The Ultimate Guide to Online Marketplace Development

How to Plan, Build, Launch and Optimise your Multi-Vendor Marketplace the Smart Way

A

Publication

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NEXT STEPS

Introduction

The phenomenal growth of the online marketplace model shows no signs of slowing down. More than 60% of all online business ($3.5 trillion in 2019) is already taking place on marketplace platforms like Amazon, eBay, Airbnb and Uber. In fact, 47 percent of shoppers now prefer to do their repeat purchases via online marketplaces.

Long-term, the prognosis is even better. According to market research company, eMarketer, the global e-commerce market will reach $5 trillion in sales by 2021.

Global marketplaces are leading the way, with Alibaba Singles' Day hitting a record $74.1 billion in sales in 2020 and Amazon increasing its revenue by 38% in the same year. The performances of these big players are in line with overall marketplace growth, which has been tracking at over 20% for the past few years.

The marketplace model has proven how well it is suited to a rapidly changing business environment. Its phenomenal economies of scale reduce costs, while network effects create exponential growth and defensive moats in a manner that has not seen its equal in any other business model.

Marketplaces also promote better logistics, smarter use of data, wider product ranges, greater transparency, easier cross-border expansion, and more personalised customer experiences. New trends and segments are constantly creating further opportunities, as currently seen in a Fourth Wave of Ecommerce, driven by AI-powered service platforms, niche B2C verticals, B2B procurement, and e-commerce malls like Shopify.

The big question is though, why do only some marketplace startups reach the big time, while so many flounder and disappear? Sadly, despite all those wonderful macro advantages, the majority of platform startups end in failure - a 70% failure rate seems to be the general consensus.

The reality is that marketplaces are complex systems; developing a successful one is not a simple paint-by-numbers game. The good news is that there is a proven set of ingredients that can hugely improve your marketplace's opportunities for success.

We have written about many of them previously, but now for the first time we have organised the most important factors for early-stage marketplace success in one e-book for easy reference.

Based on the collective experience of high-growth marketplaces like Airbnb, Etsy, FanPass, and Mobypark (some of which we helped to develop), this e-book was created to give early-stage entrepreneurs, tech startups and growing companies some valuable pointers on how to conceptualise, design, build, improve, and launch successful online marketplaces.

Section 1: Are you ready to be a marketplace entrepreneur?

How much does it cost to build an online marketplace?

One of the first questions that new clients usually ask us is how much it will cost to turn their marketplace idea into an operational reality. The short answer is that custom development by an experienced marketplace development agency can cost from £10,000 to £100,000 plus. Before you faint at the sight of those numbers, let's put them into context.

The massive success of OG marketplace platforms like Amazon and eBay, and newer kids on the block like sharing economy marketplaces Airbnb and Uber, has spurred a new generation of marketplace entrepreneurs. These newcomers are exploring exciting new verticals through hybrid models (e.g. offering both products and services, or allowing buy and hire options) and hyper niches like Trouva's marketplace for boutique homeware.

The OGs may be dominant with Amazon handling 31% of UK online retail, but 1% of a £586bn e-commerce market is still a lot of dosh. This promise of the marketplace model has seen a proliferation in imitators and overnight marketplace entrepreneurs. Just check how many Google search results you get for "Airbnb clone" or "Etsy clone". The opportunities and success stories are definitely there, but so are the failures.

Three of the biggest reasons for marketplace failure

Lack of product-market fit. If your target market is not interested in the products or services you offer, your marketplace idea will be stillborn. This needs to be tested right from the start.
Incompatible tech stack.

Building with the wrong technology can have serious repercussions, ranging from user dissatisfaction to scalability issues. Too many unnecessary features can be just as dangerous as not having the right functionality.

Lack of experience and know-how. Underestimating the complexity of building a marketplace can be disastrous. Your development road map should include the right revenue streams and synchronise with a clear go-to-market strategy.

Development options for online marketplaces

Plug-and-play marketplace website builders average between £300 and £6,000 per year. Note that these are recurring fees that exclude any customisation. The lower end options have restrictions on the number of users, transaction volume, and extensibility.

Content management systems like WordPress can be adapted for marketplace use with an e-commerce plugin like WooCommerce. Using an off the shelf template and various paid plugins you should be able to get up and running for about £100. Once again this excludes customisation and you will need some coding knowledge.

Custom development can cost anywhere from £10,000 as mentioned, depending on which technology is used and how mature your marketplace concept is.

What history tells us about marketplace development

Be careful with glittering success stories that start on a shoestring budget. Home improvement marketplace and quadruple unicorn, Houzz, may have started out as a side project, but it did help that one of the founders was a lead developer at eBay. Uk success story, Deliveroo, has raised $1.5 billion in funding, a big portion of which went into further development of the platform.

From Airbnb's well-documented history it is clear that growth hacking, supported by the founders' design and tech backgrounds, played a pivotal role in the platform's initial success. WordPress or an online website builder is not going to help you with that.

The conundrum

If you spend too little, you may be wasting your time. Spending too much or inefficiently could be a waste of your money. Carpet bombing your runway with unnecessary features and being overcharged by inexperienced developers that do not provide end-to-end assistance are some other pitfalls to be wary of.

How do you make an informed decision about your marketplace development options?

Let's break it down into a few key factors that can contribute to marketplace success.

Technical requirements

Marketplaces tend to require more moving parts to function properly – e.g. vendor review systems, payment gateways that can handle split payments and escrow, security mechanisms, moderators (for reviews), user flows for buyers and sellers, complex page hierarchies, and custom search functionality. In contrast, plug-and-play solutions for e-commerce sites are fairly simple and easy to set up.

Online marketplace builders offer a limited service

Some SaaS service providers have tried to replicate the success of e-commerce web builders, like Shopify, for marketplaces. What these online marketplace builders tend to omit in their marketing material, is that compared to standard e-commerce sites, marketplaces need far more input than simply choosing a website template.

The SaaS website builder business model relies on client volume; the success of individual clients is not their core priority. Their responsibility stops when you have chosen your template and added a few extensions.

Even Sharetribe, one of the top SaaS marketplace builders, admit that their product is more suitable for quick market tests instead of long-term scalability. That said, customising a Sharetribe template properly requires some expert assistance to get decent feedback from users. A development partner with a long-term view should be happy to assist with such an experiment, before building a more scalable custom version once the concept has been validated.

Custom marketplace development is a far cry from using an off the shelf template. A custom process not only includes the site infrastructure but also advice on the most suitable tech stack – being tech agnostic can be a big advantage. It also includes UX design, user flow mapping, and feature integration.

The two-sided factor

Their two-sided nature makes it more difficult to establish product-market fit for marketplaces than for single-vendor e-commerce sites. A good development agency will assist with the formulation of your business case and apply a structured iteration process using MVP prototypes to test your assumptions.

Custom marketplace developers are success oriented. The better your marketplace does, the more powerful is its impact on their portfolio. As we all know, your track record is your biggest marketing tool.

Best of all, they know all the budget pitfalls (too many bells and whistles!) and their knowledge of the greater marketplace landscape can provide invaluable insights. The best development agencies have built business intelligence, technology options, design, go-to-market and revenue strategies, as well as process management into their value propositions.

How to choose a custom developer

Your best bet of balancing the cost of developing your marketplace with achieving the desired outcomes is to partner with experienced marketplace developers that are committed to a transparent process. Each specification should be clearly outlined with reasons why it is important. There should also be agreement on which features should be implemented first and how development resources will be allocated.

Here is an example of such an itemised breakdown which makes it easy to keep track of your budget forecasts. You will notice that each item is aligned with a story point or user action to make its implementation clear and relevant. Features should include a detailed description, cost range, risk level, impact on users, and a recommendation for when to add it to the platform.

Time also impacts on cost. If you want a fully bespoke platform ready for an international market within three months it will obviously cost far more than an MVP built for a limited test market. Building a huge hybrid marketplace with lots of bells and whistles like Houzz obviously requires a bigger budget than creating a small specialised marketplace for financial services.

Adding additional functionality like APIs will increase development costs, but may eventually pay off big time. The trick is to know when to add such a functionality. If you haven't proven product-market fit it is probably not the right time.

The good news is that some UK-based marketplace developers have built teams based on a distributed model which allows them to access top talent at discounted rates (the pound is still quite strong compared to many other currencies). That discount tends to compare very favourably with the UK median developer cost of £56 per hour and the US average rate of $100 per hour. We won't mention Silicon Valley's astronomical rates.

We need to be clear here; everyone does not necessarily have the skill sets to run a distributed organisation. There's no harm in discussing that aspect with a potential development partner. A transparent company should be happy to share how they manage their remote team. Just don't expect well-appointed shiny offices on the high street – that rent is passed onto you as a discount.

The single most important element in your criteria should be your development partner's portfolio. And that does not mean glitzy images of fancy websites or case studies about clients who want to make the world a better place. The only thing that matters is if they have helped digital entrepreneurs build sustainable scalable businesses. That means hard facts like user and revenue growth.

Parting thoughts

Getting back to our initial statement that a custom marketplace can cost anywhere between £10,000 and £100,000 plus to build. It is important to view those numbers in perspective. Where the lower end pays for a quick prototype built with an existing framework like Sharetribe or WordPress to test your initial idea, the top end would represent a fully fledged

product that has gone through numerous iterations to establish product-market fit. So different costs for different stages.

Over time, marketplace budgets tend to shift from a development to a marketing focus. Once the shelves have been stocked with sufficient sellers it is time to drive buyers to your platform. The better your product-market fit has been established in the development phase the less your marketing burden. This should be a key consideration when choosing a development option.

Building an online marketplace is not a sprint (see what we did there :-). It is an endurance race during which you have to do continuous testing and collect user feedback. This will allow you to tweak different aspects of your platform and create better value for all its stakeholders – buyers, sellers, and marketplace owners.

Marketplace development: budget vs cost (they're not the same)

One of the greatest causes of marketplace startup failure is insufficient budget planning. This is often the result of conflating the initial setup costs with a full product development road map that is geared towards product/market fit. Many startups fail to make provision for dynamic and recurring items that are key to their platform's successful operation and optimisation.

In the previous chapter we wrote about marketplace development costs. That mostly covered the initial design and implementation of technology. However, this basic cost should not be seen as a static or final amount.

Marketplace success, especially product/market fit, is dependent on ongoing iteration and experimentation. Startups should therefore also include the cost of these processes in their marketplace development budget.

Below is an example of a budget calculator that makes it easier to estimate the various costs involved in custom marketplace development.

The basic cost to build your Marketplace platform.

Service	Description	One-off cost	Monthly recurring cost
Development	This is the technical development of the priority 1 user stories as described in the Storyboard.	£51,000	
Discovery	This stage is used to gain a deep understanding of your business and the market that it operates in. This includes mapping out the unique selling points, user journeys, user personas, and transaction flow. We also investigate the suitability of technologies to be used. The goal is to design a marketplace solution that will inspire high levels of confidence in the end product.	£2,550	
UI design	Design and testing of user interface, page layouts and graphic elements. We iterate until approval.	£3,060	
Infrastructure set up	This will include the set up of following AWS services: https://aws.amazon.com/s3/ https://aws.amazon.com/rds/ https://aws.amazon.com/elasticbeanstalk/ https://aws.amazon.com/ec2/	£2,100	
Hosting	(This is an estimation) We have done a simulation for you to give you an idea how much you will pay AWS for the hosting https://calculator.aws/#/estimate?id=37bcab5089184c3862b28f917c935f2567fdbb11		£107
	Total	£58,710	£107

Additional resources to ensure product-market fit and maximise opportunities for business success.
These are estimated costs that will be refined during the discovery phase and before the launch.

Service	Description	One-off cost	Monthly recurring cost
Contingency	Elements that were ommitted during the storyboarding stage. Added as additional stories during discovery or development. Example: Our client wanted recommended sellers to be highlighted in search results. During development they realised their business model required the manual tagging of recommended sellers. A new story had to be created on a contingency basis.	£10,200	
Optimisation	Implementation of refinements. Based on opportunities identified during the tracking of user behaviour after platform launch.		£1,889
Preventive + Corrective maintenance	Preventive support focuses on monitoring the technical health of the platform and includes the exploration of data to pre-empt issues that may crop up in future. Corrective support involves tracking and fixing platform errors.	£700	£765
Business Intelligence	Implementing and managing technology that measure user behaviour. Tracking the right metrics can increase chances for success and identify new opportunities such as additional revenue streams.	£1,050	£255
	Total	£11,950	£2,909

The basic cost to build your marketplace platform

As we mentioned in the previous chapter, custom marketplace development can cost anywhere from £10,000 to £100,000 plus. This includes the following once-off services:

Discovery

This stage is used to gain a deep understanding of your business and the market that it operates in. This includes mapping out the unique selling points, user journeys, user personas, and transaction flow.

We also investigate the suitability of technologies to be used. The goal is to design a marketplace solution that will inspire high levels of confidence in the end product. The discovery stage is a good example of the powerful extra value that custom development provides.

Development

This is the technical implementation of the user stories as defined in a storyboard created during the discovery phase. User stories are the building blocks of any development road map and are grouped under top-level categories (epics) that cover the main user flows of your marketplace. e.g. user management, product management, navigation, buying funnel and shipping.

Knowing when to prioritise which user stories is an important part of your budget calculation. As can be seen from the storyboard example below there are a number of variables that can affect the initial development cost.

Priority one items are those user stories that will be included in the first release of your platform. Changing the priority will update the total development cost in the calculator.

The number of advanced and standard days will also affect the development cost. Advanced days comprise the estimated workload for senior developers with seven plus years experience, while standard days are the workload for junior developers with three to seven years experience. The more complex the user story or feature, the more advanced days will be required.

Epic	Title	User stories	Visitor	Buyer	Seller	Admin	Adv. (days)	Std. (days)	Price confirmed?	Priority
User management	Filter buyer list (administrator)	As an administrator, I want to read and filter the list of buyers ✦ More details: → We will display the list of buyers with key information such as buyer name, country, email address, status, etc. → The administrator will be able to filter the list of buyers → The type of filters are based on data already stored in the database				✔	1	1	Yes	1
User management	Update buyer details (administrator)	As a administrator, I want to read and update buyer details ✦ More details: → The administrator will be able to see and update the information related to the buyer				✔		2	Yes	1
Shop management	Update seller shop details (seller)	As a seller, I want to read and update my shop details ✦ More details: → We assumed that there is one shop per seller → This includes shop contact details, shop description, seller logo, seller name, seller banner. ✦ Why an estimated price?: it depends on the volume and types of information required to provide to update the shop details.			✔			2	TBC	1
Shop management	Update seller shop details (administrator)	As an administrator, I want to read and update seller's shop details ✦ More details: → This includes contact details, shop description, seller logo, seller name, seller banner.				✔		2	Yes	1
Shop management	Read seller shop details	As a visitor, I want to see a seller shop details As a visitor, I want to filter the product list of the seller ✦ More details: → This will include all information of the seller such as image, description, etc. → This will include the product list of the seller → This will include filters and/or sort by to find products → There will be a special layout when the product is out of stock or discounted. ✦ Why an estimated price?: it depends on the volume and types of information you want to make available to the	✔				2	2	TBC	1

UX/UI design

During this phase the required user interfaces, page layouts and graphic elements are designed for testing during the development stage. Designs are then iterated based on user feedback till sufficient results are achieved.

Infrastructure set up

This is a once-off cost that covers the setting up of platform infrastructure through scalable cloud-based platforms such as Amazon Web Services. Basic infrastructure usually comprises data storage (Amazon S3), database engines (Amazon RDS), and virtual servers (Amazon EC2).

Hosting

This is a recurring cost and will depend on platform traffic. In general it's best to use a scalable service like AWS to ensure continuity and minimal service disruptions.

Additional resources

The following additional services promote product-market fit and maximise opportunities for business success. These are usually estimated costs that will be refined during the discovery phase and before the launch.

Contingency

Contingency costs cover those elements that were omitted during the initial storyboarding stage. They are then added as additional user stories during development.

Example: Our client wanted recommended sellers to be highlighted in search results. During development they realised their business model required the manual tagging of recommended sellers. Thus, a new story had to be created on a contingency basis.

Optimisation

Optimisation costs are incurred with the implementation of refinements that drive further marketplace growth. These refinements are based on opportunities identified during the tracking of user behaviour after platform launch.

Preventive & corrective maintenance

Preventive support focuses on monitoring the technical health of the platform. It includes the exploration of data to pre-empt issues that may crop up in future. Corrective support involves tracking and fixing platform errors.

Business intelligence

This is the cost for implementing and managing technology that measures user behaviour. Tracking the right metrics can increase chances for success and identify new opportunities such as additional revenue streams.

Best E-Commerce Strategy: Single-Vendor Online Store vs Multi-Vendor Marketplace

Marketplace platforms and online stores have both become powerful e-commerce business models within the digital economy. With the right strategy and niche market, your online store or marketplace site can generate powerful revenue streams. Both options have pros and cons, so how do you decide which model is right for your business idea? In this chapter, we will discuss the key differences between building online stores and marketplace platforms so you can make an informed decision.

What are online stores and marketplace platforms?

An online e-commerce store is suited to sole vendors who want to sell their own inventory of products exclusively to their target audience. You are in charge of sourcing or manufacturing, storing and distributing your products and receive the entirety of the purchase price. An example of this is Topman.co.uk, which sells menswear under its own brand.

An online marketplace, on the other hand, focuses on matching multiple buyers and sellers of goods and services. For example, Etsy provides space for individual crafters to reach customers who are looking for unique, hand-made, and small scale products. The marketplace owner administrates and connects the two sides of the platform, with sellers taking care of their own inventory.

Building a marketplace platform is an entirely different proposition to an online store. An online marketplace facilitates the trade of goods and services for a fee, while an online store

focuses on the trading itself. Let's dig deeper into the scope, potential, and differences between them.

The demand for online shopping in the UK is booming

Internet shopping is more popular in the UK than in any other major country, making it the third-largest retail e-commerce market in the world. The UK's 100,000+ online stores collectively made up 18% of the £381bn UK retail market in 2018. Leading e-commerce players in the B2C space include Tesco, Argos, John Lewis, and Next.

In 2018, marketplace platforms generated 60% of $2.86 trillion global e-commerce revenue, following 20% year-on-year growth. Although the most prominent online marketplaces in the UK remain the big international players such as Amazon and eBay, locally developed marketplace platforms like Rightmove, NotOnTheHighStreet, Flubit, and Gumtree are achieving success in niche verticals.

Marketplace and e-commerce platforms are both enhancing shopping experiences by using sophisticated data analysis to target, serve and retain customers. Here are some of their respective advantages and challenges in a few important areas.

Risk

If you want to create a high-growth business with multiple income streams, a simple e-commerce site may be limiting. This is because it requires you to take responsibility for your site's inventory procurement, storage and shipping. It also requires a significant investment early on, at a time when you may not have built the customer base to support your product. However, if you have a compelling product, a niche market and would like hands-on control of your site's growth, the single-vendor e-commerce model could work for you.

One of the key risks of running a marketplace platform is limited control over the goods and services provided via your website. The owner of an e-commerce site knows exactly what stock is being moved through the site, whereas a marketplace owner runs the risk of customers receiving subpar goods, or worse, sellers setting up fraudulent accounts to mask illegal transactions.

However, with the correct vetting process to address poor quality transactions, marketplaces can offer a rewarding, long-term payoff. A marketplace can establish a rapidly-growing community of sellers and buyers in a way that most e-commerce sites can't. If executed in the right manner by delivering the right products to the right customers, marketplaces can scale incredibly fast.

Cost of development

Both formats require investment in the design and development of a viable platform. A basic e-commerce site is fairly cheap to get up and running due to the simpler transaction structure and a plethora of plug and play online store builders like Shopify, WooCommerce, and Prestashop. This of course excludes your inventory costs.

Setting up a marketplace initially incurs higher costs as its more complex user flow requires custom solutions and multiple iterations to ensure the right product-market fit. Using MVPs to first establish product-market fit can not only lower upfront costs but also increase the chances of future success. One way to quickly get an MVP up and running is to use an online marketplace builder like Sharetribe. There are some disadvantages compared to custom MVPs though.

If you are in a hurry to begin selling a single product line, an e-commerce site is the right call for your business. A marketplace strategy makes sense if you want to build a more scalable business with less hands-on product involvement.

