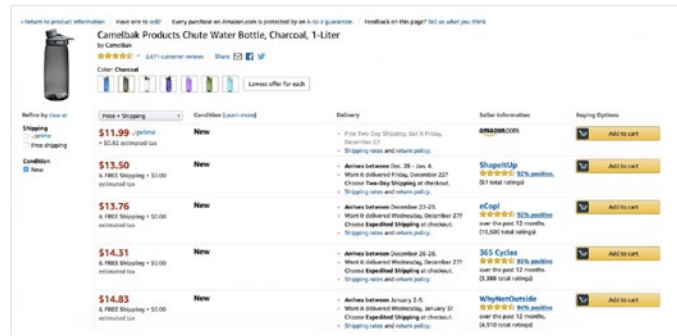
Market Expansion

Another common use case for a non-marketplace is market expansion. Businesses wishing to expand to new geographic or product markets may utilize a third party to fulfill sales made on their storefront. For example, selling products via a licensed distributor within a new country. This greatly reduces effort and risk associated with standing up new ventures in unfamiliar territory. Since the brand is still in control of the customer experience and the products offered, this is not considered a marketplace.

For some readers, understanding what is NOT a marketplace will save them from needing to dig into the complexity of a marketplace solution. You can meet your business needs with a less costly and complicated project. Congrats!



What is a Marketplace?



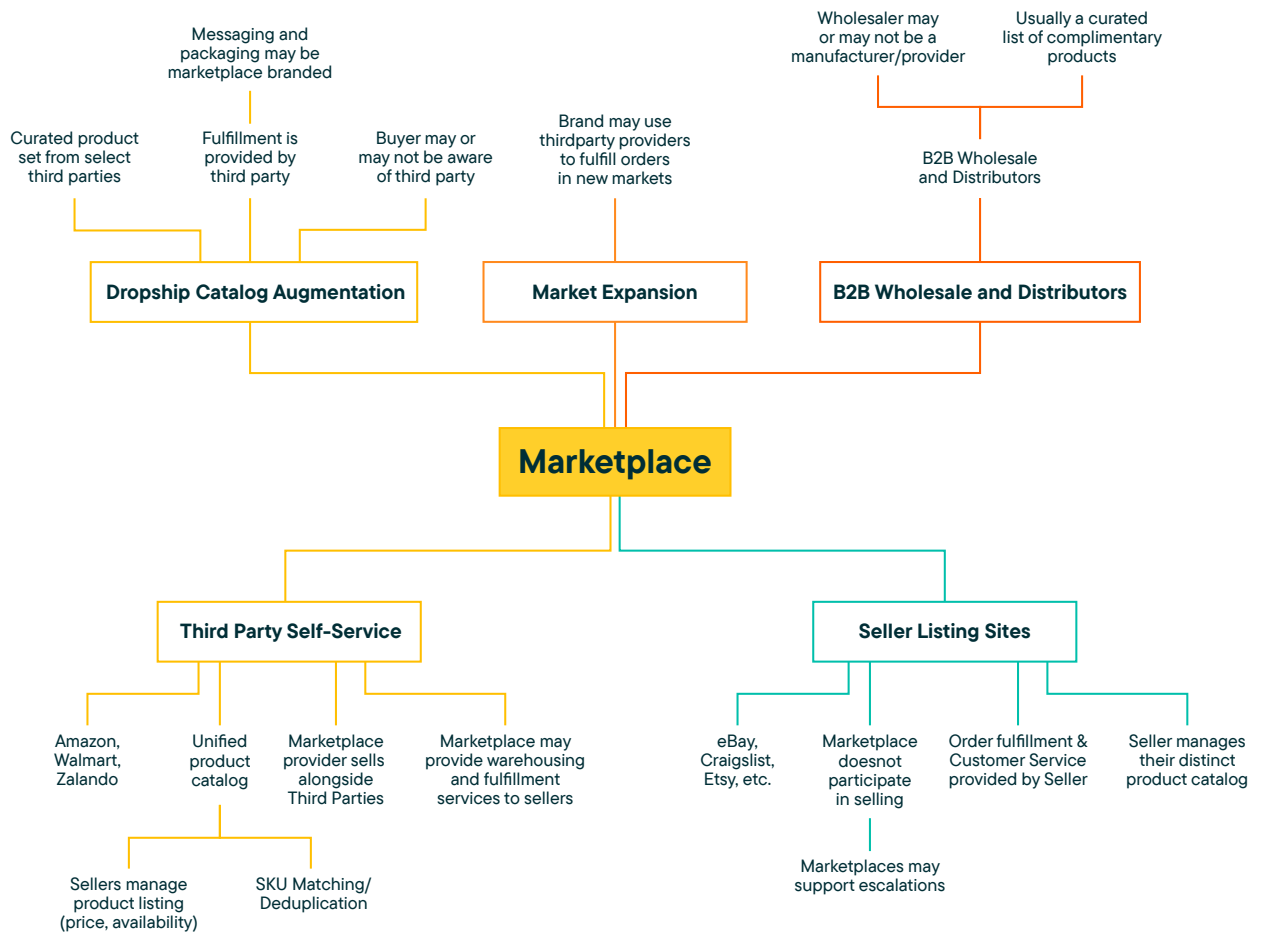
What most people picture is a bustling town square — a hive of activity and social center where sellers and buyers gather to trade goods like the Grand Bazaar in Istanbul or Portobello Road in London. It is fairly straightforward when commerce takes place with physical goods like loaves of bread and bolts of fabric, or services like shoeing horses. In the digital world, the term “marketplace” is often overused and even misused to describe any number of platforms, websites and providers.

