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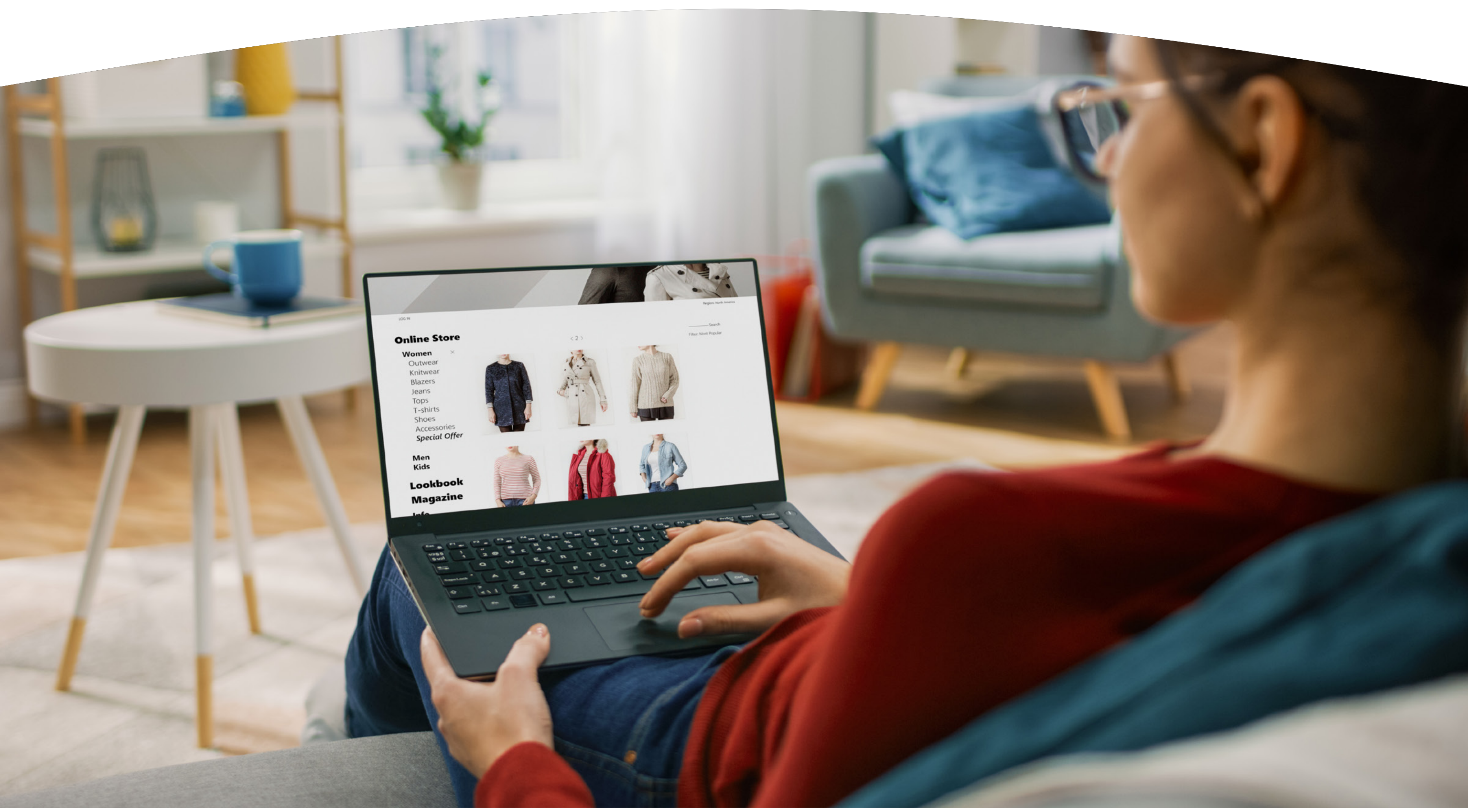

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MODERN MARKETPLACE TECHNOLOGY MAKES THE CHANNEL ACCESSIBLE TO MORE RETAILERS

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

Customers today want fast and easy online shopping options. Marketplaces are one-stop shops that offer that convenient shopping model customers expect. As the number of marketplaces increases, retailers face growing competition and must embrace the marketplace model to cater to customer demand. To discuss the best approach to launching marketplace strategies to maximize success, Digital Commerce 360 spoke with Ryan Lee, CEO and founder of Nautical Commerce.

How has online marketplace participation among retailers evolved over time?

