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DIGITAL COMMERCE 360 B2B

2023

B2B MARKETPLACES REPORT

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B2B MARKETPLACES CONTINUE TO PROLIFERATE

But the name of the game is “get big”.

The 2023 Digital B2B Buyer Survey, which Digital Commerce 360 and Forrester Research Inc. produced jointly, notes that 28% of B2B buyers do at least half of their purchasing on marketplaces.

B2B marketplaces were once just a relatively minor sales channel, and that time was not that long ago.

Having been around since the late 1990s and early 2000s, marketplaces in industries such as automotive parts, health care, and aerospace parts had yet to meet with success. Only a few achieved significant industry penetration, such as Boeing Global Services, which now works with 6,000 global suppliers and generates $2 billion in ecommerce sales.

But times change — and so has the B2B marketplace market. Five years ago, Digital Commerce 360 counted just 75 marketplaces. Now that number is as high as 500 and growing. In 2023, B2B marketplaces are also the fastest-growing digital sales channel. Their combined sales will reach $112 billion in 2023. That’s up 100% from sales of $56 billion in 2022, based on a projection from Digital Commerce 360.

Today, buyer behavior has changed the course of B2B marketplace evolution — and accelerated its development. Today’s business buyers are younger purchasing managers or teams of buyers that are primarily digital-first customers.

And a mainstream sales channel these younger buyers prefer is B2B marketplaces. For example, well over half of B2B buyers, or 59%, are conducting more than a quarter of their purchases on online marketplaces, according to a new survey of 103 B2B buyers.

Digital Commerce 360 and Forrester Research Inc. produced the 2023 Digital B2B Buyer Survey in a joint effort. Not surprisingly, many buyers say they purchase from Amazon Business. The marketplace reported in April that it had reached "roughly $35 billion" in annualized gross sales. Nice growth for a marketplace that launched in 2015.

THE ROLE OF AMAZON BUSINESS IN B2B BUYING

60% of buyers do more than a quarter of their purchasing on Amazon Business, the Digital B2B Buyer Survey found. And 28% say they do more than half. But another 12% say they "don't buy anything" on Amazon Business — and 29% say they buy on other marketplaces.

Amazon Business is the dominant marketplace, the industry's most influential marketplace, and by far the biggest, accounting for about one transaction of every four, Digital Commerce 360 projects.

"They (Amazon Business) have a very heavy influence on how marketplaces in the space are evolving," says Colin Sebastian.

Sebastian is a senior research analyst covering internet and interactive entertainment for Robert Baird & Co. He projects that Amazon Business will reach $80 billion in gross sales by the end of this decade.

SPONSORED ARTICLE

AN INCREMENTAL APPROACH TO MARKETPLACE LAUNCH LEADS TO B2B ECOMMERCE SUCCESS

An executive conversation with **Ryan Lee,** CEO and founder, Nautical Commerce

Competition across ecommerce is fierce, particularly in the B2B space. Initially slow to transform digitally, B2B companies seek the best ways to ramp up their ecommerce capabilities, especially as more digital natives move into procurement positions. To discuss the role marketplaces play in B2B companies' digital transformations and how a crawl-walk-run approach is key to success, Digital Commerce 360 B2B spoke with Ryan Lee, CEO and founder of Nautical Commerce.

How has the current B2B marketplace space changed in the past few years?

There's a lot of interest in the space because of three factors:

1. The pandemic accelerated digital adoption. B2B organizations that responded quickly to implementing ecommerce saw more sales than they would have through traditional selling methods such as phone or fax.
2. Amazon's success in B2B underscored the channel's importance.
3. Generational change is evident as digital natives hold greater purchasing power than older generations. They prioritize digital interactions over waiting for responses via phone calls.

These factors are triggering a shift toward marketplaces. Adapting to this change is crucial for capitalizing on new buyer demographics and staying competitive.

Why are marketplaces important to both B2B sellers and B2B buyers?

