Catch the wave!
B2C marketplaces - A strategic growth channel for brands
Management summary

Marketplaces have been growing strongly in the B2C world over the last years. Pure players from China and the United States are dominating the landscape. And the waves of this business model are getting even bigger, as they are now extending from retailers to all players that own traffic, such as brands or social media companies.

The secret recipe for marketplace growth includes three ingredients: traffic, services and data to improve customer satisfaction. As only some generalists and verticals per category will survive, the race is on.

For brands, this means shifting their attention to marketplaces either by starting to sell on them or opening up a marketplace themselves. Digital distribution requires mastery of competencies different to that of the wholesale world – and brands now need to develop this skill set quickly. Going one step further, all distribution channels of a brand need to be handled differently in the future – shifting from channel thinking to customer thinking.

Given the strong growth of marketplaces, its operators gain customer control and can extend their influence along the value chain, leaving brands no choice but to ride the wave as well.
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Chapter 1:

B2C marketplaces are already creating big waves

A leading, fast-growing channel fueled by traffic, services and data.
A DOMINANT CHANNEL MASTERED BY ONLY A FEW GLOBAL PLAYERS

Online marketplaces are not a new phenomenon in the B2C world. Major players such as Taobao, Amazon, Tmall, JD.com and eBay have already invested into this channel. They are either pure marketplace players or hybrid models (wholesale and marketplace) and account for over 50% of the global e-commerce gross merchandise value (GMV). In different ways, they saw the marketplace wave coming and are now successfully surfing on it.

Around the world, Asia is the more mature market. There, nearly 70% of the e-commerce purchases are made on a marketplace compared to about 45% in the United States. In Europe, the penetration varies: from 25% in France to nearly 40% in the United Kingdom. Interestingly, no European player has been able to dominate its local market: Amazon and eBay have taken over, as they did in the US. In China, players like Tmall and JD.com dominate the market landscape.

While the future of the marketplaces is looking bright, many brands have not converted their model yet and are still relying on the traditional wholesale business. The latter has lost its supremacy in e-commerce to the marketplace model, having become the growth driver for the overall market (+21%). → A

THE POWER SHIFT TOWARDS MARKETPLACES BOOSTS THEIR INFLUENCE FURTHER

Marketplaces are designed to give brands more control over the value chain, since the brands are now also responsible for logistics and customer service, leaving marketplaces to take care of the transaction. This implies operational challenges, especially for brands that have up to now only been distributing in wholesale, and that are not familiar with last mile logistics and customer interaction. It also means a negative financial impact for brands because they have more responsibility for the value chain and stock ownership.
Meanwhile, marketplace operators are gaining in power and taking over customer control. In order for this to happen, they are trying to build up traffic by adding more products, offering more services and generating more customer data. All this, to maximize customer satisfaction, the ultimate key performance indicator (KPI).  

A broad product offering both in breadth and depth is becoming a major necessity to ride the wave and win the race for traffic, and adding marketplaces to the wholesale business is a key solution, as major players like Amazon did in 2000 and JD.com ten years later.  

Vertical players have also been broadening the categories offered on a marketplace. One example is Farfetch.com, which recently added fine jewelry and luxury watches to its fashion offer.  

Marketplace operators are gradually becoming “Retail-as-a-service” providers, offering not just a platform to generate transaction fees but also, increasingly, service fees for logistics and marketing. The most well-known example is Amazon’s logistics service “Fulfillment by Amazon” (FbA). Here, the brand remains the owner of the stock, but the stock is physically located in an Amazon warehouse and all operational tasks like fulfillment,  

**B: Survival of the biggest: all marketplaces are now engaged in a race for traffic, additional revenue and data to achieve customer satisfaction.**

A virtuous growth strategy for marketplaces.

Source: Roland Berger
logistics, returns management etc. are handled by Amazon. The company offers also a variation of this service, called “Seller fulfillment Prime” (SfP). Here, Amazon takes charge of the last mile logistics for selected sellers.

Generating and analyzing customer data, as a third lever to fuel customer satisfaction, has been mastered by mainly the Chinese Alibaba and Tencent. Both have created a broad network of partnerships that use their anchor products Alipay (payment system) and WeChat (social media) to help develop a granular database on their customers. For example, Alimama, Alibabas’ digital marketing arm, provides in-depth know-how on customers to its sellers through its “Uni marketing” tool, as well as for internal usage, based on a unified customer ID across all of its platforms in the Alibaba universe.

