Multi-Vendor Marketplaces: The Evolution of Retail Commerce

A white paper discussing how online marketplaces present a growth opportunity for retailers by leveraging the network effects of multi-sided commerce to power the growth of digital retail.

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Introduction

With online marketplaces growing by a staggering 58% in 2022 alone (Digital Commerce 360, 2023), the retail industry stands at the brink of a transformative evolution. The advent of multi-vendor commerce presents an unprecedented opportunity for retailers, enabling category expansion, enhanced customer data collection, supply chain resilience, and increased customer satisfaction as primary drivers for increased sales. While early retail marketplaces such as Amazon and Walmart remain dominant forces, there remain numerous ways in which the multi-vendor commerce model can benefit retailers, mostly due to the network effects of the model.
The Virtuous Cycle Network Effects of a Retail Marketplace

Multi-vendor marketplaces represent the next phase in the evolution of ecommerce, much as ecommerce evolved from traditional in-store sales. If ecommerce represents a one-to-many relationship comprised of between the retailer and customers, online marketplaces embody a multi-sided, interconnected retail ecosystem comprised of retailers, customers, and third-party sellers. This ecosystem scales organically via network effects, while traditional ecommerce follows a more linear growth model.

Network effects refer to the concept that the value of a service increases for both new and existing users as more people use it. This concept is particularly applicable to online marketplaces, which are multi-sided platforms where the service involves facilitating interactions between different user groups (such as buyers and sellers).

Traditional ecommerce platforms operate on a one-to-many model where a single retailer sells products or services to many customers. The growth of these platforms typically involves scaling up inventory and customer base linearly.

Conversely, online marketplaces function on a many-to-many model where many sellers offer products or services to many buyers. This model enables network effects to take hold in a way that isn't possible with traditional ecommerce. As more sellers join the marketplace, the variety and competition increase, which can attract more buyers. As more buyers use the marketplace, the potential customer base for sellers expands, making the marketplace more attractive for current and potential sellers.
The result is a virtuous cycle of growth (Figure 1) where an increase in sellers attracts more buyers, which in turn attracts more sellers, and so on. This exponential growth driven by network effects is what allows online marketplaces to scale more rapidly and efficiently than traditional ecommerce models.

Furthermore, these network effects create barriers to entry for potential competitors and can lead to a 'winner takes all' market situation. Once a marketplace has a critical mass of buyers and sellers, it can be challenging for a new entrant to lure users away because the existing marketplace already provides significant value to its users.

The online marketplace model leverages network effects to drive growth and create a robust platform that is attractive to both buyers and sellers, providing a competitive advantage over traditional ecommerce models. These network growth effects have taken root, from top retail giants to more niche applications, resulting in many innovation leaders succeeding with this marketplace model.
Case Studies in Marketplace Success

Success stories in the retail marketplace arena range from large dominant players, to niche marketplaces focusing on experiences, to circular platforms focusing on sustainability and responsible commerce. Let’s take a look at some examples:

Amazon

Amazon is often seen as the blueprint for online marketplaces' success. The company started as an online bookstore but rapidly expanded its categories, enabling third-party sellers to list their products on the site. Today, more than half of the products sold on Amazon come from these third-party vendors. This broad product offering, coupled with Amazon's robust logistics and customer service, has attracted a vast customer base, making Amazon one of the most valuable companies globally.

Walmart

Walmart, the multinational retail corporation, has also found significant success with its online marketplace. By inviting third-party sellers to list their products on Walmart.com, the company has been able to significantly expand its online offering beyond what it carries in its physical stores. This has enabled Walmart to compete more directly with Amazon and other ecommerce giants, broadening its customer base and increasing online sales.

Target

Similar to Walmart, Target has embraced the online marketplace model with its Target+ initiative. Rather than allowing any third-party seller to join, Target handpicks the brands and products added to its marketplace. This selective approach maintains the retailer's curated product mix, ensuring the marketplace aligns with its wider brand identity.
Case Studies in Marketplace Success

**Thoughtfull**

Thoughtfull.co by Indigo is a unique, experiential marketplace launched by Indigo, Canada’s largest book, gift and specialty toy retailer. Unlike traditional online marketplaces, Thoughtfull.co focuses on offering curated gift experiences, rather than a vast array of different products. This marketplace’s success lies in its ability to provide unique, tailored experiences, appealing to customers seeking more than just tangible products.

**POSHMARK**

Poshmark provides an excellent example of a successful circular economy marketplace. It allows users to buy and sell second-hand clothing, accessories, and home decor, promoting more sustainable consumption habits. Its success has been driven by a combination of factors, including a focus on community building, mobile-first design, and a seamless selling process. As of today, Poshmark has millions of sellers, demonstrating the potential for marketplaces built around the principles of the circular economy.

Each of these examples demonstrates different ways in which the online marketplace model can be leveraged for success. Whether it's the massive scale of Amazon and Walmart, the curated approach of Target, the experiential focus of Thoughtfull.co, or the circular model of Poshmark, each has found ways to maximize the marketplace advantage to attract and engage a strong base of both sellers and customers.
Multi-Vendor Model Advantages for Retailers

The motivation for retailers to establish an online marketplace extends beyond pure profitability. It encompasses expanded customer reach, operational efficiency, rich customer insights, supply chain resilience, increased customer satisfaction, and a competitive edge in an increasingly digitized economy. Let’s take a look at some top motivations for launching a retail marketplace:

**Expanded Customer Reach:** An online marketplace allows retailers to reach a broader audience, both nationally and internationally, beyond the limitations of a physical store.