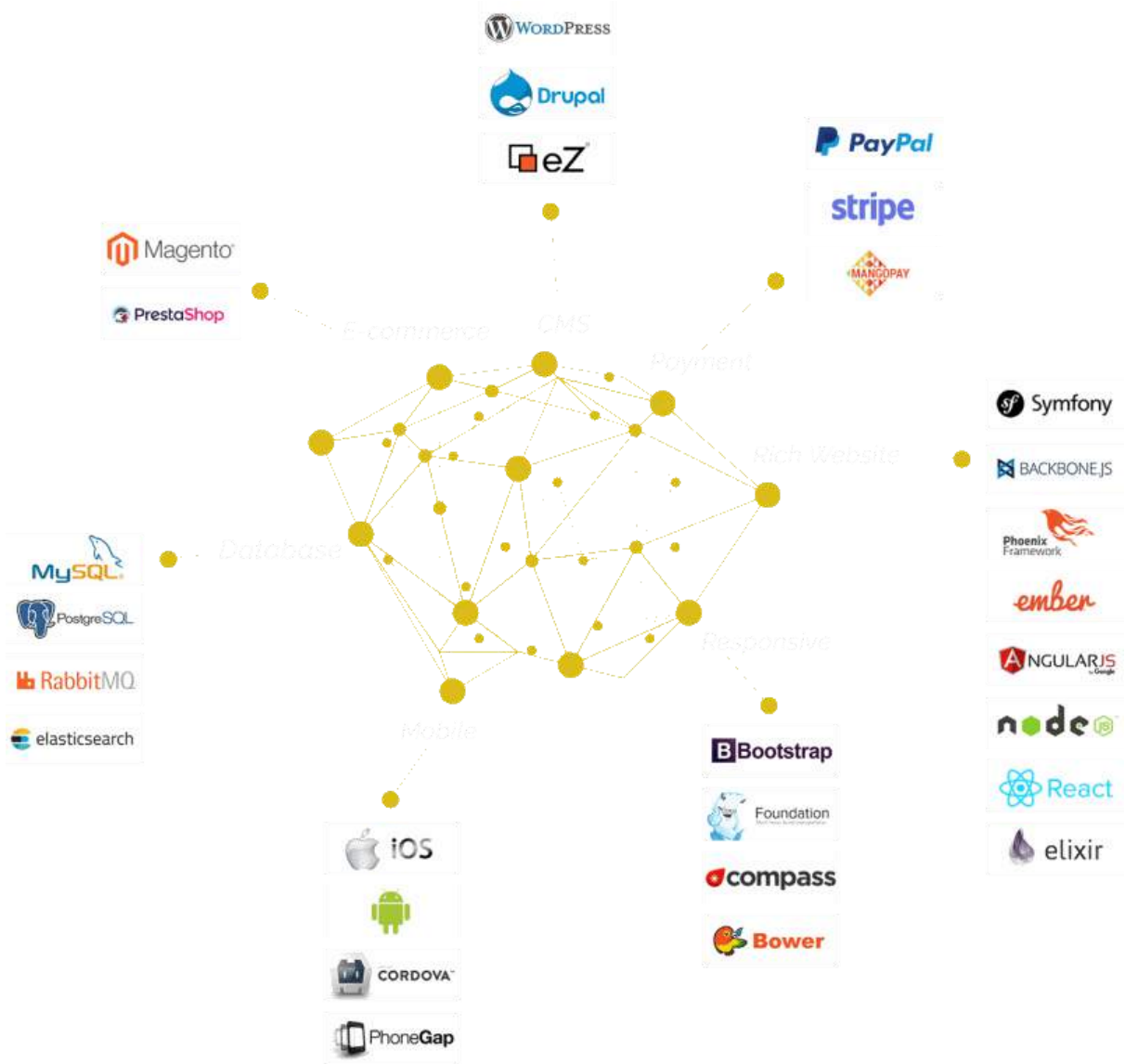
Technology

E-commerce sites can be quickly built with relatively straightforward plug-and-play solutions like WooCommerce, Shopify, OpenCart, Squarespace, BigCommerce or Magento. Customisation will require some coding skills, but out of the box options should be sufficient for a simple e-commerce store.

Successful online marketplaces, on the other hand, are usually coded from scratch using backend frameworks like Symfony or Laravel and frontend frameworks like ReactJS. Features like buyer-seller messaging, split payments, custom search, and reviews and ratings systems will also need to be integrated.

Adding APIs for use by third-party developers and platforms can add substantial value to your marketplace. All of this requires advanced programming skills, but will ensure a high performance platform with a custom structure that has a better chance at meeting and exceeding user expectations.

Below is an example of a technology stack for a custom marketplace platform:



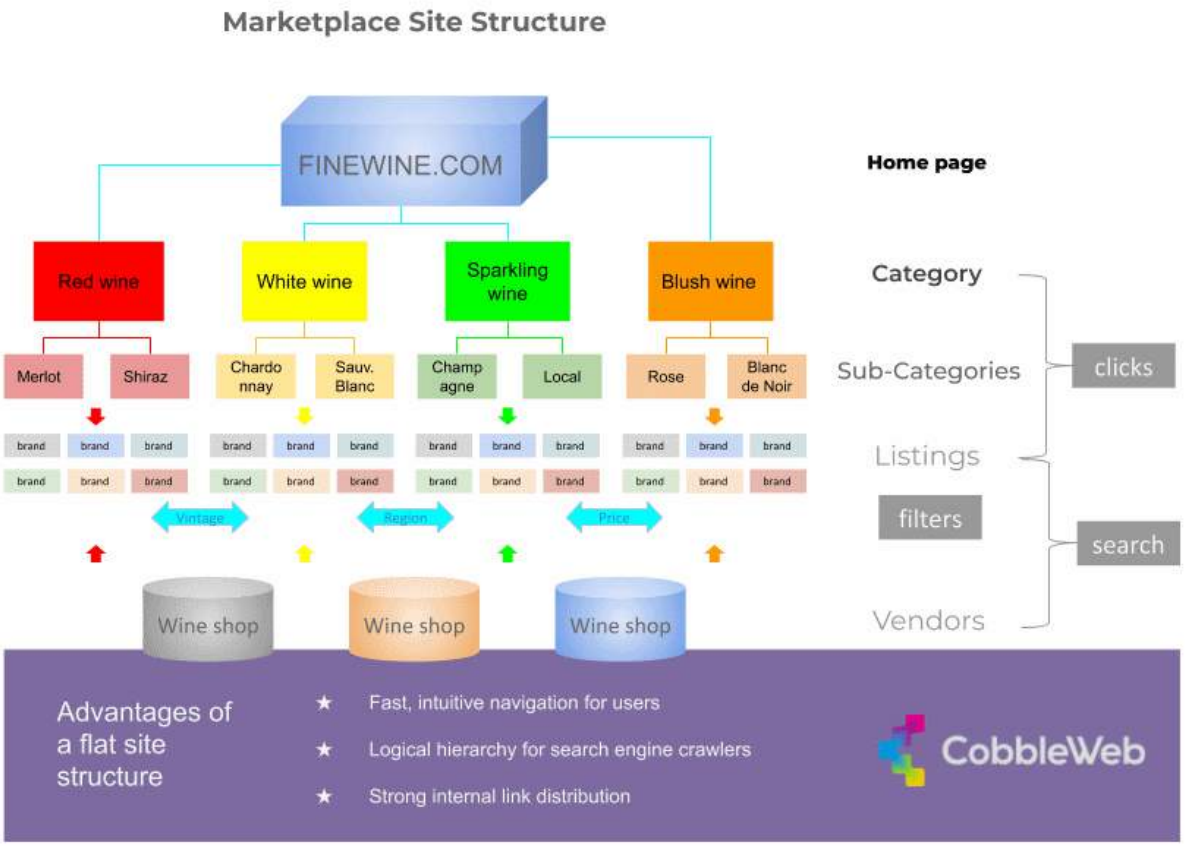
Alternatives for building your marketplace include hosted SaaS solutions or extending a CMS platform like WordPress with plugins. In both instances you will still need to customise and iterate to properly serve your specific target market, which means coding skills. Ultimately, the tools used to build a marketplace are inherently more complicated than single vendor e-commerce sites, given the complexity of information processed.

Site navigation and user interfaces

To attract customers to your marketplace, you need an intuitive user experience that smoothly onboards both buyers and sellers. Sellers should be able to set up shop and display their products or services quickly, while buyers should be able to browse, compare, select, and make purchases with ease.

E-commerce sites tend to have far simpler navigation structures than marketplaces which have to cater for a wider variety of products and additional vendor variables such as location. Once a customer has arrived on an e-commerce site, navigation is fairly simple, as the customer only has to navigate through a selection of products from one brand.

Marketplaces, however, usually require a custom search functionality with advanced filter and sort features that allow buyers to refine search results according to their needs.



Marketplaces require advanced sort, filter and search features
Marketplace platforms include user dashboards for buyers and sellers so they can manage their live profiles, product listings, preferences, and activities like reviews. E-commerce sites generally only need simple buyer profiles for checkout purposes.

Owners of e-commerce stores and multi-vendor marketplaces both need an analytics dashboard to track revenue and user metrics. Marketplace owner dashboards tend to be more elaborate since both buyer and seller behaviour have to be tracked and monitored. The specialised nature of marketplaces necessitates careful alignment of custom metrics with business goals.

Transaction flows

Whether you have built an e-commerce site or a marketplace, you will need to set up a payment system. In an e-commerce site, revenue flows directly from the customer to you, the owner of the site. Online marketplaces need a sophisticated payment system that splits sales between multiple vendors and withholds your commission, or manages listing and subscription fees, depending on your revenue model.

As a business owner, you need to define your transaction priorities. Do you need a payment system that can scale internationally? Do you need integrated reporting that covers everything from transactions to taxes for sales and accounting purposes?

Compatibility is an important element of transaction flows. If you are building an e-commerce site with software such as Wix or WordPress, your payment system can be activated with a simple plugin. However, for a marketplace, your payment system requires custom integration that supports the particular transaction flow and revenue model you have decided on.

Revenue Streams

Marketplace owners should expect lower margins in comparison to single-vendor e-commerce sites since marketplaces only receive a portion of each sale as opposed to the full sales amount. Marketplace revenue streams can include commission, membership/subscription fees, listing fees, lead fees, and value-added services such as category ads and premium listings.

A successful online marketplace relies on transaction volume far more than an e-commerce model does. One of a marketplace owner's primary goals is to kick-start network effects by making sure that each new user creates more value for the existing users. It is one of the main advantages of multi-vendor marketplaces over standard e-commerce and a key reason why they can experience such rapid revenue growth.

Marketing

While e-commerce sites need to focus all their marketing efforts on attracting buyers, marketplaces need to attract buyers, as well as a community of sellers to serve as the heart of their platforms. This has been called the chicken and egg problem – should buyers or sellers be targeted first? The general consensus is that stocking up with sellers (your marketplace inventory) first, is the smart move.

The marketing growth trajectory also differs – e-commerce sites require consistent marketing awareness to drive site traffic, while a marketplace platform is confronted with the challenge of creating network effects by adding value for both sides of the equation. Both solutions need to provide a simple, intuitive experience for customers – and in the case of a marketplace, sellers too – to ensure that it stands out among competitors.

Technical seo plays a big role in driving traffic to both e-commerce and marketplace platforms. The two-sided nature and more complex structure of marketplaces create more opportunities and challenges for its implementation though.

Marketplaces also require a more intricate go-to-market strategy, which should be closely linked to the problem that is solved by connecting buyers and sellers in a specific vertical. As a subset of your marketing, go-to-market strategy sets out how you will successfully introduce a new product or service to an existing market or expand into a new market.

Security

Both formats facilitate online transactions, which means that fraud becomes a risk that needs to be mitigated. A 2018 report released by Reuters estimates that $1.45 trillion worth of turnover is lost on e-commerce sites and marketplaces globally as the result of financial crime. A PwC investigation found that 49% of online firms had fallen prey to fraud the previous year.

The bottomline is that inadequately secured e-commerce platforms are open to transactional fraud. Marketplaces introduce additional complexity – multiple vendors and buyers on one site mean that there is a threat of fraud on multiple transaction levels.

Luckily, there are strategies you can employ as a business to secure your e-commerce or marketplace site. These include:

- Secure hosting by choosing a service provider that performs regular backups, and monitors the network and servers for malware and potential attacks.
- Secure passwords to protect customers
- Layered security, from login boxes and content forms to checkout
- Secure connection with strong SSL authentication
- Payment card industry compliance

Marketplaces in particular must offer a deep level of financial crime prevention, as security is one of the best ways for a marketplace business to stand out in the market.

Scalability

E-commerce sites scale according to the demand there is for your product/service, as well as your ability to meet that demand. Marketplaces are able to scale fast if you can convince sellers to join your marketplace, nurture high-value users, create a trustworthy reputation and develop additional resources that benefit those on your platform.

A combination of network effects and the ability to rapidly expand product ranges via multiple vendors gives marketplaces a huge advantage in scalability.

Which approach is fastest to get off the ground?

If you are a brand selling your own stock, e-commerce is the fastest way to get your business off the ground but will take a while to break even. There are more costs involved – you have to invest in stock, storing that stock and distributing your product.

Marketplaces take longer to get off the ground, with smaller profit margins than e-commerce businesses. They rely on volume and, therefore, need to focus on enticing both sellers and buyers to come on board.

If you are an entrepreneur with a passion for selling a specific product and building a brand around it, e-commerce is a good fit. If you are an entrepreneur looking to build a scalable business that generates exponential profits over the long term, without having to manage inventory, building a marketplace will suit you perfectly.

Can you pivot from e-commerce to marketplace?

Yes! Lean entrepreneurs understand that the key to business success is to experiment, gather feedback and insights, and apply this to improve your business idea. You may find that in selling your product, you develop a keen understanding of the market you are selling to. You can then use this knowledge to build a blended marketplace that mixes your own product line with that of third party vendors.

If you want to step back from e-commerce completely, you could always remove your product and pursue a marketplace on its own. Essentially, it is a pivot from one revenue stream to several, based on what is happening on your platform. As CobbleWeb CEO and co-founder Ramdane Mir notes in this interview, the key is experimentation and speed.

Are you ready to pivot your online store to a marketplace model?

Whether you are developing a multi-vendor marketplace or a single-vendor online store, pivots should always be part of your e-commerce game plan. That usually means making calculated changes to different aspects of an existing business model. In other words, experimentation with different revenue streams, market segments, product lines, or redefining how you solve your target audience's problems.

But what if there was an opportunity to pivot from a single-vendor to a multi-vendor business model? The examples are out there. E-commerce behemoth, Amazon, is probably the biggest example, having successfully transitioned from selling books to building a marketplace whose third-party sellers contribute 58% of its retail revenue.

Shopify's founders started out with an online store for snowboarding gear and ended up with a $36bn SaaS platform for e-commerce stores. In fact, you can say integrations like its Fulfillment Network have transformed Shopify into a gigantic meta marketplace.

Even an iconic consumer electronics retailer like Newegg has leveraged its multi-million strong client base to launch the successful Newegg Marketplace.

Marketplaces and online stores are different ball games

As we explained in the previous chapter, there are different pros and cons attached to building single-vendor stores as opposed to multi-vendor marketplaces. The fairly low barrier to entry for most online stores (cheap plug-and-play e-commerce templates, simple site architecture, and fast set-up times) means that their numbers far outweigh that of marketplace platforms.

Marketplace platforms, on the other hand, are far fewer, because they take longer to set up, cost more to develop, and require additional technology and effort to establish product-market fit.

The carrot for marketplace entrepreneurs though, is their imminent scalability due to a combination of network effects, multiple revenue streams, and the ability to rapidly expand product ranges via multiple vendors. That means more market share and bigger revenues. Which is why marketplaces have grown to make up 60% of the $2.86 trillion global e-commerce market.

How do you know your online store is ready for a pivot to a marketplace model?

Timing is everything. If your online store has not gained sufficient traction, you first need to establish the reason. In all likelihood, a lack of product-market fit means that you are not ready to pivot to a marketplace model. Maybe focus on a product- or market-based pivot first.

Conversely, as a successful solo e-commerce vendor you would have developed a good understanding of the market segment that you operate in. Those insights could help you identify an opportunity for a marketplace platform.

Pivoting to a marketplace model simply based on a hunch, however well-informed, is not advisable though. Test your idea first with an MVP version to make sure that you are solving a real problem for vendors. You also need to make sure that the target market is big enough to sustain multiple vendors.

Another way of minimising risk is to retain your existing client base by implementing a hybrid model. That way you can continue selling your own product line in conjunction with other vendors on your platform. Once the new vendors have shown that they can sell their goods or services you have the option to step back and continue with only third-party vendors.

Your knowledge of the market segment can be a powerful advantage in other ways too. Business intelligence about competitors can be used to identify the first vendors for your platform. You can also leverage your insights to help your sellers up their game via tutorials and a knowledge base. Airbnb does this really well.

Eight challenges that differentiate marketplaces from online stores

It's best to be fully cognisant of all the challenges that are unique to the marketplace model before setting out on this new adventure.

Quality control can be a headache since you have less control over the products and services offered by third-party vendors. Buyers receiving inferior goods or services and fraudulent accounts can tank your brand very quickly. You will need to vet your vendors and conduct regular product checks to ensure your buyers get what they asked for.

You will need to decide what technology stack you are going to use for your marketplace. This can be a critical decision since marketplaces require a lot of additional functionality (seller dashboard and analytics, third party shipping, review systems, etc) and much more complex information architecture and navigational structures. Are you going to attempt DIY using an online marketplace builder or trust an experienced marketplace development agency to do the job right the first time? Choosing the wrong option could set you back seriously in terms of time and money.

Security is a bigger concern on marketplace platforms due to the increased number of stakeholders and transactions. This includes user data which needs to be protected in a clear and transparent manner. Choosing a suitable payment gateway is key to building trust

with users. For example, you will have to make provision for new features such as escrow and split payments.

The marketplace model offers a variety of ways to monetize your platform. Potential revenue streams include commissions, listing fees, subscriptions, and advertising. Figuring out which ones to pursue can be difficult if you are used to a more straightforward single-vendor revenue model. Experience has shown that it's best to test revenue streams as you chase product-market fit with an MVP version.

A key challenge is how to drive traffic to your marketplace. Unlike an online store where there is a singular focus on enticing buyers to your site, a marketplace needs both buyers and sellers. Do you 'stock the shelves' with vendors first or do you attempt to drive both sides at the same time? If you have already built up a solid customer base with your online store it will make the job much easier since you only have to find qualified vendors.

An often overlooked aspect of successful marketplaces is their team composition. Online stores tend to have much more localised teams due to their need for warehousing, manufacturing, and fulfilment. The marketplace model lends itself to a distributed organisation which means a larger pool of talent and reduced costs. An early-stage marketplace team should focus on product development and growing the platform community (buyers and sellers). As your platform matures you can get fancy with RevOps, DevOps and FinOps teams.

You are going to have lots more data. You will need to manage it properly to stay on the right side of your users and the data privacy laws of the different jurisdictions that you operate in. Data should not only be managed; it should also be analysed properly so that you can make informed decisions about the evolution of your marketplace. To that end you will need to come up with the right metrics to track.

All of the above are important for success, but your primary challenge is to define your value proposition aka unique selling point. Where online stores tend to be very product and price focused, marketplaces need to add extra value to differentiate themselves from existing solutions in the market. Are you going to emphasise a wide variety of goods or services and convenience like Amazon or are you going to focus on the user experience and transparent feedback like Airbnb?

You will need to shift from a retail mentality to a mall sensibility

Online stores are linear one-directional businesses. Owners source or manufacture a product line which they then promote to a chosen target audience. Which pretty much makes them the digital version of a physical shop.

Marketplaces are the digital equivalent of a shopping mall with multiple vendors selling a wide variety of products or services. As the owner of a marketplace platform, your role is to facilitate connections between buyers and sellers in a way that solves real pain points for both parties. That means building and maintaining a secure user-friendly infrastructure that can handle a myriad of features, such as customer feedback, shipping, and payments.

Sellers will rely on you to drive traffic to the platform through various marketing channels. Are you going to use technical SEO and user generated content to generate organic traffic or will you be spending your marketing budget on pay-per-click campaigns, social media ads, and affiliate marketing? Once procured, your sellers will also expect that your information architecture distributes that traffic fairly. Review and rating systems, categories, custom search, and localisation matter.

Buyers have different priorities. They want to find, compare and connect with qualified vendors in faster, more secure ways. Just like a brick-and-mortar mall, your goal should be to build a unified brand that offers them that centralised shopping destination. If you get it right, transparent competition on your platform should lead to better quality and prices and even greater brand loyalty.

Transforming your online store into a fully-fledged marketplace can be a daunting project, despite the huge potential rewards. Minimise the risk by testing your idea with MVPs and rapid iteration based on user feedback.

Should you expand your offline business with an online marketplace?

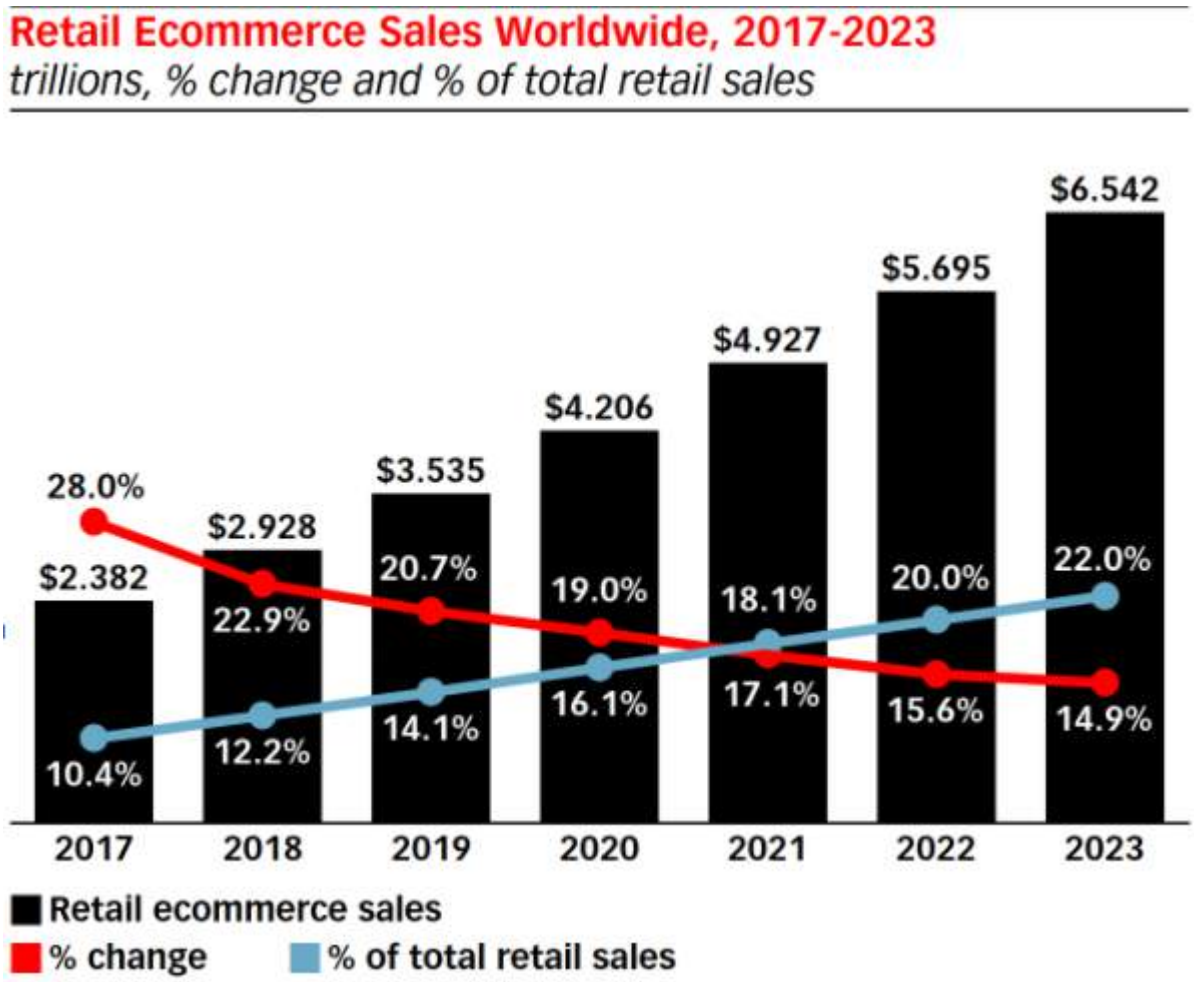
These days most bricks-and-mortar business owners are aware that they need to complement their physical stores with a digital offering to stay competitive. However, many offline-only companies are oblivious to an extraordinary opportunity – extending or transforming their businesses via online marketplaces.

