Report

Multi-Vendor Marketplace Total Cost of Ownership

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Introduction

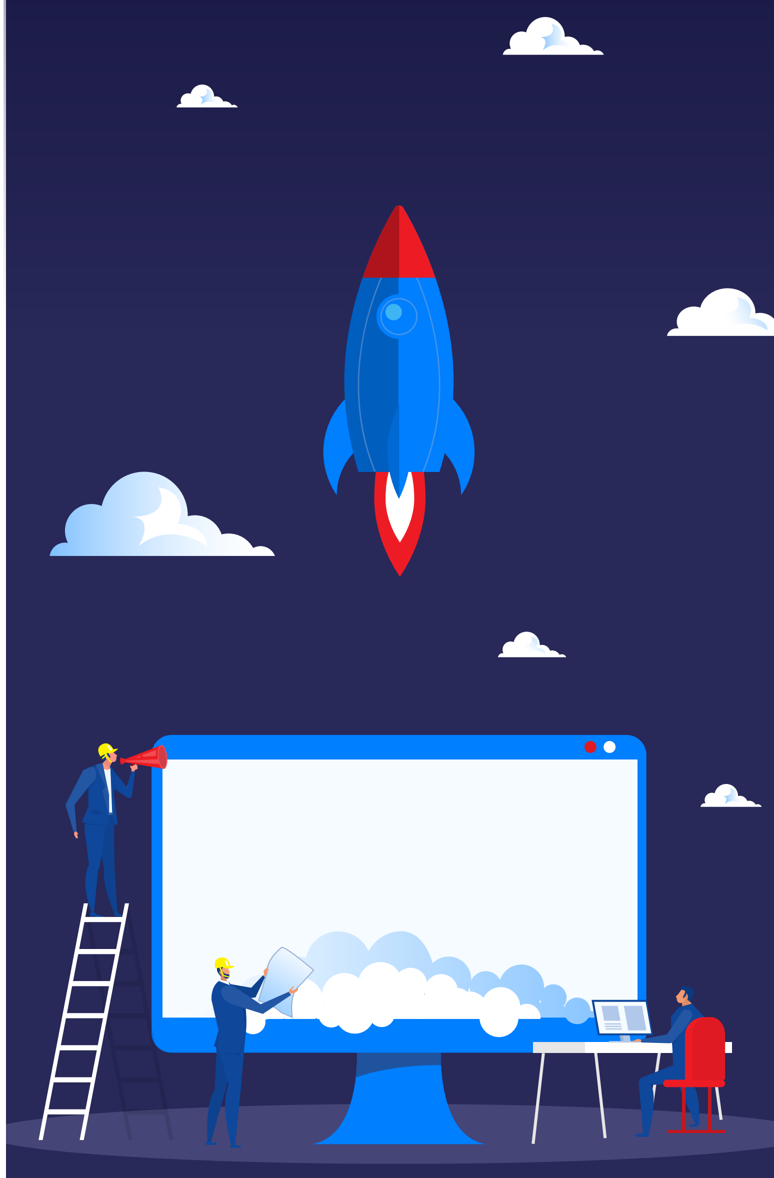
The number of multi-vendor marketplaces launching around the globe grows every day. Entrepreneurs and enterprises alike recognize the ability to consistently increase revenue, become more asset-light, and enhance product depth by **operating a marketplace model**.

But, building and operating a multi-vendor marketplace is hard. To tap into the exponential growth experienced by the world's largest marketplaces, you first have to understand the journey to becoming a top-tier marketplace. One piece of that journey is defining the financial requirements for launching and maintaining a marketplace.

Costs of Launching and Maintaining a Multi-Vendor Marketplace

Before you jump into building a multi-vendor marketplace, you need to understand all the costs associated with the undertaking, which are:

- technology cost
- personnel cost
- operating cost
- friction cost
- and opportunity cost.



Technology Costs

Regardless of whether you're hiring a development shop to build your marketplace, building your marketplace on top of an ecommerce platform, or buying the underlying technology from a **multi-vendor platform**, you'll incur technology costs.

Paying for a Custom Build

Hiring a development or consulting firm to manage your custom build is likely the most expensive way for you to build your marketplace. You will get exactly the functionality you want, but you have to be prepared to fork over hundreds of thousands (if not millions) of dollars in upfront capital expense before even validating your idea.

> When you inevitably want to make changes to your marketplace down the road, get ready to pay up for even minor adjustments.

