Internet Retailing

HOW TO USE MARKETPLACE TECHNIQUES FOR SUCCESS AND LOW COST GROWTH

Emulating global marketplaces to bring increased stock range and service to your customers – under your brand

An InternetRetailing whitepaper produced in association with Mirakl | February 2019

MIRAKL

EDITOR'S INTRODUCTION

LIZ MORRELL
Research Editor

When it comes to marketplaces, giants such as Amazon and eBay have obviously set new expectations and standards for shoppers, small sellers and larger retailers alike. They have opened up opportunities to literally millions of sellers to trade in environments they may never have managed previously, allowing small retailers to position themselves alongside larger rivals and allowing larger rivals additional routes to market.

The marketplace model has given sellers and retailers a way to be heard amongst the noise and to try to emulate the success of Amazon which has built its business using a mix of technology and capital.

Of course Amazon's success has been extraordinary. Amazon's marketplace sellers fund the giant's working capital requirement by making their own stock available through the Amazon marketplace. Amazon can therefore offer an enhanced range, availability and pricing architecture in a 'gravity-defying' feat of capital engineering. It's certainly enviable stuff and it's no surprise it's a trend that other sellers and retailers want to be part of.

Although for a while marketplace reputations may have suffered from shopper concern over presentation and product quality, the marketplace concept is now increasingly mainstream and Amazon's decision to merge 'marketplace' into its main site shows that customers no longer see a difference between marketplace sellers and Amazon itself.

The marketplace model has truly come of age. Retailers are increasingly understanding the benefits of the marketplace model - whether to sell on directly or by operating their own retailer marketplace.

In this whitepaper, produced in association with our partner Mirakl, we look at the traditional marketplace model, as well as the growing trend of retailer operated marketplaces, in more depth. We also have an exclusive interview with Afound, H&M group's latest brand offering, which gives new life for products across stores and via the marketplace model, that was launched by the fashion giant in June 2018.

We understand the market and look at the business case for why retailers and brands should consider the model and marketplace mechanisms within their own businesses so that they can better access the benefits that they offer. Finally we explore such benefits and the retailers that are making the most of them. From range to brand expansion we look at how the marketplace model can help you to increase sales and improve customer satisfaction and allow you to understand if it's a model that you should be considering adopting too.

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HOW THE MARKETPLACE BUSINESS MODEL IS EVEN MORE POPULAR THAN YOU MAY THINK

Today, six of the top eight ecommerce companies in the world utilise the marketplace business model to fuel rapid customer acquisition and stellar sales growth.

From Amazon to Zalando, these businesses have supplemented their online catalogues with third party owned and fulfilled inventory. Their customers benefit from seemingly limitless choice and stock availability and their balance sheets benefit from the increased profitability of these sales.

Despite such high profile validation of its benefits the marketplace model has until recently, been curiously absent within UK ecommerce.

The UK retail industry was an early adopter of the dropship model; quick to recognise the economic benefit of pushing the cost of warehousing and fulfilment on to the third party supplier.

In its most basic application the marketplace model is simply an evolution of dropshipping. The key difference is that the retailer no longer buys or assumes ownership of the stock from the supplier (further reducing cost of goods sold). Revenues are instead generated from a 'commission' charged to the supplier as recompense for introducing buyer to seller.

The model brings unrivalled financial agility. No upfront stock investment and no risk of unsold inventory. Yet it is not incompatible with standard retailing. That Amazon combine manufactured, wholesale and marketplace inventory is well documented. It's the marketplace inventory however that reportedly drives the most sales.

The benefits are also operational and not solely financial. In standardising the commercial and operating model, new suppliers can be quickly on-boarded and their catalogues smoothly integrated.

From this slow start, times are now changing within UK ecommerce. Driven by goals strategic or operational, defensive or opportunistic, retailers have today woken up to the benefits of the marketplace model. And just to prove that innovation is alive and well, the applications of the model are varied.

Farfetch has spectacularly demonstrated the use case in luxury fashion. Harvey Nichols has quietly proven that a high-end omnichannel retailer can open new categories utilising the marketplace model. And high street retailer Game has applied the model to create an efficient method for growing a C2C long tail.

But it's not just the retailers innovating around the model. Brands – stung by price and brand-control issues associated with selling on global marketplaces – are emerging as marketplace operators. They are aligning with complementary brands to create direct-to-consumer ecosystems.