These are two reasons B2B sellers and buyers are keenly interested in marketplace participation. First, marketplaces offer sellers access to latent demand. Sellers get bottom-of-funnel buyers who are on the marketplace ready to make a purchase. They're there to spend money. Second, marketplaces are growing exponentially because buyers want that one-stop shop to make all their purchases. This is what drives the average order value up in a marketplace shopping cart.

What are the biggest marketplace challenges B2B organizations face?

Many are reticent to launch marketplace initiatives. They often believe their current business model works, so there's no need to disrupt it with a new, unfamiliar channel. But marketplaces are where the customers are. If they don't meet their customers in the channel they want to shop in, a competitor will.

Another challenge they face is the misconception that it's an enormous and expensive undertaking. A two-year implementation plan doesn't work anymore, and no one has an appetite for it.

How can they overcome these challenges and leverage the benefits of marketplaces?

Baby steps. We advocate a crawl-walk-run approach. Start digitizing the transaction flow well before you introduce the marketplace model, so you get your team trained and muscle built around operating in a digitized world. Then start introducing digitally assisted sales.

When a customer calls with an order, put it into a system of record that will be the core engine of the marketplace and form the process that way — well before you expose that to the customer. Then enable the marketplace.

The crawl-walk-run approach is a journey. It helps the organization adopt new technology, gets information symmetry there as fast as possible for the customer, and increases the sales throughput.

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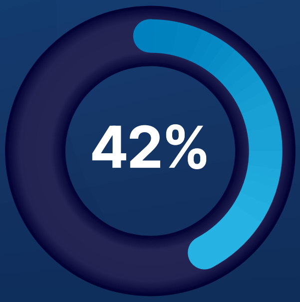

Forrester Consulting study commissioned by Nautical, July 2023

- Leverage a feature-rich platform built for B2B transactions
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Amazon Business is big, with heavy ambitions to get even bigger and more global. For example, Amazon Business is improving logistics operations in Europe. It wants to make itself more attractive for corporate-account customers to make bulk purchases of supplies ranging from desks and IT equipment to paper and printer ink. That provides Amazon the opportunity to reap higher margins compared with small-order retail consumer sales.

"Because businesses buy in larger quantities, the fulfillment economics are more advantageous," Amazon told Reuters.

ENTERING NEW MARKETS

Amazon Business entered the European market when it opened for business in Germany in 2016, followed by Great Britain in 2017. It also operates in France, Italy and Spain.

Amazon is bent on growing bigger, and Amazon is not alone. In the first quarter, Ritchie Bros. Auctioneers Inc. completed its $7.3 billion acquisition of Westchester, Illinois-based IAA. IAA facilitates the marketing and sale of total-loss, damaged and low-value vehicles.

"The closing of the IAA acquisition represents the beginning of an exciting new chapter for Ritchie Bros. as we expect the combination of our businesses to drive long-term, profitable growth," says Ann Fandozzi, CEO of Ritchie Bros. "With IAA, we will accelerate our transformation into a premier digital marketplace and expand into an attractive, adjacent vertical, broadening our global footprint. Our combined yard footprint, marketplace infrastructure and comprehensive suite of innovative solutions will allow us to serve customers more effectively and efficiently than ever before."

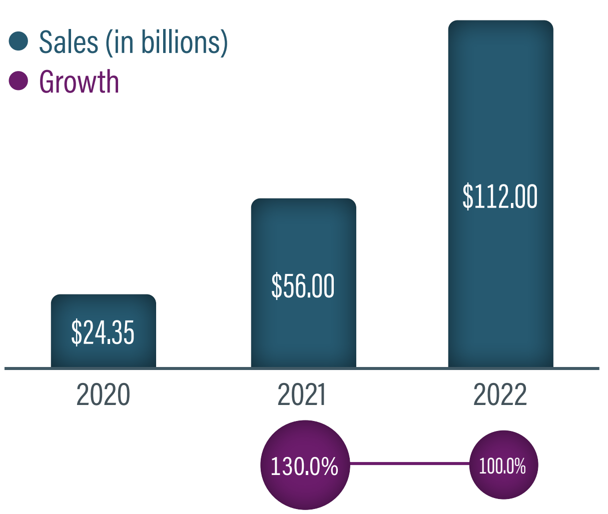
IAA auctions damaged and repairable vehicles, theft-recovered vehicles, vehicle parts and donation vehicles. In tandem with closing its cash and stock deal for IAA, Ritchie Bros. changed its corporate name to RB Global.

