Marketplace:
the future of e-commerce

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INTRODUCTION

Marketplace, market square, shopping mall…. different terms but all with the same purpose: developing profitable e-commerce.

How to deal with the issues of broad product choice, product availability and competitive prices without the constraints of stock or logistics, whilst still maintaining margins? This is the daily challenge faced by e-businesses.

Marketplaces are the solution to current and future e-commerce demands: they promote the capitalisation of strong brands, qualified traffic or professional know-how to bring together offers proposed by third party sellers on a single platform.

By putting sellers and customers in direct contact, Marketplaces mirror the very DNA of the Internet: creating value whilst reducing the chain.

By emancipating themselves to a large extent from current e-commerce constraints, Marketplaces guarantee substantial gains for all players involved (operator, seller, buyer).

Amazon, Wall Mart, Best Buy, Fnac …. each one of these e-commerce giants has in recent years, launched their own Marketplace. For some, this activity already accounts for more than 40% of products sold and constitutes almost 100% of profitability! For other vertical Marketplaces created from scratch, such as Etsy (Arts & Crafts), Farfetch (Fashion) or Foodzie (Artisan food) this activity represents 100% of sales, sometimes exceeding the billion Euro mark. All of these examples confirm that the revolution is well and truly underway and that hundreds of new Marketplaces will appear all over the world.
Operating a Marketplace is a new skill and the challenges to be faced in order to be successful are many: strategic, organisational and especially, technical. Being fully aware of these issues and having the benefit of 7 years’ experience in developing Marketplaces, we have consciously strived to devise the best way of assisting future Marketplace operators and thus to play an integral part in this “happening” revolution.

This paper provides an insight into Marketplaces, their role in e-commerce development, their main operating principles and the keys to launching a successful Marketplace.

To take this one step further, we created the Mirakl Company, undertaking the mission to advise clients about their Marketplace projects and to provide them with flexible turnkey technical solutions to maximize the possibility of success.
1. CORE MARKETPLACES IN THE E-COMMERCE STORY

1.1 DEFINITION

An electronic Marketplace is a virtual, online space on which buyers and sellers meet to carry out transactions involving goods and/or services.

Transactions between buyers and sellers take place on a platform managed by a Marketplace operator whose role is to provide a transparent, confidence-inspiring, safe environment for the different players, by making tools and services available that achieve free-flowing traffic between them: on-line payment, catalogue and stock management, verified information about the seller and/or buyer, various guarantees etc.

The different tools and services provided will depend on the operator’s strategy and on the potential verticality of the Marketplace.

The main sale mechanisms to be found on Marketplaces are:

- **Fixed price**: a classic method of sale where the seller fixes the price of a given product.
- **Auction**: the product is put up for sale for a limited period when potential buyers can make successive bids. At the end of the designated time, the person who has made the highest bid will get to buy the product.
- **Reverse auction**: as this term indicates, the notion of the auction is reversed. In this instance, it is the buyer who puts
his/her request on-line (for example he/she is looking for a particular product at a specific price) and it is up to the suppliers to make successive bids, going lower each time. At the end of the auction, it is the supplier with the lowest bid who closes the deal.

- **Request for Quotation**: (RFQ, RFP, RFB): the buyer sends a request for a quotation to one or more suppliers who in turn send back their proposals.

### 1.2 Marketplaces in the e-commerce story


If you were to ask who, of those around you, had already made purchases on the Internet, there is very high chance that a good number of people will say they have. **In 2012, in the UK alone, over 80% of Internet users had already made a purchase on the Web.** E-commerce is one of the favourite pastimes of Internet users and is one of the rare sectors to have seen significant worldwide growth, despite recent economic and financial crises.

Can you remember back to how you bought a train or plane ticket before the Internet? What did you used to do to compare prices for products and to find the best deal? How about reserving seats for a concert? E-commerce has become indispensable for a growing number of people and forms an integral part of their daily lives.

Even if it has become a vital part of our shopping reflex, as it stands, e-commerce is a relatively young activity sector. Of course, it did not appear overnight but is rather the fruit of an evolution that began over
50 years ago with the very first exchange protocol between businesses; however, it is just a mere decade or so since it has really become a phenomenon involving the broader general public.

In its modern form, e-commerce really began 20 years ago at roughly the same time as the Worldwide Web. This was **invented in 1990 by an English researcher, Tim Berners-Lee**. Based on the then existing network technologies, Berners-Lee created a system of “hypertext” links through which users could surf from page to page on an interface browser called a “web browser.”

In the wake of this, the National Science Foundation (NSF) authorized the commercial use of this new network, the Internet, in 1991 thus paving the way towards modern day e-commerce. The revolution that we know had begun.

The use of the Internet as a sales channel was a no-brainer from the start. The first e-commerce sites quickly opened their doors with the success of the **first browser available to the general public (Mosaic, that then became Netscape) in 1993**. The Internet interested individuals and businesses alike, being viewed as a revolutionary way of reaching new clients and of selling products. Internet users were not yet on a global scale but growth was extremely rapid from the very early years of existence. E-commerce is one of the first sectors to monetize the Web (with on-line advertising).

This network was considered to be a promising sales channel, having many advantages over physical trading: consumers could effortlessly look through catalogues with millions of references, compare prices more easily, check the real time availability of products, buy at any time of day or night...
As for the sellers, the potential seemed equally attractive. Thanks to the Internet, they could reach many more clients, open up to previously inaccessible markets, do low-cost advertising and provide a personalized experience to site visitors. Of course all of these possibilities were still in an embryonic state but the potential had begun to be understood.

The real tipping point for on-line selling in 1993 came about in a fairly chaotic environment. In fact, on-line communication was not secure until 1994, a year that, with the advent of Netscape 1, witnessed the introduction of a secure protocol called SSL. This protocol encrypts the transfer and receipt of a message during commercial transactions, ensuring that information such as names, addresses and bank details are not visible on the Web. The first sites did not even offer an on-line payment system nor secure data: e-commerce was in its infancy. At least security was beginning to be perceived as one of the essential aspects of e-commerce.

1994 was therefore an important year for e-commerce. It was at this time that commercial transactions were gradually becoming more secure, that the first on-line credit card payments were being set up (First Cash and VirtualCash were amongst the precursors), that the first real e-commerce sites appeared (such as Pizza Hut) and finally, when Jeff Bezos launched what was to become one of the sector giants: Amazon.


No discussion of e-commerce would be complete without mentioning the two “founding” fathers, Amazon and eBay. They have each in their own field, set the standards for today’s e-commerce.
One of the outstanding abilities of Jeff Bezos was his innate sensibility, very early on, to the potential of on-line business and especially his understanding of the innovations and associated advantages of this new sales channel.

Sensing as early as the beginning of the 90’s that Internet would become a major industry, Jeff Bezos wondered how he could take a slice of the action and what niche he should create. He reviewed a number of sectors and finally settled on book sales.

In his opinion, book sales fulfilled a number of criteria that would be well suited for Internet selling: massive product choice (millions of references), a huge market (several billion dollars), supply was straightforward (there was an existing distributor that dominated the market and that had a highly efficient distribution network: Ingram) and finally, reference catalogues were available through distributors on CD-Roms, therefore already in an electronic format which would enable him to set up a database very quickly. Everything was in place for the electronic channel to procure him an excellent competitive edge against traditional players: bookstores and the then dominant retailer, Barnes & Noble.

The choice of the book industry was just part of a broader vision for Jeff Bezos. He was one of the first to understand that business on the Internet was capable of turning the traditional shop sales model upside down and that over time it could play a major role in global business. Books represented the initial stage in his ambition to establish the biggest shop in the world.

As mentioned above, Amazon’s founder was one of the first to harness the special features of the Internet channel. It was not enough for him to simply switch from the traditional sales model but he also knew how to innovate in order to exploit the advantages of selling on line.
The innovations attributed to Amazon are many and a good number have become industry standards: customer feedback; one-click payment; optimizing the shopping basket and client experience; free delivery; affiliation etc. Jeff Bezos understood that the Internet was a new sales channel and that only innovation would allow its maximum potential to be fulfilled.

The second hallmark of Amazon in the beginning was its obsession with customer service. For Jeff Bezos, this was primordial. Just because a client was buying on-line, did not mean that the level of service should drop below traditional standards. Quite the opposite: Amazon put heavy emphasis on this aspect of a sale. Even though they were few in the company, each member of the team, including the engineers, had to spend time every week answering customer enquiries.

Once the site began to grow, a dedicated unit was specifically created to look after customer-relations management. Any employee who hoped to climb the career ladder had to start by working as a team member in the customer-relations unit. Working conditions were deplorable: pressure was very high and the pace, frantic. However, the results spoke for themselves. The on-line bookstore established the best possible service: swift dispatch of orders, same day reply to e-mail enquiries, free delivery over a certain amount spent, no-questions-asked returns policy, etc. Its reputation continued to grow and more and more customers put their trust in the 100% Web bookstore.

Today, these functionality features and this level of service seem to have been adopted as standard. They can be found in a number of e-commerce sites that have followed Amazon’s lead. This heritage comes direct from the Jeff Bezos site and has for more than 10 years now played a leading role in defining e-commerce’s “best practices.” In
building the giant that is Amazon, Jeff Bezos immediately grasped the cornerstones of e-commerce: security, customer service and breadth of product choice.

E-commerce’s second founding father, eBay, made its appearance in 1995. The story behind the creation of eBay mirrors the Internet context of the time. Pierre Omidyar, a Franco-Italian engineer decided one day to simply create a Web page on which he put a broken laser pointer up for sale, using an auction format. To his great surprise, an American buyer won the auction with a bid of $14.83. When asked by the engineer by e-mail why he had been interested in buying a damaged object, the American replied, “I collect broken laser pointers.”

This was the “Eureka” moment for Pierre Omidyar. The power of the Internet was right there in front of his eyes: the Web meant that you could reach anybody on the planet; geographical barriers fell away for anyone who was connected to it; an American laser collector could suddenly meet a European seller. Even if this anecdote could be cynically viewed as a touch of “storytelling” it is still testament to the intuition of Omidyar, IT Consultant and ingenious entrepreneur, who instantly understood that the Internet was the ideal medium for creating the largest and most efficient Marketplace in the world.

So Omidyar set up his customer-to-customer auction site and called it Auction Web. It was an instant success: more than 250,000 on-line auctions in 1996, 2 million in 1997. Barely 3 years after inception, the site, now called eBay, was number one in private individuals auction sales, was one of the giants of the Web and its floating on the Stock Exchange produced one of the best capitalizations of the time.

Amazon may have defined a number of modern day e-commerce standards, but eBay left its own mark, making a vital contribution to revealing the potential of the Internet as a communication channel.
Thanks to eBay, private individuals realized that they could also sell their own items to a market of millions of buyers and that they were not limited to “garage sales” – rather, they had a whole world of potential buyers at their fingertips. **This is one of the fundamental strengths of the Internet: the ability to connect buyers and sellers worldwide and to thus serve the product long tail.**

The initial period from 1995 to the bubble in the year 2000, was an important period in the evolution of e-commerce. It was at this time that a number of key functionality features were established as outlined above (client feedback, ratings, the shopping basket, affiliation, one-click payment) and when the main players of e-commerce like Amazon and eBay appeared and innovation was in full flow. This “euphoric” period came to an end, however when the Internet bubble burst in the year 2000. The fact that Amazon and eBay are two of the rare giants to have survived this bubble, shows how very in tune they were to the market: many on-line traders like pets.com or boo.com, icons at the time, went to the wall in 2000.

Prior to the bubble bursting in 2000, very few e-commerce sites were profitable: marketing budgets knew no bounds (television advertising, vast press campaigns) but revenue was not producing profits. Even though Amazon was also a symbol of this e-commerce where you spent more than you earned, Jeff Bezos was one of the pioneers in turning that round.

Early on after the bubble burst, Bezos understood that he needed to show shareholders that the model was viable. He slammed the brakes on marketing and operational spending. After years of being in deficit, the Group filed its first profitable quarter at the end of 2001. Even though a number of skeptics doubted its ability to one day become profitable, Amazon had a positive balance sheet in 2003.
E-COMMERCE GROWS UP: 2000-2011

The years from 2000 have been the teenage years for e-commerce. That is when the market really began to take shape. From the consumer point of view, it is booming: Internet penetration rates have seen a record rise and an increasing number of households have access to the Web. Along side this technological boom, confidence in on-line payment methods is increasing. Internet users are buying more and more on-line and concerns are diminishing with each year that goes by.

For the e-commerce sites, this was also a period for maturing. Selling techniques were becoming more refined. Profitability was the main aim. Attracting clients was becoming the central issue. Before the start of the Google era, SEO and SEM (paid and natural search listing) became priorities: no more irrational TV advertising campaigns, sites meticulously assessed the cost of acquiring clients and had marketing channels that were much more adapted to e-commerce, like search engines, price comparatives, on-line advertising and affiliation.

The market structured itself around the two world giants, Amazon and eBay with the emergence within different countries and regions of nationally dominant players- as in the UK, for example, Play.com, Tesco.com or even Expedia, along with a whole myriad of smaller players running from the individual with his/her own e-commerce site to small businesses selling their products on-line.

Subsequently, the other changes that came to shake up this evolution were, the re-birth of group purchasing in 2007-2008, brought on with the advent of social networks like Facebook and Twitter, and the mobile phone that drastically changed the buying habits of Internet user...all this was just the beginning.
You only have to examine the stats for e-commerce to get a real sense of this evolution:

- **Worldwide, the volume of on-line sales has gone from $199 billion in 2004 to more than $570 billion in 2010;**
- In the UK the volume of on-line sales has gone from 2.88 billion Euros in 2001 to 25.86 billion Euros in 2004, over 58.8 billion Euros in 2010 and 68.2 billion Euros in 2011;
- In Germany, 2010 showed a market of 35 billion Euros and in France, around 31 billion Euros;
- The number of active e-commerce sites in France has rocketed from 5,800 in 2003 to 80,000 in 2010. In the UK, there are almost 300,000.

On the Internet, e-commerce is one of the most economically buoyant sectors. An increasing volume of business is taking place on-line to the detriment of traditional transactions in shops. Even if, in 2010, the volume of sales on the Internet “only” represented 5% of the volume of sales made in physical outlets, this percentage is constantly on the rise.

**A BRIEF HISTORY ABOUT MARKETPLACES**

The electronic Marketplaces’ story is inextricably linked to that of e-commerce. This model for on-line connectivity really took off thanks to the e-commerce platforms from the mid-1990’s.

**The idea of connecting buyers and sellers in a controlled space does not date from the start of the Internet.** The on-line version is an extension of what we already know in our daily lives: **shopping centres, food halls, garage sales, flea markets.....** The Marketplace was already an important facet of traditional business. What the Internet did, was to enable an explosion in terms of this exchange model.
The Internet is fertile soil, especially for Marketplaces. All the elements are there for them to take centre stage: a network that connects millions of users throughout the world, a space where they can meet and communicate regardless of the language they speak. The idea of exchange is printed in the very DNA of the Internet: sharing ideas, exchange of messages and contacts – all Web users can play a role and participate actively in ways that television and radio did not allow them to. This is one of the ace cards of the Internet: whereas traditionally individuals and small traders were geographically limited in their exchanges, the Internet creates democratic access to markets, bringing down geographical and financial barriers, as it is possible to have a presence and self-promote for little cost. The speed of the Web makes information available in real time too.

THE FOUNDING FATHERS

Historically, electronic Marketplaces appeared hot on the heels of the first e-commerce sites. 1995 was an important year with the creation of eBay (then called Auction Web) and of CraigsList.

These two sites marked electronic Marketplace history by revealing how such a model completely lent itself to the Internet. CraigsList brought the classified ads sector headlong into the age of the Internet: faster, easier, more choice and with a free economic model, CraigsList is still, even today, the leader of the Classifieds in the USA and undoubtedly has had a hand in the decline of the paper version. The traditional press couldn't keep up with a site that practically changed sellers' ads in real time and offered such an enormous choice to buyers.

From a format point of view, CraigsList did not transform the classified ad: the system remained straightforward and was based on filling in a form to post an ad. It was the distribution channel that changed
everything. **Thanks to the Internet, each seller could see his potential market of buyers expanding** and the buyers could more easily find what they were looking for amongst the millions of ads.