That doesn't mean offline retail is dead. In-store shopping is still very much alive, despite frenzied reports of its imminent demise, which have reached a crescendo during the Covid-19 pandemic. The sobering fact is that, in the U.S. alone, 84 percent of retail sales still happen in-store. What is changing in a major way, is the rapidly evolving nature of physical retail.

Forward-thinking retailers are increasingly integrating digital platforms, such as online marketplaces, into their offline business models to enhance the customer experience and ignite scalable growth. A number of factors are behind this trend.

Increased digital adoption is driving ecommerce growth

Wider broadband penetration and growing familiarity with online transactions have given ecommerce a significant boost. This trend has been turbo-boosted by the Covid-19 pandemic, resulting in online transactions becoming the default for most people in the developed world, even in areas that used to lag in digital adoption, like education and groceries.



Although most markets are still largely offline, almost all of them are seeing rapid digital adoption.

Source: [Dealroom]

The rise of the marketplace business model

It may be a controversial statement, but online marketplaces constitute the most powerful business model in human history. A reputation that is built on their unrivalled scalability, customer centric ethos, and unique ability to bring order to fragmented markets.

Where chaos reigned due to asymmetrical access, lack of transparency, and broken customer experiences, marketplaces bring universal standards, accountability, expediency, efficiency, and product diversity. They unlock value in previously non-productive assets (Airbnb with private homes, Uber with private cars) and lower the barriers to entry for suppliers.

These characteristics have fueled a veritable explosion in marketplace startups over the past ten years:

- 57% – marketplace portion of retail e-commerce
- $2T – spent on marketplaces in 2019
- 306% – increase in marketplace startups on AngelList since 2015
- 1,400% – increase in European B2B marketplaces since 2010
- 300% – avg growth in marketplace revenue YoY
- 59% – European companies that rely on marketplaces for their online sales

> Marketplace unicorns have grown 70% in value since Jan 2020 to more than $5 trillion, outperforming tech overall.
>
> – Dealroom, The Future of Marketplaces Report (2021)

Despite all this growth, the biggest opportunities for online marketplaces are still ahead. The ongoing evolution of the marketplace model is making sure of that.

Established horizontal marketplaces like Amazon, eBay and Alibaba are being challenged by second, third, fourth and fifth generation marketplaces. These newer marketplace types focus on niche verticals (e.g. contemporary art), on-platform transactions (e.g. event tickets), on-demand or location based transactions (e.g. ridesharing) and value-added services (e.g. real-time real estate bids).

Even newer marketplace models target contemporary themes like the circular economy, sustainability, the passion economy and regulated services.

Omnichannel customer journeys

Over the past few years physical stores have become far more enmeshed in the customer journey than ever before. Technology and consumer expectations are driving the evolution of traditional bricks-and-mortar businesses, from mere sales locations to cross-platform brand builders, marketing channels, and providers of unique experiences.

This cross-platform evolution has been further propelled by the Covid-19 disruption of 2020, emphatically proving that bricks-and-mortar businesses that also sell their products via digital channels, such as marketplaces, perform better than those that don't. In large part because customers have come to expect an 'order from anywhere, fulfill from anywhere' standard.

Omnichannel is an integrated sales approach: order from anywhere, fulfill from anywhere
Suppliers, the potential sellers for a marketplace, are also getting used to an omnichannel approach. More and more suppliers are selling their goods and services on multiple platforms. This has created a growing seller pool for marketplace owners.

Diverse technology options

Bricks-and-mortar businesses have access to a greater variety of marketplaces development options than ever before. Smaller companies can test their marketplace concept with affordable off-the-shelf marketplace templates. For larger companies with bigger budgets there are enterprise-level turnkey solutions that are more customisable and feature-rich.

Specialist custom marketplace developers are ideal for companies that have tested their marketplace idea and would like to scale their platform. Software developers that specialise in building custom marketplaces offer a number of advantages over off-the-shelf templates and turnkey solutions. For example, the ability to accommodate advanced user flows and revenue models.

The rise of dedicated marketplace components, such as Stripe Connect's specialised payment system, has further simplified the development process.

Advantages over pure-play marketplace startups

There are a number of factors that favour established bricks-and-mortar businesses, that want to expand their footprint with an online marketplace, over online-only marketplace startups.

Successful offline companies with solid logistics have a nice comparative advantage. Warehouses can be used as distribution nodes for seller goods, while stores can act as pick-up locations for customers who want to save on shipping fees.
Familiarity with their market and customers should translate into better customer service. Many offline-to-online companies already have a call centre with dedicated customer service staff.

Physical stores mean better brand visibility. Leveraging existing brand recognition with cross-channel marketing can be very cost effective.

Market insights gained from in-store transactions and interactions can be used to inform the design, user experience and flow of their marketplace platform. Instead of spending time and money on external research, bricks-and-mortar companies can survey their existing customers.

Established offline businesses are able to finance marketplace expansion with existing revenue. Startups, on the other hand, have to beg, borrow or steal funding without any guarantee of future revenue.

Must your offline business be successful? It would be advantageous, but there are instances where it is not a dealbreaker. Sometimes a physical business is in the wrong location with little demand for its goods or services. An online marketplace can target those locations where there is demand. This is known as digital transformation rather than expansion.

Advantages of having a marketplace extension

Marketplace extensions offer a number of advantages to offline businesses.

Enhanced customer experience

Customers are offered a better customer experience due to increased convenience (24/7 availability), improved product offerings (wider range of goods), and better personalisation (based on platform data insights).

Better conversion rates

User behaviour data gathered from online marketplaces enables you to reach targeted audiences that are searching with an intent to buy.

Better data

An omnichannel approach creates significant opportunities for cross-pollination. Data gathered from marketplace sales can be used to develop more personalized direct-to-consumer marketing and in-store experiences.
Data collection is more granular allowing better personalisation based on variables such as geographical location. Data can also be tracked in real time, making it easier to address issues as they crop up.

Better shipping options

Complementary online and offline sales channels also offer advantages for last mile fulfillment. Since last-mile delivery is often more expensive than in-store pick-ups, 68 percent of U.S. consumers have used click and collect options.

Comparatively lower startup costs

£20,000 for the first iteration of a custom marketplace compares very favourably with the outlay required for a new store of modest proportions. Annual retail rent in the UK ranges from £1,030 in Cardiff to £14,355 in London's West End. That's between £103,000 and £1,435,500 a year for a small convenience store!

Then you have to add once-off costs like shop fitting, security systems, and POS systems, as well as recurring overheads such as staff wages, insurance, utilities and cleaning. Conversely, an online marketplace saves on storage and distribution costs as these are usually borne by your sellers.

New revenue streams

Online marketplaces can offer additional revenue streams such as subscriptions and platform advertising. Complementary services offered on the marketplace can also create new revenue streams.

Geographical reach

As long as there's sufficient shipping and payment system support, marketplaces can operate any place in the world. This removes the significant physical barriers to entry and improves scalability.

Easier to pivot

Pivoting a digital platform is not trivial, but is still many magnitudes easier than pivoting a physical storefront. Many marketplaces have shown superb agility to pivot during the 2020/2021 pandemic.

Category		Pivot
Ride-sharing	Careem	Groceries and medicine (1-hour delivery)
Ride-sharing	UBER	Uber Direct (pharmacies and pet shops) Uber Connect – P2P courier service
Micro-mobility	BIRD	Scooters for food and medicine delivery App now shows take-out options
Restaurant ordering (B2B)	Choco	Help restaurants launch direct-to-consumer programs
Restaurant booking	OpenTable	Reserve grocery shopping appointments
Accommodation booking	airbnb	Online Experiences Launched long-term rental
Book local experiences	GET YOUR GUIDE	'Beat the Crowds': mitigate over-tourism
Book a musician for events	Encore	Personalised music messages by popular artists
Re-sale fashion	POSHMARK	Posh Stories: video shopping

Source: Dealroom

Notable marketplace expansion opportunities

Some business sectors and marketplace models offer clear high-growth opportunities. Here are four of them.

Retail opportunities

There are a number of advantages for established physical retail companies. First of all, it is an opportunity to expand their supply network and thus offer customers a wider variety of products. It solves the problem of shelf space by providing unlimited digital shelves.

Retail marketplaces can positively affect corporate social responsibility, by giving local producers, manufacturers and service providers a platform to sell. Existing collection points, depots, warehouses, make the logistics much easier.

General criteria for retail suppliers include:

- There must be customer demand for the product
- It must be a product that the retailer would typically sell in its stores.
- The product needs to be competitively priced
- It must comply with regulatory requirements (quality and safety)
- Regulations about minimum product standards, product labelling and packaging must be adhered to
- Product pricing should be similar to or preferably better than other similar products sold by competitors

Government procurement

Online marketplaces can be used to connect state suppliers with different government and parastatal departments. This promotes transparency in the procurement process, lowers government expenditure, creates a level playing field for suppliers, and acts as an anti-corruption mechanism.
Governments that have experimented with e-procurement platforms include the USA, the UK, New Zealand, and India.

B2B marketplace extensions

Just like retail marketplace clients, corporate procurement departments can also benefit from the transparency and competition that online marketplaces offer. It is important to note that B2B marketplace development can be substantially more complex than its B2C counterpart, due to the strict procurement requirements of most large companies.

Since B2B marketplaces are still in their infancy, there remains lots of first mover advantage for bricks-and-mortar companies that want to expand online. Types of B2B marketplaces range from product-focused marketplaces that sell commodities like office supplies, furniture and equipment, and packaging to Time-and-materials marketplaces that offer freight services, travel services, IT and technology, temporary labor, and facilities management, and scope-of-work marketplaces that offer marketing, telecoms, utilities, rent and real estate, insurance, and professional (such as legal and consulting) services.

Managed marketplaces

Managed marketplaces add high levels of additional value to the client experience via added-value services, such as lightning quick inspections or valuation before finalising a sale.They tend to involve higher levels of risk, but are able to charge a premium in exchange.

Examples of successful offline to online marketplace transitions

Bricks-and-mortar retail heavyweights like Walmart and Target have taken the fight to Amazon with marketplace platforms of their own.

One omnichannel approach is to create an umbrella marketplace for independent physical outlets. Farfetch, a fashion marketplace that connects a network of physical boutiques across the world, is a good example. It has greatly expanded the individual footprint of each boutique, given consumers access to more options, and seen Farfetch reach a $19.7 billion market capitalisation.

Some physical retailers have taken digital expansion a step further by building their own marketplace platforms to complement their in-store offerings. Affordable Art Fair's online marketplace leverages the success they have achieved with physical art fairs in cities like New York, London, Paris, and Singapore.

CarMax is America's largest retailer of used cars and runs one of the most well known managed marketplaces in the world. It started out as a physical car dealership group.

Online to offline

It's not only one-way traffic from offline to online. Some online retailers have had success with bricks and mortar additions to their core digital channel.

Checkout has become ground zero for a faster, more convenient, in-store experience. From self-checkout technology using RFID tags to Amazon Go-style automated checkout, brick-and-mortar retailers are experimenting with ways to expedite the shopping process.

Amazon Go uses computer vision and deep learning algorithms to automate the in-store checkout process.

Conclusion

Technology is driving a growing revolution in brick-and-mortar retail. To paraphrase the Paul Drucker-ascribed cliché, when the right data gets measured, you can manage the relevance and profitability of your business. An online marketplace extension allows you to do just that.

Section 2: Planning your marketplace

How to pick successful revenue streams for your marketplace business model

Creating an online marketplace can be a great way to make money. One of the most important steps to success is the development of a viable business model and optimizing revenue streams. Without a great marketplace monetization strategy you aren't going to last long.

Far too many would-be entrepreneurs “recognise” the need for these crucial elements of a business, but do not really understand what these terms mean. These would be marketplace operators say they have a business and revenue model, but when pressed they allude to some vague notions on pricing strategy. This approach is often justified by suggesting that it mirrors the strategy of a successful marketplace, without considering whether the platform they are building is similar to what they are mimicking.

This chapter is going to provide you with the information you need to avoid these errors. It is going to provide you with a definition for a business and revenue model that you can use, as well as illustrate how these two distinct but interrelated concepts interact. It will also provide you with some basic revenue model examples and situations where they might be optimally used.

Dynamic Interactions – Business Model Vs. Revenue Model

Business and revenue models are often confused as being interchangeable, but in reality the latter is an element of the former. The business model articulates the flow of value in your business, defines the benefits for all the stakeholders, and identifies which products or services will be served to a specific target market. The revenue model, on the other hand, determines how owners can monetise the flow of value between stakeholders within their business systems.

Consider a simple marketplace. A marketplace has three classes of stakeholders: buyers, sellers, and those who maintain the marketplace. If the marketplace is working well, the sellers gain value from having a group of customers that want to buy their offerings. The buyers obtain value from having a place where they can buy the things they need. Value for both sellers and buyers is facilitated by the platform which helps buyers find sellers that offer goods and services that the buyers want. In exchange for this matchmaking, the owner of the platform charges some sort of fee, which is how they gain value for themselves.

The last sentence in the above paragraph relates to the revenue model of the marketplace; it answers how the owners of the platform make money from people buying and selling things using their infrastructure. Note that the revenue model only works if the other stakeholders in the platform, the buyers and sellers, gain value from the interaction as well. This is the key distinction between business and revenue models, and why it is crucial that the business model is clearly articulated before looking at revenue.

Alok Keyrival might have said it best:
“A successful combination of a great Business Model and Revenue Model results in a Google of today or a Facebook of tomorrow. But if you place your Revenue Model on the throne and crown it as king, with your Business Model as its slave, then you will land up with a Myspace of yesterday.”

In other words, how a marketplace platform makes its money should be directly tied to the benefits the stakeholders receive. In the first instance, this ensures that the platform operators are incentivized to promote and protect the value the buyers and sellers are receiving from participating in the marketplace. Secondly, it promotes growth. By incentivizing the creation of stakeholder value in your marketplace, you get more

stakeholders. Finally, tying profit to stakeholder satisfaction benefits perception of your brand. By not profiting off derivative products, like Facebook does, marketplace participants can be confident that their data is not being used without their consent.

Different Marketplace Models For Platforms

Until now we have described marketplace platforms as if there is a standard format. There is not. There are a lot of different ways to build a successful market; below is a list of some of the more popular formats.

- **B2C (Business-to-Consumer)**. On these platforms, businesses sell their products directly to consumers – or the end-users of the thing being sold. Similar to traditional brick and mortar businesses like grocery and book stores.

- **B2B (Business-to-Business)**. These platforms facilitate the exchange of goods and services between different businesses, where the buyer will not be the ultimate user of what is being purchased.These types of transactions include those between manufacturers and wholesalers, or wholesalers and retailers.

- **Reverse or C2B**. In this case it is the buyer that advertises what goods or services they need, and sellers bid on providing that need. The buyer is the first mover, while the seller determines whether they can meet that demand. The buyer then chooses the best offer available.

- **P2P (Peer-to-Peer)**. This is a site where individuals exchange goods and services, where the sellers are not necessarily businesses that specialize in the goods or services sold. Examples of P2P markets include eBay and Craigslist.

- **Crowdsourcing**. This sort of platform is usually reserved for the sale of services, although sometimes goods are exchanged. Crowdsourcing occurs when a customer (generally a business) outsources a function that used to be done by employees to a large network of people in an open call. Sometimes these tasks are done by a large group of people, but generally one person “claims” the job and does it themselves. Examples of crowdsourcing sites include Amazon’s Mechanical Turk and Flickr Creative Commons.

- **On Demand**. On Demand platforms are a lot like crowdsourcing, only instead of opening up the requests to a large group of people, the platform pairs buyers and sellers based on demand and timely, almost instantaneous delivery. Platforms like Uber and AirBnB are examples of On-Demand Platforms.

Choosing the right business model requires focusing on the three relationships that exist within the platform:

- Buyer and Seller
- Buyer and Platform Owner
- Seller and Platform Owner

These relationships determine whether the buyer or seller makes the first move in your platform's transaction process and goes a long way towards selecting the right business model.

Types of Revenue Models for All Marketplaces

Finding the right revenue model uses a similar process as finding the right business model. As stated above, the marketplace's owner should identify what their long-term goals are.

Next, they should evaluate the dynamics of the three relationships listed above and determine where value is being created. Once that has been identified, the revenue should be built around that value creation point while being careful not to charge so high a premium that it takes away the perceived benefit to the users of your marketplace.

Easier said than done. The process for discovering that point will be detailed later. First, a list of potential revenue streams for a new marketplace platform.

- **Commission**. This is the most common method for monetizing a marketplace. It seems simple at first glance, plus has the potential to be incredibly lucrative for the owner of the platform. Getting a cut of every transaction can add up quickly. However, there is a risk that people will use a platform to find products/services or customers and then complete the transaction off-site to avoid paying the commission.

- **Membership / Subscription Fee**. The benefit of this model is that it guarantees revenue regardless of whether the transaction is completed on- or off-platform. However, it also poses a barrier to entry which could limit the number of platform users.

- **Listing Fee**. A model first used with classified ads, the value proposition for both the buyer and seller is that there is a centralized place to display available goods and services. The platform owner does not facilitate the transaction and the listing fee is generally low. The platform makes it money on volume.

- **Lead Fee**. This is a hybrid of a commission and listing fee model. The seller only pays once a legitimate lead is provided. This revenue model only works when the value of a lead is high, so it is generally reserved for B2B or B2C marketplaces where relationships are long-term. If properly implemented, the amount of the lead fee can be higher than a listing or membership fee due to the long-term value derived from each new relationship.

- **Freemium**. Freemium works in a marketplace when the platform provides value-added services in addition to basic transactions or features. Basic transactions in a freemium marketplace generally don't entail costs for the buyer or seller. However, if either party wants additional value, such as insurance or delivery services, the platform charges a premium.

  The challenge is to find a service that is valuable enough that people are willing to pay for it, but not so crucial that the transaction is pointless without it. If the platform charges for crucial aspects of the transaction while advertising that such transactions are "free," it can alienate users.

- **Featured Listing and Ads**. Featured listings and ads can be used as secondary revenue streams to help diversify a platform's monetization strategy. By allowing buyers or sellers to pay a premium to feature their goods and services, the platform can generate more revenue without increasing other fees that might drive potential users away.

As you can see there are a host of possible strategies for revenue generation. The question is how to find the best one for a given situation.

Develop Revenue Success through Experimentation

As we have discussed in the past, there is no substitute for gaining knowledge about a market segment than through a series of minimum viable products. Every business starts with a series of assumptions about how their world works – MVPs help you test the validity of those assumptions. The goal of every MVP is to learn more about your target market. An MVP is not just about features, but about the process that will help transform stakeholder value into platform revenue.

Use MVPs to clarify your value proposition to all stakeholders and determine when/if they will be willing to pay for that value. Iterate with a low fidelity MVP to find that value and revenue model, then scale appropriately with confidence in your revenue model and price points.

Another option is to benchmark your revenue model with that of established successful comparable marketplaces. The new marketplace basically adopts a version of the "proven" strategy. However, this can be a dangerous approach. The goal of any new company is to establish a competitive advantage, and copying someone else's model may diminish the possibility of finding one.

Plus, a successful business isn't necessarily an optimized one. The established company might be making a lot of assumptions about their stakeholders that might not apply to the new marketplace or might be wrong outright. Building a revenue model based on user feedback might leave you open to new mistakes; but not copying revenue models might help you avoid old ones.

Is your payment system fit for a marketplace startup?

Managing the flow of funds between buyers and sellers is one of the most important functions of an online marketplace. It can also be one of your most profitable and scalable revenue streams.

However, it is very expensive and complicated to build your own payment infrastructure. That's why most marketplaces use third-party payment service providers, also known as payment processors, payment gateways, or merchant services.

A good payment service provider has the following important characteristics:

- ★ Accepts payments with no need for multiple merchant accounts.
- ★ Easy onboarding for sellers. Minimises documentation and other friction points.
- ★ Offers flexible payment options – credit cards, bank transfers, ApplePay, etc.
- ★ Offers multiple currency options, including exchange rate calculations.
- ★ As Merchant of Record it takes responsibility for the flow of funds and handles credit card disputes.
- ★ Can hold or delay funds until goods are delivered or services rendered.
- ★ Minimises risk through security mechanisms such as fraud filters and encryption.
- ★ Adheres to compliance regulations such PCI and Know Your Customer.
- ★ Can split payments – multiple sellers per cart, or tax and commission deduction.
- ★ Offers reporting tools to sellers and an admin dashboard to marketplace owners.
- ★ Reliability – a stable organisation with a strong track record of service delivery.
- ★ Flexibility – its API allows customisation for your business model.

Choosing a marketplace payment service provider

Not all payment service providers are suitable for marketplaces. Many global payment gateways do not offer split payments for example. Choosing the wrong payment service provider can have disastrous consequences. Payments platform, Balanced, closed its doors in 2013, leaving hundreds of marketplace customers in the lurch – RIP.

Trusted payment service providers for marketplaces include Stripe Connect, Paypal for Marketplaces, and MangoPay.