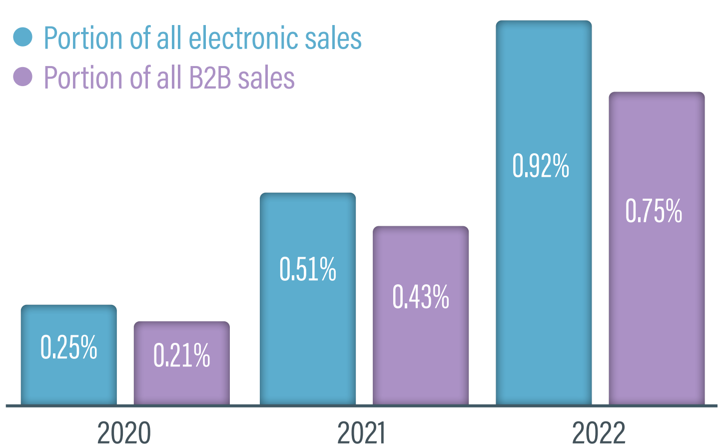
"The RB Global name signifies the transformation of our business into a premier global marketplace and more closely aligns with our strategy," Fandozzi says.

RB Global intends to grow by becoming a full-service and turnkey ecommerce applications and services provider for the buyers and sellers that use its B2B marketplace. Other marketplaces are adopting a similar approach. As B2B marketplaces expand in number and volume to serve every industry, the companies building and operating them are perfecting their strategies.

B2B MARKETPLACES ENTER THE DIGITAL COMMERCE MAINSTREAM

A B2B marketplace, or exchange, is a vertical-industry or general business/industrial "many-to-many" internet network where businesses can buy and sell goods and services to each other directly online based on the available inventory and price set by the seller, or at a quantity level and price negotiated electronically between a buyer and seller.





Source: Digital Commerce 360 B2B estimate based on market analysis, interviews with key analysts and analysis of ecommerce metrics of select public companies.

IMPROVING B2B MARKETPLACE STRATEGIES

ChemDirect, a marketplace for the chemicals industry, last year expanded its catalog to more than 500,000 specialty chemical products. It's on course this year to triple gross merchandise value to between $40 million and $50 million.

President Dave Haase notes that ChemDirect is backing that growth by addressing two critical needs of chemicals industry buyers. Those are pricing transparency and, through a shipping network developed with trucking company Schneider National, more control over their shipping.

"We believe in building products with B2B functionality and a business-to-consumer experience," says Grant Lacy, ChemDirect's head of product.

If you've viewed a Super Bowl halftime show recently, you've seen the kind of results provided by GearSource.com. GearSource supplies lighting, audio and related equipment for live events and clients like Google and Apple.

Recent plans to tap expanded growth opportunities led GearSource to replace its long-running legacy ecommerce platform with a new one capable of handling transactions of complex orders, many of which involved multiple currencies.

As B2B marketplaces of all types continue to proliferate, they will keep expanding the range of applications and services they offer to sign up more buyers and sellers and grow market share. There is still lots of room for growth and experimentation in the B2B marketplace market. Still, one trend is already clear. The bigger, established players such as Amazon Business and others are already serving notice to the rest of the B2B ecommerce market. "We are here for the long run."

AMAZON BUSINESS, AILBABA AND EBAY

B2B marketplaces are a big and growing industry, but when it comes to sales volume, three marketplaces stand out: Amazon Business, Alibaba and eBay.

Amazon Business already claims 6 million customers and $35 billion in annualized gross merchandise sales — and it launched just eight years ago. But market analysts figure it is far from reaching a sales plateau.

Colin Sebastian, an R.W. Baird & Co. investment analyst who has accurately forecasted Amazon Business' sales growth in recent years, has projected $80 billion in gross sales, including many by third-party sellers, before the end of this decade.