If Craig's List could be said to have transposed the model of the Classified ad onto the Internet, eBay could equally be said to have transposed the model for garage sales onto the Internet. Indeed, for a long time, the site was presented as the biggest “garage sale” in the world. Once again, the use of the Internet proved to be tremendously effective and made eBay a resounding success. Instead of a person having to collect up all the items that he or she wanted to sell and then having to spend an entire Saturday displaying them at a traditional car boot or garage sale, on eBay each individual could simply show items in an electronic “window” available 24/7, viewable by buyers the world over.

This was one of the big lessons to come out of eBay: due to its connected Marketplace model, buyers and sellers, worldwide could suddenly trade all kinds of goods, making the market even more vast and effective.

In this respect, the legend surrounding the creation of eBay underlines one of the strengths of the Marketplace model: the access of consumers to what is know as the product “long tail”. Thanks to eBay, as the story goes, collectors of broken laser pointers (of whom there are perhaps only a few hundred in the whole world) can suddenly be connected to several thousand people who are, themselves, selling these very same products. **In the traditional sales model, this level of contact was impossible.**

The next major step was the opening of the Amazon Marketplace. **The Amazon Marketplace was not built from one day to the next.** Its creation infolded over several stages that will be addressed in this
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paper at a later stage. The process of its opening began in 1977 with the creation of an “affiliate” programme that allowed other sellers to exclusively sell Amazon products.

If CraigsList and eBay were concentrating on the C2C market, Amazon, from very early on, favoured the professional seller. As early as 1999, professional sellers could sell their products directly through the Amazon site. Once again, Amazon modified its approach to e-commerce, effectively rewriting the rules.

Although the role of eBay and CraigsList as pure intermediaries seemed quite natural in the eyes of numerous observers, the desire for an e-trader like Amazon to open a Marketplace on its own showcase, seemed madness. It was like shooting yourself in the foot by inviting the competition to your own customers’ party. A number of analysts predicted a costly failure for Jeff Bezos because of this.

But Jeff Bezos had understood that without the support of third party sellers he could never get to grips with the product “long tail” and that he would never be able to provide a truly universal range of choice to his customers.

Indeed, herein lay the key: by offering so much more to its customers, Amazon made itself a “must-visit” destination. Instead of spending time looking where they might find products, consumers went straight to Amazon, knowing that there was a massive choice range. Amazon very quickly made its Marketplace a convincing weapon in the battle for gaining client loyalty. As the quote below from Jeff Bezos illustrates, the Marketplace allowed Amazon to lay down new rules, designed specifically for Internet business and also a means to profoundly revolutionize the world of distribution.
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“Since we focus on profit dollars rather than margins, we are largely neutral on whether an item is sold by us or by another seller.” Jeff Bezos, CEO Amazon.com

The other major contribution made by Amazon is that of the services offered to Marketplace sellers and buyers. CraigsList and eBay had transposed Classifieds and garage sales to the Internet and this influence was evident in their approach to the Marketplace: little control over products on sale, no integrated system of payment, no system of catalogues etc... The degree of freedom was large but so were the risks.

Amazon did the complete opposite to this model by making its Marketplace a space that was extremely secure and defined. Sellers were subject to strict regulations concerning their reactivity, dispatch conditions and returns – and the payment system was totally controlled by Amazon. Amazon imposed therefore, a number of constraints on sellers but at the same time provided them with the management tools that facilitated their sales. In exchange for an effective distribution channel, sellers were expected to comply with the conditions imposed on them by Amazon.

This positioning as a trusted third party allowed Amazon to reassure its customers. Its role being to provide the best possible quality service to consumers, whether they purchased from Amazon direct or from a seller on the Marketplace. By imposing this superior level of service plus its own regulations, it was Amazon that really made the distinction between the Marketplace model and that of the Classified ads sites like CraigsList or even eBay.

Amazon was one of the first major e-traders to successfully open a Marketplace on its own space. This step was important in the overall evolution of electronic Marketplaces. Witnessing how such a model
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worked, numerous e-traders followed the lead and adopted their own, more controlled systems. This step was equally fundamental in the very history of e-commerce as with its Marketplace, Amazon, the n°1, finally had an economically profitable model.

B2B MARKETPLACES

Up to this point we have mentioned the great generalist players - Amazon, eBay and CraigsList. But the end of the 1990’s and the start of the new century also provided a very fertile period for B2B Marketplaces.

Remaining in the shadow of the great players we have cited, a large number of Marketplaces were created for the B2B world. The advantages for businesses were the same: access to more suppliers, simplified product sourcing; facility in introducing a competitive element; possibility of grouped purchases. The Marketplace model therefore matched the requirements of the B2B market and that of professional sellers.

The beacon Marketplace in the B2B world is without a shadow of a doubt Alibaba.com – created in 1999, in China. This Marketplace put Chinese manufacturers and factories in contact with Western businesses seeking to buy low-cost goods. The Marketplace was perfect for this as it enabled exchanges between buyers and sellers who otherwise would not have been able to meet. Transactions were facilitated through the Marketplace that offered a range of services to the different players: thus, a “gold supplier” ranking to certify suppliers, a system of price comparison to verify that prices proposed by a given supplier were in line with the market average etc...

Even if, for the same reasons as their B2C counterparts (overspending, little profit...) the B2B Marketplaces did not escape the Internet bubble
at the turn of the 21st century, they were all set to propagate significantly. It is clear that they directly reap the benefit of the strength of a model that connects buyers and sellers (within a secure environment) and that enables transactions to be both streamlined and simplified. The announcement from Staples and Retif, two leading B2B retailers, of the launch of their own Marketplace confirms this trend.

**VERTICAL MARKETPLACES**

The period running from the mid 1990’s up to the Internet bubble burst in 2000 witnessed the advent of huge Marketplaces that went on to dominate the first decade of the 21st century: Amazon, eBay, Alibaba. It was also at this time that the main French e-commerce players and Marketplaces were launched: Fnac.com (1997), Cdiscount (1998), RueDuCommerce (1999), Priceminister and Pixmania (2000)

The chips were not yet entirely down, as new players continued to emerge from this time onwards. How they differ with previously cited Marketplaces is in the fact that more often than not, these platforms opted for verticality. Examples are the highly successful Etsy, the Arts &Crafts Marketplace, Chrono 24 for watch sales, Artsicle or Artnet for works of art, and many more besides.

As the Marketplace allows for an extremely broad product range and for the grouping of large communities of buyers and/or sellers, it is a sales model that is particularly well suited for niche or vertical activity. Indeed, the Marketplace enables a vertical player to take product choice to greater depths by relying on the know-how of highly specialised sellers to whom the stock risk has been delegated. Compared to the more generalist or full-line Marketplaces, vertical Marketplaces open the way to an authentic buying experience by
building on codes specific to the sector concerned and without being restricted in terms of the extent of product choice.

It is for all the reasons above that MedicAnimal, leading European retailer for veterinary and pets products has decided to develop its own Marketplace with Mirakl’s technology in order to offer to its clients the largest range on its categories.

MARKETPLACES AND CROSS CHANNEL MARKETING: BRICKS AND MORTAR IN THE MIX

From 2005, traditional “bricks and mortar” business players became increasingly interested in Marketplaces as they could see that they represented an indubitable weapon in conquering clients. It was for this reason that in 2009, prestigious retailers such as the French Fnac or American Wal-Mart, Sears, Best Buy (later in 2011) launched their Marketplaces, making them a core element in their cross channel marketing strategy. This trend continues today with retailers such as Darty, Galeries Lafayette or Nature & Découvertes in France who have decided to develop their own Marketplace using Mirakl’s platform.

The Marketplace meant that these retailers could radically increase product choice notwithstanding the space constraints characteristic of physical trading and without carrying stock risks or logistical costs. Indeed, by integrating the Marketplace in tandem with a “click n’ shop” strategy, the customer was able to put in an order directly with a given store and also have unbridled access to the whole product range. This promoted client satisfaction and loyalty: the client could have products delivered direct to his/her home even if the product was no longer available in-store.
OTHER MARKETPLACES

Another far-reaching phenomenon is the recent proliferation of software/apps Marketplaces and of the said collaborative consumption Marketplaces.

In the world of software/apps, Marketplaces reserved for software developers have seen a true boom: whether we are talking about mobile phone Marketplaces such as Apple's Appstore or that of Android, Web apps through the Google Marketplace or Cloud computing through the SalesForce Marketplace, it has never been easier for software developers to set themselves up as publishers to sell their own software. The buyback of the Instagram app for 1 billion dollars by Facebook is a good illustration of the powerhouse that the Apple Appstore Marketplace is. Without it, this application, published by a company that had no more than 5 employees, would never had achieved 30 million users in less than two years nor become an indispensable player worth around 1 billion dollars.

The other sector where Marketplaces have proliferated is that of collaborative consumption. Rather than constantly acquiring new products or only using a part of something already owned, a new generation of Marketplaces has sprung up, enabling anybody to rent out goods that he/she owns (power drill, car, apartment, parking space...) to offer services for extra cash or to swap items with other individuals. Memorable players in this area are Airbnb, Zilok, Zipcar, TaskRabbit or ParkAtmyHouse.

It is interesting to note the key role that Marketplaces are playing within new sectors. With the positive explosion of mobile phones and social networks, connectivity between Internet users is on the rise, giving the Marketplace model even more weight. This effortless interaction has completely changed the face of certain industries,
be they in **music, books** (artistes can self-publish and big names can sell directly to their fans) or in **software**. With these new platforms, creators and designers can sell direct to their customers. This trend may only yet be in its infancy, but is **the way forward for business in many sectors**.

**CONCLUSION**

It is clear, throughout this synopsis that **Marketplaces have played a central role in e-commerce from the very beginning of the Internet**.

For a long time it was believed that the advent of the Worldwide Web would totally remove the middleman from the trade value chain. No more interminable intermediaries: buyers would go direct to producers and brands, thus reducing prices. No more transport costs between the manufacturer and wholesaler, between the wholesaler and the retailer, nor from the retailer to the customer: the chain would become more efficient and ecological.

Indeed, history has shown that the number of intermediaries has been reduced. **Thanks to e-commerce and to Marketplaces, the distribution chain has been shortened**, to the extent that goods can be purchased for less on the Internet than in the traditional shop. However the middleman will never completely disappear. It is idealistic to imagine that consumers will buy everything direct from brands or manufacturers. In the end, there will always be a need for intermediaries whose role will be to create a pleasant and safe environment, to give advice, to provide a wide choice of products and to attract a maximum number of customers to his/her shop shelves. In a nutshell: to trade in the pure sense.
E-commerce figures reveal **three main trends:**

- **Revenue for sales on the Internet has not yet reached its peak.** E-commerce only currently represents 5% of physical trade. But this figure is rising rapidly every year. E-commerce growth stands at roughly 20% per annum whereas physical trade growth is only at 2%. The market is therefore is growing and this is just the beginning.

- **On the other hand, the number of buyers on the Internet is already very high.** In the UK alone, more than 27 million people are buying on-line (out of 36.8 million Internet user) and more than 80% of users state that they have confidence and trust in on-line shopping. All manner of profiles use the Internet as a sales channel: in 2010, it was mostly the over 65’s who made the biggest leap in the percentage of users. The phenomenon is not only a hit in households of the under 50’s. More and more consumers trust e-commerce and are turning to the Internet for their shopping.

- **E-commerce sites are multiplying every year.** In the UK alone, the number of active e-commerce sites went to 300,000 in 2010. Not only are e-commerce destinations proliferating but product choice is too. This is the other lesson to be drawn from the last few years: **anything can be sold on the Internet:** not just travel, books or CD’s but also cars, televisions, computers, jewellery and even apartments...

So how things stand, exchanges are increasing, consumers are looking more and more to on-line buying and the number of sites and references are exploding.

Where there are an increasing number of sites, consumers will have increasing difficulty in finding them and the best deal: how do you find the right site if there are 300,000 to choose from? This also entails more fraud, more counterfeiting and credit card detail theft. The consumer needs to find a product easily and to be able to make a transaction in total confidence without having to think twice about transaction security or actually receiving their goods.
The Marketplace model comes into its own here and provides solutions not only in terms of consumer expectations on price and choice but also in terms of profitability issues facing a number of e-traders.

### 1.3 VALUE CHAIN PLAYERS

Electronic Marketplaces are meeting places. In this ecosystem, three key types of players interact: buyers, sellers and finally, the operator who maintains the cohesion of the marketplace.
Marketplace : the future of e-commerce

THE OPERATOR

The major player in the value chain on a Marketplace is undoubtedly the operator: this is who has the role of regulator, who establishes the operating rules on the Marketplace and who guarantees security.

To ensure optimum smooth-running of transactions on the platform, the operator is involved on two levels: creating a regulatory framework and putting tools and services to streamline exchanges at the disposal of the different parties.

Not all Marketplaces provide the same level of service, nor the same rules for sales – indeed, these very two elements are the key differentiators.

Thus, a Marketplace such as eBay gives a good deal of “freedom” to sellers who do not have constraints imposed on them in terms of products for sale, delivery dates or even in the methods of payment used. This gives them great scope to sell, but on the other hand, poses many problems for achieving secure transactions.

In contrast, operators like Amazon, Fnac.com or Play.com impose quite strict constraints on those who seek to sell on their Marketplaces: their catalogue, their payment solution and a certain number of requirements regarding delivery dates and after-sales service. There is, moreover, a notable difference in the philosophy of the “pure players” Marketplaces and the “hybrid” Marketplaces that have a whole distinct e-trader activity running parallel to their role as operator. We shall be looking at this difference a little later.

The main role for a Marketplace operator is to inspire buyers and sellers with confidence. By bringing sellers and customers from all walks of life into contact with each other, the potential for fraud and
problems linked to customer service increases: products never actually received, payment fraud.... This is why the operator must stand as a trusted third party using the aforementioned regulatory devices and tools. In the light of this, the quality of the technical platform plays a major role and one that is often ignored and misunderstood.

A final aspect of the operator's job is maintaining the balance between supply and demand. The Marketplace must be a place where customers can easily find what they are looking for. Once again, it is through the tools made available on the space and the quality of the technical platform that an operator will effectively be able to balance supply and demand.

Diagram of Marketplace operator's role
MARKETPLACE OR CLASSIFIED ADS SITE?

Should sites like eBay or Leboncoin be viewed as Marketplaces or rather as sites for classified ads? In fact, how do we distinguish a Marketplace from a classified ads site?

If we again look at the nitty-gritty of the definition of a Marketplace, it could be said that both entities share common ground: they both connect sellers and buyers in a virtual space. Classified ads sites and Marketplaces share the same prime goal of bringing together these two parties so that they can carry out transactions.

Where the real differences show, is in the role of the operator. On a pure Marketplace, the operator must “provide a trustworthy, transparent and secure framework for the different parties by making available tools and services that help to streamline exchanges: on-line payment, catalogue and stock management, authenticated information about sellers and/or buyers, various guarantees.”

Classified ads sites clearly do not fit into this category of operators. Service is minimum on these sites, the operator is not responsible for any of the exchanges taking place and both sellers and buyers have a large degree of freedom in making transactions (means of payment, delivery etc...). UKclassifieds, for example, falls into the category of classified ads sites and it is no coincidence that it does not figure in the e-commerce sites rankings.

The case of eBay however, is a much trickier subject. If we take a closer look, we can see that this American site does not propose any product catalogue as each participant creates an individual product file with a photograph and description. Also, the payment choices are
open and not secure: Paypal is available but is optional. Finally, there is no obligation regarding the rapidity and quality of despatch, transactions are not guaranteed and there is no shopping basket – characteristics that would make it more akin to a classified ads site.

But eBay does offer a certain number of tools and functionality features that can be found on the Marketplace model: a scoring system between members indicating trustworthiness, boutiques reserved for professional sellers only, order management tools.

A good Marketplace must be a place where purchases can be made with total confidence: the operator imposes a number of rules on the sellers to this effect. The issue of payment is for example central: security must be guaranteed – this not being the primary strength of eBay. Looking overall, we realize that the American site is a mixture of both models but we could be inclined to see it rather as a classified ads site than a Marketplace.

The fact that eBay is not positioned as a classified ads site, B2B or B2C Marketplace, is indicative of the current problem for this site today. By not taking an identifiable stance, the sales experience falls short of optimal and the customer experience is less secure (fraud and counterfeits).