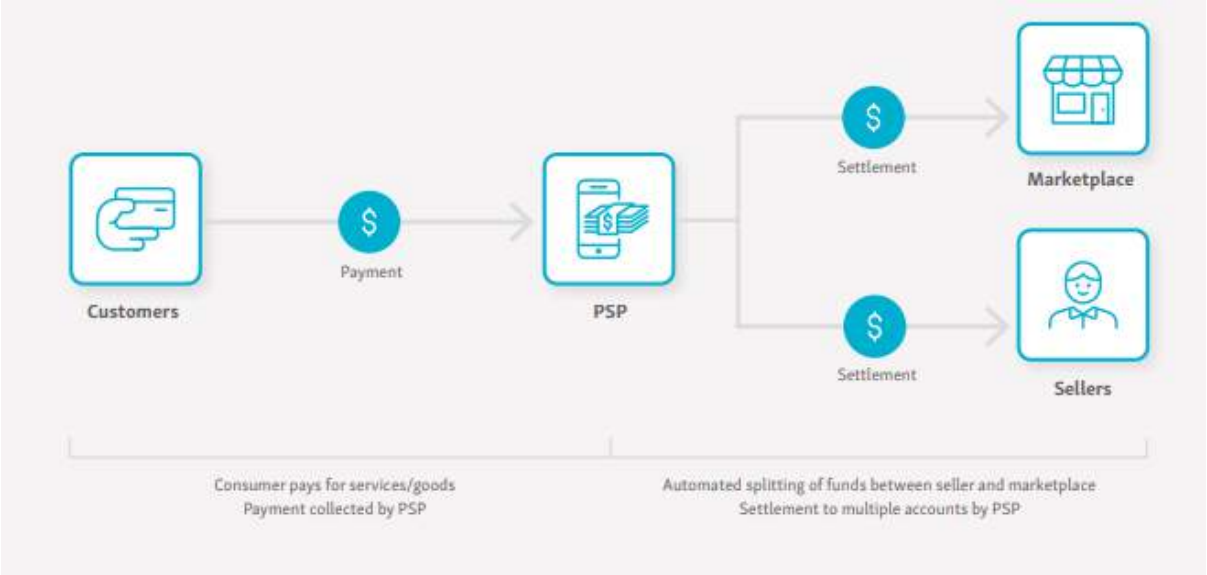
Marketplace transaction flow: how and when to make seller payouts

In this chapter we will be zooming in on a key part of the marketplace transaction flow: how and when do you make payouts to your sellers?

There are usually four players in the transaction flow that lead to marketplace payouts: buyers (customers), sellers or service providers, the payment gateway, and the marketplace owner.

Here's a simplified sequence of events:

When the buyer orders a product or service a notification is sent to the seller. The seller then has to accept or decline the order. If the seller accepts the order, the sales amount is ring-fenced (by way of pre-authorisation or escrow). Once certain conditions are met (e.g. service rendered or product shipped) the funds are deducted from the buyer's card, split and transferred to the sellers' accounts (sale) and the marketplace (transaction fee).



Your payment system thus plays a pivotal role in linking and executing every step in the transaction flow. Get it wrong and unhappy sellers will leave your marketplace because they don't get paid on time, while buyers will inundate you with chargebacks and payment disputes. A nightmare scenario!

On the flipside, offering timely seller payouts and buyer fraud protection can be a powerful incentive for sellers to use your marketplace.

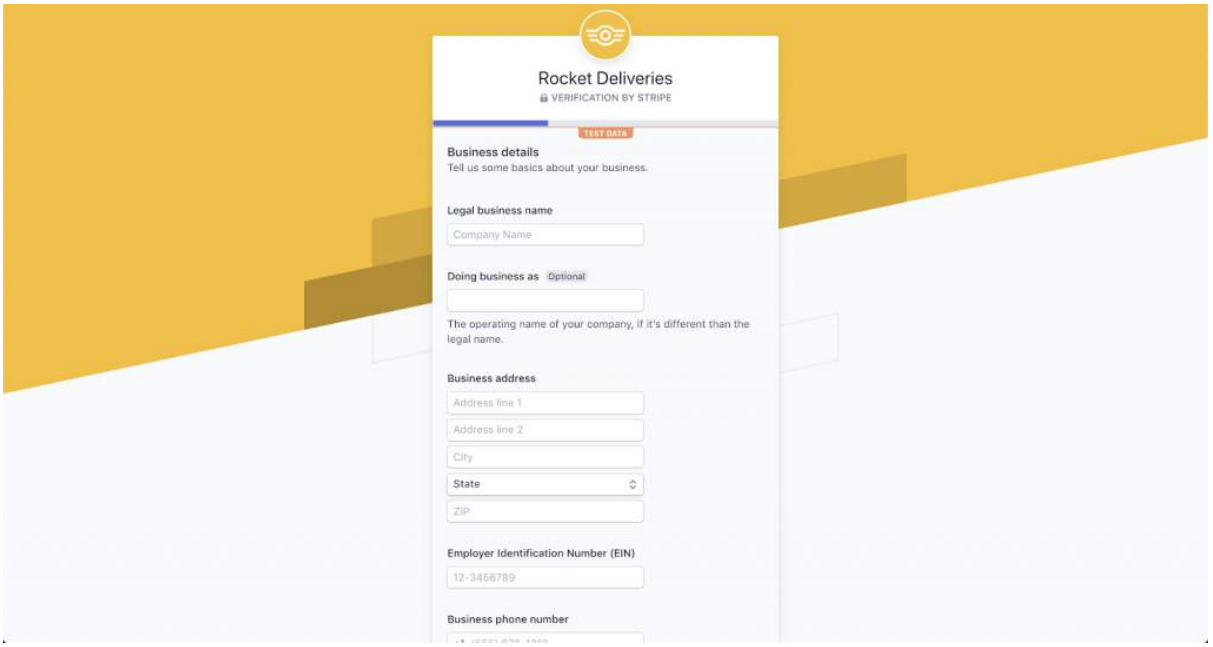
Marketplace payment system requirements for seller payouts

A marketplace payment system must check a number of boxes in order to deliver a seamless seller payout experience. You will, for instance, need a payment gateway that can receive and transfer funds, often across borders and jurisdictions. Here are some important aspects to keep in mind.

Seller onboarding

Often overlooked, seller onboarding can make a big difference to the efficacy of your payout process. An onerous administration process can take your eye off your core functions, while unnecessary friction points can frustrate sellers and lead them to abandon your marketplace.

TIP: Stripe's Connect marketplace payment system will take care of seller onboarding if you create Standard or Express accounts for your sellers.



Stripe Connect seller onboarding module

Compliance with local and international regulations

You will need to verify the identity of all sellers and/or their companies in order to comply with policies that combat money laundering and other illicit financial flows. Verification, in the shape of Know Your Customer (KYC) due diligence procedures, can vary from country to country, but usually includes the scanning of identity documents and the collecting of personal or company details such as legal names and addresses. This complex process is not a once-off burden as it requires regular maintenance to stay up to date with changing regulations.

TIP: You can move the responsibility for KYC identity verification to individual sellers with Stripe Connect Standard and Express accounts. Stripe has also started reducing or postponing the information required to verify accounts, based on seller location and risk evaluation. For example, lower risk accounts in Europe do not have to be verified until the seller has made €2,500 in sales or been on the platform for six months. This reduces the friction for new sellers to join your marketplace.

Tax reporting requirements present another administrative burden for your marketplace. Collecting tax forms, calculating GST, VAT or withholding tax, issuing tax certificates, and generating tax invoices can be a monster of a challenge for a nascent marketplace.

TIP: If you have sellers in diverse VAT jurisdictions, it may be a good idea to advise them in your T&Cs that they are responsible for including VAT in their product prices.

Cross-border transactions

If your marketplace operates in multiple countries you will have to deal with currency conversions and language barriers. International payment costs and currency fluctuations can take a substantial cut out of your sellers' sales profit.

TIP: The fluctuation of exchange rates between the moment of payment and payout can be addressed by adding a small percentage to the product price exchange rate.

Holding function

Fake product listings and inferior counterfeit goods erode customer trust and hold a huge reputational risk for your marketplace – e-commerce fraud in the UK totalled £359 million in 2019. For security reasons, funds should therefore only be released to sellers or service providers after certain conditions are met. For example, Airbnb pays hosts 24 hours after their guests' scheduled check-in time.

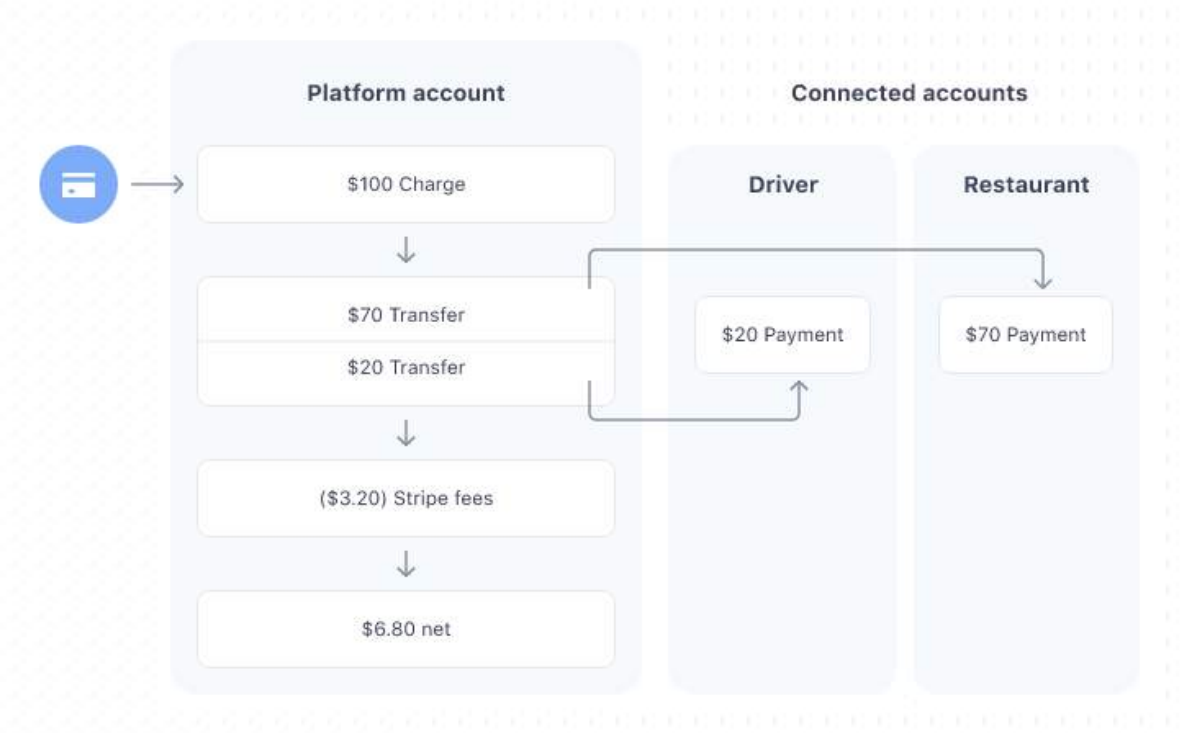
Seller payout options

Flexible transfer methods can help you reach more potential sellers since seller location, demographics, and sales volumes can all affect preferred payout options. That could mean that you need to cater for e-wallets (e.g. PayPal), mobile banking apps (e.g. Venmo), direct bank deposits, cash collection, prepaid cards, and physical cheques.

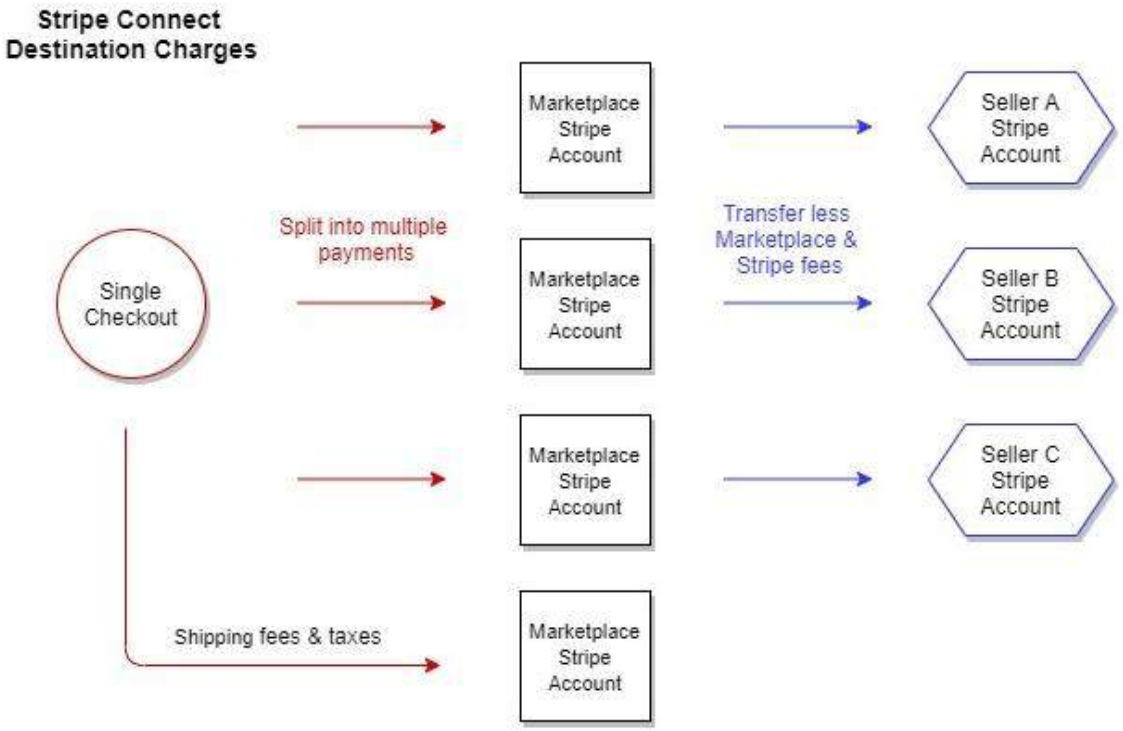
Split payments

Marketplace transaction flows almost always require separate transfers for seller payouts, marketplace fees, delivery fees or taxes. A platform like Deliveroo, for example, has to split payments between the restaurant, the delivery person and the platform. Retail marketplaces such as Amazon have to split payouts when a shopping cart contains items from multiple sellers.

TIP: Use Stripe Connect's Separate Charges and Transfers option to pay out multiple sellers after receiving a single shopping cart payment. Your platform processes one payment, which is then distributed to each seller account sans the platform and Stripe fees. Note that this option is only available when sellers are based in Europe, Japan, Australia, New Zealand, or the US. A further restriction is that your platform and the seller account have to be in the same region.



Stripe Connect's [Destination Charges]() option can be used for sellers based in any country where Stripe is supported. In this scenario, a single checkout is split into multiple payments to your platform account which are then automatically transferred to each seller's Stripe account after the platform and Stripe fees have been deducted. The only downside with this charge option is that it requires custom coding.

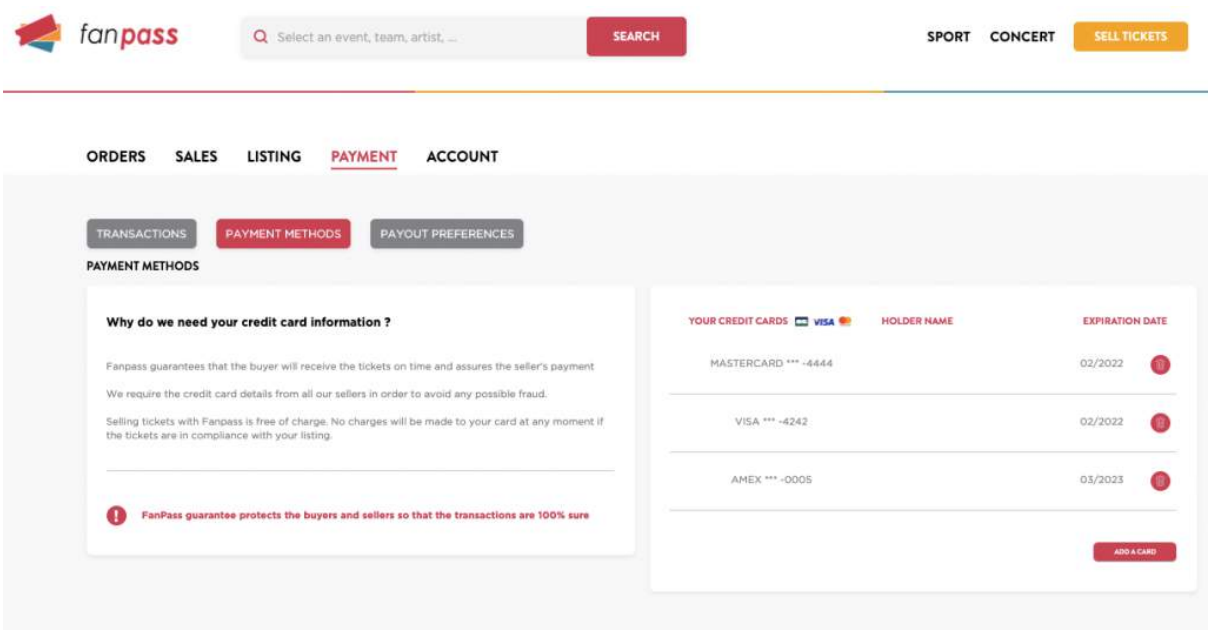


Refunds and chargebacks

Product returns and payment disputes are a fact of life in marketplaces. If you have high transaction volumes, responsibility for administering and issuing refunds should be carefully considered. Note that some payment platforms like Stripe do not always refund their own fees. Your T&Cs will have to communicate this clearly.

Seller dashboards

Any sellers worth their salt will want to track their sales and payouts. Providing such a granular reporting function in an easy-to-manage dashboard promotes transparency and trust. Dashboards can also be used for payout preferences, tax certificates and other compliance matters.



FanPass seller dashboard with payout options

Scalability

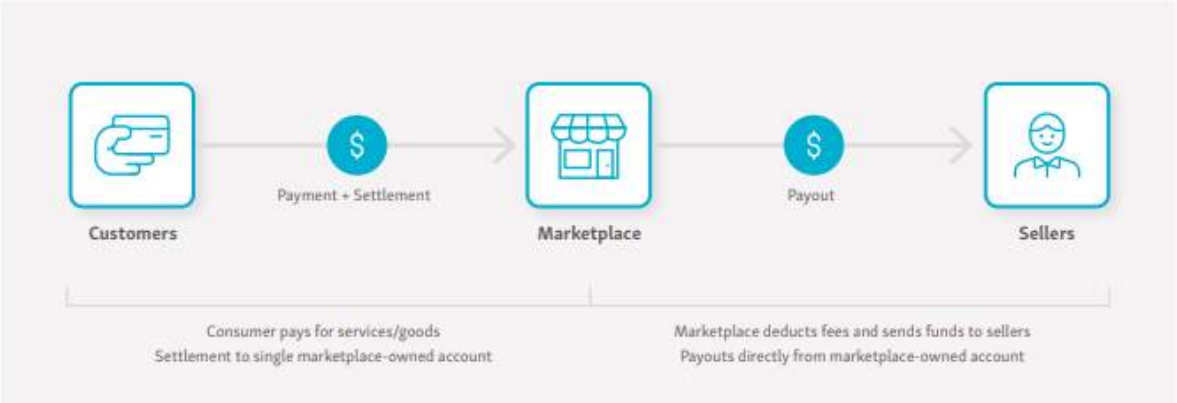
Your marketplace platform should be able to automate all of the above aspects at scale. Its ability to integrate seamlessly with third-party payment service providers will depend on suitable platform architecture and your development resources.

Picking the right marketplace payment system for your seller payouts

Just like your overall payment system, your marketplace payout structure hinges on your business model, user needs and resources. Options range from fully-owned solutions to third-party payment service providers.

DIY: develop your own payout solution

In this scenario the marketplace becomes a licensed payment institution with its own payment gateway. This gives the marketplace owner full control over the payment flow, which includes moving customer payments into its own bank accounts where transaction fees are deducted before payouts are transferred to sellers.



The downside of all this control is that the marketplace owner is responsible for adherence to local regulations, chargebacks and fraud prevention. Subsidiaries with local bank accounts also have to be created (for each country the marketplace operates in) to minimise international payment costs. Escrow accounts can be used to hold funds, but involve a lot of legal red tape and high costs.

There are obviously some strong incentives for high-volume marketplaces to develop their own payment systems. They can mold the payment flow to best suit their business model, better cater to individual seller needs, and minimise payment gateway fees (there will still be fees levied by the payment processor e.g. Worldpay or Chase Paymentech). Since such a proprietary payment system requires substantial technical and financial resources, it is mostly the preserve of enterprise-level platforms such as Amazon.

Third-party solution: payment service providers

Some payment service providers (PSPs), like Stripe, PayPal, MangoPay, and Adyen, have developed specialised payment infrastructure for marketplaces. These third-party solutions remove most of the administrative, technical and legal burdens associated with seller payouts, which make them perfect for early-stage and growth-stage marketplaces.

Although most PSP payout solutions cover key requirements such as split payments, holding functions, fraud detection and compliance, they do differ from each other in important ways. Some are easier to integrate with your platform, while others offer value-added services such as pre-built user interfaces and seller fraud protection.

