



# Leveraging the **Multi-Vendor** **Marketplace** Model

How To Increase Revenue by Adding a Multi-Vendor Marketplace Alongside Existing Offerings

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# Introduction

In the fourth quarter of 2020, [marketplaces grew 80%](#) year-over-year - more than double the rate of overall ecommerce. And 66% of consumers worldwide prefer to shop on sites with online marketplaces as compared with those that don't leverage the marketplace model.

Some retailers are seeing the dominance of marketplaces and choosing to shutter their own ecommerce businesses and sell only on marketplaces - diluting their brand experience to ensure a large customer base. Other forward-thinking retailers are leveraging the marketplace model alongside their existing business, and are reaping the benefits.

## Top reasons to build a marketplace:

### Network Effect & Flywheel Effect

Building a marketplace is no easy task, but once a marketplace takes off it is very hard to slow it down. This is due to two concepts: the network effect and the flywheel effect.

The [network effect](#) is the idea that a product or service becomes more valuable as more people use it. As the network strengthens and grows, it becomes harder and harder for a new entrant to enter the space. The job of a marketplace is to make connections between multiple stakeholders, and, by doing so, leverage the network effect.



Traditional retailers are unable to benefit from network effects as a single seller.

As the network effect builds, the **flywheel effect** comes into play. When more sellers join a marketplace, more products will be available, which increases the number of sellers, which in turn brings more sellers. Amazon is a well-known example of a company that utilized the flywheel effect to grow their business. Sellers have different payout preferences that marketplace operators have to manage.



*The Amazon Flywheel Effect*

### Increase Product Depth

Product depth and breadth are vital in ecommerce. With **86% of consumers expecting more product choice**, retailers must be constantly adding new products to their ecommerce store. Marketplaces have the ability to leverage their seller and vendor networks to increase product depth and drive more traffic to their site. Increasing the number of available products, even if they are competitive, has proven to positively impact marketplace profitability.

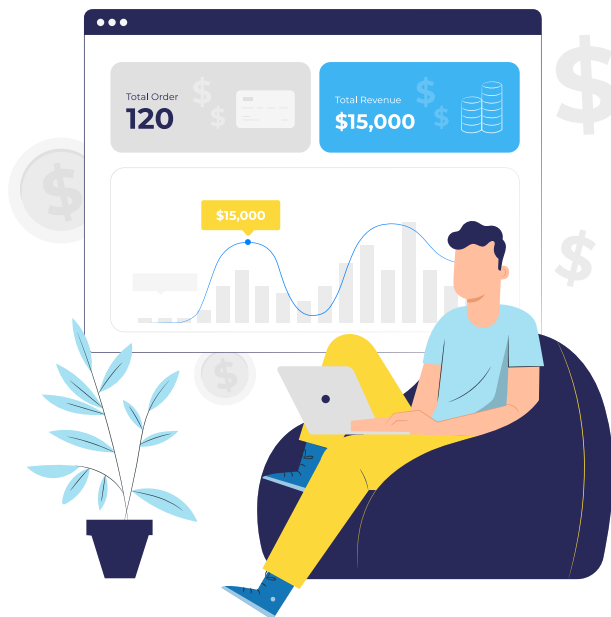


## Higher Profitability

As a single seller, retailers and brands are constrained to their inventory, supply chain, commerce systems, and customer base. Opening up their business to additional sellers and products **using the marketplace model will allow retailers to increase digital revenue by over 10% each year by 2023 according to Gartner.**

## Increase Available Inventory

With the [pandemic causing a major break in the supply chain](#) across the world, many retailers have been struggling to find available products for their customers. Out of stock items will cause consumers to find the product on another site with a few simple clicks of a button. By utilizing the inventory of many different sellers and vendors on one site, marketplaces have higher product availability.



## Increased Customer Reach

In Q4 2021, **retailers with marketplaces increased web traffic by 34%**. Marketplaces have a wider selection of available products and greater number of sellers on their sites which means they are showing up in more online searches and have more vendors pointing customers to their marketplace.