What we need to glean from this example is the fundamental difference between a Marketplace and a classified ads site: if their goal is the same, that is, to facilitate communication between sellers and buyers, their approaches to the buying experience are completely different i.e. in terms of trust and the integration of purchasing mechanisms: payment, catalogue, customer service.
SELLERS

Sellers exist on Marketplaces to sell their products and/or services. Depending on the type of Marketplace, these sellers may be non professional or professional (traders, suppliers, wholesalers, distributors, brands..)

For sellers, **the main interest of a Marketplace is, of course, to be able to access a high rate of traffic, to increase sales and to acquire new clients.** The Marketplace is an excellent marketing channel that also enables costs to be kept down:

- Commercial prospecting
- Management and assistance of partners
- Promotion

However, the advantages of a Marketplace are not just limited to marketing activities: they also concern technical costs:

- Infrastructure and maintenance costs
- Order processing costs
- Catalogue management costs

In this context, the seller has more time to concentrate on their own activity i.e. to sell the best products, at the best price and with the best service.

Finally, Marketplaces appeal to many players who traditionally did not sell direct to consumers over the Internet, such as the main brands or the physical retailers who now find themselves with a ready-to-use, **immense direct sales channel to support their cross channel marketing strategy.**
BUYERS

Like sellers, buyers can be individuals or businesses. Either way, the Marketplace is the best place for finding a huge selection of products proposed by a whole range of sellers: thus giving sellers a number of advantages:

- **Time saved** in searching thanks to the centralization of products and a single shopping basket
- Expenditure **savings** thanks to being able to shop around and compare prices (due to free competition inherent in every Marketplace)
- Businesses, in particular, that go through a Marketplace are quite visibly in step with a strategy that favours **purchasing optimization** (raw materials, finished products, services) as this enables:
  - Centralized purchases
  - Grouped purchases
  - Lower search costs
  - Lower costs relating to orders (now automated)
  - Access to a greater number of suppliers
  - Opening up of market to competition

Other factors are also vital in getting a buyer to be willing to use an online Marketplace: security and trust. Certain operators position themselves as trusted third parties and provide a legal framework within which transactions take place, whether it relates payment, delivery or customer service.
FRINGE PLAYERS

Fringe players are all players who gravitate around Marketplaces and who position themselves as intermediaries between buyers, operators and sellers.

There are several different types of fringe players:

- Services used to manage the presence of a seller on one or more Marketplaces, by aggregating product flow
- Brokers/ Price-comparison services to find the best products/ prices
- Logistics services for sellers.

It is very important to remember that in no circumstances, do these players have the ability to constitute a solid technical basis on which to build a market place. They remain a tool or service for the value chain but are totally substitutable.
2. FEATURES AND BENEFITS OF MARKETPLACES

2.1 TYPES OF MARKETPLACES

The term “Marketplace” covers a wide variety of forms. There are Marketplaces that are:

- **B2B**: Business To Business
- **B2C**: Business To Consumer
- **C2C**: Consumer To Consumer

Through which are exchanged:

- **Physical products** (e-commerce platforms)
- **Intangible property** (software, mobile apps)
- **Services**

There are distinctly different approaches:

- **Generalist or full-line**: these offer a vast range of goods within many categories
- **Vertical**: these concentrate on a specific sector of activity.

The status of operator is equally important when there are Marketplaces that are:

- **Hybrid**: the operator is also an e-trader
- **Pure player**: the operator is purely an intermediary
B2B MARKETPLACES

B2B Marketplaces are platforms where manufacturers, suppliers, distributors and exporters come to trade with businesses that are looking for raw materials, finished products or even services. On these sites, buyers can search either by type of product or by going direct to the manufacturer listings.

The great promise of these B2B Marketplaces is to simplify every aspect of buying. Purchasing processes in businesses are all too often complicated, involving a good deal of going back and forth between buyers and sellers, as well as constant negotiation. All this is done through countless exchanges of e-mails, telephone calls and time-consuming face-to-face meetings.

By centralizing suppliers’ offers and businesses needs on a single Marketplace, the operator streamlines these exchanges whilst bringing transparency to the proceedings. The Purchasing division of a company can search with greater ease and open up competition between suppliers whilst for the suppliers, the Marketplace provides a wonderful showcase for reaching many different companies and for opening up new markets.

As far as services are concerned, B2B Marketplaces distinguish themselves from B2C Marketplaces on a number of points. Firstly: on the features relating to trust. If an individual is swindled on a B2C or C2C Marketplace, the impact on his personal life is generally limited. When it involves purchases on a B2B Marketplace, the consequences can be much more disastrous, even impacting on the company’s survival. A big dent in cash flow and the entire business can be at risk.

To reinforce trust, B2B operators deploy a certain number of tools designed for certifying suppliers. These are the classic features of either
a points system by clients on speed of delivery, the condition in which a product arrives, customer relations or ranking by the operator according to the number of legal disputes, to their resolution rate, to the number of years of presence, to client portfolios etc...but also more probing certification.

On the Global Sources Marketplace the audit of suppliers can be very in-depth: “Verified Suppliers” are those that have had at least 3 visits from Global Source inspectors, the “credit check” is a financial audit based on 13 key factors carried out by Sinotrust and First Advantage, two firms specializing in Asia, and finally a “Supplier Capability Assessment” audits the production capability of suppliers (the state of factories, the performance of production lines, the quality of goods produced).

Not all B2B Marketplaces provide the same level of certification but the majority of them make buyers aware about how to spot a good supplier. This verification comes about through sound “business practices” such as carefully checking data supplied by a supplier, or verifying the contacts a supplier displays on an information file and ensuring direct contact with a supplier; insisting on returns clauses if goods are defective or using third party certification bodies etc....

The system for payment is another crucial aspect of Marketplaces. B2B Marketplaces have less capacity to impose their own payment system than their B2C or C2C counterparts. The variety of geographical origins of different suppliers (India, China, South-East Asia..) makes it difficult for an operator to impose his own centralized payment system. In the vast majority of cases, buyers and sellers come to an agreement on the method of payment they will use. Even on Alibaba where an in-house system has been developed (Alipay, an equivalent to Paypal), clients can choose other forms of payment. Operators continue to
advise using trusted third parties, known as “escrow services” for guaranteeing transactions.

Despite all of these precautions, there is still potential for fraud on such Marketplaces. Numerous scandals have, for example, tainted the reputation of Alibaba in recent years. However, the fact that the line between the Marketplace and supplier listings is sometimes rather fine in the B2B world should not be overlooked. Many of these sites enable buyers to find suppliers (putting them in contact) but their role of operator and the level of service offered to the different parties are sometimes limited, making them rather akin to on-line directories.

As far as the main players in this milieu are concerned, it is noteworthy that there are many Marketplaces that bring together Western businesses and Asian suppliers. The product choice in these cases is quite simply huge, the vast majority being made up of finished goods covering a broad array of categories: toys, electronic goods, animal accessories, sports equipment, office supplies, clothing etc.

- Alibaba.com: the largest B2B Marketplace specializing in Asian suppliers
- Made-in-china.com: the second largest supplier listing after Alibaba
- Global Sources: they stand out for their extremely high level of supplier verification
- Indiamart and Tradeindia: specializing in the Indian sub-continent
- Ec21: the Korean B2B Marketplace

Other suppliers from different continents also have a presence:

- Kellysearch and Thomasnet: the largest Marketplace for North-American suppliers
- TradeKey: is very well placed in the Middle East
- Solostock: in Spain
• Exportpages: a German Marketplace focusing on the European market
• MFG

As explained above, Marketplaces for “strategic” goods are less prevalent. Here are a few examples:

• Chembargains: specializing in chemical, pharmaceutical and plastic products
• Metal supplier online: specializing in metal

**B2C / C2C MARKETPLACES**

B2C platforms put professional sellers in touch with the end customer, i.e. the general public. These Marketplaces will also often provide a C2C space on which individuals sell their goods to other individuals.

The most well known players on the e-commerce full-line platforms, are Amazon, Fnac.com and Play.com, but there are a multitude of B2C and C2C Marketplaces in areas other than e-commerce.

**MARKETPLACE FOR PHYSICAL GOODS, INTANGIBLES AND SERVICES**

The majority of examples given in this paper so far relate to platforms on which there is an exchange of physical goods between parties: it would be over simplistic to go no further as there are many Marketplaces for “intangibles” and services.

Take a look for example, at the mobile phone Marketplaces. Apple’s Appstore complies with the definition of a Marketplace as it is a platform where developers come to sell their apps to consumers within a framework defined by Apple: app search system, rankings, direct
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downloading. Apple also provides a range of tools and services to facilitate the creation and sale of apps: a software development environment, technical support, promotional tools, integrated payment system, advertising network.

Today, iTunes is the premier Marketplace for intangible cultural products (Music, Books, Films and Video Games) as is the Appstore for software (25 billion apps were downloaded in March 2012). Apps such as Instagram or the video game Angry Birds would never have met with such success and so quickly, without the power that the operator Apple wields and the formidable ecosystem that was put in place.

For a few years now, Marketplaces dedicated to mobile apps (Abdroid Market, Windows Market, Getjar), to software (Google Play), to Cloud computing (SalesForce) continue to multiply: this distribution model is taking over from the classic model of boxed software packages in “traditional” shops. The Marketplace model has opened up huge opportunities for independent developers whose professional activities do not necessarily fall within the known technological areas and who can reach markets that were, up until now, difficult for them to obtain.

There is also a significant trend for B2C/C2C Marketplaces providing services in:

- Education
- Car-pooling: carpooling.co.uk, nationalcarshare.co.uk
- Personal services (babysitting, tutoring, cleaning): findababysitter.com, childcare.co.uk, happyhomechildcare.co.uk
- Cultural and tourist activities: Gidsy.com, Wondercity.com
- Odd jobs: TaskRabbit, Odesk
- Legal: lawyers, financial consultants
- Graphic design
- .....

2.1 Types of Marketplaces - 40
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There are also **professional-oriented services** (B2B):

- Ariba: sales' optimization, corporate purchasing and finance
- Nsicindia: sector-based market research (India)
- Supplyon: optimization of logistics chains
- ...

Positioned between service Marketplaces and e-commerce Marketplaces, there are an increasing number of platforms for person-to-person rentals:

- Apartment rentals, a sector currently booming: AirBnb, 9flats
- Rental of personal items (tools, clothes, games..) Zilok, eLoue
- Car hire: zipcar
- ...

Marketplaces are not restricted to the exchange of goods – far from it. As we can see above, many sites specialize in the exchange of services and software. In contrast to the large, full-line e-commerce Marketplaces, the majority of these sites are known as “vertical” i.e. specializing in a specific sector.

**FULL-LINE AND VERTICAL MARKETPLACES**

In terms of Marketplaces, a distinction is made between generalist or full-line and vertical.

**GENERALIST / FULL-LINE MARKETPLACES**

These offer a **vast range of products**. This is the strategy adopted by sites like Amazon, Play.com, Fnac. On these e-commerce Marketplaces, many categories of goods are available: photographic equipment, computer goods, household appliances, D-I-Y goods, games, baby products, telephones, luggage, books and many more besides. These on-
line stores are veritable shopping centres where consumers can find everything they need.

This generalist approach also exists in the B2B: Alibaba and Global Sources propose millions of references through millions of suppliers. Software Marketplaces such as Google Play, where publishers can go to sell their own software (games, productivity software, corporate software, image/photo editing software etc..). By making such a huge range of goods available, these Marketplaces seek to establish themselves as “one stop shops” – the favourite places for Internet users to do all their shopping.

VERTICAL MARKETPLACES

These on the other hand, specialize in a specific category of goods, within a specific sector. There are a certain number of niche Marketplaces that focus purely on a single area. Here for example we could mention Etsy, the Marketplace that specializes in Arts & Crafts; the French Marketplace Green Republic specializing in organic, fair trade goods; autoscout24, for cars or even Art.sy that connects art collectors and artists throughout the world.

Apart from the size of the catalogue and extent of choice, vertical Marketplaces each have their own value proposition that can be distinguished by:

- Marketing/communication approach
- The tools and features proposed to sellers and buyers

Marketing/communication approach

The approach to marketing/communication is the most visible difference between full-line and vertical Marketplaces.
Whereas generalists like Amazon, Fnac or Play.com need to offer a unique user experience across all product categories, on vertical Marketplaces, the overall tone and design is tailored to the sector they represent. Thus on a Marketplace such as Green Republic (organic, fair trade goods), the look, colours, way of highlighting eco-friendly and responsible arguments will quickly show the customer what kind of Marketplace they are visiting. The origin of goods and the methods of manufacturing will be clearly shown on product descriptions, highlighting their speciality angle. On Amazon, this kind of distinction is not possible: the product description format for a DVD will be virtually identical to that for an item of jewellery.

The buying experience criterion should not be played down in e-commerce, especially for high-end products such as luxury luggage, watches, shoes etc.. Making them stand out through stylish graphics and stunning photography is vital in inciting impulsive buying on the part of users. Certain features such as 360° photography or HD go to improve customer conversion rates. A site that specializes in motorcars will provide a different experience from one that specializes in jewellery or baby products: this is something that full-line Marketplaces cannot do.

Another aspect that distinguishes vertical Marketplaces from full-line Marketplaces is the notion of community. This is vital. Specialist Marketplaces primarily aim to reach communities of buyers having their own codes of practice and their own vocabulary. Communication must therefore be adapted to each of these communities. With the advent of social networks this aspect cannot be overlooked. Communities of Internet users are able to share much more easily. Word of mouth is more effective through Facebook and Twitter: these marketing channels have become real strengths for this type of
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Marketplace. True community trade (or social commerce) finds its place on these vertical Marketplaces.

Tools and features

Another differentiator concerns the tools and features proposed to Marketplace buyers and sellers. Amazon provides all sellers on its Marketplace with their own managed space, each one being identical regardless of the activity sector. Just as vertical Marketplaces personalize the shopping experience, they provide the same specific tools for both sellers and buyers. So, on Cafepresse, a Marketplace specialised in the sale of tee-shirts, sellers have the benefit not only of a personalized shop window but also a design tool for creating their own tee-shirts on-line and for « printing to order. »

“Non e-commerce” vertical Marketplaces actually operate on this principle of specialization. On Edufire, teachers give live lessons to students thanks to a proprietary video module and organize their timetable though an integrated diary system. On Marketplaces for personal services, tools facilitate the administrative requirements for employees and the use of approved service vouchers by customers. Art.sy, a Marketplace dedicated to art, brings artists and buyers together via an algorithm (The Art Genome Project) that specifically analyses buyers’ tastes.

As illustrated in the above examples, the buying experience and specialist tools are added value upon which vertical Marketplaces rely to attract users. They have to innovate and develop more specialist services to stand a chance against giants like Amazon or eBay who provide a massive range of products at the expense of a personalised shopping experience and who give themselves more room for manoeuvre on prices, playing on the practical element of the customer being able to find « absolutely everything » they need.

2.1 Types of Marketplaces - 44
HYBRID AND PURE PLAYER MARKETPLACES

A final distinction needs to be made in this profusion of different types of Marketplaces and this relates to the nature of the operator. In the world of Marketplaces, there are broadly speaking, 3 types of operator:

- **Hybrid operators**: these operators also sell products or services on their own Marketplace. They manage the Marketplace whilst at the same time, having their own sales activity. Example: Fnac.com, Mistergooddeal, Darty which are both e-traders and Marketplace operators, Google or Apple which sell their own software on their own Marketplaces (Google Market, Mac Store).

- **Pure player operators**: these are operators who from the outset, position themselves as purely intermediaries between sellers and buyers. In contrast with hybrid operators, pure players do not have a sales activity that could be in competition with sellers on their Marketplace. Examples: Etsy, Alibaba, Godsavethekids in e-commerce; Airbnb or Tutorspree in services.

- **Buyer or seller consortiums**: These are groups of buyers or sellers who come together to create a forum for exchange. These are generally very B2B-oriented. Examples: Hubwoo, Elemica, agentrics (supply chain/procurement).

On hybrid Marketplaces like Fnac.com or Amazon, third party sellers can find themselves in direct competition with the operator. The main difference being that operators have the power to better promote their own product ranges. However, to have a successful Marketplace an operator must not develop his interests to the detriment of sellers or clients.
As we shall see later, it is vital to build a Marketplace on the win-win-win operational principle. Thus, third party sellers may find themselves being put to the fore despite being in direct competition with the operator, most often when they are both well positioned in terms of price and can provide a superior level of service. For the operator, it is preferable to get commission on a sale made by a third party (often higher than his own gross profit margin) than to lose the customer or to keep them at the expense of profit.