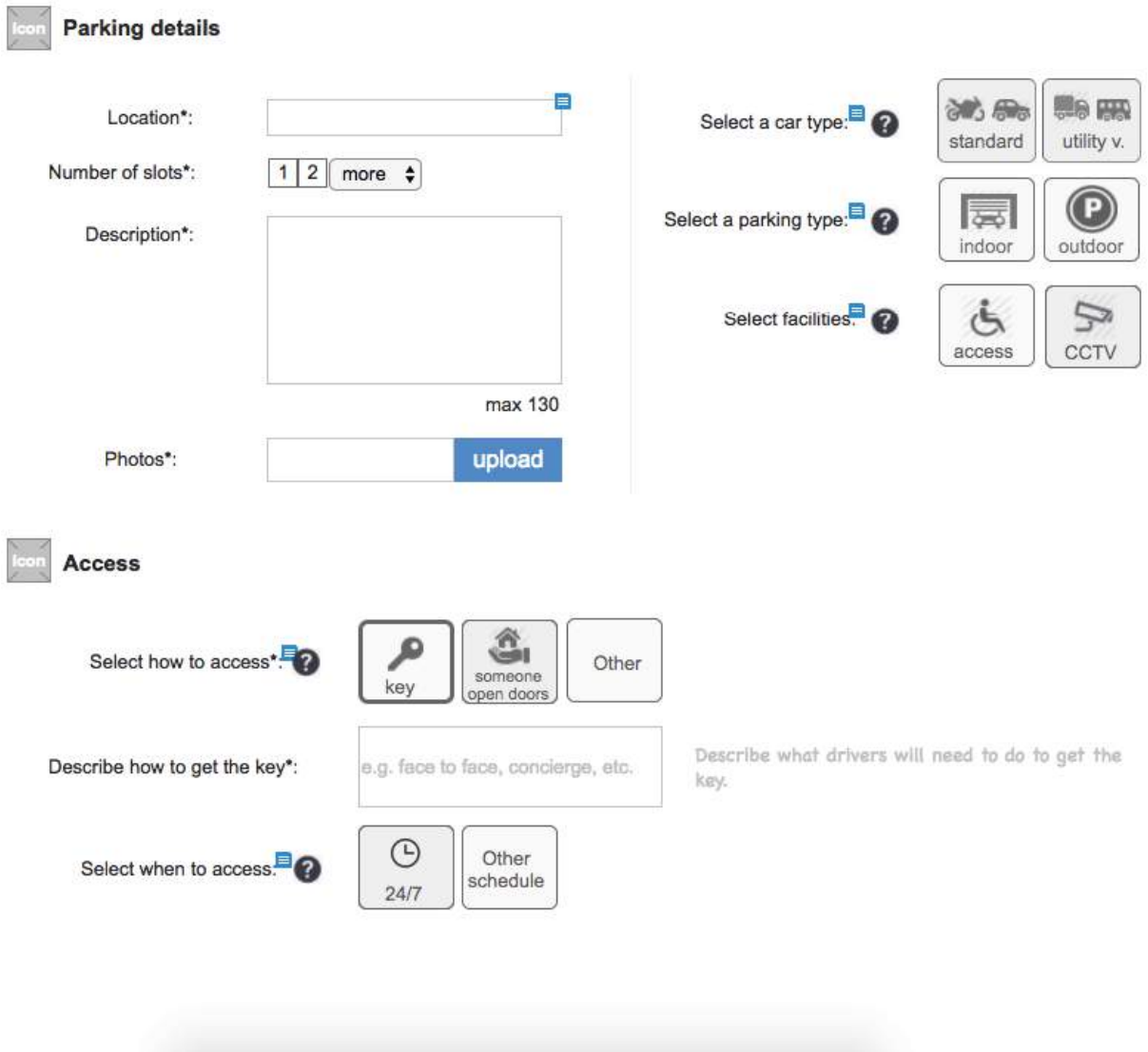
PSPs also vary in the currencies, countries, and payout methods they cater for. It is therefore important to align your marketplace with the PSP that caters best to your sellers' location and banking needs.

	Currencies	Countries	Seller Protection	Hold Period	Used By
Stripe Connect	17	40	No	90 days	Lyft Deliveroo FanPass
PayPal for Marketplaces	25	200	Yes	30 days	AliExpress Grailed Rocketr
MangoPay	15	114	No	Unlimited	Vinted WeTravel Wallpop
Adyen MarketPay	33	33	No	???	Etsy Uber eBay

Basic comparison of popular Payment Service Providers

An additional consideration is the PSP's cost structure. Adyen's volume deals may make sense for established marketplaces, but are probably not the right fit for startups trying to prove product-market fit. For comparison, Stripe Connect charges £0.10 plus 0.25% per payout, while MangoPay payouts are free to the Euro zone.

You also want to check your level of control over the payout flow. For instance, the ability to switch between manual and automated payouts allows marketplace startups to test seller behaviour in a more granular manner. Incremental onboarding, instead of collecting all seller information upfront, can reduce friction for new sellers. Customising the commission rate for different types of sellers can be a valuable selling point.



MobyPark uses dynamic forms and conditional logic that reduces friction for sellers during onboarding.

Services can also vary within a PSP's own offering. If you are using Stripe Connect with Standard accounts, the individual sellers are responsible for disputes. With Custom and Express accounts, your platform is ultimately liable for chargebacks if there are not enough funds in the individual seller accounts.*

*PSPs that support 3D Secure authentication can move the responsibility for credit card chargebacks from your marketplace or individual sellers to the credit card company.
In summary, the main drawbacks of PSP payout solutions are less control over the user experience (e.g. seller onboarding) and market or currency limitations. That is mostly outweighed by their eminent scalability via the automation of the payout process.

When do you make payouts?

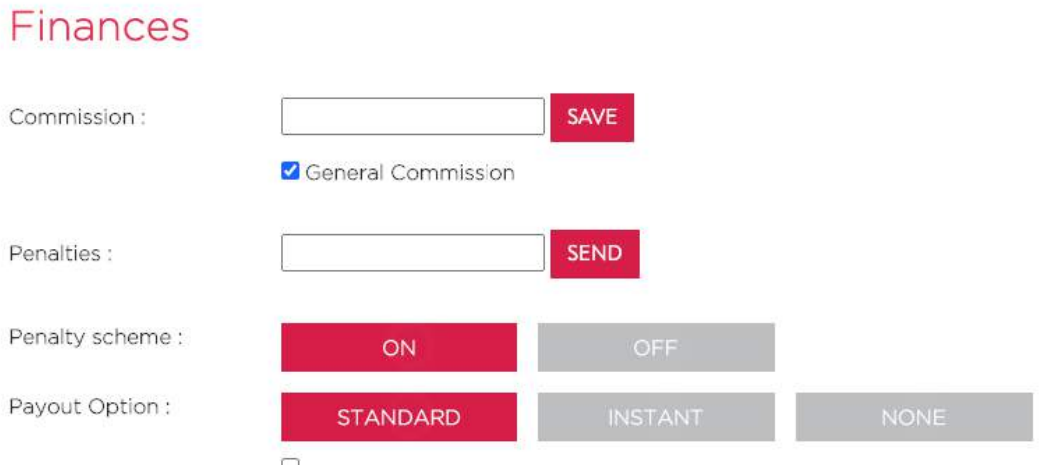
In order to decide when to pay out funds to sellers, you have to weigh up two competing factors: the seller user experience and your marketplace risk. Paying out sellers without checking that the goods or services have been delivered can cause financial and

reputational losses, while delaying payments can alienate sellers. It's thus a good idea to use an MVP to test user satisfaction and minimise platform risk.

Generally it is a good idea to only release seller payouts once certain conditions are met. Your business model will determine which triggers release funds to sellers. Here are some examples:

- Once the product has been shipped and a tracking number has been issued
- On completion of the service or when the booking has ended
- A number of days after the payment was made
- Scheduled intervals: daily, weekly, or monthly
- Instant payouts that occur immediately after payment is received
- Stripe Connect Standard accounts allow sellers to manage their own payout schedule

Using multiple payout triggers to accommodate different types of sellers can be a great selling point for your marketplace. For example, FanPass, an event ticketing platform, offers three payout levels. A standard option only pays sellers seven days after the event (to prevent duplicate or invalid tickets), while an instant option pays qualified sellers (who meet certain sales and service thresholds) immediately after receipt of the tickets by buyers. A third option caters for large corporate clients who receive monthly bulk payments.



FanPass allows the marketplace owner to set different payout triggers and commission levels for each seller

Should you schedule payouts manually or automatically? It makes sense to go the manual route initially to iron out any unforeseen bugs. Once your platform starts to scale and transaction volumes increase you can implement an automatic payout flow.

Any delay before payouts are made entails keeping funds on ice in some way. MangoPay uses an escrow account which allows for indeterminate holding periods. Stripe follows a pre-authorisation route in which a temporary block is put on the amount in the buyer's bank account. Note that pre-authorisations are only available for credit or debit card payments.

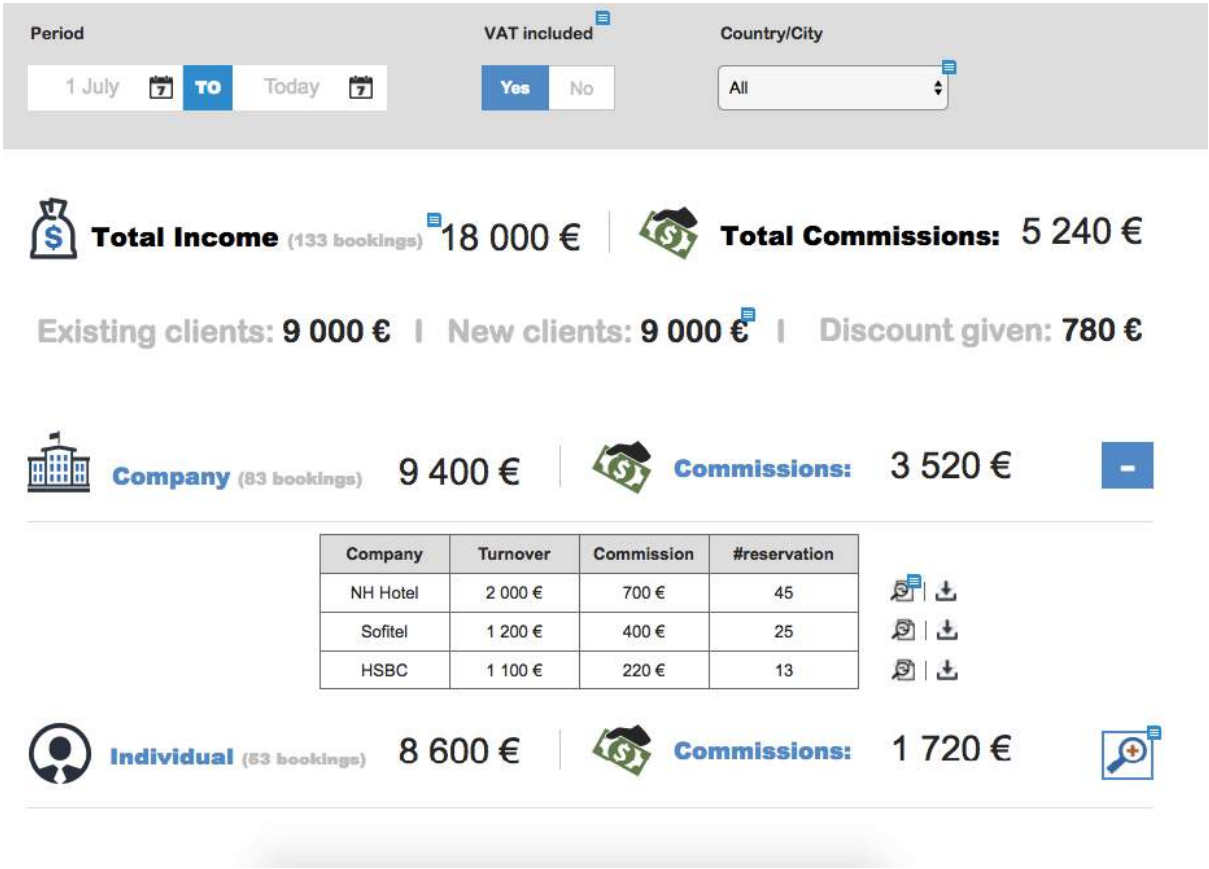
Added value for sellers

The easier you make life for your sellers, the higher their loyalty to your marketplace. You can do this by adding valuable associated benefits to seller payouts.

Extra layers of security is a huge plus for sellers wanting to avoid payout risks. Utilising well-known protocols such as 3D Secure inspire trust, while insurance programs can protect sellers against chargeback and refund losses.

Tax compliance is another area where your marketplace can add extra value. If you use Stripe Connect as your PSP, you can provide tax reporting tools, such as generating 1099-K and W-9 forms for US-based sellers.

User dashboards can help your sellers manage their business better. Allowing them to access detailed information on payouts, marketplace fees, refunds and chargebacks will make your platform more indispensable.



Parking marketplace, MobyPark, provide sellers with a dashboard that can track revenue, commission and discounts for individual clients.

The regulations around seller payouts make it one of the more complex aspects of building an online marketplace. Integrating the wrong technology can cost you dearly when you are ready to grow but are held back by non-compliant or hard-to-scale payout infrastructure.
First-time marketplace entrepreneurs should ideally get some expert advice before implementing a payment system in general and a payout flow specifically.

How to design a winning marketplace category structure

An often overlooked area of online marketplace development is the proper management of a marketplace platform's categories. Design the structure of your product or service categories wrong and you can say goodbye to (the right) traffic, retaining your sellers, and of course, attracting buyers. But where do you start?

Marketplace category management can be divided into three broad stages: discovery, validation, and optimisation. While discovery and validation form part of the initial design of your category structure, optimisation helps you ramp up the groundwork laid in the first two stages, through activities such as SEO, UX design and marketing.

In this chapter we will explore how to design your marketplace category structure by focusing on the discovery and validation stages. First, let's have a look at a few factors that make category management challenging for the novice marketplace entrepreneur.

Some challenges of marketplace category management

Marketplace category management can be a complex affair. This is mostly due to the fact that a digital platform lends itself to almost unlimited products or services. Keeping track of all those stock keeping units (SKUs) can quickly turn into a nightmare.

The highly competitive nature of the online environment has also shortened product life cycles, with continuous product development and regular product updates the order of the day. Your category listings can therefore not be static and need to keep up with changes and trends.

Technically, there are some universal boxes to tick.

Overall, your product taxonomy (aka category structure) should be discoverable via internet searches. If your marketplace product categories don't pitch up in Google, customers won't be pitching up on your platform.

Buyers want to be able to find the right products or services as easily as possible. That requires a logical category structure that is highly searchable. Tools like filters, sorting dropdowns, and search algorithms have to be designed in a way that delights instead of frustrates users. Relevant details, such as number of product reviews, should be integrated with category page results for quick comparisons.

Sellers should be able to add their listings to relevant categories in an intuitive and low-friction manner. This means implementing a user-friendly seller dashboard, the right product tags, and suitable fields for product descriptions and images.

Let's not forget about you, the marketplace owner. You will need an analytics dashboard to track both seller and buyer behaviour. Figuring out which category metrics to track can have a huge influence on your success.

The team in charge of category design and optimisation should be adept at segmenting products, services and audiences; should understand customer intent, product trends, UX

design, and user behaviour analytics; plus be able to contribute to marketing strategies, such as search engine optimisation. Looks like a walk in the park!

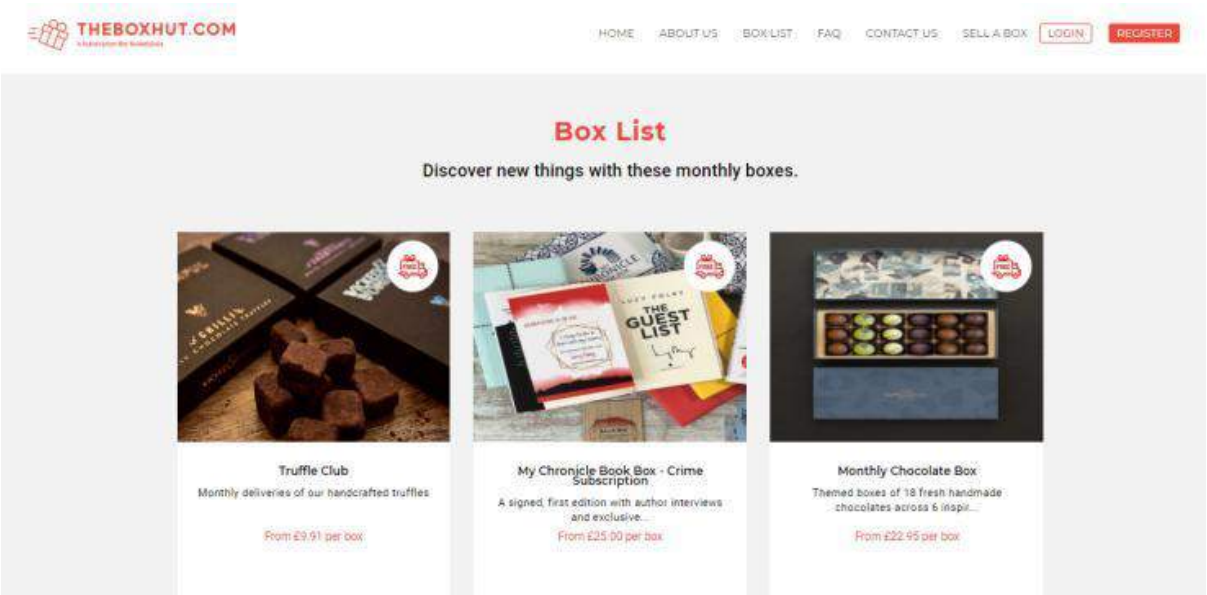
Jokes aside, hopefully this breakdown of the category design process makes it less daunting.

Design your marketplace categories: discovery

All marketplaces differ from each other in numerous ways: target audience, value proposition, features, user flow, business model and so forth. It is therefore important to follow a structured design process to make sure you kick off with the right category structure for your particular marketplace.

The first step in the design process is discovering how your users search. By doing some market research you can make a few assumptions about their product search behaviour. Your market research should indicate if your MVP marketplace requires a category menu or if it will be better served by direct product search or filters.

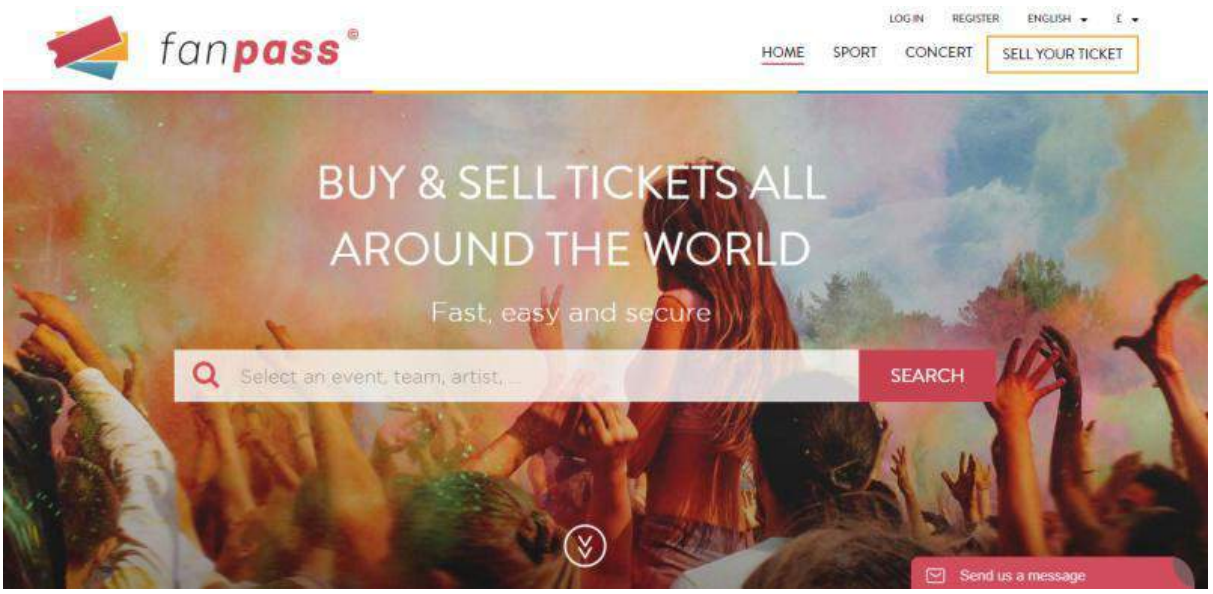
A case in point, early-stage subscription box marketplace, The Box Hut, did not require a category structure as its product line is fairly straightforward and best represented as an easy-to-browse list.



By starting with a few boxes and some marketing, The Box Hut was able to prove product-market fit. Going forward, as its catalogue expands, it may start using categories to reduce the complexity of its product list.

For some marketplaces the emphasis should be on a strong search feature rather than a complex category structure. FanPass, an event ticketing marketplace, was faced with the conundrum of thousands of different events which could potentially translate into a very bloated category structure.

The solution was to implement a strong autocomplete search feature combined with a basic category menu: sport and culture. Analysing the subsequent keyword searches, they were able to refine their categories with filters for popular segments such as football.



The recipe for an effective MVP category tree

In general, marketplace startups should kick off with the minimum categories to make the testing of assumptions easier. Here are a few pointers for establishing your MVP category tree.

1. Start with your product taxonomy. Organise products or services into parent – and child categories so that buyers can find what they are looking for in the least amount of clicks. The flatter your product hierarchy the quicker customers can navigate, select and purchase items.

2. Avoid the mistake of basing categories on sellers instead of buyers. It's a common fallacy to think that the more categories you squeeze out of your product or service catalogue, the more sellers will join to boost your product inventory.

3. Parent categories should follow a theme that aligns with how customers conduct their initial search online, for example, weddings, conferences and exhibitions for a marketplace dedicated to event products and services. Keep the top-level category structure simple to make navigation easy and intuitive.

4. Child categories should consist of product families that also follow searcher intent. In the case of the abovementioned events platform that would be product groups such as decor, catering, and venues that are often searched for in conjunction with a theme like weddings.
Search listening tools like Answer the Public or Google Trends and keyword planning tools like Google Ads Keyword Planner can provide you with valuable clues. You can also have a look at Google's Product taxonomy which is used in the Google Shopping feed.

Parent category	sub-category	Ad Attribute
Woman fashion	Dresses Skirts Shoes	Size (SML XL) Color (Red / Green ...) Size (35/36/37 ...)
Personal Coach	Surf coach Diving coach Swimming Coach	Location

5. Another technique to create categories is to identify popular products that share common attributes. That can include categories based on brands (Nike, Adidas), similar products (running shoes, formal shoes), or complementary products (shoes, socks, laces). Avoid getting confused between categories and attributes by using the following rule of thumb: if the term can be used to describe multiple categories then it's an attribute.