Some of the most exciting untapped opportunities in UK ecommerce are for category specialists to double down on their heritage and brand loyalty. High service-levels married with a deep and relevant catalogue will transform them into "one-stop shops" with a killer value proposition. Adding relevant services from select third parties – such as John Lewis' "Home Solution" proposition - will only enhance customer value further.

With such a varied set of potential applications of the marketplace model, the stage was set for a whitepaper to help navigate the considerations. We hope the following report prompts discussions in your organisation and arms you with the tools to build a compelling business case that demonstrates both the business imperative and the financial benefits of the marketplace model. Enjoy the read!

NICK BAREHAM
UK country manager
Mirakl

THE EVOLUTION OF THE MARKETPLACE MODEL: WHY RETAILERS ARE CHOOSING IT AS A STRATEGY

The marketplace model is enjoying huge popularity thanks in part to the trailblazing examples of the likes of Amazon and eBay to name but two. Their continued success and evolution has meant a model that was once considered secondary to traditional retail sites is now becoming a mainstream option for customers and retailers alike.

And of course Amazon and eBay aren't the only success stories when it comes to the marketplace model. Worldwide there are many more examples of country or vertical-specific marketplaces and the huge success that they are generating, both for themselves and for their sellers. These range from giants such as Alibaba in China, Zalando in Germany and Lazada in South-East Asia.

However as well as selling on marketplaces retailers are also increasingly looking at the benefits of operating a marketplace themselves since it can give them the added reach and product breadth that will allow their business to grow.

In the past there has been a question as to the logic of retailers operating their own marketplace – after all the worry is that they are effectively asking other suppliers and sellers to deal with their customers directly.

However today that view is changing fast. It's also no surprise that retailers are now realising the value they bring. Retailers are looking to all the avenues that they can to grow their business – whether that's extending range, widening their brand or entering new markets.

A BOARDROOM DISCUSSION

Nick Bareham, UK country manager of Mirakl, says that retailers have the marketplace discussion on high-level agendas more than ever before. "Ultimately this is a topic being discussed in retail boardrooms up and down the land in one capacity or another," he says.

The boardroom debate is two-fold however. For some the conversation is around retailers and traders adopting a defensive strategy against the threat that the the traditional marketplace model, such as Amazon, poses. They are concerned with how they can deal with the impact of such a business model upon their own business.

Others are taking a more opportunistic view of the marketplace potential to understand how they can also get in on the act, either through a strategy of looking at how they can broaden their reach by selling on existing marketplaces or examining how they could operate one themselves.

The reason why is clear. Customers are increasingly expecting retailers to operate like Amazon with the same one-stop shop approach. This customer-led trend means that particularly amongst larger retailers and brands shoppers are arriving onsite expecting to find a wide range.

Retailers face challenges providing such choice through traditional distribution models alone. Instead a retailer-operated marketplace approach allows retailers to test and expand new categories without risk. This is because they are selling services or products that they never actually take legal title of. Therefore they don't have to mark-up or negotiate on prices. Instead their money is earned through commission.

Crucially the model also offers such retailers a much easier route into launching new products since it enables them to use third-party sellers to test new products before risking investment in such products themselves.

Bareham says for those retailers deciding on the opportunistic approach and trying to choose between their own marketplace or selling on a marketplace the choice isn't necessarily clear-cut. "The two are not mutually exclusive and we tend to advocate that they do both," says Bareham.

This is, in part he says, due to the benefits of cashing in on the specialist expertise of country-specific marketplaces, for example when looking to expand internationally. "If I'm a UK mono-brand retailer why set up a marketplace in China when I don't know the market. It makes much more sense to sell on tMall," he says.

THE RISE OF MARKETPLACES ACROSS EUROPE

Their benefits have led to a huge rise in adoption of the marketplace model across Europe and further growth is expected. Whilst the likes of Amazon and eBay the naturally top of mind for shoppers in the UK across Europe many other marketplaces actually have greater dominance instead.

An example of this is Allegro, the biggest marketplace in Poland, responsible for 40% of the total ecommerce market, with 90% of shoppers purchasing monthly on the platform, according to reports.

In France Cdiscount is the largest ecommerce player, operating across four continents. The company's marketplace C le Marche launched in 2011 and has seen huge growth. In Germany Zalando boasts 95% brand recognition amongst adult shoppers and operates across more than 14 countries, although sellers have to have a registered office in Germany.

As well as country-specific marketplaces however there are also sector specific marketplaces too. ManoMano, a DIY and gardening supplies marketplace, launched in the UK in 2016 and today also operates in countries including Belgium, Spain, Italy and Germany.