These Are Traditional Marketplaces

1. Farmer’s Markets
2. Food Truck Parks
3. Swap Meets
4. Flea Markets
5. Hair Salons — your stylist rents a chair and defines their own prices and services

However, marketplaces these days, even the physical ones, do not have a crystal clear set of rules to define them. Marketplaces have such a wide range of variation — from Uber to Ebay to Etsy to Amazon — there just isn’t one blanket solution. This is why MACH-based architecture’s flexibility offers the most choice.

“Marketplace” is often overused and even misused



Similar to the historic definition, an eCommerce marketplace is where sellers offer their products and/or services to buyers and pay various fees for a menu of services: PIM to Payment version or any permutation in between. What they are not is a new thing — commercetools has been providing marketplace functionality for quite some time. Just like the old shopping mall model, the marketplace provides digital real estate for sellers to promote their wares and, more often than not, the purchase process. Of course, nothing is crystal clear.

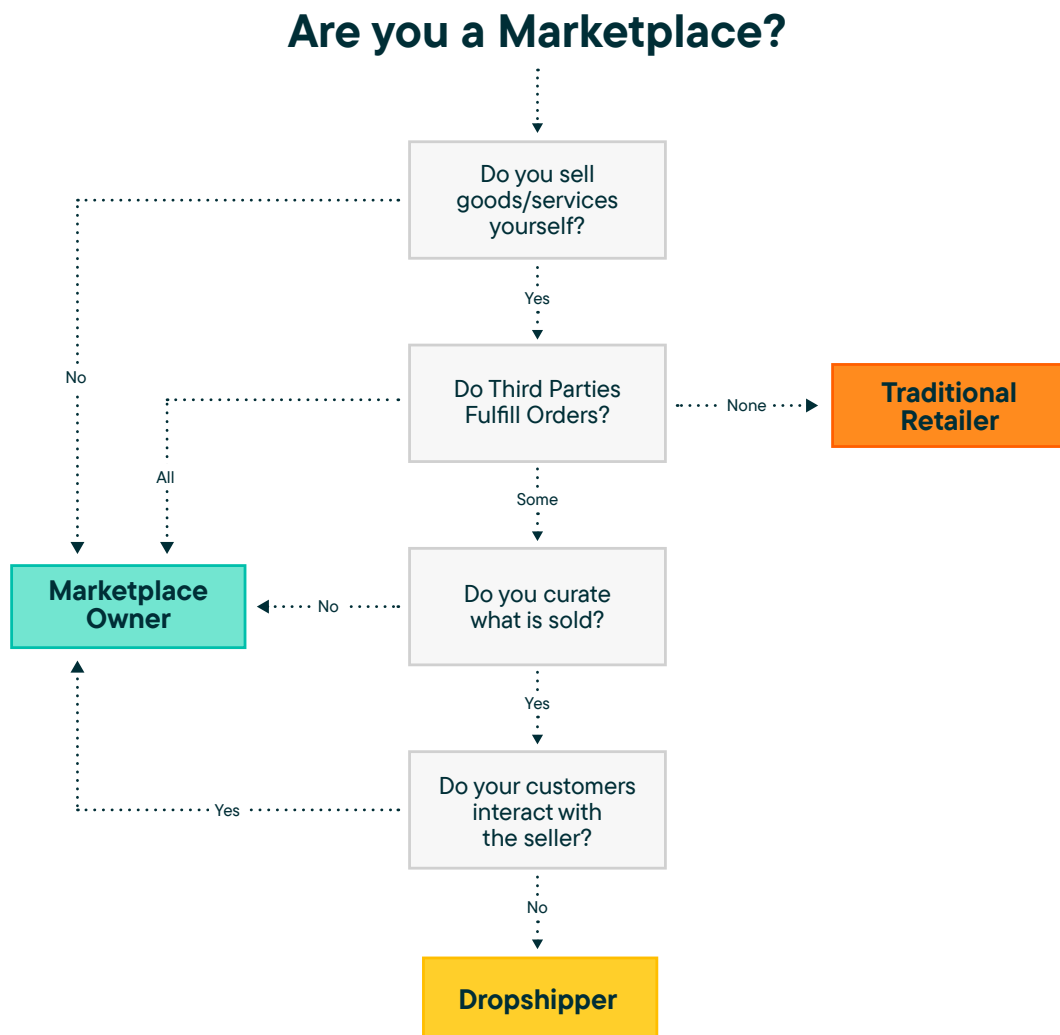
Marketplace Types and Examples:

1. Platform only: Examples are Etsy, Ebay and AliExpress (sellers and buyers).
2. Platform and store: Examples are Amazon and Walmart.

Fun Facts:

Macy's/Bloomingdale's — Both rent space to brands like Ralph Lauren and Calvin Klein while selling their own goods.
Uber, Lyft and AirBnB are marketplaces too!

Marketplaces may define parameters of their catalog offering, constraining products to a particular theme (such as homemade crafts in the case of Etsy) or maintaining a set of banned products (such as weapons and alcohol). Sellers are often free to sell what they want at a price they determine (usually within a set of rules mandated by the marketplace). Sellers can also usually position and promote to compete with other sellers, including the marketplace provider itself.