**Increased Sales:** With a wider audience, retailers can significantly increase their sales volume. Plus, the convenience of online shopping can also boost impulse purchases.

**Lower Operational Costs:** Unlike first-party inventory, adding third party sellers requires no pick and pack or logistical build-out and related overhead, which can significantly reduce the operational costs traditionally associated with category expansion.

**Enhanced Customer Data:** Online marketplaces allow retailers to gather even more valuable data about customer behavior, preferences, and buying patterns, enabling more effective marketing strategies and personalized experiences.

**Rapid Scaling:** Online marketplaces allow for more flexible and rapid scaling of the business as they grow, without the need for significant investments in physical infrastructure.

**Diversified Product Offerings:** Online platforms make it easier for retailers to offer a wider range of products, including those from third-party sellers, diversifying their product offerings and attracting a broader range of customers.

**Improved Customer Experience:** With expanded options for features like personalized recommendations, easy search and navigation, customer reviews, and seamless checkout processes, online marketplaces can greatly enhance the overall shopping experience.

**Competitive Edge:** As more shopping shifts online, the substantial online presence afforded by a marketplace is essential for staying competitive in the retail industry.

**Supply Chain Resilience:** Online marketplaces provide a more resilient business model, capable of withstanding disruptions that may affect physical retail, such as extreme weather events, public health crises, or economic downturns.

These powerful motivating factors for retailers have not gone unnoticed by the investment community, as the marketplace model - and the platforms that power these commerce ecosystems - are garnering hefty investments from top firms.
Investment in the Marketplace Platform Space

Investments in multi-vendor commerce technology have soared in recent years as investors recognize the significant growth potential of the online marketplace model. This investment boom is enabling continued innovation, better customer and seller experiences, and improved operational efficiency. Let’s take a look at some investments from marketplace platforms in the last few years:

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These large investments have fueled rapid growth - more than doubling employee headcount in the past two years. Long-term, this will provide a competitive advantage over the vendors without the large capital raises. On the employee graph (Figure 2) note that full-stack vendors VTEX and Spryker employees are split between marketplace, ecommerce, and OMS development. Mirakl, Marketplacer, and Logicbroker employees focus almost exclusively on marketplace capabilities. Employee data was sourced from LinkedIn (Q4 2022).

While these represent only five of many platforms to consider, choosing the correct platform for building a multi-vendor ecosystem is an important step along the marketplace journey.

Figure 2: Employee Growth of Funded Marketplace Vendors
Embarking on the Retail Marketplace Journey

The retail marketplace journey comprises six distinct phases with each phase demanding meticulous attention, from outlining a robust strategic plan and securing necessary funding, to platform selection, seller recruitment, marketing strategies, and continuous performance monitoring. Let's take a closer look at the retail marketplace journey:

1) Strategic Planning & Funding: This initial phase involves laying out the blueprint for the marketplace, defining key objectives, target demographics, unique value proposition, and securing the necessary capital or funding required for the project. The funding may be self-financed, obtained through investors, or acquired via loans.

2) Platform Selection: Once the strategic plan is in place, the next step is to select the technology platform that will power the marketplace. This phase involves evaluating various platforms based on their features, capabilities, scalability, cost, and the specific requirements of the marketplace.

3) Build & Implementation: After a platform is chosen, the process of building and implementing the marketplace begins. This involves setting up the marketplace structure, integrating it with necessary third-party systems (like payment gateways or logistic services), and customizing its features to meet the unique needs of the marketplace.

4) Seller Recruiting & Onboarding: This phase focuses on attracting, vetting, and onboarding third-party sellers. It also involves creating comprehensive onboarding materials to guide sellers on product listing, order management, and other marketplace policies and procedures.

5) Launch & Marketing: After the marketplace is set up and sellers are onboard, it's time to launch. This phase includes the promotion of the marketplace to potential customers through various marketing channels like social media, email marketing, content marketing, and more.

6) Ongoing Performance Management: Once the marketplace is live, the journey does not end. This phase involves continuously monitoring the performance of the marketplace, optimizing its operations, managing seller performance, addressing customer feedback, and implementing necessary improvements or expansions.

Each of these phases is essential to the successful journey of a retail marketplace. The process requires a thorough understanding of your marketplace's goals, careful planning, and ongoing management to ensure success.
Conclusion

As this white paper has covered, multi-vendor marketplaces represent the future of retail commerce. Their potential to bolster sales, enhance customer satisfaction, and foster resilient supply chains while offering an enriched shopping experience makes them an integral part of a successful retail strategy. By understanding and effectively navigating the journey towards establishing a multi-vendor marketplace, retailers can harness the vast opportunities this evolution presents.

About the Author

McFadyen Digital is the leading global agency for ecommerce marketplace strategy, implementation, and performance management. Supporting the complete marketplace operator journey, we take a collaborative approach to composable digital commerce technology, strategy, architecture, and integrations, working with leading enterprises to ensure their customers are delighted by scalable and profitable shopping experiences.

As a truly global firm with active clients spanning five continents, we offer the competitive advantages of rapid value realization, world-class quality, and reduced costs. Global collaboration is ingrained into our culture, so we know how to make this flexible delivery model result in value for our clients.

This document is one of many marketplace and ecommerce thought leadership pieces authored by McFadyen Digital. To learn more about marketplaces or for help implementing your own marketplace, please contact us at info@mcfadyen.com or visit www.mcfadyen.com.