Such growth in traditional marketplaces has seen a growing number of leading retailers realise the opportunity of operating their own marketplaces and retail brands from Galeries Lafayette in France to Komplett in the Nordics are implementing the marketplace model into their core retail strategy.

GETTING IT RIGHT

The retailer-operated marketplace model does have to be used correctly however and retailers need to consider why they are doing it and what they are selling. Both Halfords and Tesco recently shut their marketplaces but Bareham says other retailers shouldn't be put off. "Much has been made of both Tesco and Halfords shuttering their respective marketplaces. Does it mean the model cannot work in the UK market? Well I think FarFetch and others might disagree with that," he says.

In Tesco's case he believes that the retailer simply got the range wrong. "In the case of Tesco, they were going head-to-head with Amazon in one of the most competitive and low-margin categories in retail - consumer electronics. Moreover with Tesco Direct operating as a separate basket to Tesco.com they failed to take direct advantage of the grocery-to-GM cross sell opportunity that proves so effective in the physical big sheds," he says.

At Halfords the company launched its marketplace in 2015. Within six months the Halfords marketplace had doubled its existing inventory, adding 11 new subcategories and had led to the identification of 150 items which the retailer then began selling itself.

Bareham says that the ability of Halfords to use the marketplace to trial new areas of products it hadn't offered before was key, providing the retailer with data on product views, conversions and sales to help establish the business case for bringing it in-house.

"For Halfords the marketplace was seemingly less about driving significant incremental sales and more about agile experimentation with new categories; a great example being the gradual introduction of the eBike category with the insights from marketplace sales eventually informing store merchandising strategy," says Bareham. ■

UNDERSTANDING THE BUSINESS CASE FOR A MARKETPLACE MODEL

Retailers have common aims when they want to grow their business - attract additional customers to buy from them and persuade existing customers to spend more with them. It's the strategies that they use to do that which can differ widely. However principally they often include increasing the product range and widening brand reach.

Increasing stock availability and range has natural, positive consequences on both those initial goals. It leads to increased traffic through SEO, increased baskets and increased share of customer wallet and should therefore achieve the growth that retailers are after.

However in traditional retail it isn't quite so simple since such expansion of range comes with both cost and risk. There is the working capital required to invest in such stock, the time spent negotiating margins and preparing goods for sale as well as the increased risk of such stock not selling or forecasts not quite coming true.

Similarly increasing brand reach is also a tricky business. It can be done by broadening ranges of products sold and possibly introducing complementary services or products or it can be done through strategies such as internationalisation. Whatever the option chosen the problem is once again that they require heavy investment of both time and money.

But how about a model where a retailer is able to increase the range and volume of the sort of stock their customers want, therefore attracting more customers and a higher customer spend but without paying for the extra stock? It can sound like an unobtainable utopia.

EMBRACING OPPORTUNITIES

But it's not. The benefits above are the key selling points for retailers considering their own marketplace. The retailer-operated marketplace allows retailers to do exactly that, opening up the retailer to new brands and products that in turn help to attract new customers, as well as allowing retailers to test new products and new markets.

Bareham explains that the concept can work well as a strategy for most retailers and brands that are looking to grow their business, however he says retailers must understand how it will fit for them. "The idea is not that you are in trouble and abandon all retail. The idea is how do you successfully use this model in the right way for you, your brand and your customers," he says.

Bareham says this can result in two reasons for retailers choosing to adopt the marketplace structure. "The rationale behind why a retailer might operate a marketplace is largely driven by defensively how do I stop customers churning to global generalists or offensively how do I go and grab and win market share by being more attractive than my competitors," he says.

Whether defensive or offensive Bareham says the benefits are clear – allowing retailers to extend reach, drive sales, improve price competition and reduce out of stocks through an increased supplier base.

AVOIDING THE RISK OF CANNIBALISATION AND BRAND REPUTATION DAMAGE

But conversely it's this increased supplier base that can sometimes be a sticking point for retailers who fear cannibalisation through the marketplace format.

This is because retailers may be introducing suppliers who are competing for customers for the very same products that they sell (although they have the choice to list their products first) and so risk losing the sale.

However Bareham says the fear of cannibalisation is minimal to most retailers and that even where a retailer loses the direct sale themselves they are still earning from the subsequent sale made rather than losing it completely.

He explains that the broadened marketplace listings improves the SEO appeal of a website. This in turn organically drives more traffic to the site and increases both the visibility of marketplace products as well as those of the retailer's main catalogue.

