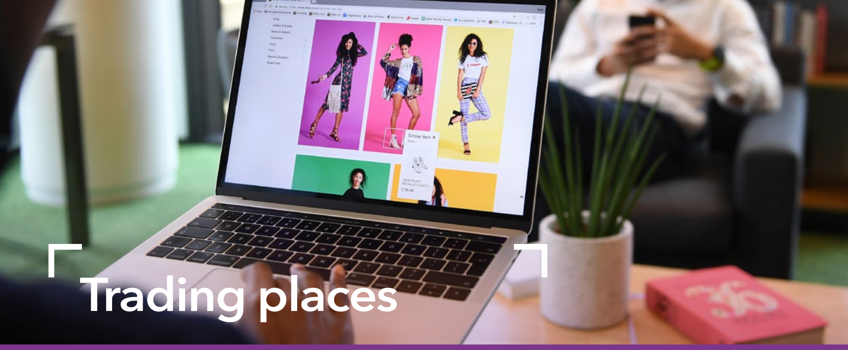


Trading places

Online marketplaces rise to dominance

The most disruptive force in consumer spending

Just fifteen years ago, the biggest threat to traditional commerce was the internet. Brands that were quick to launch transactional websites (and later apps) emerged as victors. Now, those same brands face losing out to the emerging dominance of online marketplaces – the disruptor has become the disrupted.

Retail is the most obvious example of an industry facing this disruption. But it isn't the only one affected - online marketplaces have also made their mark on sectors such as travel and leisure. Even the trades have not escaped, with plumbers, electricians and builders bidding for jobs on sites such as MyBuilder.

More categories will follow, particularly those already highly intermediated; for example, by classified advertising and Online Comparison Platforms (OCPs) in categories such as personal finance, insurance, telecoms and utilities. Auto retailers are already on guard, and others will be next.

For those who dismiss online marketplaces as bazaars for second-hand goods, here are a few stats to make you sit up:

1. **By 2025, online marketplaces will overtake first party eCommerce channels in established categories (as defined below), such as clothing, travel, and books.**

   We'll buy a jacket through Vinted, rather than a fashion brand's website, and click on ManoMano, rather than a DIY brand, to stock up for weekend projects.

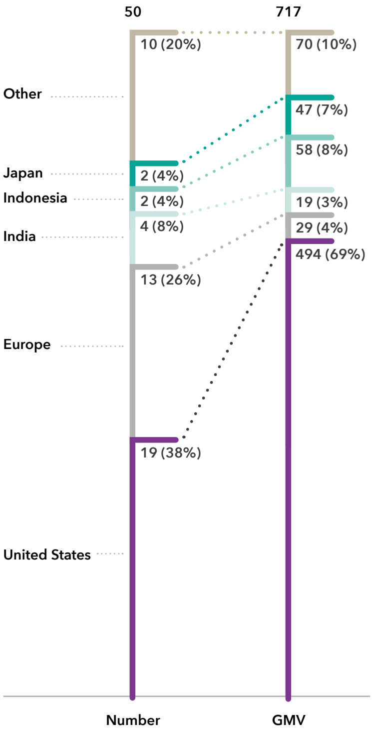
2. **Ten players account for 70% of the gross merchandise value (GMV) processed through online marketplaces in these established categories...**

   ...and they each process GMV of over 20 billion dollars. Big names, such as Amazon, Booking.com, Expedia, and Uber Eats, have become increasingly powerful and difficult to challenge.

3. **The Americans are increasingly dominant.**

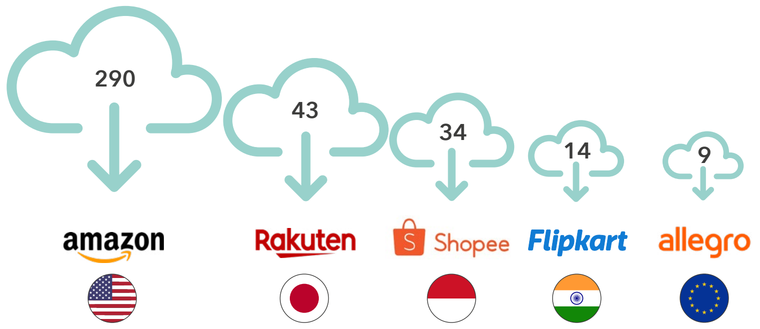
   Outside of China, 8 out of the top 10 marketplaces are American, and the remaining two are Asian. Looking to the top 50, European marketplaces are better represented (at least in number), but their scale pales in comparison to American and Asian players. These European players are under pressure to define a sustainable position in the face of the US giants.

TOP 50 MARKETPLACES (EXCL. CHINA) BY REGION, NUMBER AND 3RD PARTY (NON PLATFORM-OWNED) GMV[1], 2020
(#, $bn)



1. Gross Merchandise Value
Source: Digital Commerce 360

LARGEST MARKETPLACES BY 3P GMV BY COUNTRY/REGION, 2020
($bn)



This report looks at the unstoppable rise of a model that is set to drive the biggest upheaval in consumer spending since eCommerce.

Below we discuss:

- The online marketplace landscape.
- The categories that online marketplaces are set to dominate.
- The innovations observed in leading marketplaces.
- The biggest opportunities and threats for online marketplaces.