In years past, marketplaces had to be built from the ground up. They were multimillion-dollar projects that took years to complete and came with a lot of risk. They were made up of a lot of pieced-together systems that required large tech teams to build and maintain. As a result, only enterprise-size companies were able to take on that kind of project. It just wasn't accessible or approachable for most retailers.

Now, with advances in technology, venturing into the world of marketplaces is within reach for most retailers. Modern marketplace technology has effectively helped orchestrate a marketplace transaction — from seller sign-up to seller payout and everything in between, which includes the buyer experience, product discovery, purchase, payments and fulfillment.

What typical challenges do retailers face when considering implementing marketplace initiatives?

Retailers often think in terms of all or nothing when it comes to marketplaces. That can be intimidating for a lot of companies and make it difficult to get started at all. The best approach is to start small and slowly work their way toward full marketplace participation.

They should first think about getting their internal teams to embrace the concept of enabling third-party options. For example, drop-shipping is a great place to start. It's less onerous than marketplaces, but it's a step in that direction. Using a flexible platform, like Nautical, allows you to evolve from multi-vendor models like dropshipping to marketplaces, without needing to replatform. This approach allows companies to take that journey in the small but necessary steps toward realizing their vision.

What strategies help them along this journey toward marketplaces?

Unpacking these marketplace initiatives into very short delivery cycles will help companies move more effectively toward their goals. Having a grand vision for marketplace participation is great, but what is unclear are the nuanced steps to achieve the grand vision.

A phased, crawl-walk-run approach de-risks the initiative. And most importantly, the learnings you gain as an organization power innovation.

How can technology help?

Advancements in marketplace technology in the past few years means that retailers of all sizes can take advantage of the benefits this channel offers. But it's too time consuming and costly to do it alone. Partnering with a software provider that offers a platform that handles the heavy lifting is a great way to succeed in marketplaces.

Nautical built marketplace technology with exactly that in mind. Every company is different, and they each have their unique needs. But a lot of the basic marketplace requirements on the backend are the same across the board.

Nautical's marketplace platform allows you to digitize the transactional parts of operating a marketplace, so you can focus on your unique differentiator — the buyers' experience. This means a marketplace that used to take three years and millions of dollars to build can now be completed in smaller chunks in less than a year and at a fraction of the cost.

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Become a marketplace loved by buyers, sellers, and operators

with Nautical's multi-vendor marketplace platform

Whether you're adding third party sellers alongside your existing offerings, launching a new marketplace, or preparing your marketplace for the next stage of growth, **Nautical's composable multi-vendor marketplace platform can help you:**

- Offer exceptional buying experiences
- Empower your sellers with seamless onboarding and integrations
- Manage vendor logistics and payouts
- Gain trust through reliable payment orchestration
- And more

It's time you used a platform purpose-built for your business

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THE APPEAL TO MERCHANTS

Selling on online marketplaces has long been a valuable strategy for merchants. The marketing power and reach of the giants of the marketplace world are such that smaller merchants have little choice but to sell on marketplaces. Larger merchants have a choice, but many see the advantage in using marketplaces to increase overall sales and find new customers.

This is especially true in China.

Taobao (No. 1 in the 2023 Online Marketplaces report) and Tmall (No.2) — both owned by China-based Alibaba Group Holdings — are “pure” marketplaces. In other words, they do not sell their own products.

Yet they have very different business models. Taobao is often referred to as a consumer-to-consumer site similar to eBay Inc. (No. 6 in the world and No. 2 in the U.S.) It’s free to list an item on Taobao and millions of sellers do so. (Many of the sellers are consumers, but most of the sales are made by merchants of various sizes that sell on these popular platforms.) By contrast, Tmall serves larger merchants. Selling on Tmall requires a $25,000 security deposit and an annual fee of up to $10,000. About 50,000 sellers do business through Tmall.

In the U.S., Amazon (No. 3 globally and No. 1 domestically) is a “hybrid” marketplace, meaning it sells its own goods and does business with third-party sellers too. Amazon has about 1.5 million sellers of various sizes.

EBay is a pure marketplace with 19 million sellers. No marketplace anywhere on earth does business with more merchants.