Interestingly, a marketplace’s customers are on both ends of the transaction. The sellers themselves are also considered customers of the provider. Quality sellers have the incentive of increased sales to participate in a successful marketplace; however, in order to become successful, a marketplace must attract and maintain these quality sellers. Ease of use, promotional tools and, of course, an attractive financial incentive are all competitive points for marketplaces among sellers.

Sellers are usually a third party, completely independent of the marketplace provider. That said, the mega-sized marketplace providers such as Amazon and Walmart often sell

alongside their third-party vendors (you may have noticed the "Sold and shipped by..." on product detail pages). Other marketplaces are purely platforms connecting buyers and sellers, such as AliExpress, eBay and Etsy. Which model fits your business needs?

In order to give you the right advice, we need to identify your use case. Spoiler alert: It might not be what others told you it is — we (commercetools and our SI partners) have come across this many times.

Which Are You

Marketplace owner

Do you want to own the Grand Bazaar selling space and services to the vendors? If so, you need to be very confident with the notion that you're competing with Amazon, Walmart and Alibaba. If still yes, you GO! We're rooting for you and we know how to help!

Do you have a specific niche that WON'T be competing with the big titans and want to expand? Excellent! Marketplaces with a carefully curated set of sellers can draw customers looking for unique and/or familiar products.

A seller or a variation of a seller

Do you want to add other vendors' goods to your website and sell them? Great — more good news! You can do this but you **don't need to build a marketplace!** Just implement dropshipping.

Do you want to **sell your goods on a marketplace?** Good! You don't need to build one. You are absolved from reading any further and can now enjoy a cup of coffee and a donut.