Definitions:

online marketplace vs direct online retailer*

* Simplified

ONLINE MARKETPLACE

1. They don't own inventory
2. The seller sets the price
3. Sellers have a contract with the buyer (not the marketplace)
4. The seller receives some (sometimes limited) buyer information

Examples:

DIRECT ONLINE RETAILER

1. Owns inventory
2. Buys from supplier and chooses price at which to sell to customer
3. Retailer has a contract with the customer
4. Retailer holds full customer data

Examples:

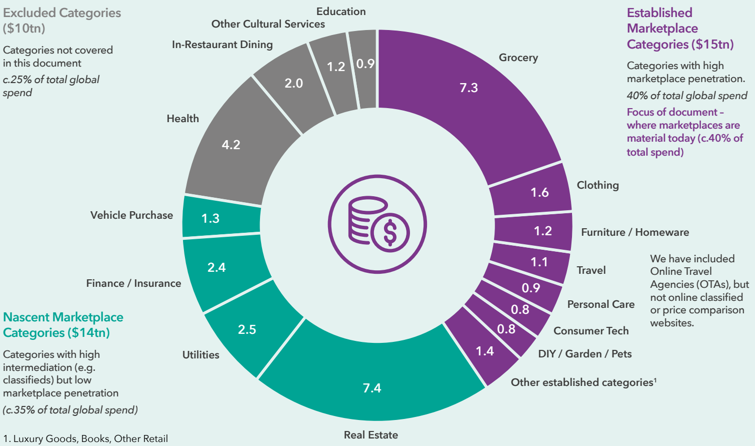
HOW WE CREATED THIS REPORT

This report focuses on product categories already highly penetrated by online marketplaces, including, retail, travel, ticketing and food delivery. We also take a look at some of the nascent marketplace categories, which are likely to constitute the next big growth areas.

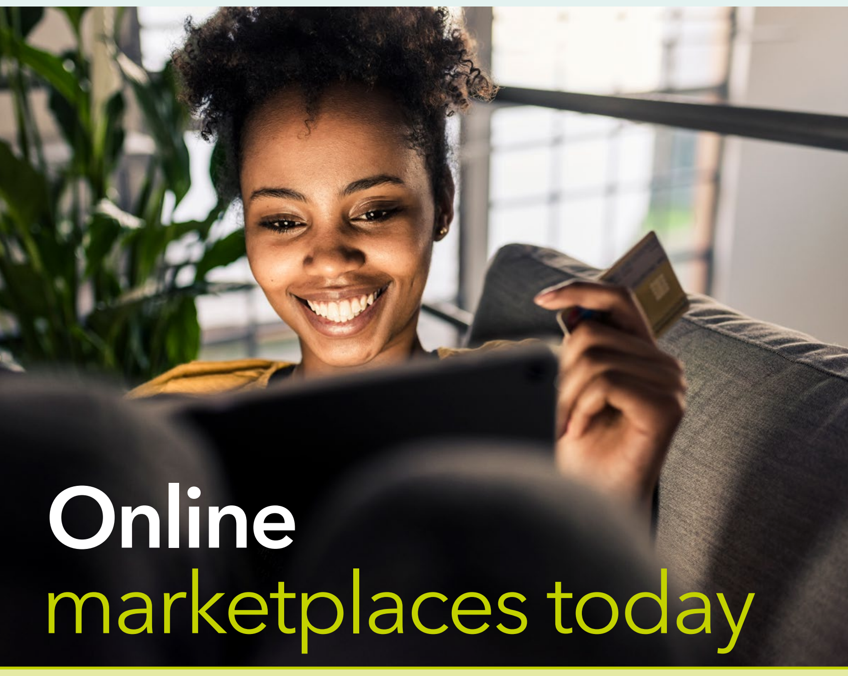
In 2020, established marketplace categories accounted for $15tn (40%) of total global consumer spend, excluding China. It must be noted that Covid made this an unusual year in which business largely dried up for travel marketplaces, but business boomed for food delivery, for example.

China is excluded from our figures given that it is an insulated market with very dominant local players (more on this later).

GLOBAL VIEW OF CONSUMER SPEND EXCLUDING CHINA
($tn 2020)



1. Luxury Goods, Books, Other Retail
Source: Euromonitor, Statista



Online marketplaces today

WHY ARE ONLINE MARKETPLACES SO POPULAR?

Those old enough will remember the thrill of circling a bargain second-hand VHS or CD player in a newspaper classified ad. In the mid-1990s, tech pioneers, such as eBay, began to bring this service online, taking care of the payment side of things at the same time. They may not have been the first online marketplaces, but, unlike their predecessors, they launched at a time when internet adoption was booming.

From relatively crude beginnings facilitating the transaction and little else, online marketplaces have evolved in all shapes and sizes, and have become increasingly sophisticated in what they offer both to customers and suppliers.

