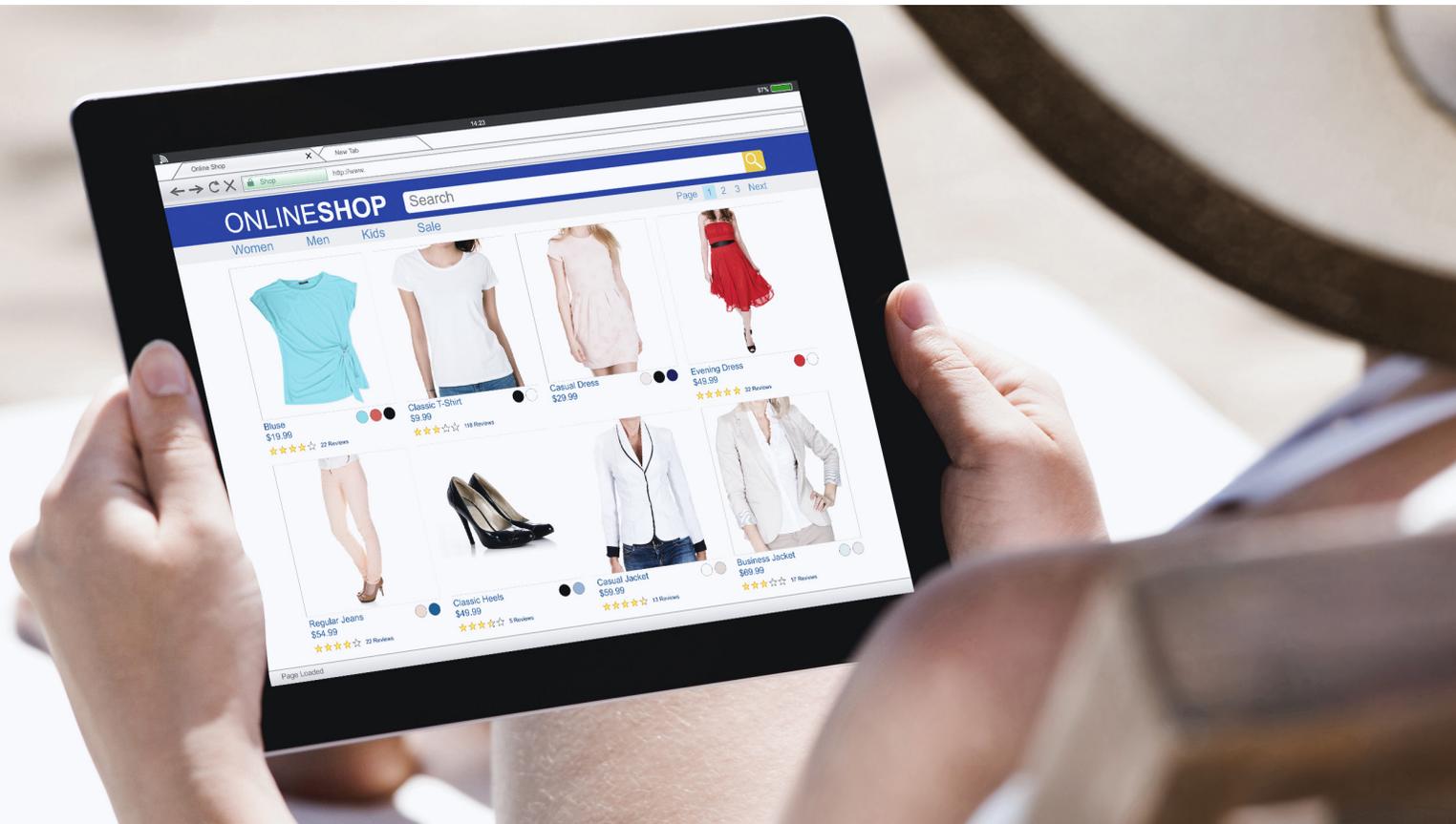


Retail and Marketing & Sales Practices

Moving past friend or foe: How to win with digital marketplaces

To remain competitive, brands should meet consumers where and how they shop and develop sustainable marketplace strategies as part of a broader channel strategy.

by Holly Briedis, Michele Choi, Jess Huang, and Sajal Kohli



Digital marketplaces have been the buzz of the consumer industry for the past several years, yet many brands and retailers still struggle to understand if and how to partner successfully with them. As a result of marked shifts in consumer behavior during the COVID-19 pandemic, digitization has accelerated even further: 40 percent of consumers are buying more online than they had previously done.¹ Before COVID-19, marketplaces rang up half of global online sales—\$2 trillion on the top 100 sites. Almost 60 percent of these marketplaces are based in the United States,² and they are continuing to change the way consumers

shop. More than one in four apparel searches now begins on Amazon, for example.

