

Marketplaces: the 'Urban Sprawl' of Retailing?



When anyone talks about ecommerce, it's impossible not to center much of the conversation around the growth and expansion of Amazon. The online behemoth quickly positioned itself as the world's perceived low-price leader by targeting category after category with their "fastest follower of the actual price leader" tactic, supported with the extensive use of algorithmic pricing. Moreover, Amazon was also one of the first to successfully launch a central hub for marketplace environments to thrive, creating a virtually endless shelf of products. Expanding on an already advantageous business model, Amazon has also invested heavily in its ability to capture and leverage significant data from their site, including insights and trends based on their marketplace community. At the root of what makes Amazon one of the biggest game changers to hit retail is their marketplace and the associated intelligence from which Amazon is able to derive. This market insight includes demand and price elasticity which has enabled the company to continually refine and hone their own assortment and pricing strategies to build and reinforce their brand position with price conscious shoppers.

Amazon Total Products*:

12,231,203

Amazon + Marketplace Total Products*:

353,710,754

***Excludes Books, Media, Wine, and Services. As well, this analysis also excludes product variants.**

Image originally published in Amazon Product Count Infographic, June 2016

Are Marketplaces Right for Every Retailer?

Allowing third-party sellers to sell on a retailer’s ecommerce site can quickly bolster that retailer’s online assortment without the associated cost and risk, but is it the right strategy? Walmart’s recent acquisition of Jet.com, a site known for its low-price seller network capabilities, came shortly after a significant overhaul of Walmart’s website and ecommerce strategy. Walmart clearly intends to broaden its online assortment, appeal to more third-party sellers, and accelerate the attainment of their stated ambitious goal to add one million products a month to their digital shelf. Walmart will now likely turn to Jet founder Marc Lore and the Jet.com team to drive this effort.

Looking at other brick and mortar retailers, it’s interesting to note that Target does not support third-party sellers, Best Buy shut down their marketplace¹, and Sears continues to offer a broad marketplace presence, despite some unfavorable press prior to a policy change a few years back².

Retailer	Lists out-of-stock items on website	Uses marketplace sellers to expand assortment and fill out-of-stocks	Allows marketplace sellers to compete on items that are in-stock
Amazon	No	Yes	Yes
Walmart	Yes	Yes	No
Best Buy	Yes	Yes	No
Sears	No	Yes	No
Target	Yes	No	N/A

Chart originally published in *Holiday Assortment Games*, Nov 2015. Please note: Best Buy has since taken down their marketplace.

¹ <http://www.retailtouchpoints.com/features/news-briefs/best-buy-abandons-online-marketplace-citing-low-revenues-and-confused-customers>

² <http://www.zimbio.com/Economic+Equality+for+Women/articles/MC4vXi2M3z0/Sears+Offensive+T+Shirts+Perfect+Gift+Rush>

How Do Brands Fare in the Marketplace?

Earlier this year, we conducted a thorough analysis of the brands and third-party sellers found on Amazon.com as part of a larger examination of Amazon's online assortment offering. Here is an excerpt on Amazon's overall marketplace diversity from that [infographic](#):



Image originally published in Amazon Product Count Infographic, June 2016

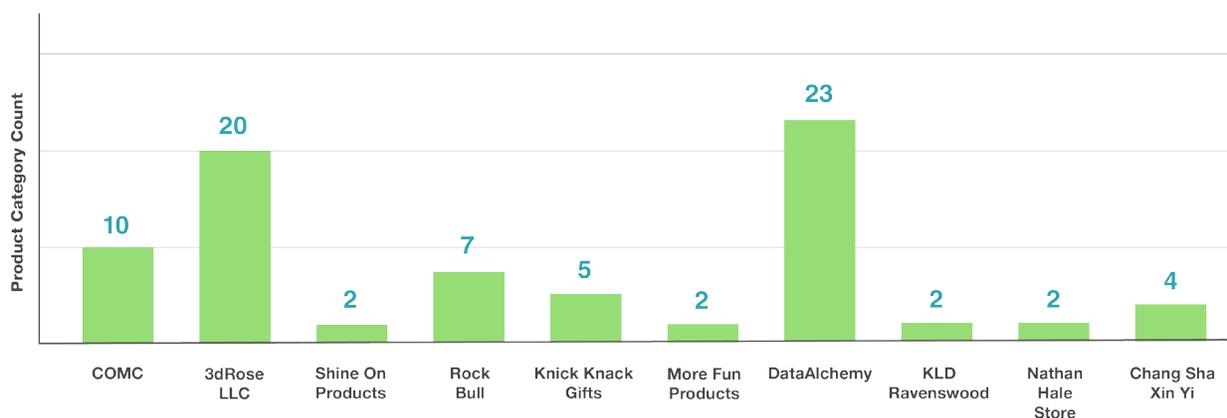
The majority of brands have expressed interest in at least exploring direct-to-consumer models and many try leveraging marketplaces as their first step on this journey before launching their own ecommerce site. Brand experiences with retail marketplaces have been very mixed to date. While some brands have found success in the marketplace, others have expressly quashed these investments, largely due to insurmountable obstacles with counterfeit and grey market goods that adversely impact brand equity and profitability.

Birkenstock recently shared they will no longer be selling on Amazon.com due to ongoing

concerns around counterfeits and unauthorized selling³. The German sandal company has also explicitly stated that it will not permit products to be sold by third-party sellers on their site. In a memo shared with the press, Birkenstock USA CEO, David Kahan, stated, “The Amazon marketplace, which operates as an ‘open market,’ creates an environment where we experience unacceptable business practices which we believe jeopardize our brand. Policing this activity internally and in partnership with Amazon.com has proven impossible.”

While individual retailer marketplaces vary widely, category-level marketplace penetration can fluctuate as well. Tying back into the Amazon infographic we published earlier in the year, the Electronics, Sports & Outdoors, Cell Phone & Accessories, and Home & Garden categories presented the highest counts of unique marketplace sellers on Amazon.com. Whereas the Grocery, Baby and Beauty categories exhibited a relatively smaller number of marketplace sellers.

TOP 10 AMAZON MARKETPLACE SELLERS Number of Product Categories



DID YOU KNOW?

60% of the Top 10 Amazon marketplace sellers primarily focus on the **Home & Kitchen** category.



Images originally published in Amazon Product Count Infographic, June 2016

³ <http://www.cnn.com/2016/07/20/birkenstock-quits-amazon-in-us-after-counterfeit-surge.html>

And the Verdict Is...

Like any investment, do your homework. Marketplaces muddy the competitive landscape for retailers and the channel landscape for brands. It's essential to recognize both the advantages and potential pitfalls of marketplaces before undertaking such a labyrinthine endeavor. Whether you are a retailer or brand, it will serve you well to compile a complete impact analysis, outlining the strategic goals and gaps of your organization.

- Explore the depth and breadth of marketplace seller penetration for your categories and products;
- Understand who is selling which products, where, and for how much;
- If marketplace sellers are an issue, identify the marketplace sellers that have the most overlap with your products and categories to flag potential competitive threats;
- Flag unauthorized marketplace sellers and track authorized sellers' compliance to MAP or other pricing standards;
- Partner with a robust solution provider offering consistent, actionable insights on sellers, categories and products you care about, ultimately driving demand and pricing perception in the retailing landscape.

Assessing major investments like the strategic use of marketplaces can seem daunting, requiring months of research and man hours. However, there are faster, more effective solutions out there. Look to a reputable [industry partner](#) to quickly and easily help you make the right decision for your business.

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