B2B marketplaces have seen a tremendous [increase in customer reach](#) as they open up online sales channels. Products that were traditionally sold on PDF catalogs are now more accessible to both consumers and businesses alike without time-consuming manual processes.

## Asset-Light Approach

A marketplace, technically, does not have to sell anything. Airbnb does not own vacation homes, they just connect people who have homes with those who need them. OpenTable doesn't make food, they simply facilitate reservations between restaurants and patrons. A marketplace acts as a marketing service that aggregates demand to their site. As such, many marketplaces are asset-light.

The asset-light approach allows marketplaces to be much more agile than traditional retailers and see higher margins. By outsourcing warehousing and shipping responsibilities to third party sellers, marketplaces are able to focus on customer experience and product development.

# Marketplace Technical Considerations

Existing retailers adding a marketplace alongside their business have an advantage when it comes to launching a marketplace. They are more likely to have existing vendors and customers to generate demand quickly and get the flywheel turning.

But, even as an existing business, there are many operational requirements of a marketplace that differ greatly from that of a traditional ecommerce store.

An ecommerce store sells products or services from a single seller. On the other hand, a marketplace facilitates transactions between multiple stakeholders. This means marketplaces have both a buyer and a seller experience - something that a traditional ecommerce store lacks.

	Marketplace	Traditional Ecommerce Stores
Manages Buyer Experience	✓	✓
Handles Customer Service	✓	✓
Manages Seller Experience	✓	✗
Pushes Payouts to Sellers	✓	✗
Manages Seller SLAs	✓	✗
Promotes Transactions Between Parties	✓	✗
Fulfills Products/Services	✗	✓
Holds Inventory	✗	✓

Some key differences between a marketplace and a traditional ecommerce store

When thinking about marketplace platform functionality, there are several key features needed to ensure a great buyer and seller experience.

### Key Features of a Marketplace Platform

- ✓ Stood up without disrupting existing retail systems
- ✓ Offers multi-vendor checkout
- ✓ Includes multi-site capabilities
- ✓ Integrates with payments and fintech providers
- ✓ Streamlines vendor onboarding with self-service
- ✓ Handles contract and documents
- ✓ Calculates commission and initiates payouts



## How to Build A Marketplace

There are three strategies when it comes to adding a marketplace alongside existing retail systems:

1. Bolt-on an app to an existing ecommerce platform
2. Do a custom build (either internally or third party) on top of an existing ecommerce platform
3. Leverage a multi-vendor marketplace platform

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### Bolt-On Marketplace Apps

These may work for an MVP, but marketplaces will soon hit scaling and functionality limitations. These tools are lower cost because they are unable to service all marketplace needs.

### Custom Marketplace Build

Building custom allows the marketplace to be built to the exact specifications of the retailer, but it also costs millions of dollars and takes years to complete.

### Multi-Vendor Marketplace Platform

Leveraging these platforms enables a marketplace to be launched quickly with the ability to scale as the marketplace grows. [Multi-vendor marketplace platforms](#) are customizable and can be offered as a full stack marketplace or headless solution.

## Conclusion

Multi-vendor marketplace platforms, like [Nautical Commerce](#), make building a marketplace alongside existing ecommerce businesses accessible. Retailers, brands, and B2B companies are able to seize the marketplace opportunity quickly and start reaping the benefits of the marketplace model.

Top Reasons to Build a Marketplace:

- | Network and Flywheel effects
- | Higher profitability
- | Increased product depth and available inventory
- | Increased customer reach
- | Asset-light approach

Soon, every company will have a marketplace component. If retailers don't already have a marketplace added, it needs to be prioritized as ecommerce is only going to become more fragmented.

## About Nautical

Nautical is a multi-vendor platform helping retailers, brands, and B2B businesses launch and scale marketplaces. We have marketplace building experience that spans industries and company sizes from solo founders to enterprises. Nautical is democratizing access to marketplace technology because we believe marketplaces should not have to be tech companies to provide incredible customer experiences.

If you'd like to speak with a member of the Nautical team, feel free to reach out!

[Reach out](#)



[www.nauticalcommerce.com](http://www.nauticalcommerce.com)