Building Your Marketplace on Top of an Ecommerce Platform

Suppose you are building your marketplace on top of an ecommerce platform like Shopify or Magento. You'll pay for the cost of the ecommerce platform plus the host of apps that have to be layered on top of that platform in order to give it multi-vendor functionality. In many cases, marketplace operators have to add multiple apps to give it the necessary functionality.

Even then, you might be limited by your underlying ecommerce platform on the number of warehouses available to you, the ability to offer a multi-vendor checkout, and API call limits. Once a marketplace is built using this method, they find it difficult to truly scale.

Leveraging a Multi-Vendor Marketplace Platform

Building using a turn-key multi-vendor marketplace platform designed specifically for multi-vendor will deliver the most value in the long run for your marketplace. The platform costs are divided into monthly platform fees, and there are no upfront development costs as there would be with a custom build.

As the multi-vendor marketplace platform adds new integrations and features, you will have access to these enhancements without needing additional plugins. Additionally, you do not have to maintain the multi-vendor marketplace technology, meaning your overall technology costs are much lower than if you were to build out integrations yourself or do a custom build.

Additional Marketplace Tools

Alongside the marketplace platform cost, there are additional applications needed to run a successful marketplace. Some of the most commonly used apps are:

stripe ShipStation® Avalara

klaviyo TaxJar intuit mailchimp

Interested in building your marketplace on a multi-vendor marketplace platform?

Contact Nautical

Maintenance and hosting costs

Every online marketplace is subject to maintenance and hosting fees, but some approaches are more cost-effective than others.

If your tech or code ages poorly as other applications evolve, you'll require more maintenance and, thus, more budget to support ongoing development. What's more, complex, feature-heavy custom builds need more robust hosting to maintain performance, which will also increase your costs.

Bottom line: If your marketplace's infrastructure involves substantial customization, you may end up paying more to maintain your marketplace than you did to develop it.

Technology Questions to Ask Yourself

Before you choose your marketplace technology strategy, there are some questions you need to ask yourself:

- Do I want to build or buy my marketplace platform?
- How quickly will I be able to validate my business idea with my platform choice?
- Is my marketplace platform built to scale?
- Which ecommerce providers are necessary to my business, and which are nice-to-haves?
- What aspects of my marketplace will require frequent maintenance, and what are the associated costs?

Personnel Costs

The second grouping of marketplace costs: your people. This is likely going to be one of your most significant expenses. Your personnel budget, and how you allocate it, will be influenced by the technology you use to build your marketplace.

Developers

Proprietary builds cost time and money to maintain and update. If you've chosen to build your marketplace custom either in-house or with a development shop, the annual cost for developers is going to be at least hundreds of thousands of dollars, if not more. As you add more vendors, regions, and products, a custom-built marketplace will eventually reach the end of its bandwidth. You'll have to hire human power to bring the technology infrastructure up to speed.

If you're powered by a multi-vendor marketplace platform, you don't need to hire developers to build your customer-facing site or marketplace integrations. There is always the option to hire developers to build customizations on top of the multi-vendor marketplace platform, but it's not required. The multi-vendor marketplace platform has everything you need to get your marketplace launched from start to finish.

Operators

Operating staff supplement technical gaps in your workflow. Every marketplace should allocate budget for operators, but marketplace technology can allay — or exacerbate — your personnel costs.

For example, if you've chosen to bolt-on apps to your ecommerce platform, you'll be scaling with headcount as you increase the number of sellers on your marketplace. Many bolt-on processes aren't automated and require a lot of manual entry and vendor handholding. You might need to hire operators to onboard vendors, upload CSVs of products, or coordinate manual payouts. Ultimately, the only way to grow is by throwing more bodies at the problem.

On the other hand, a multi-vendor marketplace platform uses workflow automation to reduce the need for operators. Platforms enable you to configure automated settings for operational tasks, like seller contracts, product uploads, and payouts. As you grow, workflow automation enables you to efficiently scale without adding headcount.

Customer service

Customer (and seller) service is a core capability for marketplaces since it's the job of operators to be a liaison between buyer and seller — and facilitate a breezy experience on both ends.

Of course, your marketplace business model and your tech stack dictates the number of customer service personnel you employ. For example, you might have live customer service agents manage time-sensitive buying issues but use a chatbot to handle general inquiries.

For marketplaces, customer service also means seller service. Some marketplace models require sellers to be onboarded and trained. Other models might only need a few automated signatures. Most marketplaces will also require troubleshooting support if sellers experience fulfillment, platform, or technical issues. If there's potential for a seller to compromise your marketplace's viability (like an Uber-driver with Nascar dreams), you'll need to dedicate staff for seller oversight.