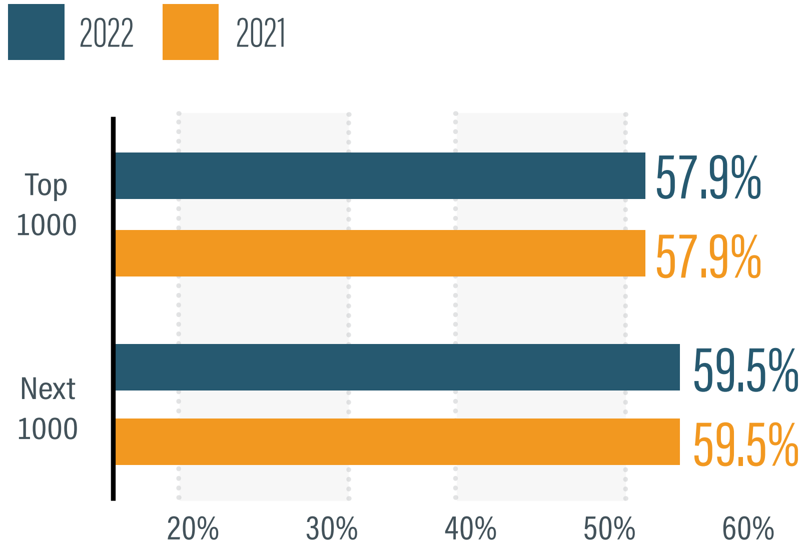
It can be interesting to look at how the largest retailers view marketplaces. And the data suggests that most of them view marketplaces as effective sales channels. More than half of the Top 1000 retailers and more than half of the Next 1000 retailers sell on marketplaces, according to a Digital Commerce 360 analysis.

But the participation rate for retailers may have hit a ceiling of sorts. The numbers from 2022 are essentially unchanged from 2021.

And while retailers of all sizes participate in the Amazon marketplace, the level of participation among Top 1000 and

SHARE OF TOP 1000 VS. NEXT 1000 RETAILERS* SELLING ON ANY MARKETPLACE, 2021-2022

% of retailers

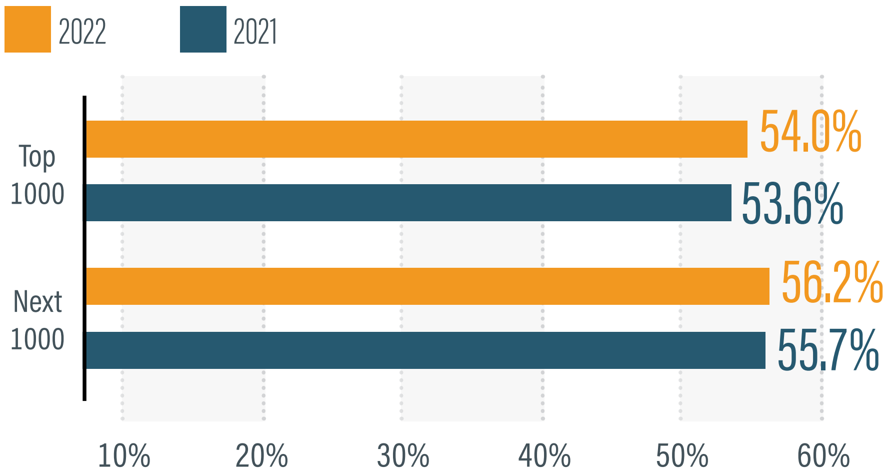


Source: Digital Commerce 360
*Captures Top 2000 retailers with two years of data on these metrics

Top 2000 retailers is also essentially unchanged. The Digital Commerce 360 Top 2000 tracks the results of the 2,000 largest North American merchants and brands by online retail sales.

SHARE OF TOP 1000 VS. NEXT 1000 RETAILERS* SELLING ON AMAZON, 2021-2022

% of retailers



Source: Digital Commerce 360

MARKETPLACE PARTICIPATION VARIES BY TYPE AND CATEGORY

Consumer brand manufacturers are the heaviest sellers on marketplaces, with more than three-quarters of them moving goods through marketplaces. By contrast, only slightly more than a third of retail chains sell on marketplaces — and that percentage declined, albeit slightly, in 2022.

More than 80% of consumer electronics retailers sell on marketplaces — the highest percentage among the categories that Digital Commerce 360 tracks. But here, too, there was a slight decline from 2021 levels.

The least likely to participate are food/beverage retailers. Their participation rate has held steady at 27.0% in 2021 and 2022.

Of course, that only gives a partial picture. To get the most accurate picture of the relationship between merchants and marketplaces, you must look at category and merchant type by individual marketplace.