"We never see cannibalisation of core sales because even if a retailer brings in competing products against their own they have increased their attractiveness as a result," says Bareham. "The buyer is either buying the retailer's product or a competing product where the retailer is getting a commission – so even if they make more margin on their own sales the volume of sales makes up for the margin shortfall," he says.

This is evidenced in retailer figures too. Best Buy Canada, which operates its own marketplace, says that three-quarters of customers that bought marketplace products also bought Best Buy's own products.

Retailers may also worry about possible damage to brand reputation since they are relinquishing the fulfilment side of the sale to a third-party. Here Bareham says it's about execution and control of strategy. "Within the execution you have the selection of vendors. Who will you use and do you have an open marketplace or do you go out and select and vet sellers? It's also about the service level agreements you are signing these people up to. Then it's about control on the backend and the management of the seller. You control the rules of the game," he says.

Ultimately though Bareham says retailers have to understand why they are looking at a retailer-operated marketplace option. "Like any strategy the marketplace is no magic bullet. It needs to be suitably implemented, resourced and marketed to achieve the desired results," he says.

THE KEY SELLING POINTS OF A RETAILER-OPERATED MARKETPLACE

1. **RANGE EXPANSION**
   Retailers will usually at least double their catalogue of products but often increase by much more than this.

2. **SPEED TO MARKET**
   Retailers can source and have products live within hours or days rather than months, allowing them to embrace trends as and when they are happening.

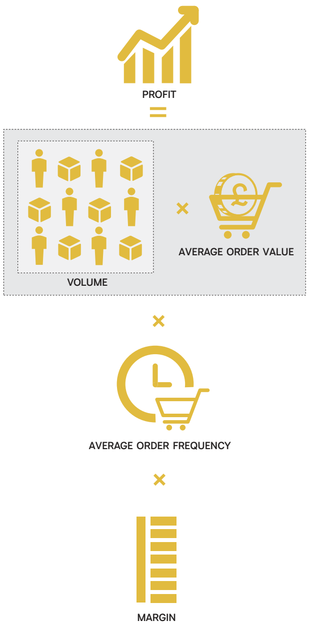
3. **NEW OPPORTUNITIES**
   Retailers can use marketplaces to test new products, services and markets to see if they offer enough opportunity for them to do it themselves.

4. **GREATER SALES**
   The increased product catalogue increases reach and therefore drives higher sales for retailers.

5. **INCREASED PRICE COMPETITION**
   On product lines where numerous suppliers are competing, price can be driven down which drives better deals for customers and therefore a greater likelihood of a sale.

6. **IMPROVE OUT OF STOCKS**
   A wider range can mean more than one supplier is offering the same product, not only allowing price competition but also reducing out of stocks.

THE FORMULA FOR GROWTH: HOW TO MAKE THE FINANCIAL BUSINESS CASE



When putting the business case to the board to invest in a marketplace strategy, retailers need to be able to quantify the potential benefits of such investment. But how to do that? In the formula below we state how the marketplace model can be a key accelerator of ecommerce sales, simultaneously reducing the cost of goods sold.

At the heart of a retailer's business is the need to maximise profits. Consider therefore that:

PROFIT = VOLUME X AVERAGE ORDER VALUE X AVERAGE ORDER FREQUENCY X MARGIN

HOW TO IMPACT ON THE MAGIC FORMULA

The formula above shows the four key variables that together constitute the profitability of retail sales. Let us review each variable in order, and the potential positive affect of the marketplace model on each:

Sales Volume: An increase in Volume of Sales might commonly be achieved by targeting new online customers via PPC or driving repeat purchase from existing customers via targeted display ads, CRM, loyalty programs and/or a variety of other marketing investments. With an extended product range via marketplace, a retailer's website becomes more searchable via increased SEO – driving increased traffic. Moreover the greater availability of product encourages an increase in sales as basket size increases concurrently.

Average Order Value: With more products from which to choose, an extended range inevitably drives an increase in items per order and consequently overall average order value (a 15% increase according to a recently released Forrester study commissioned by Mirakl).

This increased range could be achieved from increased inventory or perhaps a drop-shipping program, however in both cases the profitability on the sales of the extended range are inferior to those that can be achieved with the marketplace model.

Order Frequency: Not every retailer aspires to be the everything store, however few can doubt that Amazon successfully increased order frequency by holding an attractive combination of everyday consumables and an endless aisle of less frequently-required products. If you need it, they have it. Most if not all retailers might consider how stocking related consumables at competitive prices can increase repeat visit frequency. (Batteries for electronic goods, replacement parts for complex machinery etc).