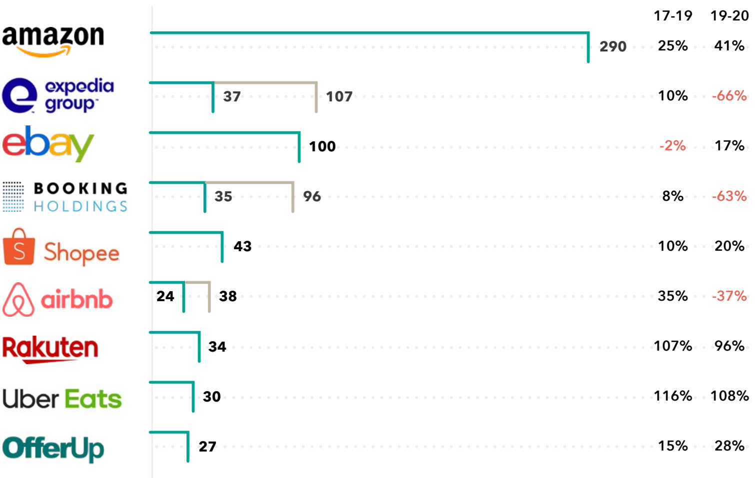
Online marketplaces today fit so seamlessly into the sphere of eCommerce that shoppers might not even be aware of using one. For consumers, they bring convenience, choice, and value.

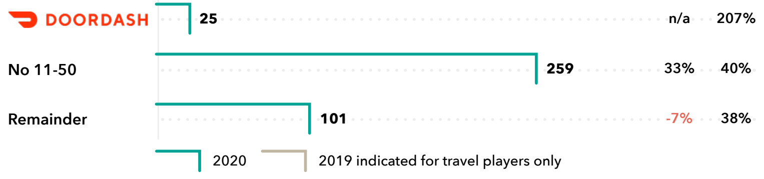
For small suppliers, they provide access to a large customer pool and a slick user interface, without the substantial investment of building their own online front-end. They also offer value-added services in many cases, such as fulfillment and payments.

A RAPIDLY EVOLVING LANDSCAPE

Over 50 marketplaces outside of China processed a gross merchandise value (GMV) of over $1bn in 2020. This is no surprise if we look at the impressive growth rate of players such as Amazon and Rakuten. Nonetheless, the extraordinary rise of marketplace giants has created a highly consolidated landscape in which the top 10 marketplaces account for c.70% of marketplace GMV globally (excluding China).

MARKETPLACES WITH $1BN+ 3P GMV[1] IN A: ESTABLISHED MARKETPLACE CATEGORIES (EXCL. CHINA)[2]
GMV, $bn, 2020





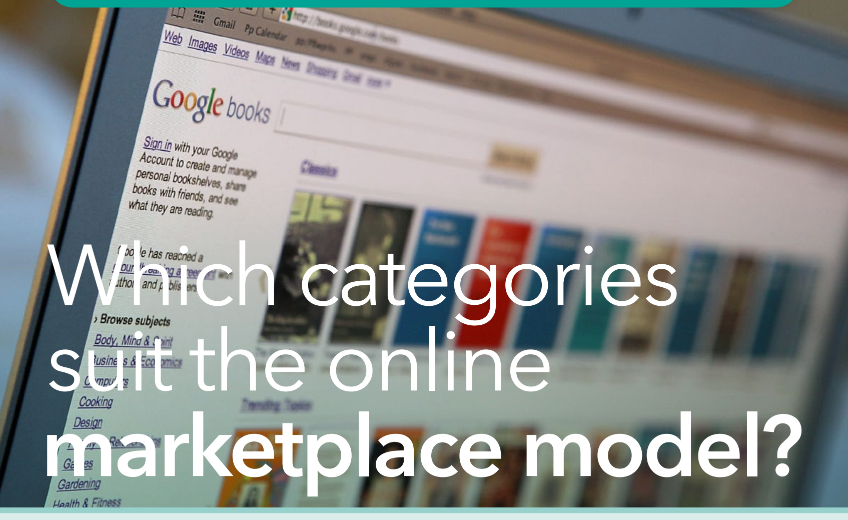
1. Gross Merchandise Value from third-party merchants, facilitated by marketplaces
2. Includes largest ecommerce. travel, food delivery and ticketing marketplaces
3. Does not include valuation for UberEats or Offerup due to lack of availability of information
Source: Digital Commerce 360, Company annual reports

Established Marketplace Categories

50+ marketplaces outside of China had **3P GMV of over $1bn** in 2020

Top 10 marketplaces (c.70% of total) grew at **17% CAGR 17-19**

In aggregate, the Top 10 grew at 17% per year between 2017 and 2019, albeit with significant variation in growth rates between them. Covid shook this up, with consumers and Airbnb, suffering; while Amazon and Uber Eats benefited from lockdown ordering. It remains to be seen to what extent consumers will continue their new online habits, if and when life returns to 'normal'.

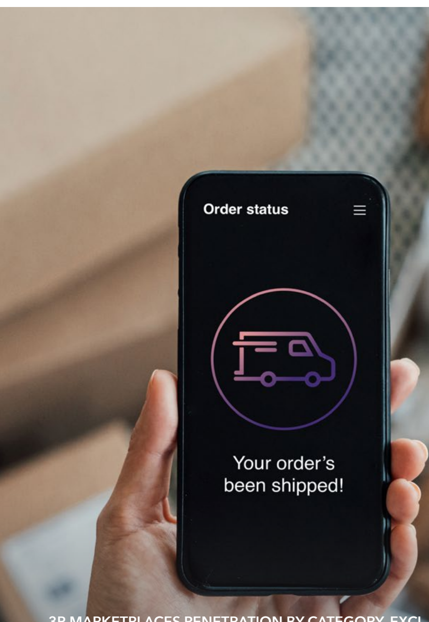


Which categories suit the online marketplace model?