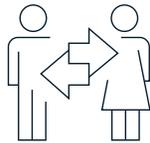
Savvy industry players are looking long and hard at whether and how to participate in digital marketplaces. To inform the decision making, we offer a brief overview of them and some of the strategic and operating questions brands should address.

We see large and small marketplaces sharing a handful of “must-haves,” or core characteristics, and “nice to haves,” or extended service offerings (Exhibit 1).

Exhibit 1

Both large and small marketplaces share ‘must-haves,’ or core characteristics, and ‘nice to haves,’ or extended service offerings.

‘Must-haves’ in marketplaces



Facilitates transactions among multiple sellers and customers
Sellers may be B2C professionals (brands and retailers) or individuals (C2C); access may be broad (eg, eBay) or limited (eg, Target); operations may be stand-alone or a combination of retail and marketplace (eg, Amazon)



Gives access to multiple brands
Overall offering may focus on a specific product group (eg, apparel), a category of goods (eg, luxury), or diverse consumer products



Features sellers that pay referral fees to gain access to consumer base
Fee structures may vary from fixed amounts to per-item charges

‘Nice to haves’ that marketplaces are increasingly offering

Fee-based services that enable transactions (eg, fulfillment), including warehousing; last-mile delivery; return handling; customer-service management; and payment processing

Optional services to seller network (eg, search support, programmed data processing, marketing, data and analytics)

Provision of some degree of product authentication: some sites provide no quality management (eg, Etsy); others provide full quality management (eg, The RealReal)

¹ Forrester Consumer Technographics Covid-19 survey.

² Fareeha Ali, “What are the top online marketplaces?,” Digital Commerce 360, March 10, 2020, digitalcommerce360.com.

Forces shaping digital marketplaces today and tomorrow

Four trends are driving the continued growth of digital marketplaces. These trends show no signs of abating.

Shifting market dynamics. Higher consumer expectations for personalization are fueling the emergence of more niche, consumer-specific sites—for instance, rental and consumer-to-consumer (C2C) services that appeal to Gen Z and the Millennials. According to *Digital Commerce 360* (2019), 35 percent of consumers shop at niche marketplaces, especially for apparel, sneakers and other footwear, and home products.³

At the same time, more large multibrand retailers are opening up online platforms to third-party sellers; a leading US department store, for example, evolved into a marketplace for premium and luxury apparel brands. Large international players are also entering the US market, intensifying competitive pressures on US marketplaces.

Marketplace consolidation. As more players target similar consumer groups the market seems likely to consolidate. Larger players are acquiring or investing in marketplaces close to their core businesses (for instance, Farfetch's acquisition of the premier sneaker- and streetwear-consignment marketplace Stadium Goods and Foot Locker's investment in GOAT, a secondary sneaker marketplace that merged with Flight Club in 2018). We foresee an environment where similar marketplace value propositions—for example, luxury consignments—continue to join forces or partner to serve a similar consumer base.

More value-added service offerings (and potential revenue streams). The proliferation of digital marketplaces and the growing reliance on sellers to build scale have increased competition to attract not only consumers but also sellers. Marketplaces must therefore work just as hard, to

create a differentiated value proposition for sellers and for consumers.

Sellers are demanding more support to bolster their own competitive differentiation (for instance, Amazon training or invite-only events for top sellers) and to meet the customer's expectations for fulfillment, marketing, and product insights. Offering value-added services to woo sellers will increasingly spell the difference between marketplaces that thrive and those that fail. The most successful ones will find ways to generate revenues from these services when sellers recognize their value, thereby generating ancillary revenue streams with margins higher than those solely from facilitating the sale of garments.

Supporting ecosystem of tech enablement.

Tech providers like Shopify support both brands and retailers to maximize sales and marketplace potential; for instance, they help marketplace operators reinvent their service offerings to remain relevant. For brands to succeed, social commerce and transactions with hybrid marketplace/community forums (such as Facebook Marketplace) require other capabilities and enablers, including payments and security, detailed product tagging, and improved "shoppability." If these tech enablers establish their own marketplaces, some may morph into competitors. Marketplaces looking to differentiate themselves may also move to acquire and integrate such players into more vertically integrated offerings and ecosystems.

The landscape of US digital marketplaces is already crowded (Exhibit 2), intensifying the pressure on apparel brands and retailers to decide whether and how to participate in marketplaces.