Marketing

While marketplaces are uniquely positioned to benefit from **the flywheel effect,** that doesn't mean buyers and sellers materialize out of nowhere. And marketplaces require a sophisticated set of marketing programs because targets are two-fold; you need to market for supply (attracting sellers) and demand (attracting buyers).

SEO, SEM, conference attendance, events, social media, content, email, advertising, sales, and PR – successful marketplaces use a variety of channels to gain sellers and buyers. While marketing-specific apps should plug into your marketplace platform, marketing campaigns, strategy, coordination, and design take highly-qualified personnel to execute.

Food for thought

A strong team is imperative to your marketplace's success. Marketplace technology should automate backend processes, like operations and functionality, so you can allocate your hiring budget to functions needed to grow your business: seller and buyer acquisition (e.g., marketing) and retention (e.g., customer and seller service).

Personnel Questions to Ask Yourself

- What personnel is critical to your business operations?
- What personnel is critical to your marketplace's growth?
- What personnel costs can be reduced or supplemented by technology? What personnel costs cannot be supplemented by technology?
- Can upfront technology expenses offset long-term personnel costs?
- If you grow quickly, where will you need to hire personnel?
- How will your marketplace operations adapt to rapid growth?
- Where can you leverage automation to reallocate headcount towards growth initiatives?

Operating Costs

Every marketplace is subject to operating costs, but the true cost of doing business depends on your unique business model.

Asset-light vs. asset-heavy business models

Your marketplace total cost of ownership will be influenced by how asset-light or asset-heavy you run.

In general, ecommerce cost structures are more profitable than traditional retailers because they have fewer expenses. Marketplaces take profitability potential to the next level because they are uniquely positioned to be asset-light, meaning they have fewer capital expenses in relation to operational expenses.

Instead, an asset-light marketplace outsources some operations, be it manufacturing, shipping, services, and products, to providers outside the business. This enables the company to quickly pivot operations to meet customer demand and shift resources to focus on core capabilities. With no warehouses, manufacturing costs, and potentially no product, asset-light marketplaces cost less to own and operate than asset-heavy ecommerce businesses.

Operating costs to calculate:

Outside of the personnel and technology costs we covered, additional operating costs you should budget for include:

Shipping costs

Are you offering free, fast shipping like Amazon? Or are you charging for shipping like Walmart?

Warehouse and storage costs

Are you aggregating products across different vendors and fulfilling the goods yourself?

Equipment costs

Do you need to provide equipment, like Skip the Dishes thermal bags? Or are sellers expected to use their own equipment, like Uber drivers?

Office costs

Does your marketplace require a head office for customer service reps, operators, developers, and your marketing team? Or is everyone working from home?

Taxes

What taxes is your marketplace subject to? Your business will be subject to income tax and potentially other complex compliance rules based on your business's region and global scale.

Insurance

What insurance do you need? Your marketplace and your vendors might require general liability insurance, product liability insurance, and potentially business interruption insurance if your sellers are vulnerable to disaster.

Transactional costs

What payment types will you offer? In any ecommerce business, buyers pay via credit card or online wallets. For every purchase, payment processing companies charge a transaction or processing fee.

Legal fees

What legal documents do you require to protect yourself and your vendors? You'll likely need legal support to draft seller contracts, distribution agreements, purchasing disclaimers, and other business documents and agreements.

Manufacturing costs

Are you a service? Or are vendors responsible for providing supply? Or are you using a dropshipping model to circumvent manufacturing and delivery costs? Most marketplaces don't have traditional manufacturing costs because sellers are responsible for providing supply.

Cybersecurity costs

Is security built into your marketplace platform? More than half of small businesses have suffered a security breach, and security incidents can cost upwards of $200,000 in damages. If you're using a custom-build or ecommerce bolt-in approach, you'll have to budget for added security measures and update them regularly to ensure data is secure.

Friction Costs

Fiction costs are the total cost of a sale, including non-monetary costs like time and effort. Regardless of your business model, all marketplaces and ecommerce businesses encounter friction in the buying and selling experience. Your task is to smooth out as much friction as possible to lower the cost of every sale.