The success of a marketplace is a function both of the local environment in which it operates, and the dynamics of the industry it serves - explaining why online marketplace penetration is high in some categories, but low in others within the same country.

INDUSTRY CONDITIONS FOR A SUCCESSFUL MARKETPLACE

		IN	OUT
#1	**SUPPORTIVE SUPPLY STRUCTURE** ✔ Fragmented supply ✔ Low vertical integration ✔ Low eCommerce capability	Books, art and crafts	Medicine, laptops
#2	**ATTRACTIVE PROFIT POOLS** ✔ Categories with large pool of consumer spend ✔ High product margins ✔ Large national markets	Digital media, fashion, ticketing, travel	Scuba gear
#3	**SUITABLE LOCAL ENVIRONMENT** ✔ High internet adoption ✔ Established delivery infrastructure ✔ Diverse, fragmented buyer base	US, Poland, UK	Kenya, Peru



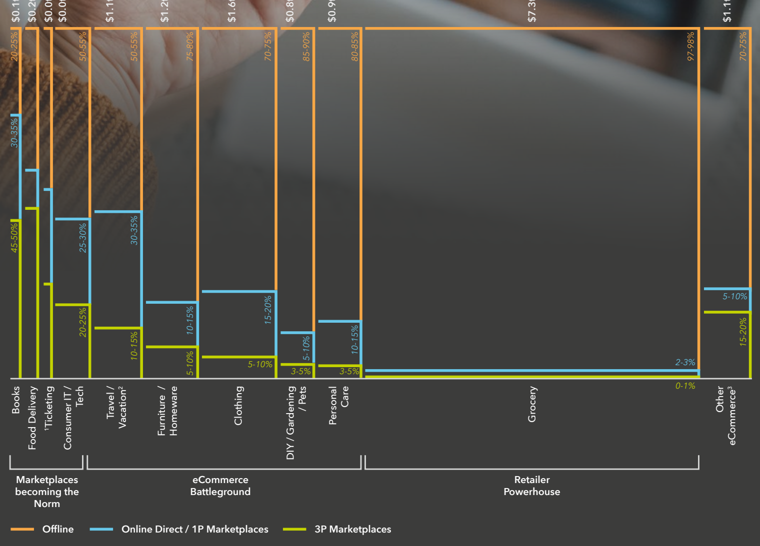
Marketplace penetration in 2020

The ideal conditions described above explain the disparity in online marketplace penetration between different categories in 2020.

Ticketing for sport and music events is a good example, with 25% of sales going through online marketplaces. This is because the category has a fragmented base of both buyers and sellers, and a low level of vertical integration.

Meanwhile, online marketplaces have comparatively lower penetration in the grocery market – though this is changing. Whilst the market is vast, margins are low, and supply is fairly consolidated in many markets.

3P MARKETPLACES PENETRATION BY CATEGORY, EXCL. CHINA (% OF GMV), 2020



1. Cinema, Sport and Music events only – tickets for museums, theaters, cabarets or comedy clubs excluded, primary ticket sales only
2. OTA share
3. Other includes categories such as novelties, toys, traditional games, souvenirs, luxury items, and other niche product categories sold through retail channels
Source: Globaldata, Euromonitor, eMarketer, Digital Commerce 360, Statista, ecommerceDB, PwC Media Outlook

How did **Covid impact** these dynamics?

Covid drove a significant increase in online penetration across most categories, as consumers were effectively forced to transact online in many cases.

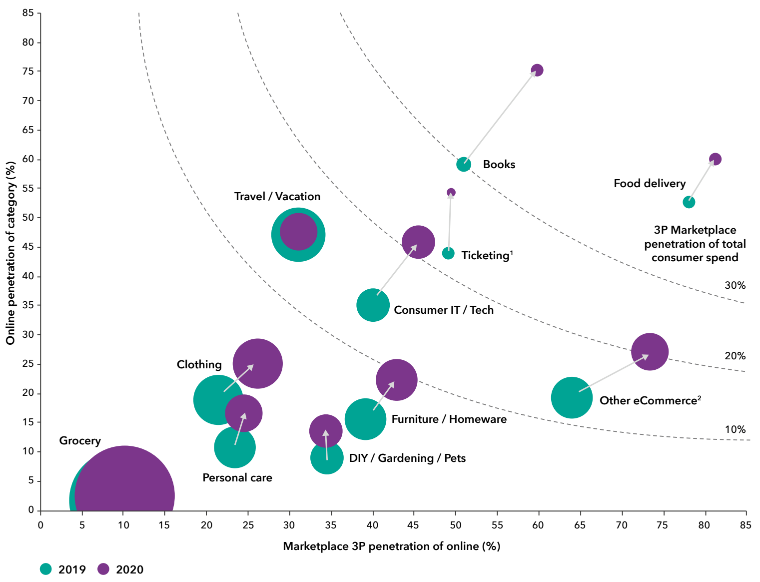
The exceptions to this are grocery, as stores remained open, and travel, where transaction volumes largely dried up.