All these measures create a virtuous circle: more traffic leads to more customer data and the ability to offer more services; these in turn improve customer satisfaction and thereby reinforce traffic... This virtuous circle demonstrates three things: more traffic leads to more customer data and the ability to offer more services; these in turn improve customer satisfaction and thereby reinforce traffic...

THE FUTURE IS BRIGHT FOR MARKETPLACES BUT NEW ENTRANTS ARE LINING UP, TOO

Marketplaces will continue to grow as each participant in the marketplace model (marketplace operators, brands and customers) have an interest in making them bigger. For marketplace operators, this model allows for example to scale quickly with a large assortment, test products, improve own brands or create synergies with other retail channels. Nevertheless, they must incorporate the idea of moving from a single transaction-based marketplace model to a broader platform approach, clustering services around the retail business to become a Retail-as-a-service provider.

B2C Marketplaces generate traffic for brands and provide them with a tool to control pricing and collect customer data. Additionally, marketplaces help in internationalizing quickly. But brands need to improve their digital maturity if they want to take advantage of marketplaces. At the same time, they need to focus on better integrating this channel into the omnichannel network, to give customers a seamless experience.

As marketplaces are an attractive business model, it is not surprising that new entrants – notably social commerce platforms - are trying to carve themselves a slice of the cake as well. Major social media companies, such as Facebook, Instagram or WeChat, have integrated a commerce function into their applications, making it easy for customers to buy directly with a few clicks products that are advertised or recommended.

This affects marketplaces in two ways. Customer interaction is no longer taking place on the marketplace platform, meaning that marketplaces are returning to their role as a transaction fulfiller. And, they will need to compete with other e-commerce channels like a brands’ own e-shop to be integrated back-end.
Chapter 2:

How to ride the wave of B2C Marketplaces

A modular way forward.
DEFINING THE FUNDAMENTALS OF A MARKETPLACE STRATEGY

To take advantage of marketplaces, the first step a brand must take is to define a clear strategy. Precise objectives need to be set: will the role of marketplaces be to enter new markets quickly, such as China? Is the intent to use them as a lever to improve the omnichannel network, or as a way to sell stock?

It is then crucial that the criteria for the marketplace model are determined. For example, how should the brand DNA match with that of the marketplace? Which products should be sold on this platform?

Does the brand want to enter a marketplace or create one itself? In order to operationalize the marketplace strategy a brand needs to reflect on the tradeoff between make or buy, what it can and wants to internalize or externalize to service providers.

Looking at the creation of a marketplace in more detail, four different marketplace business models have been identified, the suitability for a brand is depending on its situation and goals. 

The first, and most common one, is called “Single brand extension”, in which a brand launches its own marketplace and adds other (complementary) brands.

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C: Opening up a marketplace can be a useful strategy for brands.
Four different marketplace models.

1. **Single brand extension**
   - Brand products
   - Other brand products
   - BRAND
   - Customers

2. **Distribution network**
   - Distributor products 1
   - Distributor products 2
   - BRAND
   - Customers

3. **Licensing platform**
   - Licenese category 1
   - Licencee category 2
   - LICENCING BRAND
   - Customers

4. **Multibrand platform**
   - Brand 1 products
   - Brand 2 products
   - Other brand products
   - GROUP
   - Customers

Source: Roland Berger
Marketplace internationalization strategy: cross-border e-commerce in China

For many European brands, selling to China has become an important strategic objective in order to boost sales and expand brand visibility. Due to legislative requirements that demand having a local Chinese corporation if retailing there, cross-border marketplaces have quickly become a popular alternative, as they facilitate the process to a large extent. As a result, cross-border e-commerce has ballooned from USD 30 Bn in 2014 to an expected USD 129 Bn in 2018.

Next to the renowned Tmall Global (the cross-border B2C marketplace of Tmall, belonging to the Alibaba Group), other players have also established important marketplaces, such as Kaola (24% marketshare in 2017), a generalist marketplace with a focus on health and wellness products that was launched in 2015. Or Xiaohongshu ("Little Red Book"), a marketplace dedicated to fashion, beauty and luxury. It started off as a social media channel and has since evolved into a social commerce platform with over 100 Mio users and a series D funding round of USD 300 Mio in June 2018.

For selling on Tmall Global, a specific procedure must be followed. First, the company defines the fundamental parameters: which Tmall Partner (TP) to work with (Tmall requires working through an accredited agency)? Which kind of store to open up? Which logistics model to choose (sending stock to Chinese warehouses or domestic centers)? Thereafter, the TP will accompany the brand, taking over most of the tasks, such as technical connection and integration, operations/fulfillment, marketing, sales, and customer service.

Cross-border e-commerce is growing strongly in China.
Cross-border e-commerce retail sales in China [USD Bn].