The position of hybrid operators is therefore more delicate as there are conflicts of interest, unlike for the pure player operators who are established only as intermediaries. The right balance must be found between commission on products sold by partners on the Marketplace and operating margins net of variable costs on products sold direct. The Marketplace’s success depends on it, as demonstrated by both Fnac.com and Amazon who have managed to find the right balance.
CASE STUDY: HOW APPLE REINVENTED THE MOBILE APPS MARKETPLACE MODEL

In the eyes of many, the key to Apple’s success in the mobile phone market lies with its revolutionary smartphone: the iPhone. Of course, this mobile terminal is at the core of the American company’s market success but equally so was its approach to its applications Marketplace.

Apple did not invent the concept of the mobile app: they existed well before the creation of the Apple’s Appstore and were already accessible via Marketplaces.

Historically, these Marketplaces were managed by telephone companies (like Orange) and manufacturers (Nokia) but they never saw the level of success of the Appstore: in barely 3 years, more than 500,000 applications were put on-line by developers and were downloaded over 18 billion times by iPhone owners.

The explosion of this market worth 1.7 billion $ in 2009 and almost 4.5 billion in 2011, is not solely due to innovations made by iPhone and its excellent sales, but also due to a radically different approach adopted by Apple for its Marketplace, notably concerning the level of services for developers, the improvement of the distribution channel and the profit-share for app sellers.

The development environment. Marketplaces originally managed by operators were positively punitive towards developers: it was a difficult technology to master, very expensive API access, unattractive development environment etc.. To give a parallel in the world of e-commerce, it would be rather like Amazon creating shops and product
catalogues that were non-user-friendly or highly complicated for its sellers.

Apple turned the situation on its head by offering a well-regulated development environment, a much more accessible programming language and an API package that was virtually free to facilitate developers’ work. They could now create applications of far superior quality and at a much faster rate than on the operators’ platforms.

**An effective distribution channel.** Second decisive factor, is that of the effectiveness of the distribution channel. In order to be able to download applications, the user has to be able to find them and this takes place on a Marketplace showcase.

Previously, these Marketplaces had little exposure on mobile phones. Operators and designers preferred to highlight their own pre-installed applications at the expense of those developed by third parties. This situation naturally curbed the number of potential downloads: the distribution channel was flawed as much for the application developer as for the consumer.

One of the only means of promotion available was advertising beyond the Marketplace. This is why, for example, television advertisements for ring tones, wallpaper and other prank-style games were so prevalent only a few years ago (« download this game by typing 1234 on sms »).

Making another analogy with an e-commerce Marketplace, it is as if Amazon or Fnac.com propose a Marketplace but hide sellers’ products in order to promote their own.

Here again, Apple changed things completely by giving applications developed by third parties maximum exposure and visibility via its
Appstore. The Appstore icon is very easily accessible on the iPhone and the designer can effectively highlight leading applications via downloads classification.

Even the promotion of this Marketplace was slick: many advertising spots extolled it to the general public with the famous catchphrase, “There is an app for that too!”

This promotion of applications was clearly beneficial for third party developers: a veritable economy was created just around apps. An increasing number of publishers are able to make their entire living thanks to this Marketplace that has become a highly effective distribution channel.

The final crucial element that Apple transformed: revenue sharing with developers.

On pre-2008 designer and operator Marketplaces, revenue sharing was typically a 70% (for the Marketplace operator) and 30% (for publishers/developers) split: it was obvious who was the losing party. This is why, notably, the first Appstores were overflowing with apps of little interest like ring tones, jokes, compatibility tests etc… Revenue sharing at the time was actually so appalling that developers were practically reduced to only selling apps that were the cheapest to produce.

On Appstore, revenue sharing was clearly re-structured in the developers’ favour: now 70% for them and a commission of 30% for Apple on revenue generated via its platform.

Conclusion: Apple’s Marketplace has its critics, it is not totally perfect for sure, but you cannot take away the credit due to it for having made a market really take off. Even though operators had high economic
potential right within their reach, their over-restrictive conditions hindered third party publishers.

This is a good example of the importance of the win-win-win relationship (seller, operator and client) on a Marketplace. By improving exposure, the distribution channel and revenue sharing, Apple knew how to bring together many developers who could make a living through the iPhone, producing a higher number of quality apps that in turn, attracted more and more clients: an ideal dynamic for a Marketplace.

2.2 MARKETPLACE BUSINESS MODEL

SALES COMMISSION

The principal revenue model for a Marketplace is based on sales commission.

This is the classic model for Marketplaces and the one most frequently used. It would be quite logically to give it the title of business introducer: the sale takes place on the operator’s showcase, with a visitor they have attracted and the operator takes a percentage (usually) commission on the transaction. This is a win-win-win model:

- **Win** for the customer who has found the product or service he or she wants and carries out the transaction in a familiar and secure setting;
- **Win** for the seller who has opened a new risk-free sales channel where technical infrastructure and marketing costs are entirely assumed by the operator;
• **Win** for the operator who is guaranteed customer loyalty by being able to offer more products, a greater variety of prices, more recommendations....whilst sharing his costs without running logistical or stock risks. The operator thus is guaranteed having additional, profitable revenue: on a sound Marketplace model, the commission rate is often higher than the contribution margin of a classic distributor.

However, this model for sharing revenue between operator and seller does not represent **the only source of revenue for the operator**. As seen above, a Marketplace is an ecosystem where different services are available to sellers and for which they are often billed.

### PROFESSIONAL SUBSCRIPTIONS

On certain Marketplaces, once a determined quantity of stock or volume of sales is exceeded, a seller will fall under the “professional” category and as such will have to pay a monthly subscription. This “professional” status gives sellers some advantages, i.e. better exposure in search results, access to key business indicators for their activity, API access to automate all or part of their order, stock, message flow etc, the reduction of certain costs (fixed, display rates) etc.

### ADVERTISING

In most cases, the aim of a Marketplace is to attract a maximum number of visitors and to ensure the highest frequency of traffic possible. Many high traffic Marketplaces also adopt a monetization strategy using advertising: product adverts, advertising banners, brand partners.

It is interesting to be aware of the diversity of potential revenue sources in the Marketplace model. It is a **model with variable geometry**: revenue flow comes not only from its core activity in
connecting sellers and buyers, but also from additional services available to sellers.

The very challenge for a Marketplace monetization strategy is to identify the most relevant revenue streams and to optimize them. It is vital for an operator when defining such a strategy and when building the Marketplace, to have the notion of building a model that will be a winner for all players: clients, sellers, operators and other partners.

2.3 BENEFITS OF THE MARKETPLACE MODEL IN TODAY’S E-COMMERCE

The Marketplace is a model that is particularly well suited to e-commerce. Not only does it come across as a good solution to issues about finding trusted products for consumers, it also adapts itself to the specific nature of Internet selling for traders, brands and other distributors alike.

This model is in the interests of all of the value chain players cited above (operator, buyers, sellers). It is a win-win-win model. Thanks to mechanisms set up on a Marketplace, exchanges between the different ecosystem players are more streamlined and many of the issues they normally face can be resolved.
2.3.1 BENEFITS FOR OPERATORS

The operator is the Marketplace’s conductor, who determines the level of service provided for sellers, decides upon the degree of control over transactions and over payment. The operator must make a subtle blend of these different ingredients so that transactions run as smoothly as possible between buyers and sellers. The benefits received by an operator can be either **direct or indirect** and they vary according to whether an operator is a hybrid or pure player.

**HYBRID OPERATORS**

To recap, hybrid operators are e-traders who are either Web pure players (Play.com, Pixmania, Amazon..), or “bricks and mortar” (Fnac.com, Wal-Mart, Best Buy..) that open a Marketplace in tandem with their own on-line sales activity.

These players are only too aware of the issues involved in creating a brand or in generating traffic and they already carry all the costs inherent to an e-commerce activity: supplier/distributor relations, logistics, customer service, IT infrastructures, handling marketing and advertising, acquiring traffic....

**Launching a Marketplace is indispensable** in this context, for it is the only way to capitalise on what is already in place, to **develop the activity and get a return on investment**. Disintermediation is at the core of the Marketplace model and actually allows for a **reduction of the value chain** whilst enabling the full benefit of the Internet to be enjoyed.

In practical terms the creation of a Marketplace covers three main needs: **broadening product choice, improving customer service**
2.3 Benefits of the marketplace model in today’s e-commerce

**and chiefly, improving profitability**, notably through pooling costs (technical platform and marketing costs) and, for physical retailers, the **presence of a real cross channel marketing strategy**.

**EXPANDING PRODUCT CHOICE**

One of the main advantages of e-commerce sites over their physical counterparts is the ability to offer much more extensive product catalogues. Indeed when Amazon was just starting, Jeff Bezos made this into a leading commercial argument: Amazon was the most comprehensive bookstore that existed and absolutely no physical bookseller could provide the same level of choice.

The argument was unbeatable even though competitors pointed out that Amazon did not actually hold everything in stock: in fact, Amazon only displayed the catalogue and, rather like in a normal bookstore, orders were placed with distributors for books that Internet users requested.

The sector has changed since and it is true that the main e-traders now offer a depth of choice and speed of delivery that are hard to beat by the more traditional traders. The size of the catalogue has become an indubitable competitive advantage. Internet users will go primarily to Amazon or Play.com because they know they stand a very good chance of finding what they want.

But **for an e-trader, live expansion of their catalogue is not easy, nor is testing or opening new lines of products.** It necessitates finding good suppliers, placing orders (initially just for small quantities which is not very economic in terms of prices), setting up logistics and organizing stock space, conducting the right product sourcing to be sure of meeting customers’ needs. Rather than internalising everything,
opening a Marketplace is the only real effective and profitable alternative.

For a hybrid operator, opening a Marketplace allows for delegation to third party sellers of all sourcing, logistic and delivery tasks. In exchange, the operator generates traffic.

This strategy was largely deployed by the major hybrid Marketplaces. Over recent years, when Amazon sought to open new product categories i.e. baby goods or shoes, rather than opting for self-distribution of these products, Amazon initially entrusted external specialist sellers with the task. In France for example Pixmania, Fnac.com or CDiscount followed suit, enabling a dramatic expansion of their product ranges way beyond existing boundaries. It was the Fnac.com Marketplace for example, that encouraged the sale of games and small household appliances long before the physical stores.

If this strategy seems incredibly obvious, it should be remembered that when Amazon first opened up its traffic to other professional sellers, many predicted its downfall. Allowing a customer to buy a product on your own site via the competition seemed madness. But the risk paid off, as it was this ‘opening up’ of its Marketplace that allowed Amazon to offer such a wide choice to visiting users without eating into its own sales.

Without a Marketplace an e-trader does not have the capacity to drastically and profitably expand their product catalogue. This involves investing in sourcing, stock space, delivery - none of which happens overnight. The Marketplace is a quick and economical means of getting there.

Thanks to its Marketplace, Fnac.com went from a product range of barely 1 million to close to 15 million in just a matter of months. On a
vertical niche model such as Green republic (C.f. interview with its founder David Lozano) the jump was from 3,000 to more than 24,000 products in hardly one year. **More choice attracts more clients, meaning more traffic and traffic in turn attracts more sellers: setting in motion a virtuous circle.**

The second point that should be emphasized is the choice of sellers on a Marketplace. Naturally, opening up your site to other sellers will facilitate expanding the product range, but quantity must not be to the detriment of quality. This is the reason why in the launch phase hybrid operators tend to favour third party sellers who are known and why they make their own selection of sellers who can come onto their Marketplace. At a later stage, when both the product range and trust element have taken root, the operator can gradually open up to other less well-known sellers, still retaining the same level of control (automated to the maximum degree by using a quality technical platform).

A Marketplace therefore is an effective solution for an e-commerce operator who seeks to extend product choice, enabling other categories of products to be opened up. The benefits of the model are not limited to non-catalogue products. Certain hybrid operators also authorize third party sellers to sell the same goods that the operator sells. On Fnac.com, for example, a client can purchase a video game either directly via Fnac or via another Marketplace seller, the prices being visible on the same product detail page.

Why should an e-trader show product choices coming from other e-traders on the same product detail page?

- Firstly, this allows **effective management of items potentially being “out of stock.”** If a product is no longer available with the operator, the client can look to other displayed sellers who do
have it in stock, instead of going to a competitor. The vital element being that for the customer the buying experience and level of security remain the same. For a customer secure buying through a third party seller is tantamount to buying through the operator: the purchase is made through Play.com, not through seller ABC.

- It may well be too, that the seller benefits from better supply conditions making them more competitive, whereas to achieve the same, the operator might have to agree to erode profit margins to a too greater extent. The Marketplace can therefore allow the operator to concentrate on sourcing for products that have a greater turnover and with better buying conditions and to thus, free up room for economic manoeuvre with a view to developing the site.

- Finally, thanks to the Marketplace products that are no longer made or in limited editions only (and that cannot be re-supplied through the operator) remain available. (Non) professional sellers take over from the operator with new or second-hand offers.

The choice and availability of products on display are crucial issues for e-traders. A client visiting the site, who fails to find the product he/she is seeking, or discovers that it is out of stock, is a disappointed client and the sales opportunity is lost. Especially since this customer may as a result change his/her habits and start to look elsewhere, for example, on a site where the item is available: this client is still obviously somewhere on the Web. By setting up a Marketplace, a hybrid operator can mitigate the problem of choice and availability.
HOW DID AMAZON OPEN ITS MARKETPLACE?

“Our vision was, we want to have a place with universal selection, and we didn’t believe we could do universal selection without a whole bunch of third parties helping us.” Jeff Bezos (CEO, Amazon.com)

Very early on, the founder of Amazon understood the prominent role of third party sellers in realizing his vision of the biggest on-line store in the world. His objective was clear from the start: it was all about providing the greatest possible choice to consumers. Aware that he could not achieve this objective using a classic e-commerce model, he opened his doors to external sellers from as early as 1997 (only two years after having created Amazon).

Amazon was a precursor in a number of domains, notably that of affiliation. In 1997, the site that was still only selling books, created the “Amazon Associates programme.” Innovative at the time, this programme offered Internet site owners the possibility of promoting Amazon products directly on their sites and of being rewarded with commission on any sales transactions. The programme still exists and has often been emulated. Many websites offer affiliation programmes, this having become a widespread sales method on the Internet.

1999 was a very important year for Amazon in the process of creating its Marketplace, witnessing the successive launching of Amazon Auction and the zShops. Amazon Auction was an attempt to compete with eBay on the person-to-person auctions market. Similarly to eBay, Internet users could put items up for sale through a system of bidding. However the programme proved to be a failure for Amazon and it was closed down only one year later.
zShops bore a closer resemblance to a Marketplace format and can still be found on Amazon today.

zShops worked on the principle of providing a Marketplace to both sellers who were private individuals and those who were professional who could sell their products on Amazon.com. The main difference with the today's model lies in the fact that zShops had a space in their own right. The products of third party sellers were not visible on Amazon’s product details. The zShops failed to totally satisfy Amazon customers. With the advent of a new approach, the “Marketplace” programme finally saw the light of day in the year 2000: this time providing the right format.

The successive failures of Auction and zShops were simply stages in the search for an ideal Marketplace formula for Amazon.

"We launched auctions, and that didn't work. We launched zShops, and that didn't work. And we finally launched Marketplace, which has morphed into Merchants, and Marketplace was very successful (...). The reason why Marketplace worked where auctions did not is because Marketplace was convenient, it was still one-click shopping. And our customers didn't want to do auctions. They wanted to come in, find what they want, buy it, and go away." Jeff Bezos (CEO, Amazon.com)

In 2013, Amazon was the hybrid operator offering the widest choice to its visitors. Millions of references were available under many different categories: cultural goods, animal products etc. Such a choice would not be possible without the Marketplace structure. Marketplace sellers weigh in with more than 52% of products sold on Amazon and this allows Amazon to claim the title of the world’s biggest on-line store.
COST POOLING AND INCREASING PROFITABILITY

For an e-trader, launching a Marketplace parallel to an existing sales activity is a tremendous opportunity for pooling costs: marketing, advertising, technical...