We also saw third party marketplaces capitalize on the opportunities Covid presented and take share from direct commerce - in fact, DIY, Gardening & Pets is the only group of categories where this didn't play out.

It remains to be seen how this will play out as we move towards a 'new normal' - but across many markets where lockdown restrictions have eased, these new consumer behaviors often appear to be sticking.

MARKETPLACE PENETRATION BY CATEGORY, EXCL. CHINA (% OF GMV), 2019-20

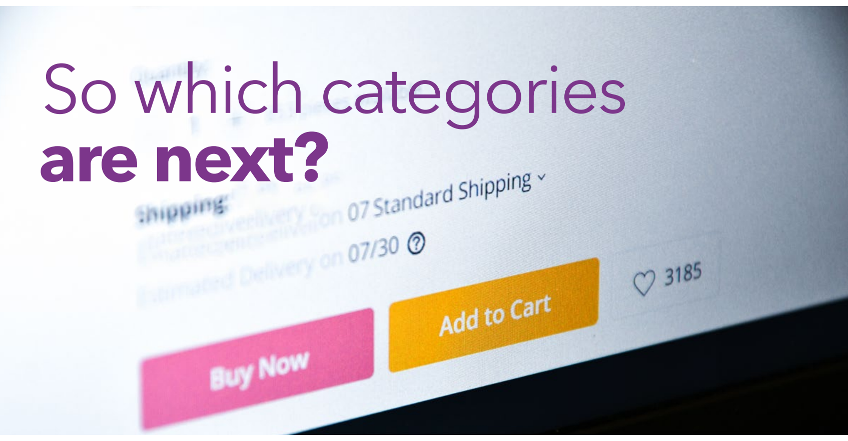
Established Marketplace Categories



Bubble Size Indicates Consumer Spend in Category (exc China)

1. Cinema, Sport and Music events only – tickets for museums, theaters, cabarets or comedy clubs excluded, primary ticket sales only
2. Other includes categories such as novelties, toys, traditional games, souvenirs, luxury items, and other niche product categories sold through retail channels
Source: Globaldata, Euromonitor, eMarketer, Digital Commerce 360, Statista, ecommerceDB, PwC Media Outlook

So which categories **are next?**



By 2025, marketplaces will overtake direct eCommerce spending in established categories and will begin to appear in new categories.

The first to benefit (or succumb!) are likely to be those in which buyers already use classified adverts or price comparison websites as part of the purchasing journey.

Our bets for the next categories to be disrupted by marketplaces are as follows:

1 Real Estate

Classified advertising platforms like Rightmove, Zillow and ImmoScout24 are often the first port of call for home buyers and real estate agents alike. The vast majority of these portals are not transactional (yet) – but moves such as the advent of iBuying models (by Zillow, for example), or Axel Springer's minority investment in the UK's Purplebricks (an online real estate agent) may signal tentative steps towards a more radical overhaul of the classified advertising model.

2 Automotive Purchasing

Vehicle transactions (particularly used vehicles) have similar dynamics to real estate transactions, with classified advertising platforms playing a critical role in connecting a highly fragmented base of buyers and sellers. As the most sophisticated platforms become increasingly full-service, transactional models may well be the logical next step, as seen in Autoscout's launch of Smile, or the transactional marketplace elements in Carnext/Constellation and Buyacar's lead generation in the UK.

3 Finance & Insurance

In some mature markets like the UK, Online Comparison Platforms (OCPs) are already a dominant distribution channel for finance and insurance products. Whilst these platforms originated as simple lead generation businesses (and still are in many markets), some European OCPs like Zmarta in Sweden have built the capability to execute the entire transaction on their own platforms – effectively becoming a 'marketplace by stealth'.

4 Utilities

Distribution dynamics are very similar to finance & insurance, with OCPs being an important distribution channel. But as these transactions are often very simple and commoditized, marketplaces may become commonplace in utilities even more quickly.

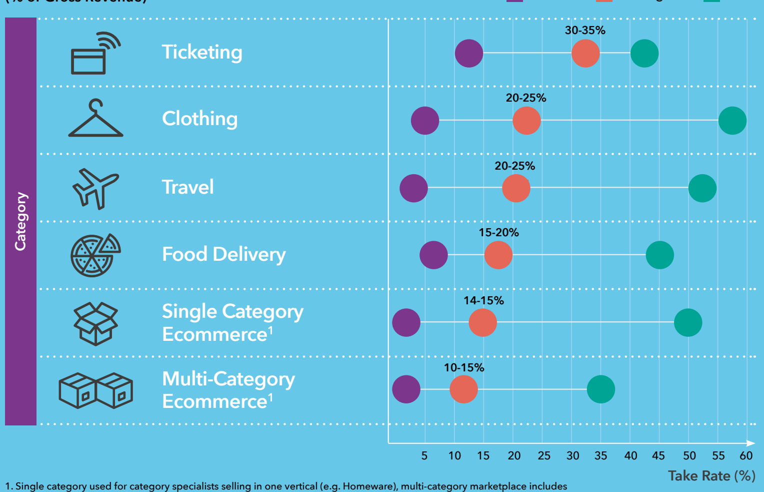
Which marketplaces command the **highest commission?**

The amount that a marketplace charges a supplier and/or buyer is known as a 'take rate', with a market average of c.14-15% of transaction value – though this can vary widely, both within and between categories.

