

SELL MORE, SCALE FASTER, AND CREATE A
**WORLD-CLASS DIGITAL
CUSTOMER EXPERIENCE**

THE **ONLINE**
MARKETPLACE
ADVANTAGE



PHILIPPE CORROT
ADRIEN NUSSENBAUM

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“What’s dangerous is not to evolve.”

—Jeff Bezos

This book is dedicated to our customers, who every day summon the courage to challenge the status quo and transform their businesses.

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Introduction: The Marketplace Imperative

CANADA'S HUDSON'S BAY boasts the deepest roots of any retailer in the Western Hemisphere. Its origins stretch back to 1670 with the fur trade. Two centuries later, the company opened its first store in Winnipeg, Manitoba. Over the following decades, it grew to become an iconic retailer in Canada. Its stores delivered unmatched variety to shoppers in major cities from Vancouver to Montreal. For millions of Canadians, Hudson's Bay delivered the world.

Yet by the spring of 2020, executives at Hudson's Bay saw the rise of a grave challenge. It had to do with the behavior and expectations of their customers. Over the previous decade, customers' shopping horizons had exploded. No matter where they happened to be, they could search online for practically anything they wanted, order it, and have it delivered to their door within days. No single retailer could possibly satisfy such boundless needs and appetites. To survive in this demanding

retail environment, Hudson's Bay needed to find a way, once again, to deliver the world.

For this, the company needed to grow its eCommerce offer, and it needed a marketplace to do it. This meant adopting a bold new business model. Instead of primarily selling only its own goods, the company would create an online marketplace featuring a constellation of trusted, high-quality third-party sellers, including its own competitors. The objective was to add hundreds of thousands of products to its offering, giving customers the selection and service they now demanded. Hudson's Bay, now far more than a department store, was becoming a platform.

Around the world, companies of all varieties, and across industries, now face the same challenges as Hudson's Bay every day. Their customers expect to summon whatever they need or desire at the press of a button. Whether shopping for lawn furniture or operating an industrial supply chain, they have grown used to the anything-anytime-anywhere efficiencies of digital giants that have leveraged the platform business model to create incredible scale, like Amazon and Uber. At this point, customers will settle for nothing less. This shift is driving companies, from niche retailers to giant auto manufacturers, to reach for marketplaces. The result is a sea-change in how we buy, sell, and deliver goods. In many cases, it upends age-old patterns of commerce, redefining competition.

The rise of new marketplaces is easy enough to see. In the first two decades of this century, digital giants introduced us to the concept as they launched new cloud-based consumer-centric business models. They gained tremendous efficiency, and also

benefited from network effects. As more buyers gathered on marketplaces, competition drove down prices. This attracted more shoppers, who, in turn, drew more sellers. This led to the virtuous cycle of growth we now know as the flywheel effect. It delivers a potent combination of speed and scale that traditional commerce cannot match.

Here's the good news. Those giants do not own the marketplace model. All kinds of enterprises, large and small, consumer- and business-facing, can run marketplaces. And in this book, we pull back the curtain, showing you what it takes to join this powerful new wave of commerce.

Marketplaces derive their power not only from the increased selection and the flywheel effect. They also benefit from data, delivering learnings minute by minute, helping to serve up exactly what customers want or need at the right time. We've all seen how this combination of growth, scale, and customer service has driven the growth of marketplace titans into the stratosphere while pulverizing the margins of old-line competitors. But now, thankfully, everyone can benefit from the same advantages. The migration to this marketplace model is becoming a stampede. The result is today's platform revolution.

The business basics of a marketplace are simple. The marketplace operator invites hundreds, or even thousands, of brand-aligned, high-quality, and pre-vetted sellers to offer their products or services on the platform. The marketplace collects a fee for everything that is sold on it, while ensuring that they remain the go-to source for their customers – even if they don't stock the products in their own warehouse. With the data pouring in from these transactions, marketplace operators

get to know their customers better, anticipating with greater precision what they want or need.

But, in fact, the impact spreads throughout the entire value chain. With this platform revolution, the end seller is no longer the only one with a relationship with buyers. On marketplaces, brands, distributors, manufacturers and even individual service providers can all build connections with the end customer.

While boosting competitiveness, these new platforms also deliver growth that dramatically outstrips traditional eCommerce. In the first year of the COVID-19 pandemic, for example, eCommerce expanded by 40%. That wasn't so surprising for homebound markets. But that growth, while impressive, was nothing compared to the 81% surge in marketplace sales. Marketplace businesses were able to use their seller base to source more products, faster, positioning them to meet buyers' needs with greater speed and agility than the standard eCommerce model could provide. Over the course of that single year, online marketplaces expanded their network of sellers by an average of 46%, driving up the products available by 32%.

The more marketplaces grow, the more consumers count on the endless choices and rapid fulfillment they offer. They're not patient anymore. If a consumer is looking for something that is out of stock on her preferred site, she may be able to find the item on a different site within seconds. A foothold in the marketplace economy provides a faster path to customer satisfaction. That's what business growth boils down to, now more than ever.