6. The next step is to choose the attribute fields (aka modifiers or filters) for each child category, e.g. colour, size, or location. Buyers should be able to use filters to select their preferred values for each attribute, while sellers should be able to tag their products with relevant values for those attributes. Use product research to discover the most common values for each attribute, e.g. blue, large, London. The more attributes and values you add, the more granular and accurate the search results will be for customers.

7. You will also have to come up with product rankings for each category's product listing page. This is necessary to present searchers with an initial array of listings after they chose a category in the menu or search bar. Product rankings are usually based on an algorithm that ranks product listings in terms of attributes such as popularity, promotions, number of reviews, or release date.

Once you have a category structure in place to kick off with, you need to make it updatable. Your marketplace admin dashboard should include permissions for users with administrative status to delete, add or edit parent and child categories. Listen to your sellers too by allowing them to request child categories. But watch out for unbridled expansion of categories; don't swamp your buyers with categories that add confusion instead of value.

Design your marketplace categories: validation

Now that you have your MVP category structure in place it's time to start testing your initial assumptions. That means collecting and analyzing the right metrics. Here are some important ones.

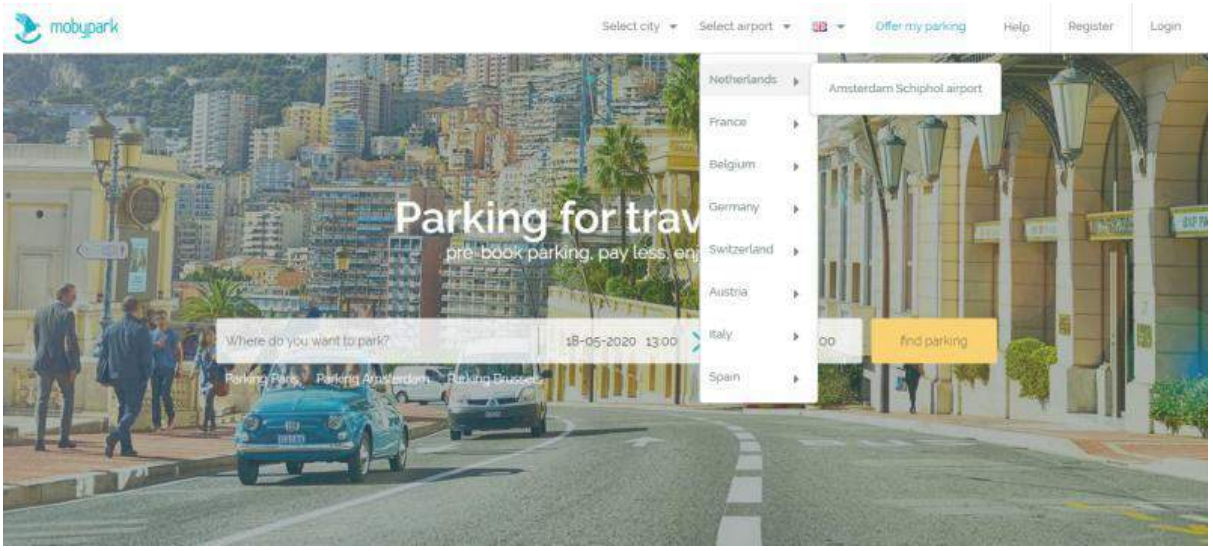
The activation rate measures how users are engaging with your category ecosystem. Use an analytical tool like Heap to help you track user actions and feature adoption. It can provide feedback like "30% of search results sessions were due to the use of filter X" or "1% of

converted sessions were due to use of filter Y". This data can answer important questions such as:

- Which filters or menu items are used as categories to search for products?
- Which filters or menu items are contributing to KPIs such as activation or conversion?
-

The click-through-rate from category pages to product pages is a good indicator if your inventory is aligned with what buyers want.

Analyse search behaviour to see if you should create categories for items with high search volumes. Parking marketplace, MobyPark, noticed that a lot of people are searching for parking near airports like Amsterdam's Schiphol. It thus made sense to incorporate those airports in their category menu.



The next step: Optimise

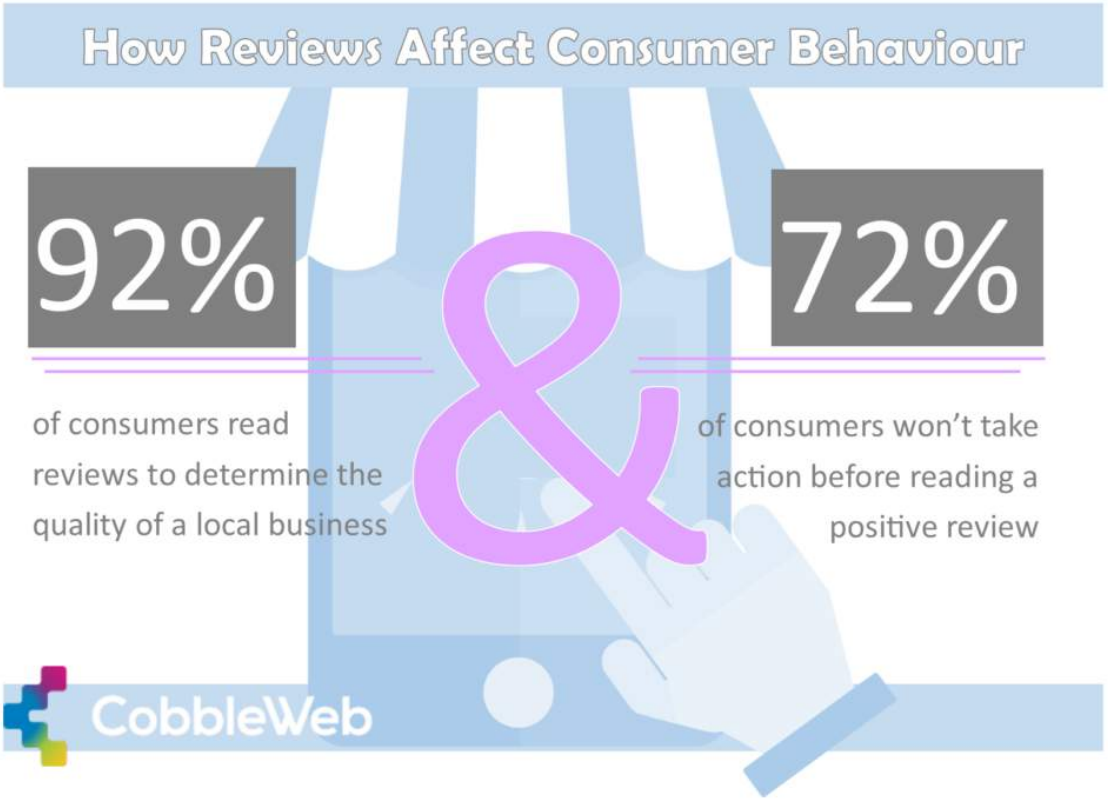
Once you have collected and analysed the appropriate category metrics you are ready for the next version. Now you can combine your MVP category structure with actionable user data in short cycles of iteration to incrementally improve your marketplace performance.

Build trust in your marketplace website with customer review software

When you design your marketplace, there are many features to consider. One feature that is frequently overlooked or undervalued is the customer review system, a feature that invites your customers to rate and review sellers and their products or services.

In the past, reviews were confined to expert opinions published in print. Nowadays, nearly 34% of holiday-makers post their experiences online, either warning others against bad experiences or recommending good ones. The rise of e-commerce in the digital age has

meant that goods are often purchased unseen, putting trust at the centre of online transactions. Since 92% of consumers turn to reviews before making a purchase, a feedback tool has become imperative for any online marketplace.



In this chapter you will learn about the important benefits of customer review software for your marketplace website. We also break down the challenges you might face and how you can create a review or rating system that works best for your particular marketplace setup.

Advantages of a transparent review system for online marketplaces

Reviews are good for SEO

Customer reviews have a huge impact on higher rankings for your business in local search results. This is not only because they are rich in keywords that drive organic traffic, but they are also an important ranking signal for search engines like Google. In fact, according to a recent Moz survey, review signals make up 15% of local search ranking factors.

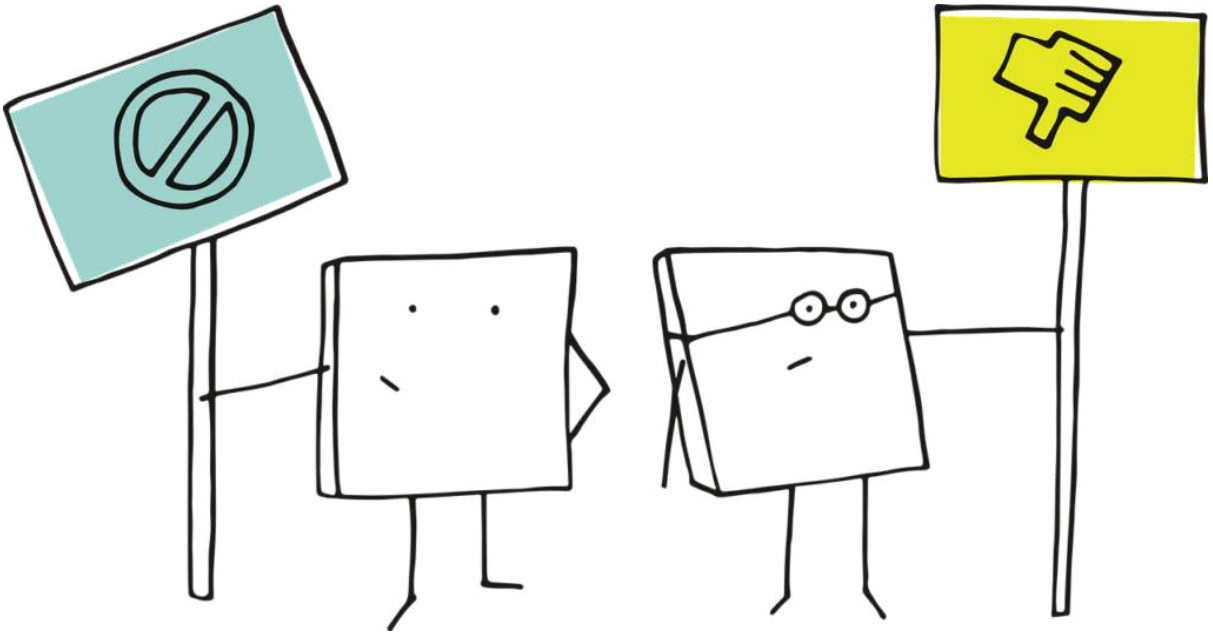
Reviews help build consumer trust

Even if a vendor's reviews are mediocre, they still confirm that the company exists and that lends credibility to your overall marketplace. What appears as a simple star rating out of five, is in fact a barometer of trust that indicates whether or not the vendor performs as expected. This is enormously important in online marketplaces where consumers are expected to pay for a product or service and then trust that it will be delivered on time and at the requisite standard.

Consumers do not only trust sellers and products based on peer reviews, but will also learn to trust your marketplace as a whole, due to the presence of a reviews and ratings mechanism. Allowing users to place reviews on your marketplace shows that you value their opinions. This helps to build trust and a sense of community.

Reviews deliver powerful consumer insights

Customer feedback is the most powerful way for you to understand your client base and promote your business's products and/or services.



Feedback, in the form of reviews, allows your marketplace sellers to manage their reputations more efficiently and helps them improve the quality of their services or products to better serve their customers' needs. Increased customer satisfaction tends to drive customer loyalty which leads to recommendations that can grow your marketplace's popularity. Better vendors, better marketplace!

Your marketplace can also indirectly benefit from customer feedback. Some usability issues raised in vendor reviews may help you make informed decisions about upgrades to your platform.

Reviews make your marketplace more secure

Not sure about that guy selling second-hand vehicles at absurd discounts on your marketplace? One review can help you identify illegitimate sellers before giving them the boot.

If your customer review software only allows verified customers (e.g. after a successful transaction) to leave reviews, you can minimise the incidence of fraudulent sellers promoting fake reviews. Poor quality vendors and products will thus receive less traction.

Reviews promote Network Effects

Since reviews and ratings encourage social interaction, a network effect is created. When a network effect is present, the value of a product or service increases incrementally as more people use it.

In the same way, the value of a vendor's rating increases in correlation with the amount of ratings received. Research shows that people are more likely to purchase a product with a four-star rating based on ten ratings, than a product with one five-star rating. This happens due to the perceived objectivity that comes with the network effect.

How to implement a review or rating system for your marketplace

With so many advantages to having a multi-vendor review system, you must be at the edge of your seat, ready to jump right in. But where to begin?

First you must know that not all reviews are equal. It is in your interest to find the best model and tools to get what you need from your customers.

Step 1: Decide who can review (and who can not)

In the advantages section we touched on the idea of limiting reviews to customers who have completed verified transactions on your marketplace. Invite-only platforms limit reviews to users who conform to a specific condition, for example a product purchase or membership log-in.

Here are some of Amazon's reviewer conditions:

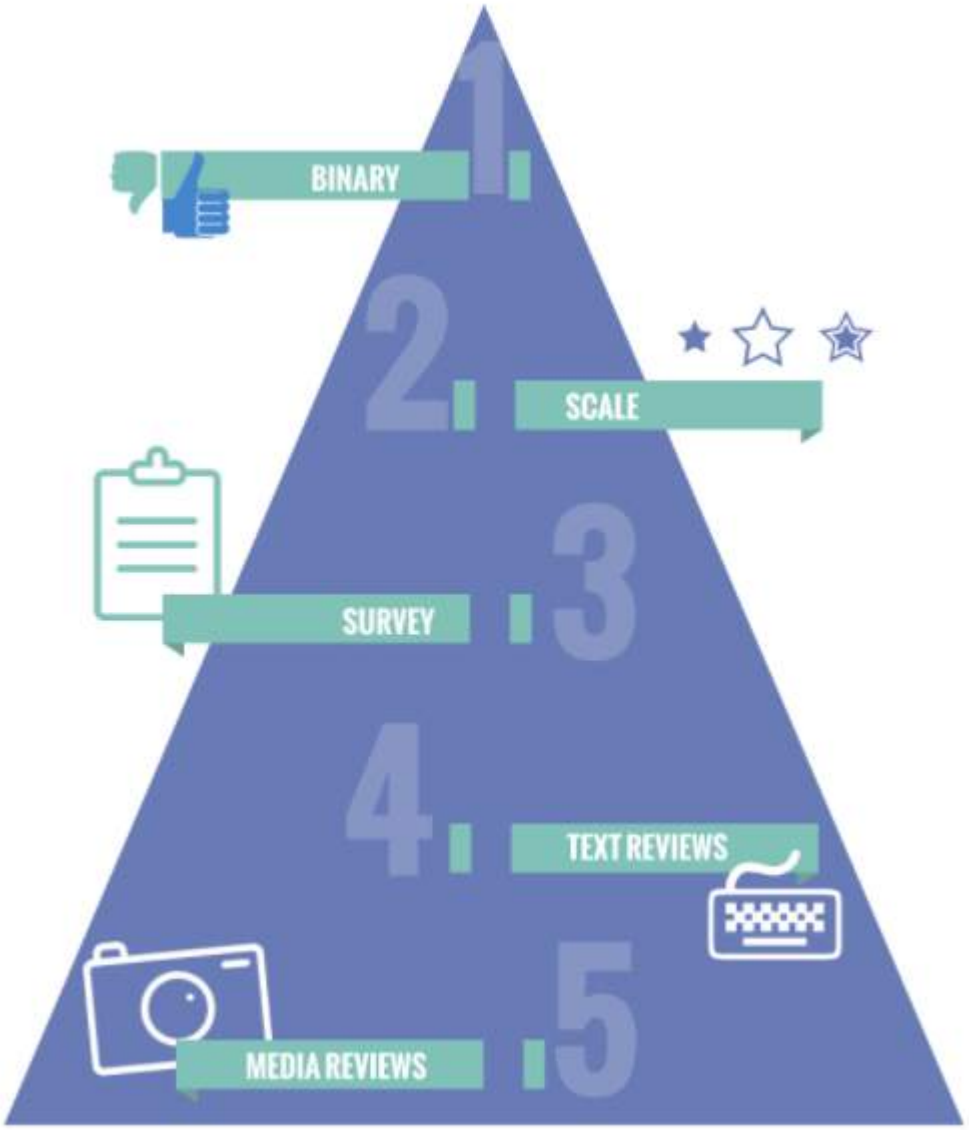
- Have an email-verified Amazon account
- Spent a minimum of $50 on Amazon over the preceding 12 months

- Purchased the product on Amazon (for verified purchase reviews)
- Steer clear of profanity, obscenity, racism, sexism, and defamation
- May not receive discounts, free items, or refunds in exchange for reviews

The alternative approach is to allow anyone to create reviews in your marketplace. This is referred to as an open platform. It can be considered to be more transparent, but of course, it is far more vulnerable to fake reviews. As such, open review systems are more likely to use simple rating stars instead of detailed text reviews.

Step 2: Choose a review/ratings model

The choice between ratings and reviews depends on your marketplace, what you hope to gain from your customer review software, and the effort your users are willing to make. For example, if your goal is to gain SEO benefits and customer insight, a mere rating out of five will not suffice. On the other hand, if your marketplace predominantly serves on-the-go lunchtime crowds, chances are that your users won't bother with lengthy type-ups. Here are some options:


1
BINARY
2
SCALE
3
SURVEY
4
TEXT REVIEWS
5
MEDIA REVIEWS

BINARY

Binary reviews popularised by YouTube encourage the user to show appreciation or disapproval with the click of a button. Clicking a thumbs-up or thumbs-down button is a low-friction way to provide all-or-nothing feedback.

SCALE

Rating stars or a number of claps, as used by Medium, allow the user to rate their (dis)satisfaction in relation to a capped top rating. Scale reviews are usually click based, but can also feature a slider.

SURVEY

Surveys are another low-friction curation tool. They help businesses obtain answers to specific questions while simplifying the review process for users by means of radio buttons and drop-downs.

TEXT REVIEWS

Users who are committed to telling their story will want a free-form text option to share their experiences. Text reviews are rich in keywords and provide valuable insight into customer behaviour. They can vary in length from ten to hundreds of words.

MEDIA REVIEWS

Allowing consumers to upload images of products purchased or video footage of disappointing service offers engaging content for your platform and evidence of the user's experience. It should not be the only review option, as it requires a lot of effort from the reviewer.

Step 3: Choose your customer review software option

WordPress themes & plugins

If you are building your marketplace with WordPress, you can easily implement a white-label solution by using one of the many plugins or themes that facilitate customer reviews for websites. For example, themes like Marketify can be enhanced with a marketplace bundle that caters for multi-vendor reviews, while WooCommerce can be extended with the Customer Reviews plugin.

The plugin or theme should not only allow your platform to receive front-end submissions from customers, but there should also be an admin area for vendors that alerts them to new reviews and allows them to respond or flag them. You as the platform owner should also have separate access to reviews for moderation purposes.

Marketplace website builders

Using a platform like Magento, Sharetribe or CS-Cart can help you build a first version of your marketplace. Similar to building your online marketplace with WordPress, you will need to install plugins and extensions to offer vendor and product reviews.

Both Sharetribe and CS-cart offer blended feedback tools that allow a combination of ratings and reviews. One concern with the Sharetribe review system is that both buyers and sellers are able to rate and review. This cannot be turned off by a vendor who does not want to participate.

Review Management Software
Independent review management platforms such as YotPo and Trustpilot are also good options to bring reviews into your marketplace, as they are reputable and widely used. In most cases you will require a custom integration though. Trustpilot, a business review system, has made things easier with a widget that is currently available for implementation with e-commerce platforms like Shopify, WooCommerce and Magento.

Challenges with a review system

Unfortunately implementing a review system may not be the end of your user feedback worries. There are a few potholes in the review process that may cause turmoil in your marketplace.

How do you make sure that your marketplace reviews are trustworthy?

Plenty of media platforms have highlighted a growing concern about online review fraud, a phenomenon that has plagued most major online platforms, including e-commerce giant, Amazon.

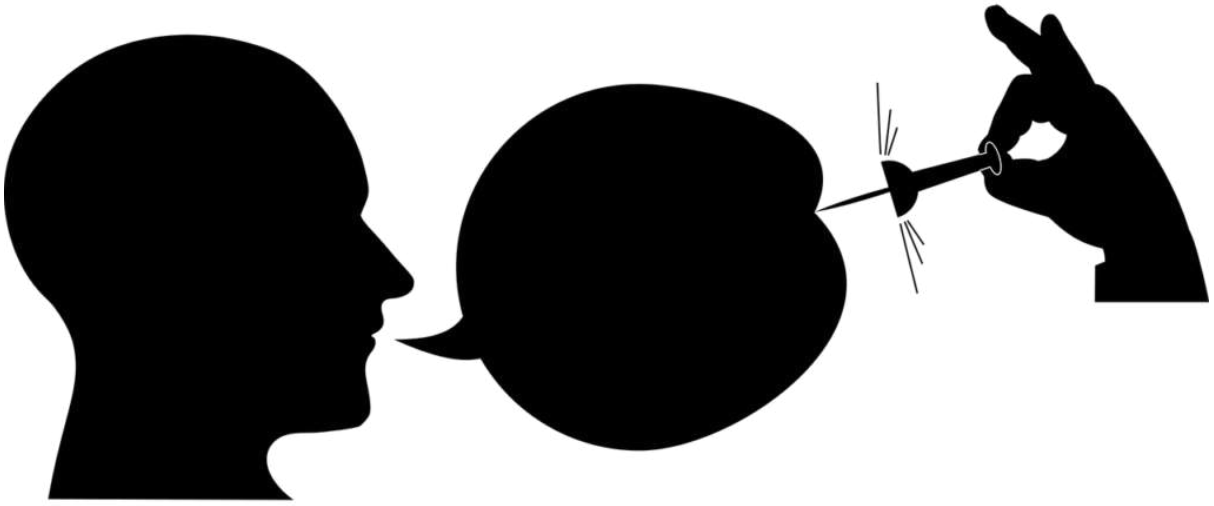
Shockingly, fake reviews can be extremely powerful. As proven by Vice, in a brilliant piece of investigative journalism, it is possible to get a non-existent London restaurant into first place on TripAdvisor, using fake reviews. Using closed or invite-only reviews can greatly limit these fraudulent reviews, especially when they are computer generated.