Source: eMarketer
as well onto the platform in order to extend the depth and breadth of the product offer. Successful executions require a strong image and high traffic volume as well as e-commerce competencies.

The second model, called “Distribution network,” can be pursued if a brand has a fragmented distribution network and relies on its wholesale business. Here, distributors are invited to display their product portfolio on the marketplace. This creates an additional online sales channel for them that does not conflict with the existing network, while allowing the brand to gain control over a distribution channel that delivers customer data and makes stocks more transparent.

Thirdly, there are “Licensing platforms” that are closed marketplaces, in the sense that a licensing brand groups all its licensees in one marketplace and can thus increase the brand visibility and present its product portfolio breadth and depth to its customers.

For a group with several brands, a “Multibrand platform” model could be interesting. Here, the group integrates products from all its different brands on one marketplace, possibly by broadening the offer with non-native brands as well. This model requires developing a new brand and hence must be supported ade-

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**D: Digital distribution requires to master six competencies.**

Six core competencies.

1. **Catalog Competence**
   - Differentiated and specific content including storytelling of brand
   - Translated to each country
   - Lots of pictures and zoom of products

2. **Logistics Excellence**
   - Quick order processing and sent-out after 24h
   - Choice of logistics providers
   - Return policy (ideally free)

3. **Stock Flow Continuity**
   - Marketplace stock integrated into central stock
   - No out-of-stock/ no dead stock

4. **Customer Tracking**
   - Tracking of customer along all touchpoints
   - Seamless CRM experience

5. **Omnichannel Pricing**
   - Real-time pricing and processing across channels to optimize return

6. **Data Analytics**
   - Personalized/ optimized purchase funnel
   - Dynamic marketplace assortment

Source: Roland Berger
 adequately in order to generate sufficient traffic. Brands must also understand that distribution in the digital age requires mastering different competencies and working with suitable technical partners. Skills in managing the catalog (differentiated content, brand storytelling, attractive images etc.), logistics (quick order processing and free returns), stock (integration into central stock), customer tracking, omnichannel pricing (real-time adjustments) and data analytics are nowadays a must. → D

Furthermore, all distribution channels must now be managed in a modular way. In the future, brands will be forced to master their retail networks in an entirely new way, moving from a channel approach to customer-focused thinking. This implies making the KPI of ARPU (average revenue per user) the center of attention instead of GMVC (gross margin variable costs) and maximizing it in a modular way, by defining the optimal combination of channel, logistics model and marketing instrument in real-time for each product. → E

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**E:** It is time to move from channel driven to customer driven thinking. Modularizing distribution.

<table>
<thead>
<tr>
<th>Product offer</th>
<th>Channel</th>
<th>Logistics</th>
<th>Marketing</th>
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<tr>
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<td>Wholesale 1</td>
<td>Provider 1, Model 1</td>
<td>Wholesale 1, Type 1</td>
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<td>T-shirt</td>
<td>Wholesale 2</td>
<td>Provider 1, Model 2</td>
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<td>Wholesale n</td>
<td>Provider 2, Model 1</td>
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<td>Marketplace 1</td>
<td>Provider 2, Model 2</td>
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<td>Basic</td>
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<tr>
<td>Fashion</td>
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<td>Own logistics, Model 1</td>
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Maximize average revenue per user (ARPU)
Credits and copyright

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The Agent is a one-stop-shop operator empowering brands beyond their .com. Its core solution is to grow brands on more than 50 marketplaces and online retailers in distant and emerging markets – all from the comfort of a brands own domestic inventory location. With partnerships with Amazon (EUR and US), Secoo (CN), Harvey Nichols (UK), La Redoute (FR), Zalando (DE), Reebonz (SEA) Privalia (ES & IT) and many more, we are best placed to drive revenues and profits for brands outside of their traditional online sales channels. The Agent covers 40 countries and more than 180 brands have already trusted its platform - The Agent is located in Paris with a representation office in Shanghai.

Mirakl powers your platform business strategy by allowing you to quickly launch an online marketplace. Marketplaces allow companies to easily add products and services by connecting third-party sellers and service providers. The Mirakl Marketplace Platform automates the hard things about marketplace management: Seller onboarding, service quality control, and order distribution; on a turn-key solution that’s easy to integrate into any e-commerce platform. Mirakl Catalog Manager makes it easy to manage product data quality at marketplace scale. Over 150 customers in 40 countries trust Mirakl’s proven expertise and technology including Urban Outfitters, Hewlett Packard Enterprise, Best Buy Canada, Carrefour, and Walmart Mexico.