Eradicating out of stocks – and consequently reducing repeat customer visits that result in no sale – is another opportunity afforded by an extended supplier base, bringing an extended range. Suppliers will typically expect a minimum volume of sales from their relationships with retailers. Experienced marketplace sellers will however be more tolerant to opportunistic sales, filling in for when the retailer's stocked inventory runs out.

Margin: Margin meanwhile is a function of the cost of goods sold. Since goods sold through a marketplace are never actually owned, warehoused or delivered by the retailer, the Cost of Goods sold can be significantly reduced; offering an opportunity to deepen the margin – or commission.

As we have seen, the marketplace model affords opportunities to positively affect each of these key metrics that contribute directly to profits. It is however no silver bullet. For one, the ranging strategy requires careful curation to remain relevant to the retailer's overall proposition. Nor should it be assumed the extended marketplace lines will sell themselves. Marketers still need to invest in promoting and driving traffic to the new SKUs. As Bareham notes, "Utilising the marketplace model is one of a number of proven strategies for increasing growth. It is however one of the least capital intensive and lowest risk". ■

WHY A MARKETPLACE COULD BE THE ANSWER TO YOUR RANGE EXTENSION DREAMS

The concept of range expansion is an obvious path to growth since when a retailer broadens the product range they are selling – whether on or offline – it attracts more customers.

But in a traditional environment it isn't an easy task. It requires time and investment in sourcing products, negotiation on deals and margins and a commitment of liquidity and capital needed for the stock itself.

And of course the challenges don't stop there. "It's also about the strain on my network as a retailer to warehouse and then distribute those products," says Bareham.

Add in the fact that products may not sell as well as hoped – or at all – and it's easy to understand why retailers may be hesitant to be brave when it comes to range expansion.

IS DROP SHIPPING THE ANSWER?

Many retailers have got around such challenges by introducing drop shipping into their selling models. In this scenario it's the suppliers that look after the warehousing and distribution elements of the additional range extensions. But it's the retailer under whose brand the product is being sold that takes the credit since it's their name on the order, even though it's not physically fulfilled by them.

And it's a concept that's worked well for many, including the likes of Tesco who added additional larger items such as furniture through dropship partnerships with the likes of Wayfair to its online selling model.

But the dropshipping option comes with its own challenges. The retailer is still having to invest in the stock, meaning the model is not that different to buying the products yourself as a retailer – it's just that someone else is handling the warehousing and distribution. There is also still the need to negotiate directly with the brand or wholesaler, another time-consuming activity.

Although dropshipping may have its limitations it is a step closer to a retailer-operated marketplace model and those using dropshipping already can easily evolve such a strategy into their own retailer-operated marketplace model, according to Bareham.

HOW RETAILERS ARE USING MARKETPLACES TO EXTEND RANGE

Instead the desire for range expansion is one of the most popular reasons that retailers will start a marketplace of their own – since they can expand their ranges within hours or days rather than the weeks or months of negotiations that the traditional model of range expansion requires.

The retailer-operated marketplace model also means less risk. "The critical economics behind marketplace is that you don't need the upfront liquidity and you are taking the commission at point of sale," says Bareham. "Also you are not warehousing or delivering the products so it significantly brings down the cost of goods sold – a key metric for retailers," he says.

Crucially however is the sheer scale of range expansion that a retailer operating their own marketplace can achieve. Some retailers may increase their catalogues two-fold, some by ten times or more. French outdoor and lifestyle retailer Atlas for Men for example extended the number of products it offered from sale from 2,500 to 20,000 within its first three months of operation.

DECIDING WHAT WORKS FOR YOUR BUSINESS

However range expansion can take on a number of different guises and so it's important that retailers decide what's right for their business. "This isn't a formulaic plug and play – it's a model to be utilised very specifically to how your business needs to use it," says Bareham.

When it comes to both horizontal and vertical range expansion the marketplace model has its benefits. In vertical range expansion the addition of a marketplace model can help companies to better handle out of stocks since it allows a deeper product range in specific product categories. "In the marketplace model you can have exactly the same product from another supplier so you eradicate out of stocks," says Bareham.

In horizontal range expansion the concept can be used to sell a wider range of products in adjacent categories and at a deeper level to test out completely new products that can then help retailers to make the business case for offering such products directly inhouse.