Invite-only reviews, however, will not block off all malicious reviewing tactics. Amazon is still trying to find a foolproof way to stop the illegal solicitation of reviews by some third-party sellers on its platform. It is therefore important that reviews are monitored as best possible.

The same user leaving unverified reviews of several products in a clear copy-and-paste style should warrant closer investigation. Researching review groups on social media is another way to proactively fight fraudulent behaviour, as you can quickly report a group where vendors are paying people to give them good reviews – or worse, give their opposition bad reviews on your marketplace!

Review moderation can be a pain

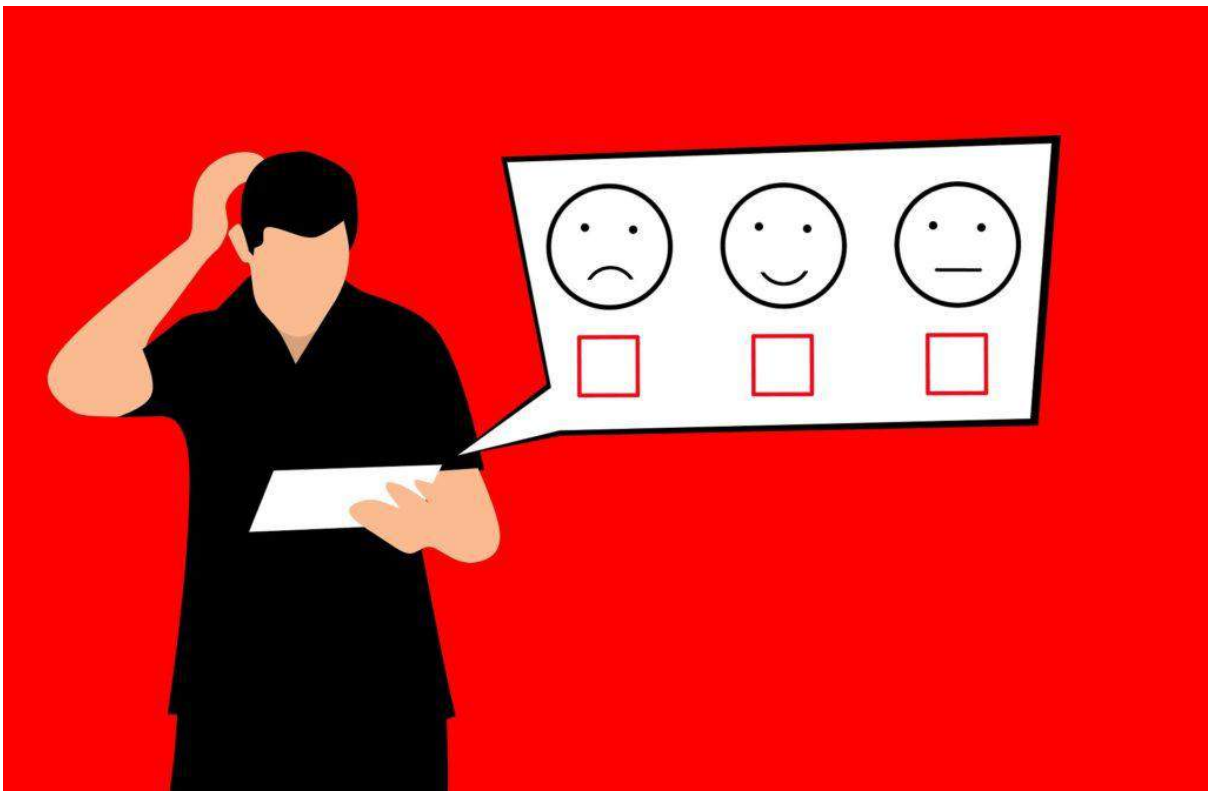
Some customer review software tools allow sellers to flag reviews for reasons that range from irrelevance to defamation. As platform owner it is your responsibility to moderate these flags and other reviews that transgress your usage policies or terms and conditions.



Moderation can be a great way to filter fraudulent or inappropriate reviews to maintain a good reputation, but at what cost? Sometimes moderation can be controversial and even threaten transparency. If consumers discover that you have not published their review or that it has been altered, they may publicly shame you for hiding the truth. Moderation can also be a very labour-intensive, time-consuming process if you receive many reviews.

Few review software options for service marketplaces

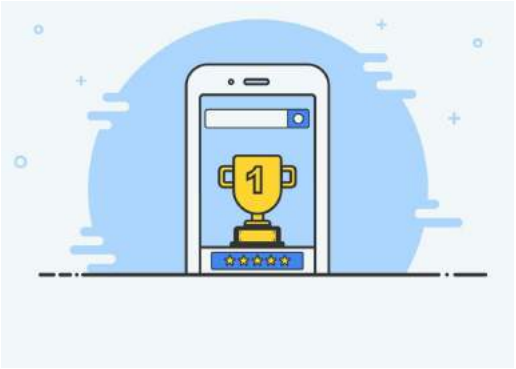
When events platform, Eventerprise, set off to find the right review system for their marketplace, they needed a customer feedback system that permitted the rating and reviewing of event service providers such as event managers, lighting providers, musicians, and caterers.



Their first choice was to implement YotPo, one of the world's most popular review systems. Eventerprise required something more than YotPo's plug-and-play solution which necessitated an extensive customisation project. After six months and thousands of dollars in expenses, the solution was still nowhere near what they needed and the project was deprecated.

For their second act, Eventerprise turned to Trustpilot, another well-known review platform. Since Trustpilot facilitates reviews of a specific business and its products, adjustments had to be made via Trustpilot's API to accommodate all the sellers on the Eventerprise platform instead.

It soon became clear that the API was not as flexible as Eventerprise had hoped. Although they managed to bend the API to treat their sellers as products they soon realised that the solution was not scalable and limited any future changes they would like to make. With more time and money lost, the project was cancelled and Eventerprise knew what had to be done.



They finally decided to build their own **custom review system** which caters for both product and service-focused marketplaces. Their journey to the right review solution ended up being an expensive learning curve.

If you are building a fairly simple marketplace that is very similar to other marketplaces that successfully implemented a particular review system, there should be little risk in utilising the same review software. A more complex or innovative marketplace would probably require help from experts to avoid leading your business down a very expensive rabbit hole.

Conclusion

Customer review software has been a game-changing feature for online marketplaces. Choosing the right review tool, as well as knowing how to implement and manage it, can have a huge impact on the success of your own platform.

Everything you need to know about planning a marketplace shipping strategy

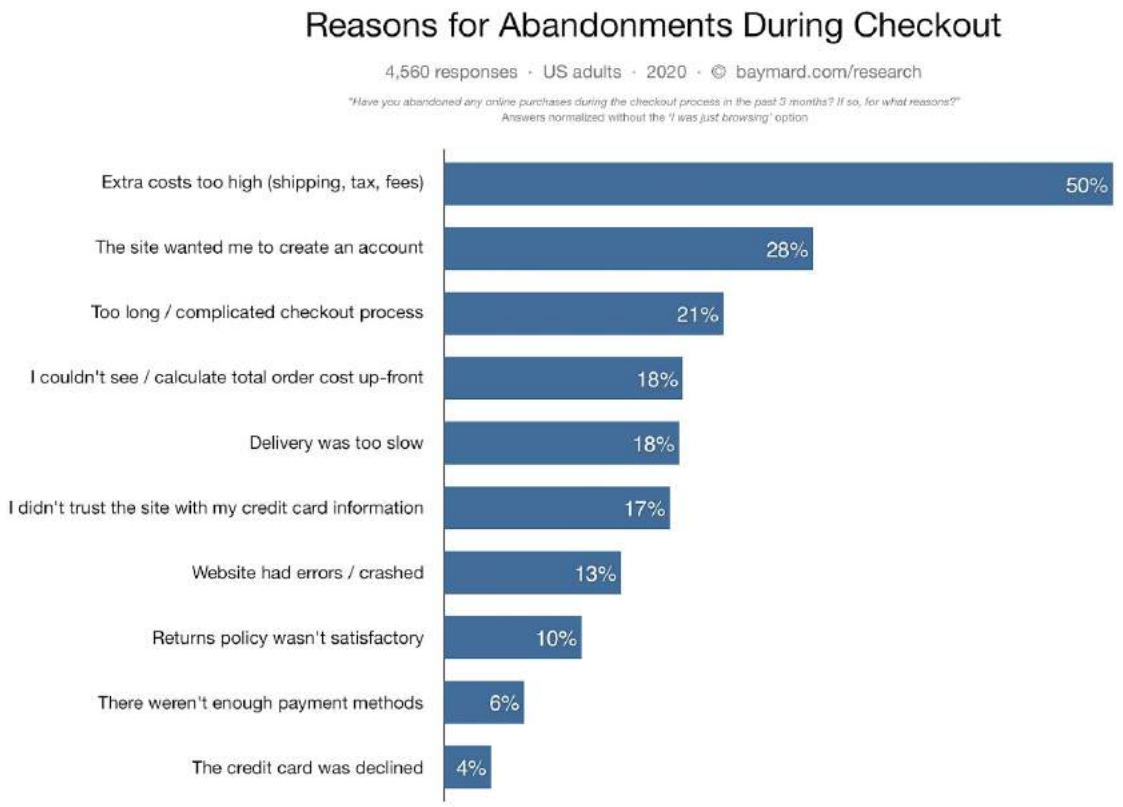
If the prospect of planning a shipping strategy for your new retail marketplace makes you nervous then this chapter is for you. It covers all aspects of the marketplace shipping landscape:

- Consumer expectations
- Shipping elements
- Delivery options
- Shipping & fulfillment costs
- Delivery rates
- Shipping integrations
- How to design & test shipping strategy
- UX design tips

What do consumers expect of shipping?

History shows that shipping can build an empire. Ancient Phoenician traders, Silk Road merchants, and British mercantile navies, all relied on their superior ability to transfer goods from sellers to buyers. That same principle applies to the modern online marketplace; the more efficient your shipping strategy, the better your retail marketplace will perform.

Consumer feedback offers emphatic support for the above. Research has shown that shipping-related issues (high delivery costs, surprise fees, slow delivery speed, cumbersome return policies) constitute the main reasons for shopping cart abandonment.



Free and fast shipping remain the leading drivers of repeat sales. It all boils down to expedited convenience. Why would I wait one week for a delivery if I can purchase the same item for roughly the same price on the high street today?

And consumer expectations keep on rising. While 35% of consumers are happy with next-day deliveries, 39% would prefer same-day deliveries, and a demanding 20% can't wait for sub two-hour deliveries.

The moral of the story? Most customers will drop your marketplace if you or your sellers don't offer convenient delivery options.

The shipping conundrum can be a tough nut to crack for many sellers. The faster and cheaper consumers demand their deliveries, the more expensive it becomes for go-it-alone e-commerce sellers. Shopify estimated that sellers sacrifice at least a third of their profit to shipping and fulfillment costs. If they pass the cost onto the consumer they often suffer a drop in conversions.

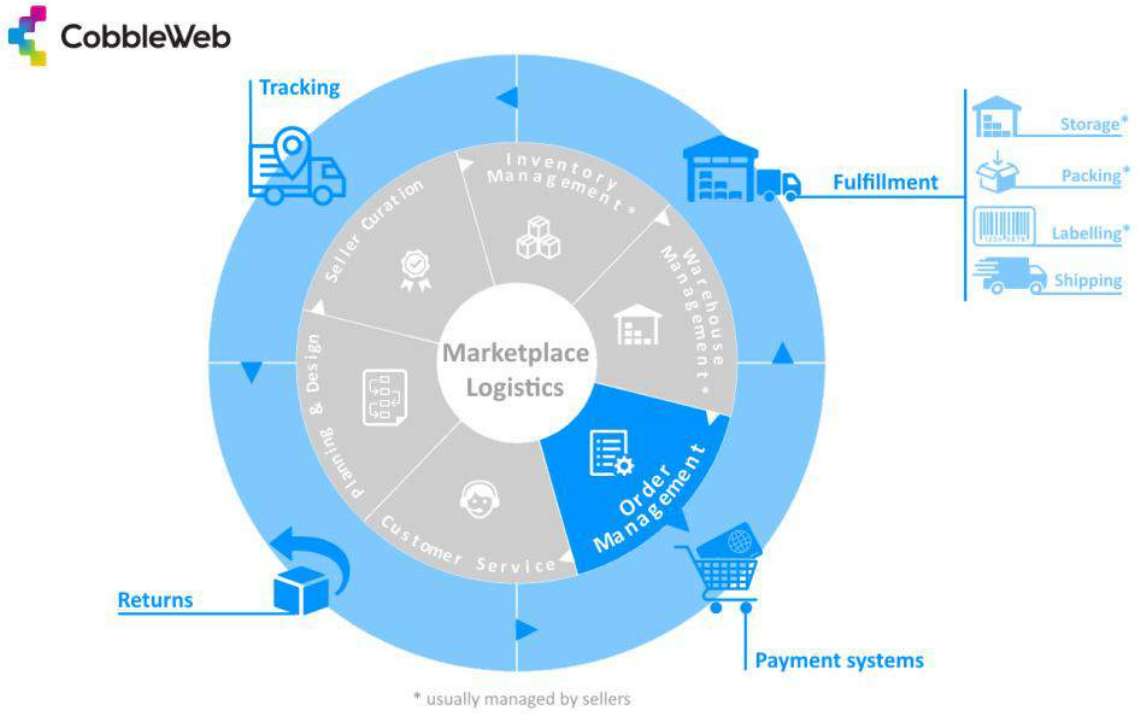
This challenging scenario creates an opportunity for your marketplace to add extra value and attract more sellers. To take advantage of that opportunity you need to figure out how to keep both sides of the shipping equation happy.

Don't balk at the challenge though, we got you. This overview of the marketplace shipping landscape will show you how to turn shipping into a competitive advantage. First, let's have a look at all the moving parts.

Marketplace shipping elements

Individual marketplaces take care of different shipping aspects, depending on their level of maturity, the type of products they sell, the needs of their users, and the geographic areas they are targeting. As always, it is a good idea to use an MVP to test your shipping assumptions. We'll explain how to do that further on in this chapter.

The following elements either form part of the shipping process or are closely linked to it.



The Marketplace Shipping Landscape

Logistics
Top level discipline that covers order management, seller curation, warehousing and customer service. Third-party logistics (3PL) companies and some marketplaces look after seller logistics as part of a full-stack shipping service.

Order management
Processing, fulfilling and tracking orders, usually with the help of CRM software like Salesforce or Hubspot.

Payment systems
These need to be integrated with your order and shipping frameworks. That means choosing a suitable payment gateway such as Stripe that can be customized for your marketplace needs.

Fulfillment
The packaging, labelling and shipping of items after receiving orders. Short-term storage and inventory management are subsets of the fulfillment process.

Physical shipping
The transport of goods from the seller or a fulfillment centre to the customer. This stage offers an opportunity for early-stage marketplaces to create a competitive advantage by adding extra value for users without incurring huge infrastructure costs.

Carriers & couriers
Choosing the right carrier can have a huge impact on cost, delivery speed and reach. International operators like UPS, DHL and FedEx offer multiple options that can be linked to your marketplace API. Smaller operators take care of last-mile delivery.

Tracking
Tracking that can be accessed via a marketplace platform is key to a seamless user experience. Sellers should be able to update the delivery status from not shipped to shipped, in transit, or unable to deliver.

Returns
A smooth returns process promotes loyal customers. Return policies have become more important as millennials embrace experiences over possessions, with many turning to rentals and ‘try-and-buy’ services.

Customer service
Your team should be able to provide support at every stage of the shipping process. Resolving shipping queries and complaints in a satisfactory manner is a proven way to gain repeat customers.

Warehousing
The storage of products for an extended period of time. Usually in the realm of large established sellers and marketplace behemoths like Amazon.

Marketplace delivery and collection options

Delivery and collection options should form part of the assumptions that you test with an MVP. Here's a rundown of the most common ones.

- Same-day delivery (how many of your customers will pay extra for this?)
- Overnight shipping
- Two-day shipping
- Standard vs Expedited vs Express shipping (e.g. five working days vs two days vs overnight)
- In-store collection
- Third-party location (e.g. post office)
- Freight shipping (best for bulk cargo)
- International shipping

Cross-border transactions can help you expand your marketplace footprint and create a value proposition for sellers to join. International shipping can be pretty challenging though, especially since much of the process occurs off platform.

There's the complexity of dealing with taxes, tariffs, custom duties, and import regulations for restricted and prohibited items, which vary from country to country. These can cause extended delivery times and unexpected costs. Third-party cross-border service providers such as Pitney Bowes can help, but it's probably a good idea to start local and learn about your market and users first.

Marketplace shipping and fulfillment costs

These are the costs that your marketplace or sellers incur to get goods to buyers. It is important to take them into account for pricing purposes, especially since they can be up to 70% of order value.

Variables that affect shipping cost include dimensions, weight, destination, carrier, and value. Shipping zones in countries like the USA can add another cost variable.

Broadly speaking, there are four common types of fulfillment costs. Handling fees cover the retrieving, packing, and loading of items. Packaging plays a role in UX and branding. Research shows that 55% of consumers are more likely to purchase from a platform that is committed to sustainability. Labelling is required for the return and destination address, package weight, shipping class, and tracking number. Insurance provides protection against losses due to lost or stolen goods and product damage.

Although volume discounts can reduce costs, some sellers may initially be bigger than your marketplace with access to larger discounts. This would be one scenario where you should allow some or all of your sellers to handle their own shipping.

Warehouse management systems (WMS) and third-party logistics (3PL) companies offer advanced ways to streamline shipping and thus reduce costs. 3PLs can also help you scale and offer shorter delivery times via their networks of fulfillment centres.

Marketplace delivery rates

Customers (buyers) are responsible for shipping fees which include carrier rates, import duties and taxes such as VAT. These fees can be charged in different ways:

- ➔ Flat rates are good for uniform products and easy to administrate, but are not suitable for international shipping and diverse product lines.
- ➔ Real-time carrier rates are charged at cost by pulling the rate from the carrier's API based on distance, dimensions and delivery preference.
- ➔ Free shipping has become very prevalent and popular, but of course free is never really free. 'Free' shipping can be recouped by including the costs in the product price, by way of a minimum spend threshold, or a loyalty program like Amazon Prime.

Beauty marketplace, Sephora, cleverly shows a threshold prompt to remind shoppers of free shipping if they spend more.

A word of warning on free shipping. Don't offer it if you can't afford it; the low margins will kill you. On the other hand, keep an eye on your competitors. If they offer free shipping, you will have to follow suit. Also, don't use it as a promotional tool because you will lose repeat customers when you revert back to paid shipping. A more cost-effective option may be to offer free returns instead of free shipping.

Marketplace shipping integrations

There's more than one way to connect your retail marketplace to a shipping solution. Which option you choose depends on the assumptions you would like to test for your particular marketplace concept.

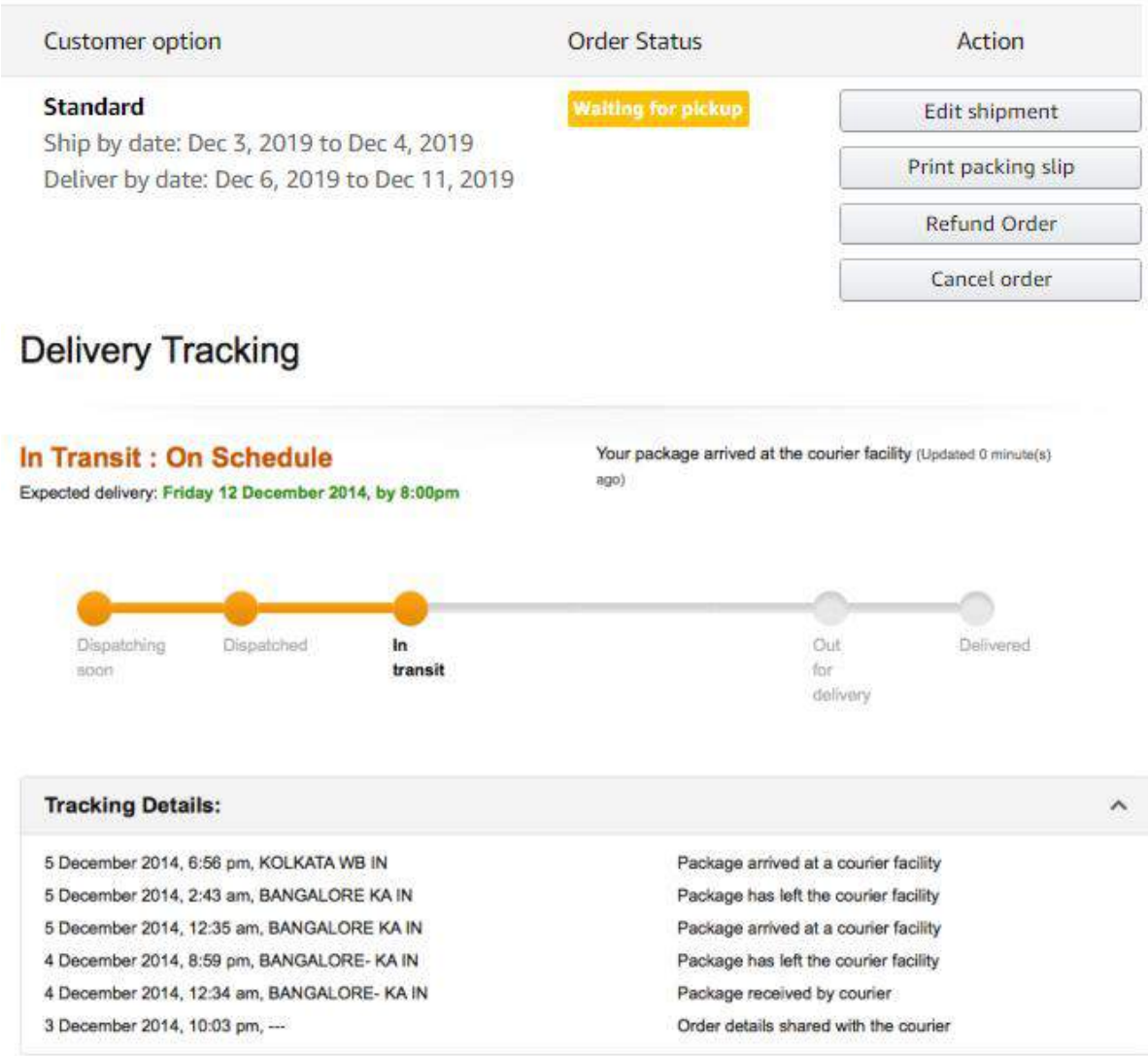
Decentralised shipping options are run by third-party platforms. They include 3PLs that run multiple warehouses which brings your marketplace inventory closer to consumers. The downside is that they often involve complex pricing structures, contract lock-ins, higher

inventory costs to cater for multiple warehouses, incompatible technology, and performance issues.

