

## MULTICHANNEL RETAILING

**ONLINE MARKETPLACES**

*Online expenditure will be a key driver of growth in retail. Marketplaces through which third party retailers sell – often used or discount/surplus items – will maintain and increase a significant share of this expenditure.*

Internet retail will continue to grow its share of all retail.

**> Online retailers of all sizes are recognizing the profit potential of marketplaces**

Supported by expansion of online channels in general, there are two key drivers of growth in online marketplaces:

1. Slow growth in consumer spending / disposable income fuels second-hand and discount shopping. While there is some evidence of impulse buys of used items, ultimately people are constrained by income and are looking for specific products, at the best price.
2. The internet is an ideal market platform to satisfy the long tail of choice, balancing demand and supply through price.

Marketplaces such as eBay, Amazon and Buy.com account are estimated to account for around 30 percent of total online retail sales, and are continuing to grow.

In turn, online marketplaces such as Amazon Marketplace and eBay Shops will grow share of internet retail.

**> Currently...**

- Leading marketplaces in the UK are Amazon, eBay and Play.com.
- With \$34.2bn net sales in 2010, Amazon dominates online retail according to most measures. It now accounts for over 10% of online retail in the US for example.
- Whereas eBay's growth came from personal auctions, Amazon has been less reserved about promoting professional sellers on its marketplace sites and has rapidly gained share of merchant marketplaces. Amazon's Marketplace for third-party merchants represents over 30% of its sales, and by the start of 2010 eBay was reporting well over half its sales volume as through fixed price marketplace (as opposed to auction).
- A key restraint in online development in the past has been concern over fraud / payment protection, especially among older target groups. Consumers have become more used to services like Paypal, Amazon Payments and Google Checkout, and trust remains a key driver of business to more well-known, established online operators.
- Although the market is concentrated, and Amazon itself is continually moving into product and service niches, niche players can compete online. Online merchants are particularly effective when combined with a physical presence (as have a quarter of eBay top sellers) or of course an established brand. Marketplaces and multi-channel retailers show stronger than average online growth.

- **Internet retail growth slows, but remains strong.**
- **Consumers will prefer well known brands. This applies to use of platforms.**
- **Multi-channel operators can leverage brands online and offline.**

**> In the near future...**

- Amazon will continue to dominate but others will grow. Amazon recently reported remarkable total sales growth of over 40% globally. Its core music, video and books categories grew at 16% – Amazon does not separately report e-book / Kindle sales, which are believed to be the major driver of this growth – and over 60% for electricals.
- Commission rates will remain competitive, perhaps even fall. Despite its strong position Amazon will be sensitive to opening the door for others, as eBay appears to have done. GSI Commerce's Price Runner targets Amazon Prime customers with free shipping across 60+ retailers, for example.

- Other marketplaces will grow, such as European operator Priceminister (backed by Japanese e-commerce group Rakuten Ichiba, who also provide a merchant platform and bought US online marketplace Buy.com in 2010) and established retailers like Walmart, who are trialling in the US with a limited range of online merchants.
- Other retailers like Best-Buy will expand their trade-in offers, which in the US includes a wide range of electrical items as well as Games.

- **Competition will increase.**
- **Seller fees and commission rates will remain stable or even fall.**
- **Trade-in services will expand.**

#### > Other players will grow too...

- Marketplaces like ASOS and net-a-porter (fashion) are growing rapidly. Other UK marketplaces include Priceminister.co.uk and the US specialist alibris (Monsoon Commerce Solutions), which has sought to expand its UK marketplace, following backing from Oak Hill Capital.
- Among European countries the UK has the highest proportion of internet users shopping online, followed by France, Germany and Ireland.

#### > And we see growth opportunities...

- Continued penetration of older demographic, especially for services like travel.
- Opportunities for second-hand, discount and clearance items.
- Opportunities for intermediaries / affiliate sites and specialist fulfilment.
- Growth in category or sector specific marketplaces.
- Local trading, sourcing and fulfilment.

#### > Second-hand

Online marketplaces are an important channel for second-hand items – not simply unwanted household items being sold by individuals – but good quality surplus or procured items being sold by second-hand merchants and retailers.

Consumers are more and more accepting of these merchants – our own research has shown that returns policies and checks by platform operators do afford some protection and reassurance.

Amazon built its business on books and grew with music and video – but the range of second-hand items traded on the internet has expanded to include mobile phones, computers, electronic goods such as cameras and tablets, audio-visual equipment and even furniture.

Alongside these markets other businesses are also engaged in procuring used items such as mobile phone recycling services and ‘cash for gold’ operations.

The distinctions between online and offline businesses are blurring, with procurers and retailers of used items operating across a range of channels. Marketplaces and online channels themselves are increasingly looking at procurement of second-hand items, in some cases contracting to a third party merchant to run the process. General and grocery retailers too are looking at developing ‘alternative currencies’ – for example trade-in items such as games and books, which can be redeemed for points or vouchers to spend.

### Considerations for setting up online via marketplaces

*Do you develop your own transactional website or launch on one or more marketplaces?*

For smaller companies there is an opportunity to leverage from well-known marketplace platforms and their massive user base and to quickly build a reputation through rankings and ratings. However this can be at the expense of some control and price competition is intense.

The decision to use third-party marketplaces is not only one for smaller companies. eBay's move towards fixed price for example, means that it became a more attractive platform for larger retailers too.

### Future trend: online ordering + local fulfilment = opportunities for an intermediary internet business model\*

A Sempora survey conducted earlier this year found that German consumers overwhelmingly liked the idea of 'intermediary delivery services' – enabling convenient online ordering of goods to be delivered by a local retailer within a few hours. The scene is slightly different in the UK, with far greater presence of online grocery retailers such as Tesco.com, but the survey provides an interesting view of a sector which we see as expanding for a range of product and service types and throughout Europe as a whole

The survey found that the medicine and pharmaceuticals would be the most popular category for such a service, followed by ready-to-eat food delivery services, beverages, medical equipment and home healthcare products. Other attractive categories include: personal care products and cosmetics, dry cleaning services, delicatessen / fine foods, pet food and pet supplies, general food and grocery products, organic food. Least popular were meat and bakery products.

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\* SEMPORA Survey 2011: Opportunities for an intermediary business model