The idea of organizing costs on a mutual basis is becoming an increasingly central issue. The overall job of an e-trader is to generate traffic: natural and paid referencing, affiliation, advertising, social networks: the e-trader has to be effective in handling all these tools in order to attract a large number of visitors and to convert them into buyers.

In a hyper-competitive environment (300,000 active e-commerce sites in the UK) where the bigger sites are only one click away from the smaller ones, traffic acquisition is becoming an increasingly costly and complicated business. Cracking the best audiences can take years and require considerable means. Even for specialist e-traders that tend to target a qualified traffic rather than one of volume, getting front row ranking on search engines is increasingly difficult.

From this angle, pooling marketing costs becomes virtually mandatory. By opening a Marketplace an e-trader can provide other sellers with visibility whilst sharing costs via commission on each sale. This allows the e-trader to maintain the underlying traffic growth dynamic. This is generally risk-free for third party sellers as they only pay if they sell, and also for the operator since the marginal cost of an additional seller is negligible.

This cost pooling logic is equally valid in terms of technical costs. Even if the availability of many specialist and tools software has rendered the e-commerce platform less costly than only a few years’ ago, achieving a
high degree of personalization, security and also dealing with strong traffic growth will involve further heavy costs.

The technical environment of an e-commerce site (from front-end to back-end), the marketing and advertising are all vital factors contributing to success. Whereas for the smaller e-commerce sites outsourcing of this platform can be envisaged (e-commerce delegation) for the larger ones the notion of effectively handing the store keys to external providers is unthinkable. Long-term, it is essential to be in possession of one’s own platform and to have the right technical skills in-house. In this situation a Marketplace allows for the pooling of any resulting costs and also for the sharing of acquired technical expertise.

Sellers on many Marketplaces have to a pay a monthly subscription to be able to enjoy the status of professional seller and moreover to have access to effective, adaptable steering tools designed for their activity. This facilitates the management of various facets of the sales cycle: orders, deliveries, returns, accountancy....

So, it is in the interests of an **operator to have solid and scalable technology** that will not only be key to the development of the activity of partner sellers but will also have a direct impact on margins. In fact, compared with a traditional on-line activity, **revenue generated by a Marketplace activity yields very high margins.** Financial analysts estimate that margins linked to the Amazon Marketplace are somewhere around 90% compared with 5% on direct sales. Naturally, revenue coming from Amazon’s Marketplace remains lower than that from its own sales but this share is increasing substantially each year. In 2012, 40% of Amazon’s revenue was already coming from its Marketplace and the announcement of more than 1 billion products sold from third-party sellers in 2013 is a clear proof that this trend is not going to stop.
The Marketplace therefore enables additional revenue to be generated that in turn cascades positively over the price of products sold by the operator. Amazon is able to offer average prices that fall below those of its competitors, thanks partly to its higher margin Marketplace revenue.

For all of these reasons, launching a Marketplace is becoming increasingly vital for the survival of both generalist and vertical e-traders.
EXAMPLE: AMAZON

Several large e-commerce sites reap the benefit of their platforms and technical know-how by offering hosting packages to brands and retailers who do not have e-commerce expertise.

However, the opportunities for an e-trader to capitalise on its own resources are not restricted to the platform. Amazon, for example, rents out the bandwidth and storage space it has on its own servers (via Amazon Web Service). Initially starting with the idea of renting out server resources that were not being used, Amazon Web Service (AWS) has since become a veritable business in its own right. Revenue generated by AWS continues to increase in the face of growing market demand for cloud computing resources. In 2010, AWS revenue was estimated at around 500 million dollars and in 2011 this figure was approaching the one billion dollar mark.

Similarly, through its FBA package (Fulfilment By Amazon) the American giant provides a solution to logistic problems for third party sellers. Any seller can take advantage of Amazon’s warehouses: Amazon takes care of stock space and also delivery when an order has been placed. This service provided by Amazon is so successful it reached 65% growth in 2013.

Pooling costs sets in motion a virtuous circle: shared costs, thus higher margins that in turn allow for price cutting, leading to increased sales, and so on and so forth...
CROSS CHANNEL MARKETING

It is inconceivable to talk about the benefits of a Marketplace for hybrid operators, without mentioning cross channel marketing: this is fast becoming a strategic issue for many physical retailers.

Over recent years the traditional “physical” chains have significantly increased their presence on the Internet. Currently, practically all of the big chains have an e-commerce site: from supermarket chains such as Argos, Waitrose, Mark & Spencer and Aldi, to electronic retailers such as Currys and Home Office to WH Smith for cultural goods, and many more besides (cars, textiles, furniture...etc)

On-line selling is becoming a vital element for “bricks and mortar” chains because:

- It constitutes an additional sales channel: customers can consume 24/7 without leaving their home.
- It is also a highly dynamic growth area, mirroring the very strong growth in on-line sales (20% per annum versus 2% in physical sales).
- Finally, there is an accelerating convergence trend between physical and on-line sales. Customers can go to a shop and test out or touch products before then going on-line to purchase them at potentially better prices. The mobile phone has had a very important impact too by increasingly blurring the border between off line and on-line.

It is very interesting to observe that against this backdrop, a growing number of physical chains are also opening Marketplaces in
Marketplace: the future of e-commerce

conjunction with their e-commerce sites. The reason for this is often because without the input of a Marketplace most of these players find themselves proposing a level of choice on-line that is less extensive than in their physical sales outlets, defeating the prime object of the Internet.

In 2009, Fnac followed suit and opened its own Marketplace, as did Wal-Mart and Sears over the Atlantic, followed by Best Buy in 2011, Tesco in 2012 and more recently Galeries Lafayette and Darty in 2013. Using the Marketplace model, these physical chains are looking to achieve exactly the same thing as the pure players: to expand product choice and price ranges to meet the needs of consumers whilst improving their profitability. Launching a Marketplace, moreover, lends itself to the creation of new synergies and buying experiences. Today therefore, it is possible to place an order in a Fnac shop for a product proposed by one of thousands of associated sellers and to have it delivered direct to your home or to a particular store. The service for the client is excellent whilst Fnac has yet another arm in its arsenal in its quest for clients. The Marketplace also means that Fnac now can propose “reconditioned” shop returns direct on Fnac.com, through one of the sales boutiques it manages live on the Marketplace.

“Increased assortment of products, brands and price points is exactly what people have told us they want. We listened and developed Marketplace to meet those unmet needs.” John Thompson (VP Best Buy).

Generally speaking, these chains do not have a strategy of opening their Marketplace to private sellers or small businesses. They primarily target traders who have already reached a critical size and who have no difficulty in serving many clients. In the same vein they invite brands to sell direct on their Marketplace space. The goal being to ensure that associated sellers can offer clients a high level of service.
It is not just the physical chains that are interested in Marketplaces. The year 2011 saw a successful takeover bid for one of the last remaining large, independent French e-commerce sites, RueDuCommerce by Altarea Cogedim, a real estate company specializing in the management of shopping centres and property development. The Group owns 45 shopping centres in France, Spain and Italy. By making this move, this real estate company decided to take a cross channel gamble in order to create synergies between its shopping centres and on-line shopping. To meet consumers’ growing expectations, Rue Du Commerce has chosen to substitute its own Marketplace solution, developed internally since 2007, by Mirakl’s platform. Thanks to its solution, Mirakl facilitates sellers and brands onboarding and simplifies their catalogs integration; while guaranteeing high quality of service. This new platform will enable the Altarea-Cogedim Group to exploit cross-canal synergies to their fullest extent.

This direction of developing a digital Marketplace was taken earlier by Westfield in Australia as they launched the first online mall (www.westfield.co.uk) to narrow the gap between physical and online shopping.

“The Internet is just as much a technical jump as a psychological one. (...) Our company pays itself through rent from traders, rather like RueDuCommerce takes a commission on sales made by sellers on its site (...) By investing in e-commerce, we can call ourselves the first multi-channel real estate company (...). We hope to harness the potential of RueDuCommerce to increase traffic to our stores as well as to improve our Internet sites, as for example, Cegedim-logelent.com.” Alain Travella (Founding CEO of Altarea)
PURE PLAYER OPERATORS

In contrast with hybrid operators, “pure player” operators do not have an e-commerce activity per se, they do not sell products direct. These sites launch themselves directly like Marketplaces. Their aims, their logics for traffic acquisition and broadening of product choice are completely different to those of the hybrid operator.

The objective for a pure player Marketplace operator is primarily to facilitate bringing together buyers and sellers, to streamline a market via a central exchange space. In this sense this is the “purest form” of using the Marketplace model. It is harnessed for facilitating transactions. The pure player operator acts only as an intermediary, unlike hybrid operators who have their own interests to defend.

The strength of a pure player Marketplace is in it entering fully into the logic of disintermediation that is at the very heart of Internet DNA. Indeed, contrary to a classic e-commerce site, it is not satisfied with simply transposing the trade value chain onto the Internet: Brand-Manufacturer-Wholesaler-Distributor, that tends to multiply the number of intermediaries and therefore deadlines and costs. In a Marketplace scenario, part of these physical flows are replaced by information flows. This results from the direct interface between client and product seller, whether it relates to a brand, wholesaler or other distributor. It inevitably follows that there should be a reduction in deadlines and savings in terms of intermediary costs.

This gain in productivity is revealed in three main instances:

- The Marketplace creates an interactive space within a sector where traditionally this does not exist;
- The Marketplace reduces an existing distribution chain (fewer intermediaries)
Marketplace: the future of e-commerce

- The Marketplace improves an existing distribution chain, making it more efficient.

The following examples of pure player operator illustrate this point:

- **Etsy** is a B2C Marketplace dedicated to the small craftsman or retailer who makes all kinds of “hand made” goods (bags, accessories, decorations, jewellery..) and who seeks to extend their habitual “local” market. Etsy is a very good example of a Marketplace that creates exchange spaces from scratch and which meets a real need for visibility on the part of its sellers. Around a “look and feel” need was one for true specialization. Etsy has established itself as a true specialist in the Arts & Crafts at the expense of eBay that was historically the Internet destination for these traders. As a result, the traffic generated is much more qualified and craftsmen the world over can sell their products more effectively. By capitalising on the strength of a pure player Marketplace, Etsy has succeeded (in just 6 years) in creating a new interactive space where, in 2011, transactions were carried out for a global sum approaching one billion dollars.

- **Alibaba** is a B2B Marketplace that connects Western businesses with Asian suppliers. In contrast with Etsy, Alibab’s success lies not in the creation of a new interactive space where one did not previously exist, but in the simplification of an existing distribution chain. Before Alibaba came on the scene, small Western businesses could already supply themselves with Chinese products but the distribution chain was particularly long. Chinese factories produced the goods then Chinese wholesalers stepped in to deal with Asian distributors (then Western distributors) and finally, at the very end of the chain were the small businesses buying their ‘made in China’ products for resale. Alibaba used the Internet to create a Marketplace that made finding and contacting Chinese manufacturers much simpler and more effective. Instead of passing
through a whole range of intermediaries, a Western company can log in to Alibaba and search the database for manufacturers. The company can also make an offer to an appropriate manufacturer and get in direct contact with them to carry out the transaction. Thanks to the Marketplace, the number of middlemen is reducing, on average bringing down buying costs. In 2011, Alibaba generated around €600 million in turnover and a net margin of about 26%.

- **Godsavethekids.com** is the first French B2C marketplace dedicated to mothers and children aged from 0 to 14 years. Launched in September 2013, the marketplace offers the largest selection of fashion, childcare, decoration and children’s entertainment products offered directly by famous brands, designers and specialised distributors. The marketplace developed in only a few months, relies upon Mirakl’s technological solution what has allowed Godsavethekids to launch its website with more than 40,000 references.

- **JOOR** is a young B2B Marketplace created in 2010 that connects fashion boutiques with young, happening designers. After only two years of existence, JOOR has been very successful not only amongst designers and brands but also fashion boutiques. Prior to the creation of this specialist Marketplace, interaction between these parties was not particularly effective. Brands and boutique buyers met during specialist shows. Sales agents would come to sell collections to the shops that in turn relied on paper catalogues to place their orders. Interaction existed but it was not streamlined. JOOR thus created a free Marketplace for shops that could browse the on-line catalogue (a centralized compendium of creations of hundreds of designers) and then place all of their orders centralized directly on the one site. JOOR made money by making all of the brands pay to have a presence on the Marketplace. In this case, the situation was a winning one for all three parties:
  - the shops that finally had a centralized space where they could easily find new designs and order them,
Marketplace : the future of e-commerce

- the brands that could get noticed and be better known in a highly geographically-dispersed target audience
- the Marketplace operator that made gains by adding value to all of the ecosystem players.
Marketplace : the future of e-commerce

SELLER RECRUITMENT IS AT THE CORE OF THE MARKETPLACE STRATEGY

The Marketplace business model is to charge a commission on sales made by third party sellers to consumers. Recruiting sellers and displaying their offers is thus at the core of an Operator’s strategy.

Depending on the industry sector and the position of the players within the market, different approaches have been adopted:

- On non-specialized marketplaces, such as Fnac.com or Amazon, offers from different sellers for the same product are displayed on the product page. This healthy competition drives prices down and allows the Marketplace Operator to always offer highly competitive prices.
Furthermore, having several sellers offering the same product helps avoid stockouts of successful products.

- Other players, such as Galeries Lafayette or Darty, choose to display each product offer from just one seller, among several, in order to simplify the user experience and maintain consistency with the rest of the site. Therefore, when customers navigate the e-commerce site, they see a single offer per product, selected by the Operator based on several criteria (price, quality of service, seller reviews, etc.).

Whichever strategy is adopted, integrating a large number of sellers into a marketplace is vital to getting the most benefit from this model.

It is therefore crucial for the Marketplace Operator to have the necessary tools to easily integrate a large number of sellers and
allow them to quickly import their product catalogs. The sellers' business activities must also be structured so as to be able to monitor their performance and ensure a high quality of service.

The solution developed by Mirakl makes it possible to easily and quickly integrate a very large number of sellers using its “Mirakl Catalog Integration” module. The solution also offers the ability to configure automatic rules for promoting or suspending sellers and to evaluate their performance. Furthermore, a number of tools are available to sellers so that they can deliver a very high quality of service, including an internal messaging system, order tracking, automatic emails, and many others. These enable the Operator to meet the ever-increasing expectations of its consumers.

HOW DO MARKETPLACES CONTROL THE QUALITY OF SELLERS?

On a good Marketplace, the operator pays special attention to the quality of third party sellers. **Customer satisfaction remains the number one criterion for e-commerce**, and the operator cannot afford to let unreliable sellers install themselves on the platform. Sellers have to offer a very sound buying experience to consumers whether in terms of customer service or in the ability to supply.

Operators use different types of approach to control the quality of sellers on their Marketplace:

- Pre-selection of potential associate sellers
- A posteriori filtering process

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PRE-SELECTION OF POTENTIAL ASSOCIATE SELLERS

Many Marketplaces carry out a pre-selection of sellers. Access to the sales space is reserved for associate sellers who have been individually selected by the operator. This selection process is generally based on criteria such as the size, experience, renown and even the capacity of the associate seller to process orders.

This is a strategy often used by hybrid operators when launching their Marketplaces. Thus, Pixmania, RueDuCommerce and Best buy or Walmart initially opened their Marketplaces solely to experienced professional sellers. RueDuCommerce started its activity as a shopping mall with sellers who were already known such as Grosbill, Sarenza or Micromania.

The obvious upside of this selection process is that it enables the quality of sellers to be controlled. However, there is double-edged downside: on the one hand, it can take a long time for this type of partnership to be established, and on the other, there is an underlying risk that the interaction with an associate seller does not go as well as planned. Moreover by limiting the number of sellers, a Marketplace is also curbing its choice of products and prices.

In the B2B sector, certain Marketplaces actually require sellers to provide certifications in advance. Similarly, access to Global Sources, the specialist in Chinese factories, is conditional on certifications resulting from factory visits, financial audits and even audits of the production lines. For these B2B platforms verification of suppliers prior to their joining the Marketplace is the best means for avoiding unpleasant surprises and potential frauds.
A POSTERIORI FILTERING PROCESS

Other Marketplaces opt for a more open model in which sellers can freely establish themselves. This is the approach adopted by Amazon, Play.com, Fnac.com and many more (Bonanza, Etsy, etc.).

Quality control is ensured through regulations that are imposed on the sellers and that are controlled by using performance-measuring tools.