Marketplaces can extract more value in their take rates if:

- $ They are a dominant distribution channel with limited competition.
- $ They offer value-added services, such as payment processing, fulfillment, and advertising.
- $ They can justify charging both the buyer and seller, e.g. some travel and food delivery marketplaces, ticketing and many auction platforms.
- $ Curated content gives them a premium positioning – as consumers are willing to pay more for their recommendations.
- $ Products are high margin or have limited incremental cost of sale.

AVERAGE MARKETPLACE TAKE RATES BY CATEGORY
(% of Gross Revenue)



1. Single category used for category specialists selling in one vertical (e.g. Homeware), multi-category marketplace includes mass merchants (e.g. Amazon)
Source: William Blair, Digital Commerce 360, Annual reports

CASE STUDY

US vacation rental marketplace Vacasa's comprehensive range of value-added services allow it to charge a higher take rate than competitors (an average of c.50% vs c.30% for Airbnb).

For example, Vacasa offers rental owners "24-hour local guest support, 360-degree home tours, professional writing and photography, streamlined reservation management, and thorough housekeeping after every stay."

Service that pays off...

> "24-hour local guest support, 360-degree virtual home tours, professional writing and photography, streamlined reservation management, and thorough housekeeping after every stay"

Eight ways to **innovate**

Looking across global marketplaces, we see a series of interesting innovations. Clearly the relevance of these to any specific situation or business will vary, but there are lessons to be learned for all types of marketplace.

1 Curate products and offer a great customer experience

Examples: FARFETCH, Mr & Mrs Smith

FARFETCH is the marketplace for fashion "handpicked from the world's best brands and boutiques". Shoppers are treated to highly curated ranges, such as "Icon-status bags" or "Timeless core collections". That's after they've finished browsing the site's strong editorial pages, including articles on "post lockdown dressing" and "5 ways to shop pre-owned".

2 Launch own-brand products

Examples: amazonbasics, Wag!, happy belly.

Large scale marketplaces have the data to spot which products are selling well, and where the gaps lie. Amazon has a clutch of private label brands. Some, such as Amazon Basics and Amazon Fresh, are eponymous. Others are harder to spot, including pet brand Wag and healthy eating range Happy Belly.

Marketplaces must be careful to balance this approach with the needs of their suppliers. In 2019, fashion marketplace Zalando refined its private-label assortment to "pursue a complementary strategy with its partner brands".

3 Build an offline presence

Examples: depop, amazon go, FARFETCH, The RealReal

An IRL (in real life) store can increase brand recognition and, in some cases, credibility with consumers and suppliers.

In 2017, UK fashion resale site Depop opened its first bricks and mortar location in Los Angeles, USA. It was "opened as a space for the community and creatives alike", inviting people to hang out, view exhibitions and use its photo studio. The array of activities and Instagram-friendly bright red building speaks to its Gen Z client base and promotes brand recognition.

4 Embrace AI

Examples: ZALORA, THREAD

The application of AI to customer data enables features such as product recommendation and image recognition.

Fashionistas browsing the editorial pages of Asian fashion marketplace Zalora can click on an outfit they like and the site will return products similar to those in the picture.

Fashion marketplace Thread also uses AI to recommend clothes depending on an individual's profile.

5 Launch Instant buying

Examples: iBuyer.com, Zillow, surplex

Instant buying (iBuying) occurs when a marketplace purchases under-priced items directly from the seller to sell in the future for a profit. It is a nascent category (and technically not a marketplace model as it involves taking inventory risk), but has potential, both in big-ticket items like cars and property, and small-ticket items like books.

US real estate marketplace Zillow was an example of an early-mover. Deploying capital to purchase sellers' homes and sell them on, until they recently closed down this activity given their thin margins and market uncertainty.

6 Innovate with auction-based pricing models

Examples: ebay, MyBuilder.com

eBay is the platform that most obviously comes to mind when it comes to online auctions. However, paying more than your rival isn't the only way to win an auction. Market place MyBuilder.com uses a reverse auction model, where a homeowner posts a job, e.g. a leaking tap, and plumbers will offer their best quote. The owner selects from the bidders and, all else being equal, the lowest price wins. The auction mechanic is now moving into the consumer mainstream with many recent investments into the space by investors.

7 Launch an app for second-hand products

Examples: wallapop, mercari, Vinted

The sale of second-hand goods is the classic use case for marketplaces, from classified newspaper ads to eBay. Environmentally-driven demand for "pre-loved" items has driven a surge in demand for this category and prompted the launch of app-first marketplaces, such as Spain's Wallapop, France's Mercari, and Vinted.