There are no hard and fast rules that apply to everyone and every use case.

Brand Recognition and Reputation MATTER

There has been a recent increase in established B2C brands launching a marketplace offering, for example, [Macy's](#). With the decline of traditional brick-and-mortar department stores, Macy's has pivoted online to a hosted marketplace. Customers shop the various departments on Macy's storefront, but many of the items are fulfilled by the manufacturers or resellers. This model allows Macy's to maintain the department store concept, but does not require the fulfillment complexities and inventory risk associated with a large product catalog.

Costco is also dipping its toes into the water with Costco Next. This foray includes a collection of brands, mostly premium, including high-end luggage from Briggs and Riley and cookware from Viking, where Costco members have exclusive pricing and access to a curated assortment of goods from these market participants. Costco is owning the entry point and applying its brand to the process while customers are then taken to a proprietary site for that brand only. They can shop for that brand's goods with special pricing so the brand may have a hand in the customer journey as well. In this case, both the brand and Costco are leveraging each other's reputations in the hopes of creating a sum that is greater than its parts.

Marketplaces use their brand recognition and reputation to draw in customers, who may otherwise not discover or trust transacting with the third-party sellers. For the most part, buyers are aware of who the seller is in a marketplace. While the marketplace provider may intervene in escalated customer support instances, the transaction and customer experience are typically between the buyer and the seller.

Why Consider a Digital Marketplace?



Uplevel B2B

The world of B2B wholesalers and distributors is facing a reckoning. Businesses that reside in the middle are at risk of getting pushed aside as several factors are converging at the same time, including new enabling technology; a D2C movement from manufacturers; supply chain challenges and more. B2B buyers wanting a streamlined, digital buying process and the trend toward demanding a better UX and CX is growing. The lines are continuing to blur between B2C and B2B when it comes to the experience. And those that adopt now are in a unique position to prosper.



Expand market presence

Provide access to new geographic and/or product markets and new customers.



Expand product offerings

With the right marketplace, a business can identify and partner with sellers creating access to, and profits, from complimentary products that your customers are already buying. This can also expand a brand's prestige by associating with in-demand brands.



Network effects

As users increase, the usefulness of the product and brand value increases while costs decrease, allowing for faster sustainable growth.



Be the platform provider

Allows businesses to earn fees for transactions without the costs and burdens of physical inventory. If one has a specialized niche that won't directly compete with the titans like Amazon (which we do not recommend), there is an opportunity to move into this space.



Efficiency

No inventory + cloud - physical plants = operational savings. Everyone wants savings and doing things more efficiently is the quickest way to get there. Owning a successful marketplace is one of the most efficient businesses around.



Scalability

No inventory + cloud = easier to scale. Scalability is the often unspoken Achilles' heel of monolithic commerce platforms. While many businesses struggle for traction, those that succeed all too often get the equivalent of a stick in the bicycle spokes of their growth when they run into a scaling wall, where all of a sudden their technology does not meet their needs and migrating from a rigid monolith is egregiously difficult and expensive. MACH eliminates these issues — if your business flywheel starts spinning, you can shift into overdrive without batting an eyelash.



Flexibility

No inventory + cloud + MACH = easier to pivot. Like scalability, flexibility is crucial for a growing business for the same reasons. Only nimble businesses that can make changes quickly to work with market forces can succeed in today's world. The tyranny of monolithic restrictions at the exact time when growth starts to take off has been the undoing of many businesses.

Marketplaces vs. Core Commerce Functionality

Core Commerce

Marketplaces use the same core commerce functionality as traditional retail and the buyer-facing features are the same so we're going to categorize these as table stakes:

- A. Browse & Discovery
- B. Cart/Shopping Bag
- C. Checkout and Payment

Marketplace

What makes marketplaces **different** is the **back office features**. First, there is **catalog management**. If done incorrectly and/or with bad data input by the seller, this can result in duplicate product listings for the same product. Unfettered seller listings can also result in erroneous or confusing product information presented to the customer. A **defined but flexible product taxonomy and category structure are necessary** to prevent a **messy catalog** (not the technical term but it should be!). A messy catalog will cause bad search results like red shoes showing up in a search for backpacks, which will create a **frustrating** and confusing shopping experience and **impact sales** — nothing causes **abandonment and ruins conversion rates** like this kind of friction.