Regulations will include a set of good practices that the seller agrees to be bound by, either contractually or not. Such constraints may cover the types of delivery, returns policy etc. Of course, just because a seller agrees to accept the conditions of sale, it does not necessarily follow that they are complied with: the operator must establish a certain number of tools that will enable performance to be measured as well as client satisfaction rates. A solid technical Marketplace platform should be able to handle these issues.

The first element to be put in motion is rating the seller. At the time of each transaction, the customer rates his/her buying experience according to a number of criteria that in turn allow an overall score to be given to the seller. This rating system is very common and used by virtually all Marketplaces.

The second tool often deployed by operators is internal rating. This is carried out using algorithms (often kept secret, such as the Pagerank by Google). The higher the seller scores, the greater number of advantages the seller gleans i.e. better positioning on the product detail page.

Amazon specializes in sifting out the good sellers from the bad. The benefits attributed to the best sellers shouldn’t be overlooked: many sellers positively fight it out to win the “Buy Box.” On each product detail page, Amazon’s product choice will be prominent followed (just
below) by other Marketplace choices. The “Buy Box” is the box that is reserved for the best seller: it allows the customer to start the buying process by adding an item to their shopping basket without going through the product listings on the Marketplace.

For a seller to have the “Buy Box” on a product is tantamount to guaranteeing a ten-fold increase in sales. The challenge to become eligible for it is very difficult especially as Amazon sets extremely high standards and only professional sellers who obtain the highest indicators for customer satisfaction and for substantial delivery capacity can hope to succeed.

Through this more open, “self-service” style of model the operator has the possibility of providing a broader range of products and prices to the customer. This is how Play.com, Fnac.com or Amazon can offer a mix of both new and second-hand products originating from millions of different sellers. Such a volume of choice would be hard to achieve using the more restrictive pre-selection of associate sellers.

The downside of this model is that the operator must put safeguards in place to ensure a consistent quality of service. Weeding out rogue sellers from amongst millions is not a simple task. Tools for picking up fraud, for sorting and ranking are rapidly become essential. The quality of the Marketplace’s technical platform and its capacity to incorporate penetrating, professional know-how, once again play a major role. Regardless of which option is chosen, it is the technical platform that handles all of these controls to guarantee the optimal customer experience.
FRAUD AND COUNTERFEITING ON MARKETPLACES

On top of issues concerning the quality of sellers, there is the problem of fraud and counterfeiting.

A Marketplace provides an ideal space for unscrupulous sellers seeking to sell all kinds of counterfeit and imitation goods. They have a huge audience at their disposal and can change virtual identities extremely quickly. Consequently, it is vital for an operator to keep a very close eye on potential problems that could be damaging for customers, the home brand image and the relationship with brands whose goods have been counterfeited.

This was the unfortunate experience that happened to eBay in recent years. By failing to adopt a clear model for trustworthy third parties, eBay left the door wide open for a number of fraudsters that flooded the site with counterfeit goods and payment scams. Many brands did not hesitate in accusing the American site of laxity and went on to sue.

From as early as 2004, the jewellery brand Tiffany sued eBay, claiming that almost 70% of Tiffany jewellery sold on the site was counterfeit, tarnishing the brand’s image. The bottom line of eBay’s defence was that the site viewed itself merely as an intermediary for bringing sellers and buyers together and that it was impossible for it to verify that each and every auction involved genuine goods. In 2008 in another case, eBay was ordered to pay €38 million to the Group LVMH for having allowed imitation bags and perfume to circulate on its site: these damages were in the end, reduced to €5.6 on appeal in 2010.

In the case of the designer Tiffany, the courts found eBay ‘not responsible’ for the sale of counterfeits and the Court of Appeal in Paris reduced the level damages awarded in the case with LVMH by almost 33 million Euros.
Nevertheless these court cases had a negative impact on the image of the site. Many consumers lost confidence in it and looked elsewhere for more secure Marketplaces. Forums positively overflowed with customer experiences of fraudulent sellers without having any recourse against them.

Even on Marketplaces that were better equipped to control transactions, nasty surprises could still happen.

In 2011 the B2B Marketplace Alibaba found itself at the centre of major controversy. A network of sellers had set themselves up on the Marketplace by providing false administrative documents. They then went on to cash in on transactions worth a total of several million dollars, without ever sending the buyers their goods. This scam was made possible through the complicity of a hundred or so of the Marketplace’s own employees. The site’s image was severely damaged especially as far as the American market was concerned. In the thick of it all, Alibaba came up with a new inspection programme for its Marketplace suppliers as well as for strengthening its financial guarantees.

This kind of scandal has a damaging effect on the image of Marketplaces that lose credibility not only with consumers but also with professional partners. The Marketplace operator has, therefore, every interest in deploying a whole collection of tools ranging from controlling the payment system to the algorithms used in detecting fraud or imitation products.

An operator must have a technical platform that will make the entire transaction secure and will enable the operator to avoid these kinds of pitfalls. This is based on security algorithms and on the verification of exchanges, reducing the level of exposure for the operator, for customers and for sellers.
INTERVIEW WITH MARTIN MIGNOT, EARLY STAGE INVESTOR – INDEX VENTURES

Martin Mignot has been with Index Ventures for over 4 years. Index Ventures is a leading venture capital firm who has been helping entrepreneurs throughout Europe create leading, global tech companies for over 20 years. Index Ventures has participated in funding major Internet success stories such as Skype, among others.

Martin primarily handles early-stage investments in Europe, with particular focus on marketplaces, SaaS, and financial technology.

Index Ventures has invested substantially in the marketplace business model, both in e-commerce marketplaces (Etsy, Farfetch, and NotOnTheHighStreet), as well as other vertical markets such as temp work (PeoplePerHour), finance (Funding Circle, Auxmoney), lodging (Housetrip, OneFineStay), and transportation (Drivy).

As a venture capitalist, your portfolio includes a significant number of marketplaces (Farfetch, NotOnTheHighStreet, PeoplePerHour, etc.). What do you see as the appeal of this business model?

For us, marketplaces represent the fulfillment of the promise offered by the Internet: a decentralized world where everyone can both receive and contribute information, whether it be offering their time, lodging, know-how, car, etc., for any type of goods, be they material or immaterial, whether offered by a company or an individual.
The strength of the Internet is to have created a marketplace that everyone can access.

For millennia, humans have frequented and traded at marketplaces. The difference with the Internet is that it has shifted from a local, regional or national scale, to a global, universal scale.

_In your opinion, what is the lasting trend that is profoundly shaping e-commerce?_

Fundamentally, the Marketplace is not a new concept. In fact, I think that the previous model of supermarkets and superstores was a historical anomaly.

Thanks to the Internet, we have gone back to the earlier system (some even talk of going back to the “Middle Ages”!), except that this time we have expanded it to a whole other scale.

Supermarkets and superstores monopolize traffic as they have enough capital to buy a lot of merchandise, and have enough space in the right locations to generate foot traffic. The digital marketplace abolishes this domination of capital and space, and gives power back to the outer edges of the network, instead of the centralized aggregators.

Of course, clusters of traffic will form around those merchants who have the greater means, brands, and recognition (Amazon being the prime example), but their relationships with their suppliers is much more favorable and transparent than in retail, if for no reason other than the fact that these virtual marketplaces are not limited by the constraints of shelf space.
What factors do you see limiting the implementation of a marketplace-style business (scalability, financial model, etc.)? Do you have some example of failures you could share with us?

There are certain limitations, particularly as concerns legal regulations. For e-commerce marketplaces, for example, you bump up against national barriers and customs fees once you try to sell goods between countries. These limitations also come to light when new players try to shake up regulated industries, such as what Uber and Airbnb are doing. Logistics, payments, and taxes have not evolved as quickly as technology, and these are genuine challenges that today’s startups must still face.

The promise of a completely decentralized, universal Marketplace has not yet been fulfilled, though we are starting to see some progress in these areas. For example, we are looking very closely at Bitcoin and other digital currencies that have the potential to facilitate online payments considerably. We are also interested in several logistics companies who facilitate international deliveries (including customs fees, handling returns, etc.).

The main reason for a marketplace failure is a lack of liquidity. By definition, a marketplace simply offers a technological tool that connects the two sides of an exchange. The platform operator does not verify the products, does not source them directly, and is dependent on its ability to attract the right players to its platform and strike the right balance between supply and demand. Marketplaces that have not succeeded are those who have not managed to solve all or part of this equation, which is harder to resolve the smaller the sales territory (for example, an ultra-local marketplace for in-home duties).
Another main reason why some marketplaces fail is related to their commissions. An operator simply provides an exchange platform. It cannot set its commission rates too high without the risk of being cut out from the middle. Since there are limits to the commission rate, very high sales volumes must be reached to become profitable.

**What would be your advice for someone seeking to create their own marketplace?**

The key to success is to create a model that is lean enough to create value on both sides, while also finding a way to capture a large enough commission in the middle. To accomplish this, you have to be sure that what you are offering makes sense, and that both parties in the marketplace will benefit from it.

You also have to make sure that participation in the marketplace is sufficiently fragmented, as it won’t make sense otherwise. If the marketplace is concentrated around 4 or 5 players, there’s not much point in launching it. That is the reason why many B2B marketplaces don’t succeed, because there is too much concentration on both sides. For example, we have seen marketplaces in the food industry that ended up connecting a small number of large suppliers with a few large buyers, who already knew each other.

The more you are able to aggregate a fragmented supply and demand, the more your marketplace has value.

Finally, you have to carefully think about how to lock down your model to avoid being cut out from the middle. For example, in the case of cars and apartments, this could mean offering insurance, or ensuring that payment is done online and not in cash, to make
things simpler and more secure. Building one’s reputation, particularly on the seller side, is also an essential lock-in.

As for commissions, given that rates are generally low and that one must achieve very large volumes of business to become profitable, the two options to consider are:

- offer a very wide, global selection, while charging a very small commission, such as Etsy

- focus on a very specific vertical market that you can dominate and therefore charge a much higher commission

Marketplaces are very good business models that must be well thought out in order to reach the levels of sales volumes and commissions that are high enough to ensure solid profitability.
2.3.2 BENEFITS FOR BUYERS

Whether the Marketplace is hybrid or pure player, the objective of this model in terms of the buyer is to:

- **Inspire confidence** and provide **security**
- Offer a **broad range of products and prices**
- Create the optimal **buying experience**

A survey (conducted by opinionway) dating from 2011 was carried out amongst English Internet users and examined at “the relationship between Internet users and e-commerce today”: it showed that the main incentives for buying are price (68%), time-saving (62%) and delivery (58%) whereas the main stumbling blocks are excessive delivery costs (43%), the fear of being swindled (36%) and the lack of guarantee (30%).

This survey clearly reflects Internet users’ positive and negative views of e-commerce. Marketplaces have an important role to play in dealing with these issues.

**TRUST AND SECURITY**

One of the most important elements for a Marketplace operator is to ensure that transactions are carried out in sound conditions and that buyers (and sellers) can exchange goods with total confidence and trust and in a completely secure environment.

In this respect too, a true Marketplace can be distinguished from a Classified ads site. The role of the operator and the technical platform that he provides is to establish a certain level of regulation that will, in turn, inspire confidence and trust. There are diverse tools available ranging from centralized payment systems, to pre-selection of sellers.
and the obligation on sellers to comply with delivery deadlines, responsibility for customer service, guarantees...

According to this survey, confidence or trust is one of the three most mentioned preoccupations of Internet users when talking about reasons not to make a purchase: the others being fear of being swindled (36%) and lack of guarantee (30%).

It is also for these reasons that many Internet users turn towards sites like Amazon, Play.com or Asos to do their shopping. By going onto these sites, they are guaranteed not to be swindled or to endure lengthy delivery dates as the operator is there as a trusted third party to reimburse them and to penalize the seller.

In a market that now has more than 300,000 e-commerce sites, it is more and more difficult to know which sites can be trusted and which ones are best avoided. Sites with well-known brands will always be preferred and will inevitably inspire more confidence and trust. The Marketplace will play an increasingly important role in this interaction between buyers and sellers by existing as a trusted third party.

It is also a form of revenge on the part of the physical retailers who have a superior level of trust over the pure player. The existence of one or more physical outlets is reassuring for the customer and this has led the majority of e-traders to open physical outlets before even embarking on a cross channel marketing strategy.

**A BROAD RANGE OF PRODUCTS AND PRICES**

Price is the key factor for cyber-shoppers: not only is it the main incentive for buying (as per 68% of surveyed Internet users) but it can also serve as a deterrent when delivery costs are considered to be too high (as per 48% of Internet users).
Once again, a Marketplace provides an efficient solution to the problem. This relies on operators setting up their own regulatory mechanisms but more and more often Marketplaces are giving a (virtually) free rein to competitive pricing within their platform.

On Amazon or Play.com, Internet users can view all available prices for the same product description, whether this is a price proposed by the actual operator on a direct sale basis or that of third party sellers. The operator actually decides on how these different prices are presented but generally speaking, it is quite straightforward for the buyer to see the whole range of available prices.

One major advantage for the Internet user is the ability to choose a product according to his/her budget. Looking at the same product, he/she can buy it new, at full price, can choose to buy through another seller slightly cheaper, or even buy a second-hand version for considerably less.

**Such a broad range of prices is only possible within a Marketplace.** An individual e-trader will never be able to provide such a selection of price possibilities for the same product, be it new or second-hand.

However, having a good range of products is not solely a question of price. This also relies on product-sourcing to ensure that the needs of the buyer are met (best-sellers and long tail). **Once again, a Marketplace really does lend itself to providing a huge choice to the consumer.** Whether dealing with a broad spectrum Marketplace where consumers can find a bit of everything, or a more specialized, vertical Marketplace, the Internet user will usually find what he/she is looking for much easier than through a single e-trader.
OPTIMAL BUYING EXPERIENCE

Finally, there is the user experience factor.

The Marketplace provides consumers with:

- greater choice
- a seamless buying experience
- a sense of confidence or trust and security

The analogy between a shopping centre and the Marketplace is inevitable and applies in equal measure to consumer expectations. One of the attractions of a shopping centre is that consumers can find a range of shops together under one roof where they can buy everything they need.

The e-Marketplace provides the same advantage. By surfing on a broad-spectrum Marketplace, an Internet user will find everything from cultural goods, to household appliances, to electronic goods, to baby products…, whilst avoiding the need to go through, for example, 4 different e-traders and having to take out his/her credit card each time.

A seamless buying experience is vital. On most Marketplaces, there is a single shopping basket and the client pays all of his/her purchasers in one go, regardless of the number of sellers involved. Furthermore, once an individual client account has been set up, future purchases are even faster as the relevant bank details have already been saved.
2.3.3 BENEFITS FOR SELLERS

A Marketplace provides the following benefits to sellers:

- **greater market reach**
- **increased sales** and **stock flow**
- **technical** and **management tools** (notably for payment)

**GREATER MARKET REACH**

By being positioned on a Marketplace the seller is obviously looking to increase sales. The Marketplace model is a fast way of reaching new demographic and geographic segments of customers.

Thus to open the door to a rapidly expanding Chinese market, a growing number of Western businesses are gravitating towards TaoBao, the largest B2C/C2C Marketplace in China that is owned by Alibaba. With its 350 million registered users, the site represents a very attractive destination for sellers.

Not all sellers have the financial power or the necessary know-how to set up on Chinese territory. The Marketplace is therefore an effective solution that enables them to interact directly with local consumers. This phenomenon has really taken off in recent years and an increasing number of services exist to assist Western sellers: storage and delivery centres are actually available on Chinese soil, thus reducing costs on both these fronts.

The Marketplace not only opens up new territories but also new customer segments. Each Marketplace has its own customer profile.
A seller has every interest in diversifying his “Marketplace portfolio” by being simultaneously positioned on several categories with a view to varying the clientele.

**A SOLUTION TO INCREASE SALES AND STOCK FLOW**

For a buyer, confidence and trust are key criteria in the buying process: these come across for the most part, through a brand’s image on-line. The brand is one of the most important assets an e-trader can have and effectively establishing one in the eyes of customers usually requires a number of years and considerable expense.

The Marketplace Model resolves this problem for smaller businesses and newcomers. To allow external sellers to come and sell on the platform, the operator provides them with his brand and the trust plus confidence that this inspires. The customer who has just purchased on Play.com knows that his/her purchase is guaranteed and that he/she can buy in total confidence, even if it he/she does not actually know the seller.