Friction in marketplaces

We tend to think of friction costs on the buyer-side, like an unanticipated shipping cost that results in a buyer abandoning their cart. But marketplaces experience friction costs on the seller-side too. Since marketplaces rely on sellers for supply, a poor seller experience = no sellers = no sales = no revenue. As much as the buying experience must be frictionless, the selling experience must be seamless too.

a poor seller experience

=

no sellers

=

no sales

=

no revenue

Here are some common points of friction:

Seller onboarding

Welcoming a seller isn't as simple as, come on board! You might have to verify that a vendor is a good fit, define partnership terms, and establish payout mechanisms. Sellers may be required to sign legally binding agreements and be briefed on operating procedures and policies. Then, of course, you'll have to teach sellers how to use your marketplace.

Too many barriers to entry can cause prospective sellers to drop off. A poor seller experience inevitably increases your total cost of ownership because it takes more effort to sign on a seller.

Product management

Adding a seller to your site means nothing until they're *selling* their products. Complex product and inventory management can be off-putting for sellers. Like a buyer might close their browser at the sight of duty and taxes, a seller might abandon the marketplace when uploading products is too much work. Every time a vendor drops off, it reduces your SKU depth, limiting your ability to generate revenue.

Buying

Customers expect buying experiences that respect their time and anticipate their needs. From a customer-facing perspective, your website should guide buyers through an order flow as quickly and with as few clicks as possible. You can reduce friction by enabling multiple payment methods (credit card, debit, or digital wallet) and providing a range of shipping speeds.

The thing is: the smoother a buying experience, the more your marketplace technology needs to facilitate. From a backend perspective, this means a complicated choreography of accounting systems, inventory updates, ecommerce, warehouse communication, delivery companies, and email communications — plenty of opportunities for the ball to drop, friction to build, and your costs to rise.

The goal is to reduce friction costs by automating as much of the selling and buying experience as possible.

Friction Cost Questions to Ask Yourself

- ✔ What parts of my selling and buying workflow are completed manually?
- ✔ What are vulnerable parts of the selling and buying workflow?
- ✔ What vendor rules can I automate in my marketplace backend?
- ✔ What capabilities do vendors have to self-manage? Are they easy to use?
- ✔ Can technology eliminate friction points in the selling cycle?

Opportunity Costs

How many sales are you losing while waiting for a developer to fine-tune your shopping cart functionality? Opportunity costs represent the revenue and market share lost while your marketplace is under construction or running sub-optimally.

Time to Market

You can't win if you're not playing. The slower you get to market, the more opportunity competitors have to snap up market share, understand consumer needs, and act on them — before you do. When building your marketplace, time-to-market is everything. Yet, a custom-built marketplace can take upwards of two years to launch. It will take even more time to collect real-world feedback and iterate the marketplace into something buyers really want. (Remember: Amazon started as an online bookstore.)

The goal is to get a minimum viable product to market as quickly as possible so you can stake your claim on the market, start learning about your customers, and kick off revenue-generating activities, i.e., soliciting sellers. A marketplace platform can get you up and running with a website, custom integrations, and a handful of sellers within 60-90 days.

Ability to Scale

Once a marketplace is running, opportunity costs suffer when your tech can't scale to support change.

How fast can your technology adapt to realize new opportunities? You're missing out on new worlds of revenue as you cobble together the functionality to accommodate new sellers, product categories, or geographies.

Opportunity Recognition

If operations consume your budget, time, human resources, and attention, you're too busy keeping your marketplace alive to identify opportunities to make your business thrive. It's a classic case of not being able to see the forest for the trees. Marketplace platforms should remove the burden of operations, system maintenance, and manual intervention — not add to them.

Opportunity costs to ask yourself:

- ✓ How long will it take to produce a minimum viable product?
- ✓ How quickly can I adjust my marketplace functionality when opportunities arise?
- ✓ Does my technology enable me to focus on areas outside of operations?
- ✓ How much money do I have to spend to quickly validate my marketplace?

Conclusion

Marketplaces have the potential to be incredibly lucrative, but they're also susceptible to cost creep. A development firm might flatter your entrepreneurial spirit by emphasizing your marketplace's need for custom functionality — but then take years and charge millions to develop it. You might think paying $100 a month for a single-seller ecommerce system is a steal, only to learn a critical multi-vendor feature will cost you thousands per month.

Our advice? Don't get lured into short-term thinking.

By understanding the full scope of marketplace costs, how they evolve, and how to mitigate them, you can make decisions that set your marketplace up for short-, medium- and long-term success.

To learn more about marketplace costs, development, and maintenance, listen to Tamebay Live's recent webinar: **How to succeed as a marketplace: lessons from marketplace experts.**

Watch webinar

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