Still, launching a marketplace represents a momentous step, one that can feel alien, even scary. It means rethinking business models that made good sense for so long. Often, it involves hiring new teams, changing existing people's jobs, and adopting completely different metrics for success. At the same time, it creates brand-new streams of revenue – sometimes even from businesses once considered competitors. For all of the challenges involved – which we detail, with solutions, in the coming chapters – the marketplace model is the clearest path to survival and growth for many.

At the same time, a new marketplace raises both questions and possibilities that would have seemed ludicrous a generation ago. Take a retail company that sells sports equipment. Its traditional path to growth has been to open new stores where it can offer more choice or larger equipment. Another option has been to spread geographically by constructing new offices and distribution centers. These have been the standard options for centuries.

Through all that time, business has operated along a traditional pipeline: buy a range of items and make money by adding value, and selling them at a higher price. This model dates to the dawn of commerce. Looking at it today, it's painfully slow. It might take months to source an item, stock it, and put it in a catalog or on a shelf.

Many assumed that digital networks would revolutionize this pipeline. Yet for the first two decades of eCommerce, the age-old value-added chain remained in place. For most merchants, an online store was merely a new outlet. The only difference was that communications were digital and customers could be

anywhere. It wasn't until the advent of online marketplaces that the full power of digital networks began to turn commerce upside down.

Indeed, when that sports retailer opens a marketplace, it steps into a different universe altogether, facing a near-endless range of possibilities. Many of the old constraints, such as inventory and square footage, vanish. More importantly, it doesn't have to buy, store, or ship what it sells. Other vendors can do that.

Embracing a marketplace frees up a company to shift its focus from managing the pipeline to delighting the customer. Instead of asking what it can afford to stock and sell, it starts by asking what customers might conceivably want or need. In the case of our hypothetical sporting goods retailer, a customer wish list might include items that could never fit in the stores, like climbing walls or canoes. On the marketplace, however, customers might find such things with a few keystrokes in a search bar.

But the opportunities are not limited to merchandise. Perhaps customers need maintenance for their treadmills or rowing machines, or training for mountain bikes or snowboards. A marketplace can easily branch into providing such services. Maybe customers are interested in experiences, like ski vacations in Utah. With a marketplace, a retail company can widen its focus dramatically, and become something entirely new, delivering a complete experience. The possibilities for new service offerings are even greater for distributors and manufacturers. Their customers often need help assembling the products they buy or getting the most out of them.

Traditional companies, of course, can make dramatic shifts. But they're usually hard, expensive, and risky. Entering into services, for example, starts by carrying out research. A company might circulate surveys or run expensive focus groups. Consultants no doubt will have their role. The result, including budget, growth, and profit projections, may be detailed in a hefty report, one presented to the board and summarized in a slickly produced PowerPoint. If the project is a go, the company must hire or retrain staff, perhaps opening a corner of its stores to host it. It's a big bet, in both time and money. And if it flops, people might get fired.

In a marketplace, by contrast, a third-party vendor can offer the service, and customers' feedback is immediate. If they're interested, they click. If demand picks up, the most popular services bump up to more prominent places on the site, or get promoted to the customers most likely to want them.

The combination of quick feedback and endless variety gives merchants the power to turn on a dime. In a sense, each marketplace is a laboratory. This flexibility was vital throughout the pandemic. During the first shutdowns, the online children's clothing boutique Maisonette quickly saw that demand for Easter dresses would plummet. Families wouldn't be dressing up for church or holding Easter-egg hunts. With its marketplace, however, the company could quickly pivot to product lines suited to the lock-down market – in this case, games and toys. The company didn't have to rush orders for them. Their seller network already had these products in stock. For Maisonette, it was simply a matter of making sure the products were available on its website.

This marketplace upheaval should come as no great surprise. Disruptive efficiency is the nature of the digital world. It's been spreading for 30 years now, taking over and reshaping vast sectors of the economy, from media and sports to hospitality and logistics, while leading entire industries into minute-by-minute analytics. In each case, efficiency grows. Prices fall. And the digital transformation deepens and accelerates.

For an entire generation, companies like Amazon and Alibaba have been providing the world with master classes in the power of online marketplaces. They've demonstrated the model's stunning range and efficiency. In so doing, they have mapped out the future for the rest of us.

And they're not slowing down. *Au contraire*. Jill Ashley Brandt should know. She was part of the leadership team for Amazon's business-to-business marketplace before moving into alternative energy in 2021 as global vice president at wind energy leader Vestas and CEO of its B2B marketplace Covento. "I'm from that machine," she says. "And if you think you can dig in your heels and that Amazon is not going to come, I think you're mistaken." The real opportunity, according to Brandt, is for enterprises to borrow from the Amazon playbook while building on the deep relationships that they have cultivated over decades or even centuries to create the ideal experience that their customers want and Amazon can't replicate.

For enterprises that want not just to survive, but to grow and thrive in the coming decades, the way ahead is clear. But now everyone has the chance to harness the selection and efficiency and data of a marketplace. In many industries, stepping into online marketplaces as an operator, a seller, or both, is the only way to stay in the game. It's table stakes.