Seller services provide your sellers with the ability to manage their business on your marketplace. Services include:

- **Onboarding** where sellers sign up to sell on your marketplace.
- **Pricing** features providing sellers the ability to set the prices* of their products (*your marketplace needs to have rules and constraints).
- **Promotions** provide sellers ways to promote and/or run promotions on their products. It is important to enable your sellers to differentiate themselves on the same or similar products.
- **Order fulfillment** which requires intelligent order routing. Instead of orders being processed at a single internal warehouse, the marketplace needs to route items to the appropriate seller for fulfillment.

Compensation management allows you and your sellers to manage and track commissions. This is necessary because the sale occurs on your marketplace and you collect the money

for the buyer, so there must be a way to track sales and how much you owe your third-party sellers. And finally, **payouts** to your sellers need to be managed and executed. Aside from tracking how much is owed, the actual payment to them must be made. Note: there may be additional complexities if the sellers are in different countries

Whether your current business model is a marketplace provider or you are considering transitioning to one, it is important to understand that the core commerce functionality of a marketplace is distinct from the back office features. The buyer-facing storefront and purchase process (core commerce) is **the same** for a marketplace as it is for traditional B2C models. **The difference** for a marketplace is the seller side components. This includes catalog management, seller self-service, order routing and sales commission tracking.

Do you need standalone marketplace functionality?



+

MACH Marketplace Partner

What to Avoid

The idea of cashing in on brand recognition and an established customer base to increase revenue by going "full marketplace" may be enticing. However, consider how closely the customer experience must be managed and how to properly vet and monitor third-party sellers to maintain brand integrity. While third-party sales are a straightforward way to increase top-line revenue, it should not be viewed as "free money." There will be additional effort and costs associated with managing sellers and supporting customers with the addition of third parties into your business.

⊗ Don't compete with the Amazons

They spent years, as well as billions of dollars and human hours to build what they have and that includes a trusted, world-renowned brand. You wouldn't dream of getting in the boxing ring with Mike Tyson would you? The same applies here.

⊗ Don't think of this as easy money

As already noted above, marketplaces have a lot of potential, but they are not easy.

⊗ Don't ignore the customer experience

Again, see above. Amazon spent billions on this and it took them a long time and a lot of mistakes to get to their incredibly easy buying experience. Good enough is NOT good enough these days; the best customer experiences always win in a competitive landscape. This is business 101.

⊗ Don't fail to curate sellers

Negative experiences diminish your brand so incorporating third parties should not be an impulsive decision. Warren Buffet said (paraphrased) it takes 20 years to build a reputation and two minutes to ruin it. The ramifications of allowing a bad actor or a brand that pollutes the integrity of your business will negatively impact a brand for years. It is important to understand the purpose and goals of the business before undertaking the effort.

⊗ Don't ignore the marketplace support functions

Ensure you have a system to manage sellers and manage third parties, plus support customers. As we mentioned above, ignore these at your own peril. Do these well and your sellers and your buyers will reward you.

⊗ Don't ignore fowl-based aphorisms

1. Don't count your chickens before they hatch. If you build it, WILL THEY COME? You need to know WHY they'll come and that needs to be a good reason or draw. These crucial areas must be a part of your plan.

2. The chicken and egg conundrum: Which comes first, the customer base or the marketplace brand? Take a hard lesson from so many failed food halls and food trucks who ignored the basic principles of their business: That the product must be good — and built businesses expecting to capitalize on the trendy social media hipness of the food hall and the food truck. They learned the hard way that the food hall is not the draw, it's the combination of the restaurants inside that draw the foot traffic. Lousy food in cool digs is still lousy food.

⊗ **Don't think that signing up for a one-size-fits-all monolith will make things easy**

Every single issue with monoliths is magnified with marketplaces because you have both buyers AND sellers along with much more to manage. Thankfully MACH can grow and scale with your business, allows you to make changes quickly and allows you to own the customer experience — all of which put you in the best position to both succeed and grow.