Participating in digital marketplaces

Both traditional and up-and-coming apparel brands can benefit from marketplaces as a channel for distribution and acquiring new customers. But setting it up for success calls for smart decisions

³ Ibid.; Denise Power, "Looking to get your brand discovered? Why a niche online marketplace might be for you," US Chamber of Commerce, uschamber.com.

about strategic fit and operational requirements. This means answering four key questions, depending on a brand's specific objectives:

- Why and how should a brand enter a marketplace?
- What should a brand offer and expect in return from a marketplace?
- What operational trade-offs should a brand consider to minimize potential adverse effects of a marketplace?

- How would a brand build an operating model to participate successfully in a marketplace?

Why and how should a brand enter a marketplace?

To participate in a specific marketplace, brands must link their brand equity and perceptions not only with the brand of the chosen marketplace but also, through association, with the other brands and products sold there. As marketplaces proliferate, brands should consider potential partners by thinking about the two dimensions in Exhibit 2.

Exhibit 2

The landscape of digital marketplaces for the US consumer is crowded, intensifying the pressure on apparel brands and retailers.

Marketplace scope matrix, not exhaustive

● Global headquarters ● United States headquarters



Apparel-focused versus broader, multcategory marketplaces. Does the brand focus narrowly on apparel, or want to reach customers in adjacent categories or even expand into others?

B2C versus C2C. How active should the brand be with end consumers? How much assortment and product-listing control does the brand want to retain? For example, B2C marketplaces (such as Farfetch) take a curated approach to assortment and brand pages, while C2C marketplaces (for instance, Poshmark) will offer brands beside those of other sellers. Most C2C marketplaces enable more direct interactions with shoppers (such as price bidding and negotiation) than B2C platforms do.

What should brands offer and expect in return from a marketplace?

Deciding to participate in a marketplace means adding a channel that cannot be managed as other wholesale and direct-to-consumer (DTC) channels are. A marketplace-specific strategy, within the context of a broader channel one, should guide key decisions on how to participate in a marketplace.

Assortment. Brands should be strategic about what range of products to offer on a partner marketplace, because this range shapes consumer perceptions of the brand (for instance, the availability and selection

of products should meet shoppers' expectations), actual marketplace performance, and the brand's ability to break price references across digital channels.

Brands must also understand the marketplace algorithms that boost products to the top (such as styles that get many reviews, high velocity, or purchase frequency), since those algorithms should inform decisions on assortment and what a brand offers in a marketplace. Launching new styles on a marketplace at the same time they launch in other channels, for example, may dilute the ability of a brand to sell at full price for a long time, depending on its agreements with the marketplace. Another example: to drive higher sales and overall margins, marketplace algorithms can be set up for replenishment or core-assortment styles, which have been purchased and reviewed repeatedly and may be priced more consistently across other channels.

Economics. Marketplaces, like other sales channels, make it necessary for brands to consider profitability trade-offs. Brands should conduct cost-benefit analyses of the addressable market size and of new consumers to whom a partner marketplace would provide access, on the one hand, and the potential cannibalization of owned-site sales and margin pressure resulting from the partnership, on the other. Setting early thresholds on the level

Marketplaces, like other sales channels, make it necessary for brands to consider profitability trade-offs.

of margin erosion the brand will accept can help ensure successful early-stage negotiations with marketplaces and establish commercial boundaries.

Value-added services. Increasingly, marketplaces offer brands and retailers value-added services, such as data-sharing agreements; consumer, product, price, and trend analytics; and digital marketing, including SEO/SEM support, media/content services, and PDP/photography support. Amazon, for example, was a pioneer in launching Amazon Advertising, which contributes almost 5 percent of its annual revenues of \$280.5 billion. Others have followed suit—for example, Zalando, which introduced Zalando Marketing Services.

Since the third-party nature of many marketplaces tightens restrictions on data and customer identification, these value-added services can help brands to improve access, negotiate more-preferred partnerships, and augment in-house capabilities. We expect marketplaces that offer brands and retailers value-added services to be more successful and sustainable because they unlock more strategic brand partnerships, boost profitability, and fuel reinvestment in the future marketplace experience.

What operational trade-offs should brands consider?

Like selling through traditional wholesale channels, selling through marketplaces often means surrendering some degree of control. But marketplaces generally offer a broader array of trade-off choices. When brands decide how to operationalize marketplace participation, they would do well to evaluate these trade-offs, such as the following, carefully:

Pricing. Many niche players (such as Orchard Mile) dot the landscape of apparel marketplaces. Brands retain full control of pricing in these niche marketplaces but are less likely to see a surge of traffic and orders to match what they might enjoy on a wholesale marketplace like Amazon, where brands

have less control over pricing. Furthermore, as the sole brand representative on a niche marketplace, a brand is less susceptible to on-platform price competition (for instance, competing with other third-party sellers).