There are numerous examples of this, as illustrated in the case studies above.

CREATING PRICE COMPETITION AND A BETTER CUSTOMER EXPERIENCE

And there are spin-off benefits too. "The other two key considerations are price and customer experience. If you allow multiple suppliers into your marketplace whose catalogues overlap then you are able to create price competition amongst those suppliers and that helps to bring down price," says Bareham.

It may also be better for distribution too since, in the case of local market suppliers for example, other suppliers may be better placed to get product to customers than the retailer concerned, meaning that customer demand can be satisfied sooner and a lost sale is less likely.

Of course range expansion via the retailer-operated marketplace model doesn't come without cost since obviously there has to be an investment in the infrastructure to manage the marketplace. However Bareham claims such cost is negligible in comparison with the comparable to required in stock. ■

CASE STUDY: HOW BEST BUY CANADA USED A MARKETPLACE TO EXTEND ITS RANGE

When Best Buy Canada wanted to better compete against Amazon and eBay it decided a marketplace of its own was the right route. The company had a focus on expanding its range through the marketplace model and increased its SKU count by 200% in the first year of its operation.

But it was also about using the marketplace to enter complementary categories that drove the company's investment in the platform, allowing it to test products and categories from third-party partners to see how they worked before introducing them itself.

One example of this was using the marketplace model to test baby products after research showed that there was a possible latent demand from its customers for such products. Today the company claims a leadership position in categories such as baby products and musical instruments – all markets initially tested through the marketplace model.

CASE STUDY: WHY DARTY PACKED ITS BAGS THANKS TO ITS MARKETPLACE

At electronics retailer Darty the company has also extended its product range – adding four new categories including fitness and sport, small household goods, garden goods and toys and games through the marketplace that simply didn't seem an obvious fit previously.

In less than six months the company added 60,000 new products to its range.

The retailer has also launched new products itself such as suitcases and bedding through testing on its marketplace. "The marketplace helps you to understand new categories and other products and to challenge your vendor," says Regis Schultz, former CEO of Darty.

HOW TO USE A MARKETPLACE TO EXTEND YOUR BRAND AS WELL AS YOUR RANGE

Range expansion is the natural, primary benefit of the marketplace model but of course range expansion doesn't have to simply focus on product. Instead it can include new categories and even new services that complement the products a retailer already sells. It can also be about launching new brands or new markets.

The former opportunity is a broad and exciting one that offers huge potential for growth and needs to be exploited further by retailers, according to Bareham. "There is a real trend of retailers looking at services as a complement to the products that they sell and we are increasingly seeing the demand to bring that into the ecommerce environment. It's a trend we expect to grow significantly," he says.

And if Amazon has already done it you know others will catch on soon. Amazon launched its invite-only home services marketplace in the UK in the summer of 2018, allowing customers to get help with everything from bike assembly to plumbing. John Lewis has also launched a services offering.

Bareham cites the example of one of Mirakl's customers in France, Nature & Decouvertes, an outdoors retailer that has operated its own marketplace platform since 2013. He explains how the product range included telescopes. "It wasn't' a difficult leap to say that these people were probably interested in astronomy lessons too," he says.

Such cross fertilisation of product and services innovation not only helps retailers to embrace new revenue streams but can also be used to boost conversion too. It's a concept that other sectors, such as health and beauty retailers are looking at too. According to Mirakl research nearly half of consumers say they'd be interested in buying complementary services alongside products.

"My favourite example of the sector who should be doing this more is the DIY retailers," says Bareham. "If you want to sell me a kitchen it should be end-to-end and you should engage me all the way through that process. I should be able to book kitchen design services with you then be able to also buy the white goods and have maintenance of products etc," he says.

USING THE MARKETPLACE MODEL TO LAUNCH NEW CONCEPTS AND NEW MARKETS

As well as launching new product lines and new services the marketplace concept can also be used to launch new concepts too. In June 2018 Afound was launched, a new independent brand within the H&M Group selling discounted fashion and lifestyle brands from both within and outside of the group's own brand portfolio through a marketplace format and handful of stores in Sweden.

Like many other retailers operating their own marketplace model the company is using the channel as a research and development tool to work out what other brands and products its customers might want to see instore.

H&M Group will also use Afound to expand into other markets too. For retailers without a presence in international markets the obvious benefit of a marketplace is to extend it internationally too. For retailers new to a country with zero brand presence then selling their product on an existing marketplace makes total sense.