B2B MARKETPLACES: TARGETING SMALL BUSINESS OWNERS

One way Amazon Business is moving toward much higher gross sales volume, analysts say, is by expanding sales to small businesses.

There are 33 million small businesses in the United States, according to the Small Business Administration. It defines a small business as an independent business with fewer than 500 employees.

Moreover, the SBA notes that 81% of U.S. small businesses — 26.5 million — are solo operators with no employees.

Amazon Business is reaching out to those solo businesses operators with new offers to improve their operations.

In June, it introduced a Business Prime deal for small business owners with perks like spending analytics tools and free shipping. Called the Business Prime Duo, it lets solo business operators who already have an Amazon Prime account at an annual $139 fee for their personal consumer spending to add a Business Prime account for no extra charge — a savings of $69 per year.

"Small business owners are passionate about what they do — and we know that many of them do it all by themselves," says Todd Heimes, director, Amazon Business Worldwide. He adds, "From product development and marketing to procurement and finance, these small-business owners wear multiple hats each and every day."

BUSINESS PRIME DUO PROVIDES THE FOLLOWING AT NO EXTRA FEES:

- One-day and two-day delivery options on tens of millions of products, and free same-day delivery on eligible items in more than 90 metropolitan areas.
- An "Amazon Day" option to schedule delivery of eligible items on the same day each week; and a consolidated shipping option on large orders to receive goods in a minimal number of packages and deliveries.

- Customer survey and analytics tools to learn more about customer preferences.

- 90-day interest-free payment terms or 5% back on purchase transactions made with the Amazon Business Prime American Express card.

But big business is also vital to Amazon Business' future.

As the B2B marketplace eyes more business, it also expects to maintain the recent growth with large companies that has led to a new — and expanding — strategic accounts unit that supports their online purchasing efforts.

"We've seen so much demand by large, multinational companies, we decided to spin up an entire new business unit," says Chris Costello, a former AT&T executive who joined Amazon Business in May 2021 to lead that worldwide strategic accounts unit as its executive vice president. In her first year in that role, she notes, her team more than doubled, following Amazon's plan to "start small and grow into a very, very, very sizable team."

"Small business owners are passionate about what they do — and we know that many of them do it all by themselves."

— **Todd Heimes**, director, Amazon Business Worldwide

WHAT'S ATTRACTING B2B MARKETPLACE INVESTORS THIS YEAR?

Bowery Capital's Michael Brown, Lauren Straub and Patrick McGovern share their perspective on how B2B marketplace companies can attract funding "with the bar getting increasingly higher with each fundraise."

B2B marketplaces are still the most active and fastest-growing segment in B2B digital commerce. Today, there are more than 500 types of B2B marketplaces in the U.S. alone, and more on the way. In the past two years, billions of public and private investor money have flowed into B2B marketplace companies.

There have been *several high-profile* initial public offerings and companies with valuations in the hundreds of millions and more. But the times are changing. Investors are still pumping money into B2B marketplace development, but the brakes are on, money is harder to come by, and investors are asking tougher questions. Investors are looking at only the best-run companies with good products, helpful technology, and a sustainable path to a profitable, growing business. Bowery Capital may know B2B marketplace investment better than any other investment firm.

In this question- and-answer article, founder and general partner Mike Brown, general partner Lauren Straub and senior associate Patrick McGovern look at the current state of investment and who is — and isn't — getting funded.

Digital Commerce 360: How much investor capital will flow into new and existing B2B ecommerce companies in 2022 vs. 2023?

Investors may get less risk averse in 2023 than in 2022, but I would still expect a tough funding environment with the bar getting increasingly higher for each subsequent fundraise. It is hard to put a precise number on it, but I would expect any increase in capital flowing to B2B ecommerce will be modest in 2023.

DC 360: Are there any particular marketplace verticals that are attracting more investment than others and why?