Look back, and you'll see plenty of parallels to this change. Only a little more than a century ago, for example, a handful of big manufacturers leapt ahead of their competitors by harnessing the power of electricity. Those running their operations with steam or water mills couldn't compete. They had to either electrify or, if they chose to stay in business, seek refuge in ever smaller cottage industries.

The new online marketplaces represent a similar leap. In truth, for enterprises that join this revolution by running marketplaces or selling on them, it's more than a leap. It's a journey. And it leads to transformation.

That's what this book is about. Consider it a guided tour of the marketplace economy. It details the steps each company must take, describes the challenges they'll face, and highlights the successes within their reach.

We know all about it because we've helped to shape the very transformation we're writing about. In the early years of this century, we were hunting for a new and efficient way to serve the vast market for video games. Our goal was to deliver the broadest possible selection to customers while, of course, generating a profit. We eventually settled on the marketplace model that was working so well for Amazon and Alibaba. We launched a new online retail venture, bootstrapped it, and learned loads in the process.

Around that time, we got a call from France's landmark retail chain Fnac. For generations, its large stores have long been veritable temples for books, music, and photography. But in the first decade of this century, Fnac found itself facing an all-too-familiar squeeze from digital behemoths. It was similar to the challenges facing Hudson's Bay and other retailers.

But the case for Fnac was even more dire because so much of what they sold – words, sounds and images – were coursing through digital networks.

The company's leaders saw they needed a marketplace. The easiest way to get one was to buy our company and our expertise, and have us build one in-house. The result was a vibrant marketplace, which provided Fnac with a foothold in the fast-evolving digital market. It's a story we'll delve into in Chapter 1.

We emerged from that experience with a crystal-clear vision. Companies around the world were all facing the same challenges, and in dire need of the same solution. We would help them build their own marketplaces. With our help, our customers could remake their businesses and thrive in the era of digital commerce.

We launched our marketplace technology company, Mirakl, in early 2012, and later that year quit our jobs at Fnac to plunge into it full-time. Since then, we have grown dramatically, partnering with Macy's, Decathlon, Best Buy Canada, Airbus Helicopters, Toyota Material Handling, and hundreds of others to build and scale marketplaces. Some of them, like Fnac and Hudson's Bay, are bringing the marketplace model in to transform their existing traditional businesses. Others launch their marketplaces from the get-go. Whether new or old, we get them running and guide them into the marketplace economy.

This book focuses on this new paradigm, and the steps ahead for those who seek their place in it. Through the stories of our customers, and what they've learned along the way, we'll

lay out the course ahead for businesses large and small. Those who read this book will no doubt reach different conclusions. Some may rush to launch a marketplace, while others participate as a seller. A few may decide to do both, or even stay put. But whatever the conclusion, everyone should be awake to the spreading marketplace model, and have a strategy to support it.

The Organization of This Book

The story we tell follows our customers as they shift their businesses, sometimes radically, toward marketplaces and then launch and scale them. Each one, in essence, is a startup. It may bring along millions of legacy customers or an iconic brand. But a marketplace is a new business, with new metrics and revenue streams. It is by nature disruptive.

Our First Step

We start, in Chapter 1, with our first adventure with a marketplace. We detail what we learned as we pieced together the platform and how that led us to not just build a marketplace, but to go into the marketplace business. It took us to hundreds of customers, from niche retailers to manufacturers running vast international supply chains. Their experiences, and what we've drawn from them, inform the following sections of the book.

Making the Marketplace Decision

The initial stage for everyone, no matter what industry, is to analyze the trends and markets, and figure out how to respond. This is the decision phase, which we focus on in

Chapters 2 and 3. We look at how different companies, starting with retailers and moving on a chapter later to distributors and manufacturers, molded their strategy around new marketplaces. Some, like Best Buy Canada, have stores as the foundation of their business. As they begin considering a marketplace strategy, the entire organization is deeply invested in the traditional business. How will their jobs change with the move into the marketplace? How should management prepare all of the different stakeholders – customers, employees, contractors, and investors – for the new dynamics of the business, with its different metrics and revenue streams?

The opportunities are tantalizing. Their physical stores can become assets for the marketplace, and vice versa: the marketplace can drive traffic into stores because they're an ideal spot for returning items. This is the challenge – and the opportunity – of multichannel marketing. It offers possibilities that digital natives, for all their strengths, struggle to match.

In the same chapter, we also look at companies innovating with new business models on a marketplace. NBCUniversal, for example, envisioned a marketplace that would marry the company's vast trove of entertainment to eCommerce. Could a reality show lead viewers into a marketplace of curated offerings from a select group of sellers? "We believe shopping is entertainment," said Evan Moore, senior vice president, Commerce Partnerships at NBCUniversal Advertising & Partnerships. And enabled by a marketplace, a media conglomerate can launch a new business in retail.

In Chapter 3, we get to know manufacturing and distribution customers as they grapple with their decisions. For some, mapping out their place in the fast-growing ecosystem of B2B