⊗ **Don't build a full marketplace if you don't need one**

As mentioned early on, most of what people think or are told are marketplaces are not. This is a good thing because you can already do what you need with commercetools and MACH partners and maintain full flexibility, control of the UX and get unlimited scaling for growth. It's a winning situation for all.

To summarize, **do not** try to compete with Amazon. Their technological advantage and the sheer size of their distribution capabilities ensure they can squash competitors. You can't win a race to the bottom on price. Additionally, too much selection and bad behavior of sellers can damage a brand. Amazon has come under US congressional [scrutiny](#) over counterfeit products sold by third parties on their marketplace. Creating systems to manage propriety takes time, effort and resources. It also requires constant vigilance. With bad actors always looking for ways to game a system if the incentive is there, you might end up playing a never-ending game of whack-a-mole.



Tips on How to Builds a Successful Marketplace



Curate

Missteps such as hosting sellers with poor customer service skills or introducing counterfeit products into your catalog can damage your brand for years.



Identify a Niche

B2C businesses interested in a marketplace model should instead find a differentiator. For example, creating a marketplace for niche products or interests with curated third-party sellers.



Define a Value Proposition

Since both the buyers and sellers are considered customers for the marketplace provider, it is important to provide compelling reasons for both sides to choose your solution. Aside from price, ease of use and feature differentiation are key areas for competitive advantage.



Build Trust

Create a place and systems where your customers can feel comfortable and supported. We've all seen what happens when trust is perceived to be broken — eBay, Uber, Lyft, AirBnB and more have suffered large losses from public instances which communicate that the customer isn't the highest priority. And, as mentioned above, that trust also must be fostered among sellers — they are also “customers.”

Examples of trust builders:

- Seek out and foster positive reviews. If you make a mistake, make it right. People will forgive you and even support you more if they see that you care. Anyone who's ever had an unsolicited free dessert for a late delivered entrée will usually tell you they were happy to return to that restaurant and even felt extra loyalty to them.
- Ensure verified supply with strong Product Information Management. This will preempt many issues that upset customers; there are few bigger turn offs than wasting time on an item that isn't in stock.
- Provide examples of success as social proof. Success comes in the form of happy customers and prosperous sellers. Testimonials and case studies/examples are excellent social proof.

- Foster a brand that exudes quality. Customers will feel better and more confident about doing business with you. Augment that quality by supporting your customers and standing behind your product. Even though designer brands like Ralph Lauren rent a space in Macy's, it is Macy's that handles the returns and it is Macy's that the customer thinks they are purchasing from.
- It's your store and you're in a crowded competitive market so differentiate with the optimal customer journey/UX from start to finish including post-sale support.

Strangle to Change for the Better

If you're changing from a platform, monolith or way of doing business, this technique will allow for a smooth transition that will not only not interfere with your current business model but provide ramp up time to level up your team. This is the good kind of strangle — take a lesson from [the fig tree](#).

Choose Best-in-Breed

One of the best features of MACH is the ability to create an “all-star” team with best-in-breed pieces. Our recipe for success:

1. Choose a highly performant, flexible storefront for core commerce. MACH will allow you to have complete control and optimize the user experience and compete in the competitive market.
2. If required, provide a feature rich site and nice/efficient user experience for business users on the seller side. Remember that marketplace features need to support both your internal business users (marketplace managers) and seller business users as well. Many marketplace providers use upstream systems such as ERPs to manage seller offerings. In these cases, the systems can be integrated directly with the commerce solution, so seller self-service functionality may not be needed.
3. Now choose a MACH-based backend. Select components which tackle high-priority business functions. Identify pain points and low hanging-fruit and begin composing your end state.

If product discovery is a challenge for your customers, look into search and merchandising solutions and find the one that fits your needs with the best solution! The modularity of MACH allows you to design as you go and break out features and business functions.

The BIG B2B Opportunity is NOW

B2B has generally been slower to move into the technical world. The market is shifting away from the traditional offline purchase process to more modern, digital and convenient commerce. Additionally, manufacturers themselves are transitioning to a marketplace model, incorporating other suppliers into their sales channels. Traditional B2B wholesalers and distributors are faced with the prospect of being forced out of the business transaction if they do not modernize.