Even if a seller does not have the advantage of a well-known brand or a sufficient level of traffic, if the products proposed are sound and at decent prices and the seller has a good ranking on the platform, the potential for sales on the Marketplace is enormous.

For over a decade now, e-commerce has continued to expand. However, over those ten years the terrain has changed a lot and what worked yesterday in terms of attracting customers will not necessarily work as well today.

Whereas a good deal of acquiring traffic happened through natural, effective referencing, it is now more and more difficult for the smaller e-traders to stand out on search engines. The same goes for paid
referencing where space reserved for sponsored links are hyper-competitive and have less impact than a few years ago. To build a strategy solely on natural referencing or sponsored links has become a risky game. Marketplaces have therefore become additional and vital channels for enabling greater reach and for swifter sales of products.

For the majority of sellers on a Marketplace, commissions levied on sales are viewed rather like an investment in marketing and technical support. To exist on these platforms is tantamount to buying traffic and leads, much in the same way as investing in a search engine, but a lot less expensive. Even if a seller already has an on-line sales space, it will still be advantageous to have a presence on the main Marketplaces and as a result to have access to a whole new clientele.

Marketplaces are excellent sales channels for the implicit traffic is qualified and on-line visitors come with a greater intention to buy than on search engines, for example.

**TECHNICAL AND MANAGEMENT TOOLS**

Marketplaces create a final advantage for sellers: tools for managing the sales cycle (processing orders, stock and dispatch) and especially for handling payment.

The different methods of payment, dealing with fraud....these are real issues for e-traders. Using a Marketplace that centralizes payments, the seller is spared such constraints. In most cases, the operator assumes the role of trusted third party and also guarantees the seller a level of security.

The Marketplace is not only a very efficient model for connecting and streamlining buyer/seller relations but is also a system that generates a number of advantages for the operator. An e-commerce site that has
Marketplace: the future of e-commerce

reached a certain size has every interest in opening its own Marketplace to extend its site’s reach to new sellers and to broaden the product choice and price range. It is the key to attracting more customers, to increasing profitability and to improving services.
INTERVIEW WITH DANIEL BROCHE, E-COMMERCE DIRECTOR AT VILLATECH

Daniel Broche is responsible for site development at e-tailer Villatech. Prior to that, in 2004, Daniel created the site Discounteo to sell home appliances and high-tech equipment online. The site was acquired in 2009 by a distribution company that merged the Disconteo site in 2013 with its other brand, Villatech.fr. The marketplace developed on Disconteo in 2012-2013 was also moved over to Villatech.

What are the main difficulties you encountered while building your Disconteo/Villatech e-commerce site, and how did you resolve them?

Two years ago, we observed that customers were searching our site for a number of products that we didn’t carry and were related to what we were offering in home appliances and high-tech. Since our parent distribution company was not interested in diversifying those product categories, we looked for solutions to enlarge our product selection and build customer loyalty so as to encourage people who had a good experience purchasing home appliances or high-tech products on our site and who would think of buying other products from us again, would do so on our site rather than elsewhere, such as on Amazon.

To accomplish this, we decided to partner with white label companies and offer drop-shipping (direct shipping from the supplier) on complementary product categories. After two trial runs, which lasted just over a year, we decided to instead switch to setting up a marketplace on Discounteo. The project started in 2012 and the marketplace was operational by spring 2013. Upon the
merger of Disconiteo and Villatech last October, the marketplace was integrated into the latter, and we continue to develop its business to this day.

Why did you decide to change models? What were the limitations of the drop-ship model?

The drop-ship system has several limitations.

For starters, there is an initial technical barrier. Unlike a marketplace, the drop-ship model requires you to first create, in your own computer system, either the SKUs, catalogs, or seller accounts to enable billing. This takes a lot of time and can be complicated.

Next, there’s the question of assuming responsibility. With drop-shipping, we invoice the customer as a white label and then invoice the supplier for goods that never pass through us. We must therefore assume all the risks of payment defaults and product defects, despite the fact that we have never had the opportunity to inspect the product. In some product categories, these risks can be significant.

Finally, the ability to scale the white label model is weak. Since we are ourselves also a marketplace seller, we observed that once we were a seller in one marketplace, it was relatively simple, using certain tools, to branch out to other marketplaces. Almost any merchant, whether selling online or offline, has a product management system and an invoicing system, and can therefore sell on marketplaces. With the white label approach, things are a bit more complicated. We discovered that some suppliers with whom we established partnerships had difficulty grasping certain concepts. They thought they could start a white label business but
discovered that having to cater both directly to consumers as well as to distributors raised problems they hadn’t expected.

All of these difficulties resulted in us realizing that it was much more logical and scalable to implement a marketplace model, where the seller is the one who assumes responsibility for the goods, and where facilitating the sales process, connecting buyers and sellers, and administering transactions is all managed online by our platform and our company. The roles are thus clearly defined.

Did you encounter difficulties switching from one model to another?

Yes, of course. First of all, certain partners we were working with on a drop-ship basis didn’t want to switch over to a marketplace model because they were afraid they would end up in the consumer goods business and wouldn’t be suited for that model. This is just one of the reasons that explain why selling to the general public is quite different than selling to businesses.

There were other complications with the marketplace model, since we had decided to build it in-house. As the project moved forward, we realized that having an interwoven mix of external systems and our own internal system created side effects at different levels:

- when creating the product catalog, to ensure our own offers could coexist with those of third party sellers, with good shopping cart management rules, especially regarding shipping charges, so that everything would be uniform

- in our invoice management, so that everything worked together correctly in our accounting system and no additional fees or charges would be generated
on the customer service side, so that customers would clearly understand that they are ordering from a third party seller.

We therefore had to face a number of issues related to the changeover.

The project took a year and a half to build. Today, we have about 15 merchants on our platform, who together represent 30% of our total online selection. Our goal is to reach 30 to 50 sellers in the coming months.

**Does your role as a seller on marketplaces represent a substantial share of your business?**

Yes, definitely. Back when we were Disconteo, we were one of the first merchants to set up on the RueDuCommerce marketplace. Today, we sell on all the major marketplaces, including Amazon, Cdiscount, Pixmania, and RueDuCommerce. We know the different marketplaces quite well, including their strengths, weaknesses, and their different business approaches. Our results vary significantly from one platform to another, and it’s by drawing on our experience with those sites’ different practices that we have built our own tool that meets our needs and those of our partners and customers.
3. CHALLENGES INVOLVED IN LAUNCHING A MARKETPLACE

3.1 THE 5 PILLARS OF A MARKETPLACE

An effective Marketplace is built on 5 pillars:

- traffic
- the product mix
- the legal framework
- communication and sales cycle management tools
- the system of payment

TRAFFIC

Traffic is a vital component of a Marketplace’s success. The appeal of a platform depends very much on the quality of traffic that it manages to generate. The more visitors there are, the greater the opportunities for conducting transactions. The Marketplace embodies an effective additional sales channel by creating a degree of visibility that a seller would not necessarily be able to achieve alone.

To have a presence on Amazon is to be visible to millions of potential customers (Amazon serves more than 19.5 million customers, everyday worldwide).

Generating traffic uses up an enormous amount of resources, financially and in terms of time and requires a good deal of know-how on the part of an e-trader. A Marketplace operator is there to facilitate these tasks by taking them on board. Ensuring significant and qualified traffic to sellers is key for an operator.
The importance of traffic generated by an operator should also be appreciated in view of the verticality of the market concerned. Thus, a leading e-commerce site on a vertical market does not necessarily need traffic amounting to millions of unique visitors to purport to operate a Marketplace. In the same way, a leading brand, in-depth professional know-how or a very good relationship with potential sellers can also be enough to be able to launch a Marketplace.

**THE PRODUCT MIX**

As we have already understood from the definition of the operator’s role, it is the operator that regulates and organizes the Marketplace primarily through the choice of products or services sold, through defining the editorial and commercial stance of the Marketplace (vertical or full-line) and also through regulating management of promoting choices and even sellers.

The operator must define:

- Which products are authorized on the Marketplace?
- How are the product choices made visible on the Marketplace?
- What are the pricing policies that apply?

**WHICH PRODUCTS ARE AUTHORIZED ON THE MARKETPLACE?**

The operator determines which products or services Marketplace sellers are authorized to sell. This sifting process will depend largely on the operator’s objectives. On a platform like eBay, restrictions are practically non-existent. Sellers may sell virtually anything from normal items such as computers or games to more unusual objects. Being rather a Classified ads site than a structured Marketplace, eBay imposes few limits on sellers.
On hybrid Marketplaces like Amazon or Fnac.com, the situation is different. These two operators very carefully define which products can be sold. They retain **total control over the catalogue** and the product-mix. Products have to fall into specific categories (cultural goods, collectables etc) and must comply with their business stance.

Another parameter comes into play depending on whether the operator is hybrid or pure player. A pure player operator is solely an intermediary and therefore is not in competition with the sellers. Hybrid operators have to decide on the degree of their openness. On Amazon or Fnac.com, therefore, sellers can sell products that are already being sold on-line whilst Best Buy or RueDuCommerce only allow sellers to sell goods that they are not already selling themselves.

These choices **will depend on the strategy, the objectives and constraints of the operator.**

**HOW ARE PRODUCT CHOICES MADE VISIBLE ON THE MARKETPLACE?**

Once again, the operator establishes different regulations that apply to the promotion of the product choice available through the Marketplace and in turn, the relative degree of visibility. On Amazon and Play.com, product choices proposed by Marketplace sellers are **directly visible on the product details** pages. Surfing is done from product to product like on a classic e-commerce site. Everything is geared towards the visitor being able to buy as easily as possible from any seller, on condition that the seller complies with criteria determined by the operator in accordance with established strategy, notably on service quality and pricing. Following the example of Classified ads sites, other operators propose individual **product details per each seller's offer.** Thus, whereas on Play.com a search for “a black iPhone 4S 16GO” will
land on a single product detail page where entries about all the sellers who can provide the item are displayed together, on eBay, the same search would come up with as many web pages as there are different sellers….perhaps running into the hundreds.

Two approaches are possible in terms of product detail pages:

- either sellers create their own product detail pages that can then be submitted (or not) for validation by the operator,
- or sellers are restricted to using product detail pages designed and imposed on them by the operator.

On vertical platforms, it is often the sellers who create product detail pages from scratch, taking it upon themselves to draft the description and to produce visuals. The operator is therefore more often constrained by product referencing established by the sellers and this obviously requires the right balance of trust and vigilance.

Operators like Amazon have a catalogue that already contains many product detail pages with varying degrees of information. But they all give a minimum amount of details, such as the name of the product, the description and visuals. Operators like Amazon require sellers to use pre-established formats, the objective naturally being to provide a maximum amount of structured information to consumers and the same buying experience across the board regardless of the seller involved.

**WHAT ARE THE PRICE FIXING POLICIES FOR PRODUCT CHOICE?**

The pricing of products sold by Marketplace sellers may also be subject to regulation. Sellers on Amazon cannot sell a product for more than the
sales price they have on other platforms: this is the “price parity” rule. Certain price caps may also be introduced to avoid potential scams.

The idea of regulating how product choice is showcased is extremely important on a Marketplace. By sifting through opportunities, the operator is able to calibrate both product choice and demand with an emphasis on maintaining the right balance. Regulation must first and foremost benefit the consumer. If a particular product is not in stock with the operator, it must be readily accessible through another seller.

**LEGAL FRAMEWORK**

B2B, B2C or C2C e-commerce is heavily regulated. The operator’s role is to ensure that transactions comply with current regulations for both the seller and the buyer. However, not all Marketplaces impose the same level of requirements from a legal point of view.

Industry-driven B2B Marketplaces (chemical, metallurgy....) are highly regulated: exchanges on “sensitive” products take place under tighter controls not just in terms of types of contract but on the labeling and certification required before they can actually be bought or sold. Suppliers and buyers have to be whiter than white before being able to trade on these Marketplaces.

Requirements are less stringent on C2C Marketplaces: verification of the different players’ identity is not so in-depth, the risk of fraud is higher and contractual/payment constraints are less harsh. The mechanics of a C2C resembles that of a Classified ads site. There are also fewer restrictions in terms of monitoring and controlling transactions.

Operators who failed to comply with these requirements very early on, were faced with problems, as it is precisely the legal framework and
trust level that are so very difficult to ensure and safeguard when dealing with sellers who are private individuals. Indeed, it is much more difficult to impose demands on them due to the erratic nature of the business relationship. eBay came up with a response for this with its scoring system, a feature that was often copied on other Marketplaces, whether they were B2C or B2B. Here too, the assessment criteria for sellers are vital elements of a Marketplace operator’s strategy.

The legal aspect should not, therefore, be neglected as it *inspires confidence in buyers* and also helps operators to safeguard their own activity. Professional sellers (even international ones) on Marketplaces should, for example, be willing to accept a contract and Sales Conditions that oblige them to comply with French law. It is important that the *General Conditions of Sale* and the *Marketplace General Terms and Condition of Use* uphold the operator’s role as host or technical provider rather than that as site editor. In the latter case, the operator would effectively be compelled to exercise control over a certain number of fundamental elements appertaining to the seller and over which there would be no visibility.

**COMMUNICATION AND SALES CYCLE MANAGEMENT TOOLS**

One of the advantages of a Marketplace is that is provides management and communication tools to sellers, enabling them to avoid a large number of costs intrinsic to e-commerce solution hosting.

**COMMUNICATION TOOLS**

Communication between buyers and sellers, whether in an advisory context before the actual sale or after the sale in the guise of Customer
Services or a hotline, forms an integral part of the sales cycle in e-commerce business.

Marketplaces are no exceptions to the rule. They all propose **seller/buyer communication**-dedicated tools. These tools go to make up one of the key success factors of Marketplaces in providing reassurance, in the successful conclusion of transactions, in after-sales and in the regulatory processes set in motion by the operator (dependent also on the operator’s strategy, the visibility proposed to sellers and information given to clients).

These tools have different formats: **electronic mail; chat room; direct phone lines; Skype** etc…, it is important that **operators retain control** of whichever tool is proposed to ensure the smooth running of their role as intermediaries throughout the entire transaction and the whole sales cycle.

These communication tools form an integral part of a sound Marketplace not just in terms of buyer/seller comfort, exchange traceability and assisting operators in managing their regulation of the Marketplace but they are also essential to the operators’ management of their own customer and sellers service.

**SALES CYCLE MANAGEMENT TOOLS**

Logistics and sales cycle management is at the very core of an e-traders business. The majority of Marketplaces assist sellers in managing this aspect of their activity, on several different levels:

- **Software management**: virtually all of the larger Marketplaces include stock management on the sellers’ dashboard. This shows initial stock, updates in real time following customer orders and some may have features that notify the seller when stocks are falling
below a certain level. The most sophisticated systems allow sellers to update stock not only based on sales made on the Marketplace, but also throughout all of their distribution channels. This means that they have stock updates in real time, directly incorporated on their own information system.

- Operators can thus assist sellers in **monitoring their transactions** from dispatch, to the client receiving the goods and even, in some cases going as far as managing disputes and claims. For their part, customers must be able to check the progress of an order regardless of which seller is involved and follow the shipment from beginning to end. The operator also facilitates this. Reliability is of the essence here as it guarantees that everything runs smoothly, not only for the seller but for the customer too and that each party has access to all necessary information to ensure a streamlined transaction from start to finish.

- A good Marketplace also provides sellers with a set of software tools that enable them to interface directly their information system with that of the operator, essential for **facilitating updates**. The reliability of stock information shown by the operator is assured. This is also a deciding element in the buying experience and by dint of this, a key success factor for the Marketplace.

**PAYMENT**

In the context of goods being exchanged between sellers and buyers from all walks of life, the question of financial transactions is a very sensitive issue for operators.

**Security** and **trust** are two of the most important criteria for Internet users when buying on an e-commerce site. The act of making a payment over the Internet and having to give credit card details is a serious matter for customers.
It is the Marketplace operator’s role to provide customer reassurance and a secure environment for credit card/bank transactions. It needs to be clear to the customer that it is the operator that registers the transaction in a secure environment.

To deal with this issue the operator can pose as an intermediary “trusted third party” standing between buyers and sellers. Using the payment system, the operator handles the transaction payment, takes care of verifying credit card/banking details and of validating the payment itself: then, once the product has been dispatched, releases the funds to the seller.