Some categories that have attracted investment recently include industrial parts marketplaces (i.e., Quotebeam, Volition, etc.), as well as specialized equipment marketplaces like Moov for the purchase of used semiconductor-related equipment and EquipmentShare for facilitating heavy machinery rentals. Marketplaces for replacement auto parts have also seen some recent inflows, most notably PartsTech, which announced a $35 million Series C last month. Heavy equipment and construction inputs are another two verticals that continue to attract attention from investors. On the other hand, we see more verticalized labor

(L-R) Bowery Capital's Michael Brown, Lauren Straub and Patrick McGovern.

marketplaces struggling to raise funding, with the exception being those which focus on staffing health care workers given the ongoing shortage of nurses and other care providers.

Marketplace verticals that can make a credible argument for the merits of a SaaS-enabled marketplace business will continue to attract outsized investments. Marketplaces that offer meaningful SaaS tooling will also generally fare better when it comes to fundraising, compared with marketplaces that effectively function as trading websites and lack a software component. Having built-in software offers an extra layer of stickiness and opens up new avenues for potential monetization. These SaaS + marketplace opportunities exist on both the B2B and B2C side — in practice, this looks like software where you can run your day-to-day business that also offers a marketplace to connect with your buyers, whether individuals or businesses.

DC 360: How are investors evaluating marketplace companies these days different than last year?

There are only a handful of what we think of as modern vertical marketplaces that are publicly traded and they generally trade at lower multiples than you see on the SaaS side of things. The decline in equity markets overall has only further impacted public comps like Xometry, ACV Auctions, and Freightos.

B2B ecommerce buyers are spending more

A new McKinsey survey of 3,800 B2B executives in 13 countries, including the US, finds that B2B ecommerce buyers use several sales channels to interact with suppliers and make purchases — as many as 10 — and B2B marketplaces are the most popular channel.

BIG TICKET ITEMS

70% of decision makers are prepared to spend up to $500,000 in a single ecommerce transaction.

B2B customers now regularly use ***10 OR MORE*** channels to interact with suppliers.

Source: McKinsey & Co. B2B Pulse survey of 3,700 B2B executives in 13 countries.

MARKETPLACES ARE WHERE THE ACTION IS

48% of companies who describe themselves as "winning at B2B ecommerce" are using industry marketplaces.

50% of companies have either already built or have plans to build their own marketplace.

88% 97% 93%

While the vast majority of respondents globally (88%) sell through third-party marketplaces such as Amazon, that number rises even more in India (97%) and the United States (93%).

Source: McKinsey & Co. B2B Pulse survey of 3,700 B2B executives in 13 countries.

Today, marketplaces are often valued by investors based on a hypothetical layer cake of potential revenue streams like logistics, payments, and insurance, which they will add on over time to augment revenues. This is a departure from the past when most investors looked at marketplaces by extrapolating the GMV and the take rate and then pitting that against a revenue multiple.

DC 360: How are inflation, supply chain disruption and the war in Europe impacting how investors are feeling about deal making?
Inflation — and the rising interest rates that accompany it — have obviously put a damper on the private investment market and geopolitical uncertainty has only furthered that. I would note, though, that inflation in the short term can sometimes juice marketplace net revenue as the price of goods rises, and GMV gets artificially bumped up while the take rate remains static, so that's worth keeping in mind when looking at recent marketplace financials. In a counterintuitive way, supply chain disruptions can also sometimes benefit marketplaces by prompting customers to shift behaviors and try out new procurement strategies.

DC 360: How many B2B ecommerce companies are attracting capital this year, and how many last year?
Net new venture investments are down overall over the last 12 months, and marketplaces have not been immune to this. I would attribute this less to marketplaces falling out of favor and more to a general slowdown in private markets investing after what had been a frenetic few years.

DC 360: B2B marketplaces continue to acquire capital. What trends are driving this? How long will this trend continue, and why?
We will continue to see investors funding B2B marketplaces, and we believe there is still plenty of room to run with regarding adopting

modern online marketplaces in B2B settings. An increasingly younger managerial class is taking the reins in B2B settings, and they will continue to expect a consumer-grade interface and UI/UX that these newer marketplaces can offer. I also think the growing awareness among investors of the different revenue streams these businesses can generate beyond just their cut of a given transaction has sparked renewed interest in the model.