The BIG opportunity for B2B!

Right now, B2B providers have the opportunity to innovate, drive and own change. Digital opportunities exist on both the buyer and seller sides. B2B manufacturers are getting into the direct-to-consumer business, potentially cutting out the distributor/wholesale level.

1. B2B buyers now only spend 17% of the total purchase journey with sales reps, according to [Gartner](#).
2. 44% of millennial B2B buyers prefer no sales rep interaction at all.

B2B companies are well-positioned to make this jump and MACH is the perfect solution. Those organizations with limited to no digital presence can leap-frog past the competition on early generations of eCommerce solutions. This is one of those rare instances where the right place, the right time and the right opportunity in the marketplace are aligning. Technology is now available that makes what was impossible mere years ago not only possible but something that can and will grow incrementally over the next 10 years.

Conclusion

Marketplaces are a diverse and potentially complex digital offering. In most instances, flexibility to model a commerce solution around complex business needs and the ability to differentiate from competitors on performance and features is key to success. All-in-one platforms that bundle commerce and marketplace features together provide a prescriptive implementation. This may sound enticing, and may even meet many of your early business needs. However, the ability to innovate and customize may be constrained and you may find yourself limited in your ability to compete right at the point where you start to grow the fastest.

A commercetools solution provides the flexibility, scalability and performance necessary to power your commerce journey. commercetools and MACH can already accomplish most marketplace use cases while providing freedom from the tyranny of monolith's rigidity, full control of the user experience and unlimited capacity for growth. B2B businesses with established back office systems can integrate directly with commercetools to stand up a curated B2B marketplace and B2C companies that want to enable third-party seller self-service can utilize MACH partners to create the back office marketplace functionality. Through customization and composable partner tools you can create the perfect solution, whether it's a "classic" marketplace, making that big B2B leap or simply adding some "marketplace" functionality to meet your needs and attain your business goals.

Appendix

Features	Retailer & Dropship	Retailer & Market Expansion	Partnership Marketplace	Marketplace Provider
Cart & Checkout	✔	✔	✔	✔
Product Catalog	✔	✔	✔	✔
Third Party Distribution & Supply Channels	✔	✔	✔	✔
Customer Profile	✔	✔	✔	✔
Seller Self-Service	✔+	N/A	✔+	✔+
Pricing	✔	✔	✔	✔
Order Routing	✔	✔	✔	✔
Commission Tracking	✔+	N/A	✔+	✔+
Seller Reporting	✔+	N/A	✔+	✔+
Shopping Lists	✔	✔	✔	✔
Promotions	✔	✔	✔	✔
Inventory	✔	✔	✔	✔
Product Taxonomy & Categorization	✔	✔	✔	✔
Stores	✔	✔	✔	✔
Reviews	✔	✔	✔	✔

N/A Not Applicable to the Use Case

✔ commercetools

✔+ commercetools Partner Ecosystem

About commercetools

The inventor of headless commerce, commercetools is an innovative technology disruptor that has established itself as an industry-leading eCommerce software provider. Today, some of the world's most iconic brands and growth-focused businesses trust commercetools' powerful, flexible, scalable solutions to support their ever-evolving digital commerce needs. As the visionaries leading the modern MACH (Microservices-based, API-first, Cloud-native and Headless) architecture movement, commercetools provides customers with the agility to innovate and iterate on the fly, merge on and off-line channels, drive higher revenue, and future-proof their eCommerce business.

Based in Munich, Germany, with offices in Europe, Asia, and the United States, commercetools is singularly focused on leading a future of limitless commerce possibilities.

More information at commercetools.com.

Contact Us

Europe - HQ

commercetools GmbH
Adams-Lehmann-Str. 44
80797 Munich, Germany
Tel. +49 (89) 99 82 996-0
info@commercetools.com

Americas

commercetools, Inc.
324 Blackwell, Suite 120
Durham, NC 27701
Tel. +1 212-220-3809
mail@commercetools.com

Munich - Berlin - Jena - Cologne - Amsterdam - Zurich - London - Valencia - Durham NC - Melbourne - Singapore - Shanghai

©2023 commercetools GmbH - All rights reserved