But in others – where retailers do already have a presence – a retailer-owned marketplace can help a brand to widen their presence within a location. "If you take a more established retailer then why should they only be able to sell 40% of their range in Cyprus for example because they can't deliver there," says Bareham. "In that example you can use marketplace sellers to infill your catalogue so that in international territories you still have a rounded and fulfilled offering," he says. ■

CASE STUDY

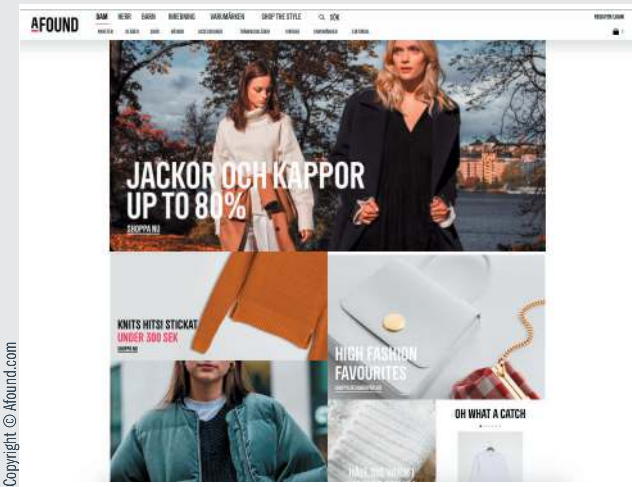
Why H&M used the marketplace model to launch a brand new retail brand Afound

Fashion retailer H&M launched its offprice offering Afound in June 2018. Products are sold through a marketplace model supported by Mirakl and currently sells online in Sweden and through stores there.

"We like to describe ourselves as an outlet like you've never seen before," explains Daniel Hansson, head of B2B sales and supply chain at Afound. "By offering a selection of all the H&M group brands with a selection of external brands ranging from value to premium, just like our customers dress, we aim to become the style and deal hunter's paradise," he says.

For Afound the marketplace model enabled a fast way to give customers a wide and attractive offering, according to Hansson. "The marketplace model enables many positive things. For example a very broad, yet in our case selective, assortment without any structural boundaries. This unlocks the possibility for scale and speed to market," he says.

Continual refinement of the platform means that the offering has been adapted with learnings along the way. "A big part of our culture is constant improvements and the strive to always improve our customer offering," says Hansson. "Since launch we have learnt a lot about how to engage our customers and drive sales but also how to develop and grow our partners (the sellers on the marketplace) to increase their relevance. There is always a need to find the win-win situation for our customers and our marketplace partners," he says.



CASE STUDY

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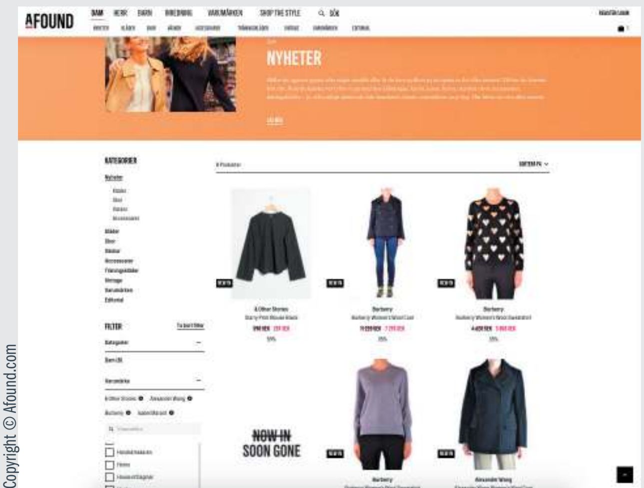
READY TO GO GLOBAL

As a result Afound is now ready to expand. "The first and most important success is that the business idea is proven. Our customers like us and we are ready to scale," says Hansson. "We are very happy with our launch and performance and the business idea definitely holds. Afound also proves that there are smart ways to give great fashion a new life and prolong the lifecycle of fashion products," says Hansson.

The retailer is looking for quality brands and a strong customer offer from new potential partners. "This sets a frame from a customer perspective for the kind of partnerships and brands that we are looking for," he says.

As well as expanding its sellers on the marketplace H&M is also planning expansion of the Afound platform across Europe. "Our ambition is high, and we want to grow this concept," says Hansson.