Marketplaces are often "winner take most" scenarios, which is another factor that can lead to capital accumulation. These dynamics can lead to spending wars between well-financed competitors or a sense of urgency by company leadership to raise capital to expand as quickly as possible and capture market share before other founders catch on to the opportunity.

DC 360: We have written about the $300 million Mirakl attracted and their plans for growth. Are there any other prominently announced deals of late such as this one?
So far, 2023 has been light on the kind of mega-rounds of funding that drive the year-end statistics you often see around how much money flowed into a given category. While the early stage is still active, late-stage marketplace investing has not been exempt from the wider slowdown in deployment among growth investors.

One trend we have seen is increasing interest in commodity-focused marketplaces (i.e., metal, wood, chemicals, etc.) just given their huge end markets. I think we will continue to see funding flowing there. The potential for a Faire IPO is also something I know every marketplace investor is tracking, and their S-1 should offer some great insights into what these businesses look like at scale.

Today, marketplaces are often valued by investors based on a hypothetical layer cake of potential revenue streams like logistics, payments, and insurance.

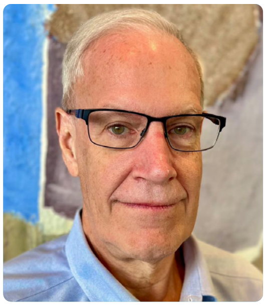
DC 360: We have written about ACV Auctions' IPO. Are there any others like these or already public companies? What are their similarities and differences? Is there a disconnect between the public and private investors?

ACV Auctions is among the more prominent B2B marketplace IPOs of the last few years. Two other modern public B2B marketplaces that have gone public in the last few years are Xometry (manufacturing on demand) and Freightos (air cargo bookings on demand). Both Xometry and Freightos are more services-oriented, whereas ACV is more goods-oriented given its focus on vehicle sales.

All of them trade significantly below their listing price, however, part of that decline can be attributed to the wider meltdown in tech equities. I think the multiples these companies are currently valued at definitely have an impact on private market investors and may put a damper growth funds' appetite for backing these businesses, which makes scaling them in a capital efficient manner all the more important.

ABOUT THE AUTHOR

Mark Brohan is senior vice president, B2B and market research at Digital Commerce 360, covering B2B ecommerce trends. Prior to his current role, Mark was vice president of research for Digital Commerce 360 and editor of Internet Retailer's Top 500 Guide, Top500Guide.com and related research publications. Mark's previous experience includes leading new print and web product business development for Faulkner & Gray were web publisher and editorial director for DM Review magazine and its two websites: DMReview.com and dataWarehouse.com. He was also the founding editor of various Faulkner & Gray technology magazines, including Internet Retailer. Mark earned a bachelor's degree in secondary education and history from Western Michigan University and a master's in journalism and public affairs from the American University.



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ABOUT DIGITAL COMMERCE 360

Digital Commerce 360, formerly Internet Retailer, has been a global leader in retail and B2B ecommerce research and media for over two decades. Our organization provides daily news, trend analysis, and competitive data to a vast community of executives, retailers, financial firms, manufacturers and more. Our team of experienced journalists and researchers publish a multitude of products each year, including dozens of research reports, newsletters, charts and infographics, webinars, live events, and data on thousands of ecommerce companies through its Digital Commerce 360 Research brand. We also founded groundbreaking ecommerce products and events, including Internet Retailer magazine, the Top 500 Guide, the Internet Retailer Conference & Exhibition (IRCE) and, most recently, the EnvisionB2B Conference & Exhibition.

ABOUT DIGITAL COMMERCE 360 RESEARCH

Digital Commerce 360 Research tracks hundreds of metrics on thousands of online retail companies around the world, including critical data metrics like web sales and traffic, conversion rates, AOV and the technology providers that power their businesses. We publish our analysis of the data in numerous annual reports on timely ecommerce topics like marketplaces, omnichannel, platforms, and many more. In addition, our robust custom research department is skilled at creating personalized projects — including reports, surveys, raw data pulls and more — to support retailers, consultants, financial analysts and technology providers meet their goals.

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