Being a trusted third party and providing reassurance can be what makes certain operators really stand out (like Fnac.com) and may be taken as far as an operator refusing to pay the seller unless the customer is totally satisfied with all aspects of the transaction. If this is not the case, operators may go as far as reimbursing the customer, thus reinforcing their image as upholders of a quality, secure service.

Operators can either use existing payment systems such as Sips or Ogone or in rare cases, develop their own payment solution as Amazon has with Amazon Payment or Alibaba with AliPay.

The role of the trusted third party is equally important for both buyers and sellers. For the seller, handling payment adds complications: potential fraud, data security issues and different choices of payment (credit card, American Express, Paypal etc). By using an operator’s payment system, the seller does not have to manage these integral, time-consuming and costly aspects of on-line transactions. As for the customers who purchase from Marketplace sellers, they are not going to necessarily know about sellers’ reliability or the quality of their follow-up ability. Using the operator’s payment system, customer
confidence is increased. Transactions are guaranteed to be more fluid and potential disputes to be resolved.

The second advantage of operators imposing their own payment system is that they are able to provide a unified buying experience on their space. With a centralized payment system, customers can purchase more than one product from different sellers using a single shopping basket and only making a single payment at the end.

This is actually one of the fundamental interests in having a Marketplace: the ability to increase the number of products (from a variety of different sellers) in the same shopping basket, whilst guaranteeing a smooth and integrated buying experience via a **single shopping basket and a single payment**.

Whether a customer is on Amazon or Fnac.com, he/she can shop with different sellers without having to keep taking out his/her credit card each time. Once the shopping basket is full, the customer pays for everything with a single payment and it is the Marketplace operator who redistributes the appropriate amounts to each seller. Trust is once again vital here: an operator must have a **secure and effective platform** to manage cash flow and compensation between buyers and sellers.

**THE IMPORTANCE OF THESE 5 PILLARS**

These 5 pillars reveal that there are **many services that need to be offered by Marketplaces**, like the skills developed by the operators. They cover a whole range of important activities: from supplying software solutions (stock management, processing orders, messaging tools, API) to providing payment systems and legal trusted third parties.
Of course not all Marketplaces provide the same level of service and there is no obligation for them to cover all the angles of e-commerce when bringing buyers and sellers together. However, Marketplaces that cover the 5 pillars are noticeably the ones that offer the best buying experience and meet with the most success: this is so of Amazon and Fnac. In both of these cases the technical platforms set themselves apart in terms of quality and effectiveness. For Amazon, this is the fruit of many years of development and learning, and for Fnac, of the buy-out of the company SplitGames and the integration of its staff to provide professional know-how.

### 3.2 ORGANISATIONAL ISSUES

When deciding to implement a Marketplace, a business must be aware that it will spread everywhere from front-end, to middle-tier, to backend, and will also have an impact on general organization and coordination between the different work divisions: purchasing, advertising, marketing, finance & accountancy, customer service, technical & logistics. Significant organisational issues will affect all strata of the business.

Organisational changes may come in different guises: here are a few examples:

**PURCHASING**

In a hybrid Marketplace model, incorporating a Marketplace will lead operators to modify their purchasing strategy. Through a Marketplace a site can offer more products for a wider range of prices. This is an opportunity therefore, for the Purchasing division to focus on products
that sell well, for higher margins and that leave the long tail to third party sellers.

**SALES MANAGEMENT**

The Commercial division will also need to adapt to change. With the exponential increase in the number of products, operators need to make good choices about the products they decide to promote. With pure player Marketplaces the fact that operators do not have control over stock or prices (essential elements for sound marketability) must be taken into account. The capacity for promoting or facilitating is not the same since the operator does not necessarily have control over the product.

**MARKETING STRATEGY**

Setting up a Marketplace will also have an impact on marketing strategy. An operator may be faced with having to manage keyword campaigns potentially covering many different products. Client acquisition strategies, a presence on search engines and price comparisons will need to reflect the fact that operators do not have control over the quantity of products proposed nor their prices.

**ADMINISTRATION AND FINANCIAL**

A Marketplace requires the setting up of an accountancy and cash flow system that incorporates the third party sellers. An effective synchronisation needs to be possible of sales and billing indicators (from the platform) on the one hand, and on the other, of transfers to be credited to sellers (who often have their own cash flow issues and are therefore very vigilant of how the Marketplace handles this aspect).
CUSTOMER SERVICE AND CALL CENTRES

The challenge in terms of customer service is that some visitors coming to the Marketplace also come for its brand, its values and what it stands for. The operator does not necessarily have control over every stage of a transaction (especially over shipping speed and quality) but will have to do everything to ensure that the level of customer service matches client expectations, regardless of the third party seller involved. This means equipping the Customer Service division with the appropriate tools to enable the broadest possible overview of the sales cycle and thus to ensure an effective response to the needs of the customer.

LOGISTICS

If an operator is also an e-trader, the Marketplace will lead to a change in the logistics strategy and may mean that the operator adapts by stocking bulkier products whilst leaving the smaller ones to other sellers. The Marketplace gives hybrid operators the possibility of selecting goods that they will stock and dispatch themselves, leaving more specialist sellers to deal with logistical issues relating to product ranges beyond the operator’s know-how. For example, a hybrid operator on a Marketplace for furniture, could decide to no longer stock highly seasonal and bulky items (i.e. outdoor beds, garden sheds...) and to rely entirely on a network of specialist sellers who are only too pleased to be able to use this sales channel for promoting their products.

CONCLUSION

These examples show quite clearly that launching a Marketplace impacts on all divisions of a business. It is therefore vital to anticipate these organisational changes as early as possible. The success of a
Marketplace depends partly on change being brought about in an effective way.

To achieve this, a business should focus on several crucial factors:

- the quality of the technical platform,
- effective and proven methodologies
- a strong drive at the most senior level of the business, to carry the project through

Organisational changes may very often mean that different divisions clash at an operational level. This requires maximum vigilance on the part of the team responsible for supervising the creation of the Marketplace and it is essential that any intervention by them is complied with: they have to have a high degree of authority and have the full support of Management. The benefits of a Marketplace should never be overlooked: increased sales, turnover and margins. Success depends on having the support of all parties concerned.

3.3 TECHNICAL ISSUES

QUALITY AND METHODOLOGY

The quality of the technical platform is inextricably linked to how change will be brought about and this applies across the board of the different divisions in the business. If the technical platform is not effective for Marketplace sellers, it will be difficult for the person responsible for recruiting and managing the sellers’ community to increase the numbers.
Similarly, if the platform does not enable effective consultation and monitoring of activity indicators (sales, transactions, returns..) the sales force will be reluctant to take on new methods of working.

The same problem applies to the Purchasing, Financial or Technical divisions: if the technical base is not flexible enough to be adapted to and interface with existing tools, this creates just as many psychological barriers to it being taken on board. To the extent that the Marketplace spreads everywhere in technical terms, the quality of the technical platform is absolutely vital to its success.

A sound technical choice must go hand-in-hand with solid integration methodologies. Technical and organisational experiences in setting up a Marketplace are positive factors in the smooth running of making organisational change. There is no substitute for experience as a support for the deployment of a Marketplace.

**RAPIDITY OF INTEGRATION**

The impact of integrating a Marketplace can be felt at all technical levels: front-end, middle tier and back-end:

- Front-end, as visibility must be intelligently given to third party sellers,
- Middle tier, as all of the new products and related data need to be managed,
- Back-end, to manage all transactions between sellers, clients and the operator.

The characteristic of a good Marketplace platform is to facilitate integration without turning the existing information system upside down, rather, connecting to it in an intelligent way. The system needs to take all levels into account (front, middle, back) so that the Marketplace
Marketplace: the future of e-commerce

is not reduced to a single tab or to features that are distinct from the commercial site, but instead operates from a deep-seated level of integration throughout all of the processes linked to e-commerce activity.

In view of this, the choice of the Marketplace’s technological base is crucial.
INTERVIEW WITH PASCAL ROCHE, CIO FNAC.COM

What lead Fnac to consider setting up a Marketplace on its e-commerce site?

Originally, it was a business choice. Fnac had been thinking of going into second-hand sales for some time and this process brought up the following question: How could we extend our range of product choice without necessarily having to go through the motions of “sourcing products, being a receptionist, handling stock, shipping goods etc....”?

In this context, it pretty quickly became apparent to us that the Marketplace was a good solution and one that not only allowed us to extend our product choice and to monetize our traffic, but also to set in motion a virtuous circle: more choice, so more traffic; more traffic, so more sellers etc.

In creating the technical platform for your Marketplace, you opted for a buy-out of Splitgames which was a French Marketplace specializing in video games. What made you make this choice rather than in-house development?

There was already a video games-based Marketplace solution. We felt that integrating Splitgames would speed the whole process up as they had real expertise and experience in Marketplace management. As for the front office, we knew how to handle customers, display products on-line, convert visitors and run a classic back-office. However, handling sellers on a Marketplace is a job in itself and one that we have discovered: we also felt that here was a technological/functional component on which we could capitalize. It was this know-how in the recruitment and handling of sellers and
this component for managing buyer/seller transactions that made us decide to go for the buy-out solution. The ensuing issue was how to integrate this Marketplace by subtly dovetailing it within our ecosystem whilst maintaining the most transparency possible for the customer in terms of his/her buying experience. We had to integrate this Marketplace on the site intelligently and not treat it as if it was a simple tab.

*How did it go?*

Overall, the integrating process went well. Success criteria were commitment and drive on both sides. As far as Fnac was concerned, it was a project that had strong support from Management and one in which the IT team believed. For Splitgames, they had understood that they had assets they could rely on but also there were factors on our side that couldn’t be ignored.

*What were the main technical difficulties?*

As the amount of choice increased, there were quite technical issues regarding volume: with the Marketplace, we went from 2 to 15 million products, so the search engine had to be able to cope with a lot more and the indexation mechanisms had to be reviewed. There was a real impact on performance, infrastructures and scaling.

Another issue that cropped up was questioning the existing system. The advantage of a Marketplace is that it allows rapid opening up of new markets for new products that you generally do not know that well and that are not necessarily simple to standardize. Of course standardizing product details is very important in effectively indexing content: site merchandising, category file/folder system, details indexed on search engines. You have to be able to aggregate a lot of data, quickly and effectively, about new products whilst
being quite flexible to integrate existing products too. You need to develop connectors with external databases and remain quite permissive at the start whilst having a certain level of quality at the end.

As for front-end, you have to know how to “dress up” products, review surfing, create virtual worlds and not simple product headings.

Another challenge was to have a smooth-running and transparent checkout procedure. On Fnac, there are three different types of orders: one on downloadable products when a customer will pay straightaway; another where transactions are sent direct to the traditional Fnac back office and are then forwarded to warehouses who ship the products; and finally, transactions with third party sellers where the procedure is different again – the seller will be asked first if they agree with the offer and if the response is positive, the client is debited and then the buyer/seller transaction is handled, kicking off another cycle.

The difficulty then is in aligning the payment process integrating the various different orchestrations and ensuring transparency for the customer by using a single shopping basket.

We also noticed that scoring and ranking sellers is vital, something that we, as pure e-traders, may not have necessarily realized in the beginning.

*Could you have developed the same platform by only using internal means?*

To develop it internally would not have been effective, as we would not have had the benefit of expert feedback, meaning it would have
been a longer, more painful process with a higher risk of failure. Finally, if we had developed this platform in-house, we would probably have produced a less relevant platform. We would have had to scrabble about a lot more before finding the right formula.

*What about external development through an IT Services’ company, for example?*

Not interesting unless the company has real technical and operational experience on a Marketplace.

*Ideally speaking, what would be the essential assets for a technical Marketplace solution?*

First and foremost, this solution must enable the creation of a Marketplace that is transparent in terms of our customers, efficient in terms of business but without being too intrusive in terms of the existing information system, especially as we have a sizeable site. So the solution has to be integrated into the very hub, without actually breaking the core system.

Then technically speaking, it must be effective in particular with: the impact on the search engine, the capacity for uploading different suppliers choice ranges, the back office and transaction management, the handling and ranking of sellers.
CONCLUSION

Since the birth of the founding fathers eBay and Amazon in the mid 1990’s, e-commerce has seen tremendous growth. Today, it has established itself as an indispensable sales channel for pure players, brands and traditional retailers alike.

Although it is revolutionary as a consumer trend, e-commerce has not really deeply altered classic trade flows. Apart from being able to order from your home or mobile phone 24/7, the distribution chain remains the same, from the manufacturer to the client via various intermediaries and distributors.

Of course, e-commerce goes beyond the space limitations of physical trade but the challenges that flow from it like stock, logistics and costs prevail. Whether it involves niche or full-line, e-commerce’s promise to provide the biggest catalogue in the world has for a long time remained unfulfilled. That is until Amazon redefined the very nature of e-commerce by launching its Marketplace....

A Marketplace enables effective interaction between sellers and product/service buyers, on the same space, with a view to providing the most competitive and comprehensive choice possible, in a structured and secure environment. In this context, there is a true disintermediation going on at the very heart of the Internet’s DNA, generating value for all parties concerned: operator, seller and buyer.

By grouping the product ranges of a multitude of sellers, a Marketplace maximises stock, reduces delivery times but without eroding the quality of service. Full-line or vertical, Marketplaces are proving more and more to be an inescapable development whether in terms of physical goods, intangibles or services.
Marketplace: the future of e-commerce

The benefits gained from Marketplaces are many and consistent with a logic that aims for each of the parties to win:

- More products, less stock, pooled costs for the operator,
- More customers, less investment and controlled choice for the seller,
- More choice, better prices and a secure buying experience for the customer.

Marketplaces are emerging too as a favourable way of dealing with the new cross channel trade challenges. They support the movement of traditional distributors towards e-commerce by enabling them to effectively resolve the issues of broadening product ranges and of profitability whilst in keeping with a logic of “click to store”.

In this paper, we have seen how launching an effective Marketplace goes hand-in-hand with strategic, technical and functional issues, all needing to be addressed. In order to do so Management determination is essential for rallying teams and coordinating the roles of different divisions in a harmonious way.

But the key to success continues to reside in the quality, effectiveness and adaptability of the technical platforms. These must be conceived to not only serve all functional divisions (purchasing, marketing, trade, finance, customer service…) but also the sellers (importing, handling orders, customer service) and the buyers (security, trust, follow-up..).

Mirakl has been founded by e-commerce experts who developed and ran marketplace platforms for the last 8 years. One of them is Fnac.com, one of the leading e-commerce website in France. Mirakl brings its expertise to its clients and provides them on-going strategic, technical and operational support.
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The solution developed by Mirakl, Mirakl Marketplace Platform®, relies on absolute state-of-the-art technology to provide a comprehensive, highly robust, flexible, scalable and rapid solution for building a successful Marketplace.

Mirakl has been chosen by leading online traders (Mistergooddeal, RueDuCommerce, MedicAnimal), retailers (Darty, Galeries Lafayette, Nature & Découvertes), media websites and telcos. Mirakl’s clients benefit from an easy-to-operate and innovative solution anticipating e-commerce constant evolutions (access, social, cross-channel, digital...)

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“Marketplace: the future of e-commerce”
by Philippe Corrot and Adrien Nussenbaum
with the collaboration of Clément Vouillon
March 2014
About Mirakl

Mirakl was created by Philippe Corrot and Adrien Nussenbaum, Internet and e-commerce experts since 1997, upholders of the power of Marketplaces and of their key role in the rapid development of a profitable, online sales activity.

Mirakl offers a total Marketplace platform, Mirakl Marketplace Platform©, distributed in the form of software as a service (SaaS) and provides clients with strategy planning, technical and operational support.

Why a Marketplace?

A Marketplace enables a strong brand, a qualified audience or professional know-how to be capitalized upon, bringing together third party sellers’ product ranges on a single platform with a view to offering visitors more products, the best prices and a quality buying experience.

A Marketplace enables cost pooling between sellers and buyers and eliminates stock and logistical constraints. Marketplaces are the solution to e-commerce growth issues and pure player or cross-channel profitability.

For who?

E-traders, major multi-channel retailers, media sites, B2B platforms....

A Marketplace is the strategic, technical and operational solution to stimulating growth on the Internet and for significantly increasing profit.