Branding and marketing. Brands choosing to sell on marketplaces tap new consumer segments but give up some degree of control over brand marketing and, under certain models, which products appear on the marketplace. As marketplace partners seek advertising support, brands can determine whether their investments should focus on driving conversion or on brand-building on the platform. Brands concerned about losing control of their narrative should reinvest in the consumer experience on their DTC sites and ensure that these provide a compelling, distinctive experience compared with other channels.

Fulfillment. Shoppers expect speedy and convenient delivery from digital marketplaces. For brands, this raises the question of whether to fulfill orders via drop-ship, using their own network, or to rely on marketplaces that offer fulfillment services. The right answer often depends on the supply-chain capabilities and capacity of the brand: it may opt to start by using its partner marketplace to ensure a consistent customer experience until it scales up its own capabilities. This is easier for a brand that owns a DTC site.

How would brands build an operating model to participate successfully in a marketplace?

To sell profitably through a marketplace, a brand must make the right day-to-day operating decisions and manage the partnership closely through top-to-tops and ongoing performance dialogues. The most successful brands recognize these success factors and establish management roles—such as e-commerce marketplace managers, third-party content managers, and marketplace-specific merchants—outside traditional account-management structures. These marketplace-

specific roles are particularly valuable in complex partnerships that require considerable negotiation or digital know-how (for instance, marketplace test and learn, page visibility, and partnership marketing).

the partnership, it should be a “win-win-win” across brand, marketplace, and consumer. Indeed, the digital marketplace channel can be a powerful lever to remain competitive in driving consideration, growth and share. Defining a winning marketplace strategy requires a clear perspective on the following questions:

Digital marketplaces already loom large in the apparel industry. They promise to loom even larger. Both brands and retailers have begun to launch proprietary marketplaces and are inviting other brands to join. These brands include Anthropologie (“Curated by Anthropologie”), Madewell (“The Hometown Heroes Shop”), and Urban Outfitters (“UO MRKT”), and retailers such as Target and Walmart (see sidebar, “Noteworthy retailer-owned marketplaces”).

Positioning a brand as a friend or foe of marketplaces no longer makes sense for companies – there are strategic ways for any brand to engage in this ecosystem, and if brands are smart in crafting

- Who will the marketplace serve? How will it bolster or reinforce the brand’s strategy and engagement with consumers?
- What will the brand offer the marketplace that is unique and compelling (e.g., assortment, special promotion days, access to a targeted consumer)?
- How will the brand enter and participate on the marketplace? What operational considerations (e.g., marketing, supply chain & fulfilment, data & analytics, legal, operating model) must be in place for the partnership to be successful?

Noteworthy retailer-owned marketplaces

Several leading mass-market retailers have launched digital marketplaces to broaden their assortments and increase their traffic. They manage the selection of merchants and assortments carefully to mitigate the risks of third-party competition and their limited experience managing dual-assortment strategies.

Walmart, a marketplace pioneer, launched its site in 2009 and accelerated its development in 2016—and even just recently announced innovative partnerships with both ThredUp and Shopify.

Today Walmart.com is the third-largest US marketplace, trailing only Amazon and eBay. Walmart.com hosts some 75 million items, and its vendors manage customer orders, including fulfillment, customer service, and returns (though customers can return purchases in Walmart stores).

Fanatics Inc., the leading on-line retailer of licensed sports merchandise, announced a ten-year partnership with Walmart in January 2019. Fanatics became the exclusive provider of such merchandise on Walmart.com, which gives Fanatics access

to a multitude of shoppers who visit the marketplace each month.¹

Target launched a very selective marketplace that hosts only products in carefully chosen adjacent categories (which may expand over time) in 2019. Participation is by invitation only to maintain focus and mitigate the risks of third-party marketplaces. The participating merchants manage fulfillment, but Target accepts returns in its stores.

¹ April Berthene, “Fanatics launches as marketplace seller on walmart.com,” Digital Commerce 360, January 30, 2019, digitalcommerce360.com; “Walmart.com: March 2020 overview,” similarweb.com; “Fanatics.com: March 2020 overview,” similarweb.com.

This is a classic exchange of value; marketplaces are clear on what they bring in terms of access to a massive consumer base, increasingly using the marketplace to begin product search, along with value added services. Brands need to be similarly clear on what they bring to the marketplace that is

differentiated in order to extract the best potential terms and construct for the partnership. There has never been a more “ripe” time for digital disruptions in apparel – and the time is now to explore marketplaces in a more meaningful way.

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