And the marketplace model is key to doing that, he explains. "It's a way to scale in a fast way together with our partners. For some partners we can jointly leverage on their already existing international presence and further grow it through Afound. At the same time, we will enable a go-to market strategy for partners that want to expand existing business across new territories," he says. ■



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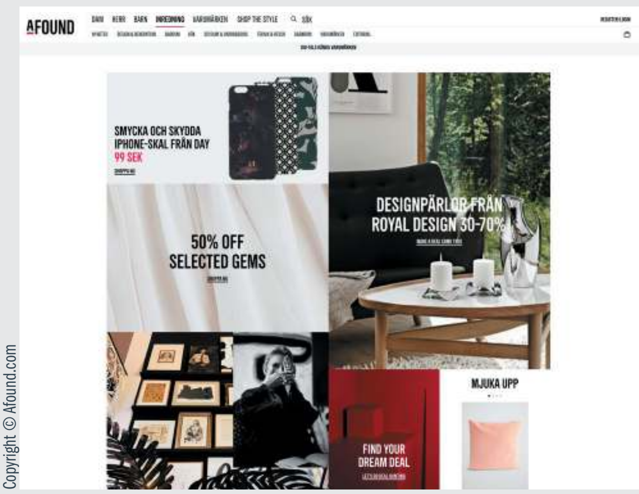

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UNDERSTANDING THE SCENARIOS WHERE MARKETPLACE TECHNIQUES COULD HELP

Many retailers believe the marketplace model is only applicable to specific industries or situations, but this isn't the case. In this table we consider how different retailers can reap the rewards of the model and what it would offer them.

Retailers face a number of challenges within their businesses that the retailer-operated marketplace model can help to solve. Below we look at some of the common retailer challenges, their traditional solutions and how marketplace techniques could be used instead

THE RETAILER CHALLENGE	THE TRADITIONAL SOLUTION	HOW MARKETPLACE TECHNIQUES COULD HELP INSTEAD
Pure play facing category pressure from Amazon	Expand range through new suppliers / Scale logistics / Create dropship programme	Faster onboarding of new marketplace sellers and their catalogues at scale - less intensive operationally since resource onus is on the sellers
Omnichannel retailer whose catalogue of products has got too big	Look at sales data to rationalise what's sold by seeing what sells best and getting rid of long tail products	Rationalise owned range but continue to offer (or even increase) product range, including long tails by selling via marketplace sellers
Mono brand retailer or brand looking to control brand online	Consolidate third party sales channels and invest in web and spend on PPC to drive traffic to existing catalogue	Increase attractiveness of own web asset through expanded and complementary catalogue from third parties to become THE destination within that category
Retailer wanting to expand internationally	Launch country specific website to examine potential and perhaps look at concessions, own stores or finding a local franchise partner	Use the marketplace model to test product and category demand in the new market. If already present in, efficiently onboard catalogues from experienced and capable sellers in the region
A business wanting to extend into services	Work with local providers to provide a ''separate' service-based model	Invite service providers onto your marketplace model to offer related services to the products you are selling - allowing an integration of both to provide a more seamless experience for the customer
Retailer wanting to test new product categories	Investment in sourcing new products, testing of lines, perhaps more localised consumer research	Use retailer-operated marketplace to quickly source new product lines through third-parties. Review demand before considering investment in own-brand versions of product

CONCLUSION

Range expansion, new services, new international markets. These are just three strategies that retailers can adopt to win new customers, increase spend and so boost sales. But as we have already identified all three come with risk. They take time to negotiate, require investment to make happen and can distract retailers from what's going on within the rest of the business. In short they aren't easy to implement whatever their benefits might be.

It's no surprise then that retailers are increasingly looking for new models that enable such strategies but without the risk they would normally carry. As we have seen in this report adopting a marketplace approach to expansion allows for such dreams to be realised without some of the disadvantages of going through traditional expansion routes.

For retailers adopting their own marketplace model the benefits are even greater – increased catalogues, greater customer reach, price competition between suppliers and a valuable research and development tool that allows retailers to understand what works and what doesn't and what new products and services they could introduce into their own businesses as a result.

It's a marketplace model that has been proven to work by retailers across the world – from giants such as Darty to high end retailers such as Harvey Nichols and new brands such as Afound. Why wouldn't it work for you too?

KEY LEARNINGS

1. Consumers are growing more used to the marketplace model and expect the choice and breadth of offer that marketplaces offer
2. Retailer-operated marketplaces allow retailers to test new product ranges before committing themselves
3. Expansion is fast and cheaper than traditional methods
4. Benefits can be immediate
5. No need to tie up capital in stock
6. But proper implementation is required – ensure you set SLAs etc

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