SHARE OF TOP 1000 RETAILERS SELLING ON ANY MARKETPLACE BY MERCHANDISE CATEGORY, 2021-2022

	2022	2021
Apparel/Accessories	63.2%	63.2%
Automotive Parts/Accessories	66.7%	66.7%
Consumer Electronics	81.3%	82.7%
Flowers/Gifts	65.0%	60.0%
Food/Beverage	27.0%	27.0%
Hardware/Home Improvement	56.6%	56.6%
Health/Beauty	61.8%	61.8%
Housewares/Home Furnishings	56.1%	56.1%
Jewelry	52.4%	52.4%
Mass Merchant	28.6%	29.2%
Office Supplies	69.2%	69.2%
Specialty	51.4%	52.1%
Sporting Goods	48.1%	46.9%
Toys/Hobbies	64.2%	64.2%
Top 1000	**57.9%**	**57.9%**

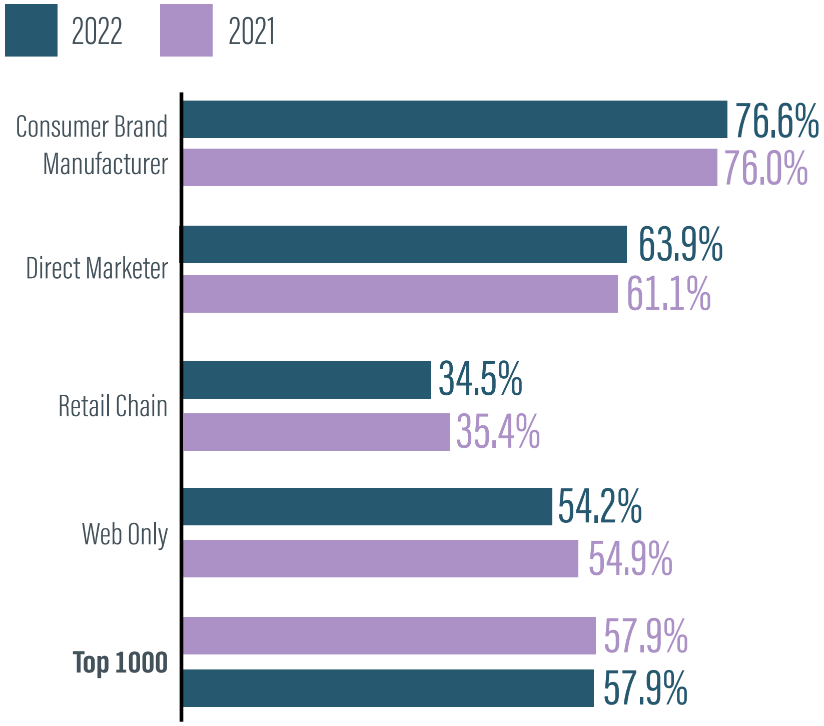
Source: Digital Commerce 360
*Captures Top 1000 retailers with two years of data on these metrics

For example, consumer brand manufacturers are clearly interested in selling on Amazon. But their participation in the largest U.S. marketplace fell in 2022.

Consumer brand manufacturers show less interest in Walmart Marketplace (No. 9), but that interest grew by nearly 2 percentage points in 2022.

Retail chains, many of which view Amazon and Walmart as top competitors, are the least likely to sell on these multimerchant shopping portals.

SHARE OF TOP 1000 RETAILERS* SELLING ON ANY MARKETPLACE BY MERCHANT TYPE, 2021-2022



Source: Digital Commerce 360
*Captures Top 1000 retailers with two years of data on these metrics

DNVBs

Digitally native brands — those born-on-the-web brands, most of them founded over the last decade and funded by venture capital — have tended to shy away from marketplaces, seeking to focus on building brand awareness and driving consumers to their ecommerce sites and mobile apps.

But that may be changing.

Only 40.3% of digitally native brands sold on marketplaces in 2020, but that's risen to 47.5% in the last two years.

SHARE OF TOP 1000 RETAILERS* SELLING ON TOP MARKETPLACES BY MERCHANT TYPE, 2021-2022

MERCHANT TYPE	% OF RETAILERS									
	Amazon		eBay		Walmart Marketplace		Tmall		Taobao	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Consumer Brand Manufacturer	72.3%	75.7%	8.5%	7.1%	7.0%	5.2%	17.1%	16.8%	11.9%	13.4%
Direct Marketer	55.6%	58.3%	30.6%	25.0%	25.0%	22.2%	0.0%	0.0%	0.0%	0.0%
Retail Chain	29.3%	31.3%	9.6%	9.5%	7.2%	6.5%	3.4%	2.5%	3.8%	2.5%
Web Only	43.9%	47.7%	26.9%	27.2%	22.4%	17.8%	0.2%	0.2%	0.2%	0.0%
Top 1000	**54.0%**	**53.6%**	**17.4%**	**16.9%**	**14.3%**	**11.5%**	**6.4%**	**6.1%**	**4.8%**	**4.9%**

*Captures Top 1000 retailers with two years of data on these metrics.
Source: Digital Commerce 360

CATEGORY MOVERS

Another way to see what is changing in marketplaces is to look at developments at the merchandise category level.