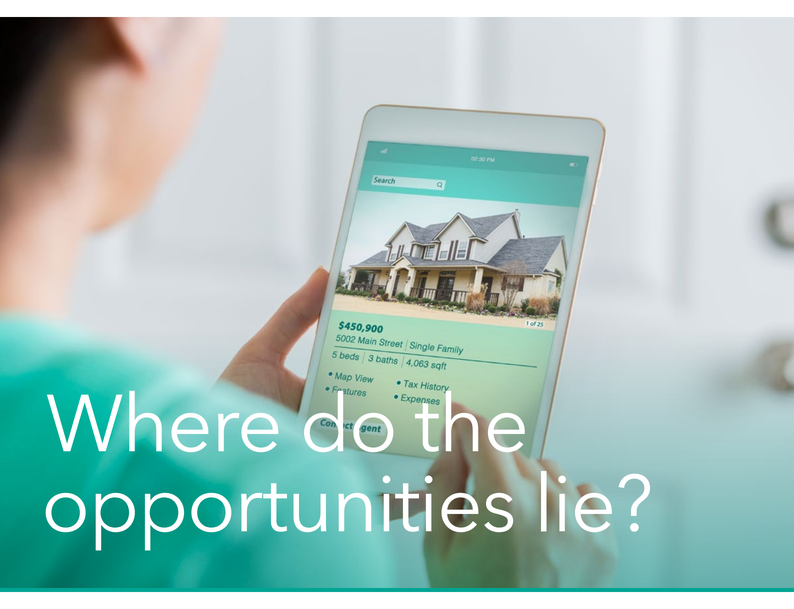
8 White-label your technology

Examples: atg AUCTION TECHNOLOGY GROUP, BCA

Licensing your marketplace technology to a third party can be a highly profitable monetization opportunity.

The UK's Auction Technology Group, for example, operates six world-leading marketplaces and offers proprietary auction platform technology for curated online auctions.

Another example is British used vehicle marketplace BCA, which facilitates auctions for automotive manufacturers.



Where do the opportunities lie?

The march of marketplaces will continue to disrupt eCommerce, creating huge opportunities for first-movers and smart incumbents. Here are some of our predictions for the future.

1 Marketplaces will catch up with retailers as the dominant online distribution channel

Marketplace growth will continue at 15% per year in the West and become as large as direct online retail in established categories by 2025 (accounting for 45-50% of online spend). This will push direct eCommerce into decline in some markets and segments.

TOTAL GLOBAL ONLINE GMV (EXCL. CHINA), 2020-25 ($BN)

Source: Globaldata, Euromonitor, eMarketer, Digital Commerce 360, Statista, ecommerceDB, PwC Media Outlook

2 B2B marketplaces gain momentum

B2B marketplaces are now starting to emerge: successful players are those building out functionalities closely-tailored to the specific needs of their verticals. Typically coming from industries built around analogue and relationship-driven interactions, marketplaces are having to work hard to build trust and good experiences for buyers and sellers alike. In TV and film, players such as Vuulr have built content-viewing platforms where broadcasters and producers can interact, negotiate contracts and transact. In complex manufactured goods, Xometry has created an AI-driven RFQ platform that gives buyers instant prices and the ability to procure without lengthy negotiations – its success highlighted by a recent IPO. Even more traditional product-based marketplaces such as eporta for interior design still require specialized functionalities such as bespoke RFQs, project and inventory management. Despite the significant untapped opportunity across a broad set of B2B verticals, it is clear that the bar for success remains high, and platforms will need to invest the time and resource to gain traction with their customer bases.

3 Comparison, lead generation and classified sites go transactional

Comparison, lead generation and classifieds sites will become transactional marketplaces and gain share of their categories (e.g. auto, real estate, utilities and finance). Examples include leboncoin in France and AutoScout in Germany.

4 The circular/ second hand economy gains share

Fueled by societal trends, the circular/ second-hand market is projected to grow strongly, fueled by online consumer marketplaces opening up geographically diverse niche buyer and seller segments.

5 Specialists will take market share

Hyper-vertical marketplaces such as Vinted (second-hand fashion), Chewy (pet food), and Selency (vintage furniture) have discovered that specialization is one way to take market share from bigger players. To combat this, mass merchants need to up their game in terms of curation and the value-added services offered by smaller specialists.

6 Winners will be able to capture more value from the ecosystem

Hyper-vertical players, those with brand or curation authority, and those with a broad range of value-added services, will be able to charge a premium take rate.

And where are the **risks?**

Despite many exciting opportunities for incumbents and insurgents, marketplaces will not have things entirely their own way. The online marketplace landscape will continue to evolve to include new entrants and external regulation. These may pose a threat to incumbents if not faced head-on.

1 Facebook Marketplace will eventually join the roster of global giants

As discussed above, ten players account for 70% of online marketplace sales in established marketplace categories. It would be no surprise if Facebook Marketplace joins them soon. Launched in 2016, its free-to-list business model relies on advertising revenues. It has already impacted listings sites such as Craigslist and Gumtree, and marketplaces will be next in its sights, particularly if (or indeed when) it evolves from a classified advertising to a transactional marketplace model outside the USA and UK.

2 Retailers will fight back

Smart retailers have adopted a hybrid direct/marketplace model to fight back.

Forward-thinking UK fashion retailer Next launched online aggregation business LABEL in 2015, which now sells over 1,300 third party brands. The move paid off: in the year to January 2021, LABEL accounted for over a quarter of Next's UK online sales.