Participation by apparel/accessories retailers, for example, rose substantially in 2022 at Amazon, eBay and Walmart, but fell at the two largest Asian marketplaces.

Automotive parts have traditionally been a major seller on eBay. But participation fell on the marketplace in 2022. At least some of that business seems to have shifted to Walmart, which saw a jump of 35.9 percentage points last year for retailers in the automotive business.

Other movement to note:

- Flowers and gifts fell hard at Amazon, dropping to 42.9% from 60.0%
- Consumer electronics jumped substantially at Walmart, rising to 41.3% participation from 14.7% in 2021
- Tmall saw a boom in toys/hobbies, rising to 24.5% from 3.8% a year earlier

MOVERS AND SHAKERS

GLOBAL LEADERS

In 2022, the leading online marketplaces collectively generated a remarkable $3.25 trillion in sales. That comes to more than 55% of total global ecommerce spending.

Among the Top 100 marketplaces, third-party sales through platforms such as Alibaba, Amazon.com, eBay, and others constituted 77.4% of the total gross merchandise value.

Overall growth was primarily driven by international online marketplaces. While Chinese online malls faced challenges due to lockdowns, marketplaces in such countries as Brazil and Russia experienced significant expansion. In response to supply chain difficulties and global conflicts, domestic sellers opted for local alternatives, leading to the surge in these international marketplaces.

FASTEST GROWING GLOBAL MARKETPLACES

MARKETPLACE	2022 RANK	TYPE	COUNTRY	GROWTH
Wildberries	21	Hybrid	Russia	95%
Ozon	19	Hybrid	Russia	74%
Flight Club	64	Pure	United States	50%
GOAT	50	Hybrid	United States	48%
Chrono24	26	Pure	Germany	43%

Source: Digital Commerce 360

Notably, Russian operators like Ozon and Wildberries emerged as some of the fastest-growing platforms in 2022 as domestic sellers transitioned to Russian-owned sites amid economic sanctions imposed on Russia following its 2022 invasion of Ukraine.

Similarly, Latin American players such as MercadoLibre Inc. and Elo7, which is owned by U.S.-based Etsy, also secured positions among the top 10 growing marketplaces.

Despite declines, Alibaba's Taobao and Tmall lead third-party GMV of competitors globally. Amazon's third-party GMV keeps it in third. But eBay's decline lets Indonesian Shoppee make the top five.

U.S. LEADERS

Growth among U.S. online marketplaces was flat this year, with third-party GMV down 1.0%. Trends matched those of the global list, with hybrids faring better than pure marketplaces. Half of the Top 100 marketplaces are based in the U.S.

However, within the leading U.S. companies, the GMV reached an impressive $869.80 billion, representing over a quarter of the total GMV of the Top 100 marketplaces. Notably, among U.S. marketplaces, Flight Club, a platform specializing in sneakers, experienced the highest growth rate, with its GMV increasing 50% compared to the previous year.

FOCUS ON WISH

No U.S. marketplace had a tougher year in 2022 than Wish.com, a pure-play marketplace best known for its wide array of very low-priced items, many of them from merchants in China.

The marketplace reported a shocking 73% drop in revenue in 2022 versus a year earlier. In addition, Digital Commerce 360 estimates that Wish's GMV dropped by 75% last year versus 2021.

If there's good news to be found for Wish, it's that the marketplace's senior management recognizes that the company needs to make significant changes to its model.

"Actually we did hear a lot of complaints on the product quality," CEO Joe Yan told Digital Commerce 360. "A lot of merchants competed on price, but the product quality was a problem and that caused a lot of bad customer experiences."

In addition, Yan said the long delivery times between China and the U.S. led to customer dissatisfaction.

"It could take more than three weeks. Or even more than a month. People would receive the item and had already forgotten they had bought it," Yan said.

In recent months, Wish.com has begun seeking merchants that have "much better product quality" to sell on the marketplace. In addition, Wish has invested in logistics systems and added warehouse capability to reduce delivery time from China to the U.S. to 15 days.

The result, according to Yan, is that customers are far more satisfied with Wish than they were in the past. Most notably, the marketplace's refund rate has declined 36% in 2023.

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Paul Conley is the director of editorial research at Digital Commerce 360, where he leads, manages and contributes to research reports. Prior to joining the team, Paul spent three decades in a variety of journalism and content marketing roles, including stints at CNN, Primedia Business, Bloomberg, Knight-Ridder Financial, CFO Publishing and The NPD Group.

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