3 Regulators will crack down

The march of marketplaces hasn't escaped the attention of governments. Several have already introduced regulations relating to tax, safety, competition, and how goods are ranked. Below are some examples:

Tax: From July 2021, EU marketplaces were deemed the supplier in cross-border transactions, so liable for VAT processing. Variations of this apply in Australia, the UK, and 38 US states.

Safety: In Australia, marketplaces must ensure that they are hosting safe products, and there is a call for similar rules in the UK.

Competition: The Epic Games vs Apple case, in which Epic sued Apple over alleged antitrust violations with regards to its 30% take rate on in-app transactions, highlighted the weaknesses in US antitrust law as applied to modern marketplaces. Regardless of the eventual outcome, it may well act as a trigger for lawmakers around the world to re-evaluate their approach to regulating such platforms.

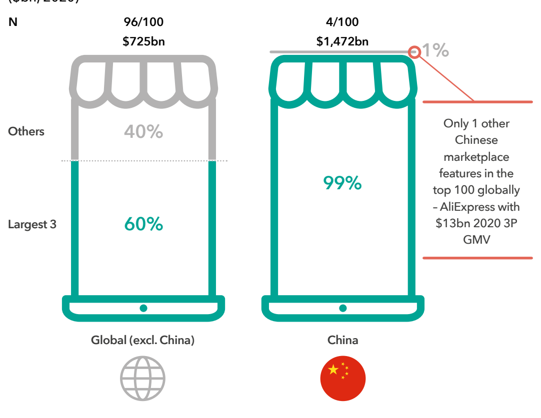
Transparency: In the EU, all marketplaces must disclose the parameters used to rank goods, as well as any advantage they give to their own products.

淘宝网 Taobao.com | 天猫 TMALL.COM | JD.COM

4 Chinese giants will step into the West

China is home to three of the four largest marketplaces in the world, Taobao and Tmall (owned by Alibaba), and JD.com. These platforms dwarf almost all other marketplaces worldwide, given the vast base of buyers and sellers in China. Both Alibaba and JD have their sights firmly set on international expansion. The dominance of these three platforms means that the Chinese market is highly insulated and consolidated compared to Western markets, with almost no room for other players.

REVENUE CONCENTRATION FOR MARKETPLACES IN THE TOP 100 GLOBAL MARKETPLACES BY 3P GMV
($bn, 2020)



Alibaba launched Aliexpress.com in 2010, enabling Chinese retailers to sell products to international consumers. Now, over 50% of traffic to Aliexpress.com is from Europe and North America.[1] Alibaba also owns South East Asian marketplace Lazada (11th largest in the world) and has a majority stake in Turkish marketplace Trendyol (20th largest in the world).

Whilst not a marketplace today per se, TikTok is another example of a Chinese consumer internet business looking to build an eCommerce platform. It launched a partnership with Shopify in October 2020, making it easier for merchants to access TikTok's 1 billion strong user base. It has moved into live-streamed eCommerce.

It's not just scale that should have Western marketplaces worried. These Chinese sites offer an almost comprehensive set of value-added services aiming to help sellers – predominantly SMEs – maximize transaction volumes. These include advertising, logistics, payments, and customer support services. By contrast, only 23 of the top 100 marketplaces globally offer fulfillment services, and only 19 offer payment services.[2]

1. Source: Similarweb, April-June 2021. North America includes USA, Canada and Mexico
2. Source: eCommerce DB

> The Chinese sites offer an almost comprehensive set of value-added services aiming to help sellers – **predominantly SMEs** – maximise transaction volumes

What do I do about it?

Disruption is always daunting – but for those who are on the front foot, there can be big rewards.

Here's what we think you should be doing...

...if you are a marketplace

Innovate to win
The world's leading marketplaces are innovating in 8 critical ways as outlined in this report. Understand their strategies and innovations, and determine which of these could work in your market.

Broaden the service wrap
Make life as easy as possible for your suppliers and buyers, through services such as fulfillment, payments, advertising and many more – and increase your take rate in the process.

Build a moat
We anticipate competitive and regulatory threats in four main areas. Identify which of these are most likely to hurt you, and build defensive strategies to mitigate against their impact.

...if you are a retailer or travel agent

Join the club
Build your own 3P marketplace to complement your existing portfolio – taking care not to cannibalize.

Offer something marketplaces can't
Such as omnichannel experiences with your bricks-and-mortar estate, or loyalty incentives.

Know your customer
Invest in the best CRM and personalize the experience, with tailored content and recommendations.

...if you are a brand

Flex your muscles
Establish genuine strategic partnerships with key marketplaces, re-negotiating key terms around pricing, marketing support and volume incentives to maximize revenue on both sides.

Set yourself apart
Stand out from the myriad of brands through top-notch service, high-quality listings, tailored pricing, and promotions.

Go direct
Ride the D2C wave selling directly to consumers or through a marketplace.

...if you are an investor

With the ever growing proliferation of marketplaces in differing shapes and sizes, it can be difficult to sort the wheat from the chaff. We think the winners are going to be those that...

- $ **Know their niche and serve it well:** those trying to be all things to all people are likely to fail
- $ **Serve customers and suppliers well:** creating a seamless experience on both sides
- $ **Push the boat out:** continuing to innovate and evolve the model, and building defensive strategies against looming threats

If you would like to discuss any of the themes covered in this report, we'd be delighted to talk.

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