Shopify launched their Fulfillment Network in 2019 to solve some of those challenges. Their geographically dispersed fillment centres supposedly use machine learning to forecast demand, allocate inventory and route orders. They've also simplified their fee structure to be more transparent. In short, users pay transactional fees (e.g.shipping) per unit and recurring fees (e.g. storage) by the hour. There are two red flags with this option: it's effectiveness is still largely unproven and more importantly, it locks you into the Shopify ecosystem.

Shipping APIs connect customers and carriers by sharing data between external servers and your marketplace. Common shipping APIs like address validation, multi-carrier support, and shipment tracking offer several advantages to both your marketplace and buyers.

Marketplaces can save money through error prevention, expand their reach with more carrier options (e.g. FedEx for next day deliveries and UPS for global reach), and reduce time wastage from 'where's my order' enquiries. For buyers, tracking ensures peace of mind (easy-to-access shipping status), address validation prevents returned orders, and multi-carrier support offers better delivery options.



Amazon uses tracking APIs to keep both sellers and buyers in the loop.

Some off-the-shelf marketplace solutions like Dokan use WooCommerce shipping plugins to connect with external APIs. The limitations or inflexibility of these plugins may make this option unsuitable for your marketplace startup.

Design and test your marketplace shipping strategy

Once you have a handle on the various moving parts of marketplace shipping, it is time to design and test your shipping strategy. The best place to start is with your shipping goals. Do you want to increase conversions or average order value? Do you want to expand your market or inventory?

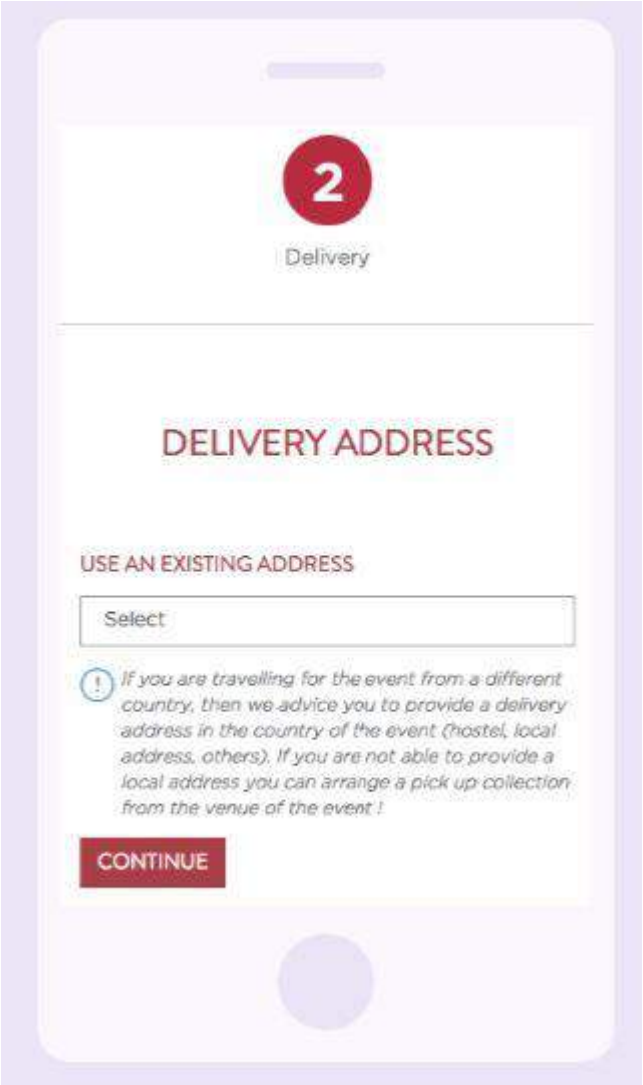
With goals in place you can start testing your shipping assumptions with an MVP version of your marketplace. The user data your MVP platform generates will help you understand and serve their shipping needs better.

Key assumptions you will have to make:

Does your marketplace or individual sellers take care of shipping?

You can answer this by finding out if there are supply or demand constraints. Demand constraints usually mean that sellers rely to a great extent on the marketplace to generate buyers. Sellers can then be expected to do their own shipping as is the case with UK marketplaces like OnBuy and ASOS.

An exception would be when some sellers are not experienced enough to take care of shipping and you want to ensure high customer satisfaction. In that case, an automated shipping solution where items are simply collected from sellers and delivered to buyers makes sense. Event ticket marketplace, FanPass, followed this route very successfully, by utilising event venues as collection points for tickets.



FanPass makes shipping more efficient by facilitating ticket collection at event venues.

Obviously if there are supply constraints you want to make your marketplace as attractive as possible by offering sellers an efficient, cost-effective shipping service. Which brings us to the next assumption that needs to be made.

How much of the shipping process should your marketplace take on?

As we saw earlier, marketplace shipping has many logistical components such as packaging, labelling, storage, tracking and returns. The more of those aspects your marketplace takes on, the more valuable it becomes to users. Amazon's marketplace is a good example. Its success can be partially attributed to Amazon's end-to-end shipping solution (Fulfillment by Amazon) which even includes customer service.

Early-stage marketplaces should be careful though that they don't overreach. Assuming too much responsibility early on could jeopardise your profitability and service levels; rather add incremental value based on user feedback. Not On The High Street, for example, created a framework for shipping options, but leaves actual fulfillment to sellers. Another cost-effective way to support sellers and promote high service levels, without taking on too much extra responsibility, is via shipping guides.

It's worth noting that some sellers, especially larger more established players, don't want to be restricted as to how they manage their shipping. That requires some flexibility on the part of your marketplace. Tech marketplace, Newegg, caters to all types of sellers by offering three levels of support: seller self-shipping, a networked fulfillment service, and an end-to-end 3PL service.

To make sure you offer the right level of service you should segment your sellers into individual, boutique, and corporate sellers according to their shipping experience and sales volumes. The resulting dominant seller segment should have a strong influence on your shipping strategy.

Which shipping options and delivery rates should your marketplace offer?

As we've seen, shipping can have multiple pricing tiers and delivery timelines. Figuring out which ones are best for your marketplace depends on factors like customer location, product types, cart abandonment rates, and the competitive landscape.

Consumers love options, so generally it's a good idea to offer standard, expedited and express shipping. Obviously the faster your delivery times, the higher your conversion and repeat rates. Speed has to be balanced with cost though. Test your delivery rates with the following formula:

1. Compare conversion rates between free and paid shipping options.

2. Test margins and average order value by increasing the minimum order threshold for free shipping.

3. Measure the impact of free shipping on the profitability of selected products.

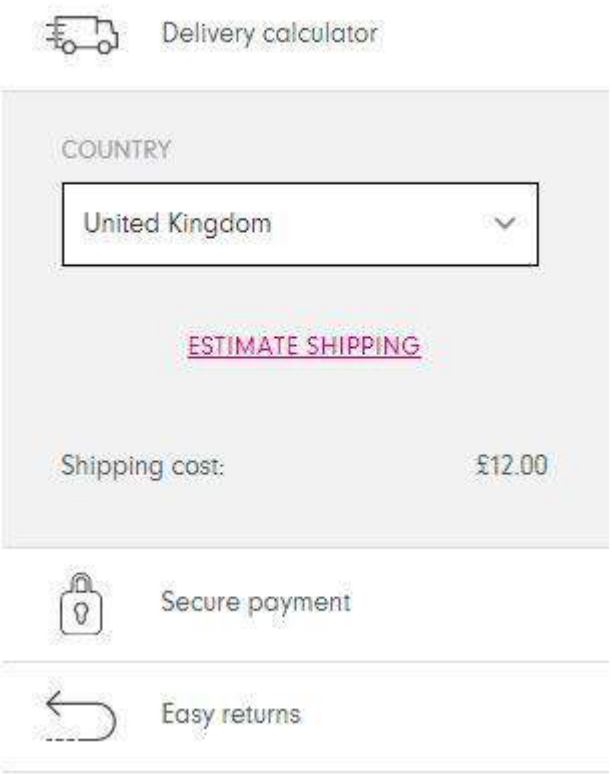
4. Evaluate the effect of including the cost of free shipping in product prices.

Shipping Method	Costs
Standard 1-3 Day (Orders $50 and over)	FREE
1-3 Day Shipping (Orders under $50)	$5.95
FLASH 1-2 Day Shipping	FREE (with enrollment)
Guarantee 2 Business Day	$10.95
Guarantee 1 Business Day	$16.95
USPS Priority	$6.95
Gift Cards	FREE
eGift Cards	FREE

Beauty marketplace, Sephora, uses a threshold and a loyalty program to mitigate the cost of free shipping.

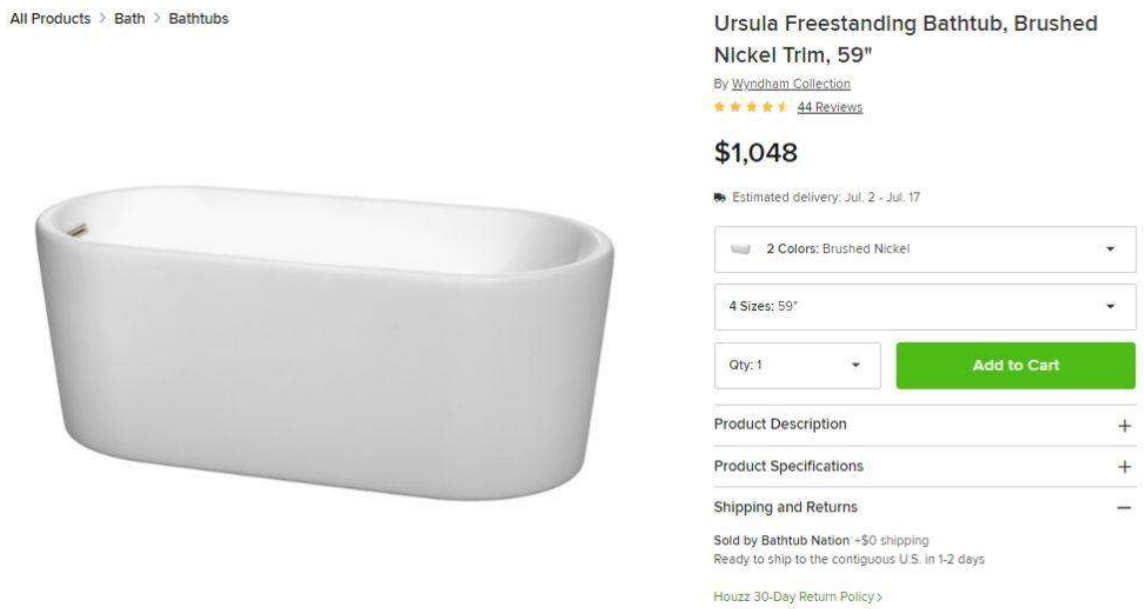
Don’t forget the user experience when you design your shipping strategy!

Successful marketplace shipping does not only revolve around actual delivery times and rates. Buyers want the delivery process to be smooth and transparent as well.
Showing estimated shipping costs on product pages or at checkout enhances transparency and trust. So do clear links to return policies and shipping information.



Art marketplace, Affordable Art Fair, use a delivery calculator on their product pages to ensure transparency.

Using delivery dates instead of shipping speed at checkout removes the pressure on users to calculate delivery dates themselves. This can be tricky when you have to take into account weekends, public holidays, and order cut-off times.



Houzz product page with shipping cost, estimated delivery date and return policy.

If your marketplace allows cross-border transactions you will have to ensure internationalisation of currencies, languages, date formats, and address formats. For

instance, using the European date format (dd/mm/yyyy) in the US market (mm/dd/yyyy) can cause some serious confusion.

Guarantees that include money back or discounts on future purchases, when items are not delivered within the stipulated time, can build trust and loyalty. The same goes for customer service that resolves shipping disputes in a fast and efficient manner.

The unique shipping needs of each retail marketplace is yet another good reason why it's better to use custom solutions for marketplace development. Popular marketplace builder, Sharetribe, has even admitted that their off-the-shelf templates cannot be adapted to the shipping needs of your users. Enough said.

Why UX design is key to online marketplace success

Here's an uncomfortable truth for many marketplace entrepreneurs. UX design can make or break your new e-commerce marketplace. UX design is so critical for marketplace success because it is linked to each one of the most important reasons why marketplace startups fail: lack of technical expertise, lack of an effective strategy, and lack of product-market fit.

A definition of user experience design provides some of the clues why that is the case:

> "UX design is the process of designing products that are useful, easy to use, and delightful to interact with. It's about enhancing the experience that people have while interacting with your product, and making sure they find value in what you're providing."

A well-designed product must be visually appealing and easy to understand, learn, and use. When applied to marketplaces, it means your site needs to be well-organized, trustworthy and easy to navigate, with as little friction as possible between what users want and the fulfillment of their needs.

The stats back those statements up:

- ★ 88% of online consumers are less likely to return to a site after a bad experience
- ★ 76% of online shoppers abandon their shopping carts
- ★ Online users take 50 milliseconds to form an opinion about your site's visual appeal
- ★ User experience has the potential to boost conversion rates by as much as 400%

That's why most well-known marketplace platforms like Airbnb, Amazon and Etsy attribute much of their success to a user-centered design approach. In Airbnb's case, the platform

almost failed before its founders realised that using high quality images in listings would improve conversion rates and profitability.

The scary bottom line. Without the technical expertise to implement proven design principles and a sound strategy for measuring and improving user experience, you will probably not achieve product-market fit or increase conversion rates.

The bigger picture

The world is moving towards an experience economy with consumer spending on live experiences and events growing four times faster than expenditure on goods. For Millennials the rate is even higher with 78% preferring to spend money on engaging experiences. That matters, because as the largest population group they spend an estimated $1.3 trillion annually.

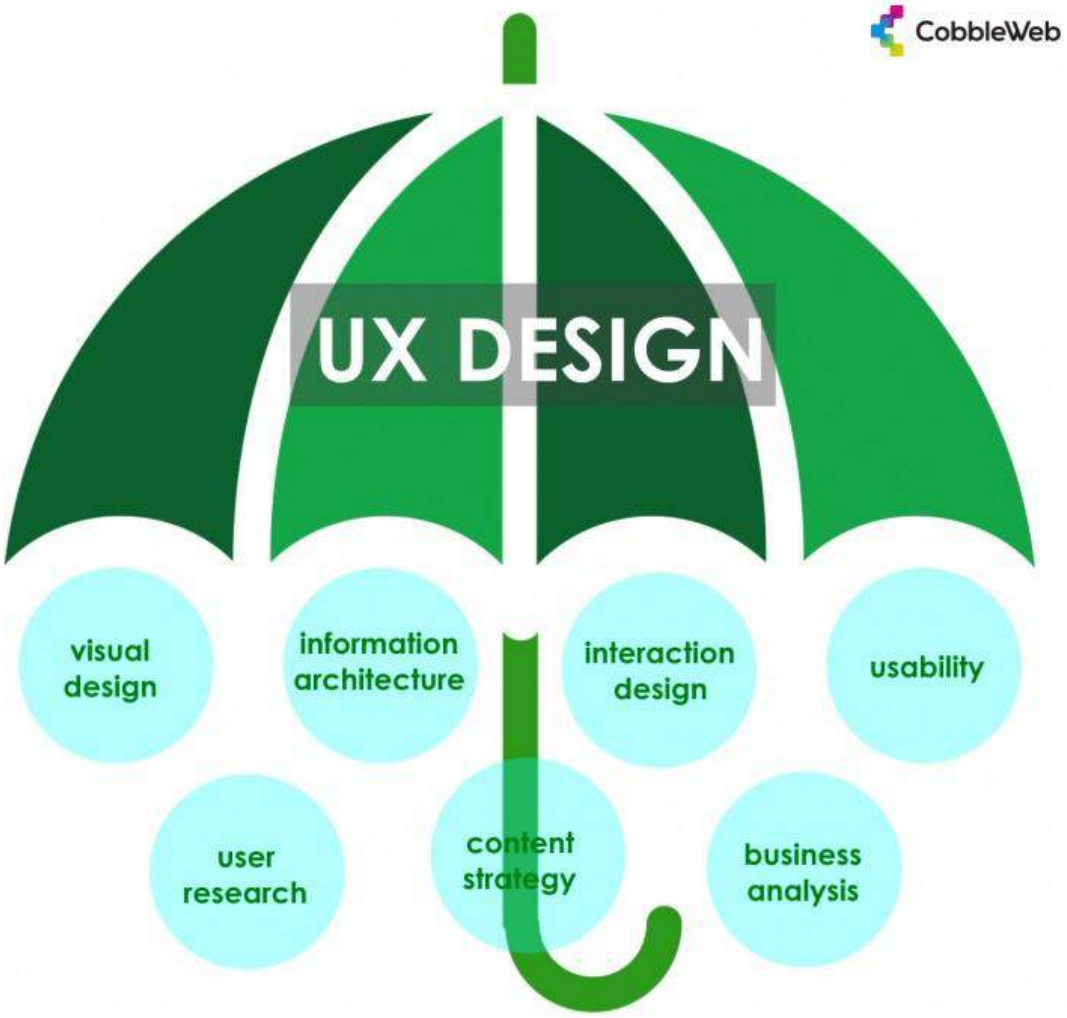
Now you know why Airbnb has started adding tours and activities to their platform. They even call it Airbnb Experiences!

As if that's not enough pressure, the commoditisation of services makes it even more urgent for digital entrepreneurs to add additional value via delightful experiences and user-friendly interactions. It is key to differentiating their offerings in an increasingly saturated and highly competitive online environment.

As the WEF mentioned,
"The only companies that will exist in 10 years' time are those that create and nurture human experiences. This learning and growth will come from maximizing opportunities, including the reinvention of retail spaces, new models of engagement, and an understanding of experiences as perhaps the most important form of marketing."

Elements of UX design for marketplaces

UX design is a multidisciplinary field that combines technical skills, creativity and analytical thinking in iterative cycles of designing, prototyping, and testing. Let's take a closer look at the various components that make up the UX design cycle.



The different aspects of UX design

UX vs UI vs Usability

First of all, it's important to understand how user experience design, user interface design and usability fit together. UX design is an umbrella discipline that informs how your platform works and feels to the user, while UI design is responsible for how it looks. As such, UI design (together with visual & interaction design) is a subset of UX design.

Usability is another sub-discipline of UX design and concerns ease of access and the intuitive use of features to complete tasks. In a nutshell, usability covers functionality or how users complete tasks on your platform.

What needs to be done at each stage of the UX design cycle?

User research

This phase of UX design is focused on trying to understand user behaviour, needs, and motivations. User research can be divided into formative and summative stages.

Formative research occurs before the product is built and helps to define product priorities and design focus. Summative research is based on feedback from actual users and tries to evaluate the ease of use, if users understand the value offering, and if the product meets or exceeds their demands. It is then used to iterate on the design.

User research is conducted by way of data analysis, user stories, and user flows. The toolbox for data analysis includes Google Analytics, heatmaps, control groups (beta testing), and surveys. User stories can be created by developing personas and conducting interviews. This is especially useful to contextualise user needs. Detailed user flows that describe how core functions work are crucial for your platform's information architecture.

UI and product design
Determines how your marketplace looks and how it works. You will need to take into account all the user touch points: acquisition, conversion, onboarding, and retention.

The design process includes identifying a layout with copy, images, and icons, developing a visual hierarchy, and figuring out how users will interact with features. This is also the time to set up an information architecture to structure and organize information on your platform.

Designs usually follow a sequence of sketching, wireframing (the blueprint that connects the IA to the visual design and shows what goes where and how features interact with each other), and prototypes.

Visual design
Determines the universal aesthetic of your marketplace and covers colour palettes, typography, layout, icon style, and branding assets.

The ability to understand how users see and process visual information within a dynamic environment is important in this phase. Note that it is not the same skill as graphic design for static elements like posters. It's also important to avoid over-design that will confuse and alienate users.

Prototyping
Prototyping required for testing your marketplace platform and its features and requires front-end development skills. The prototyping process should be optimised for rapid iteration and incorporate responsive design.

QA / Testing
This stage should be used to discover any weak points in the design and identify any bugs that can be resolved before a beta release. It includes testing user flows for errors and the platform's stress performance.

QA generally involves two principles: "fit for purpose" (the product should be suitable for the intended purpose) and "right first time" (mistakes should be eliminated).

Performance testing should be carried out to monitor the scalability, speed, and reliability of the platform. Stress testing checks how well the platform performs under a sudden increased load to ensure stability.

Using UX design to build trust across the user journey

Confidence in tech companies has taken a bashing over the past few years, in great part due to concerns over data ownership, security and privacy. Fraudulent behaviour, such as fake reviews on marketplace platforms like Amazon, has also put a dent in consumer trust. It has now become critical for marketplace success to establish trust at each stage of the user journey. Good UX design can play a key role in that mission.

Awareness

Goal: build trust in the platform

- ➔ Make your value proposition crystal clear – what problem are you solving and why is your solution better than the alternatives?
- ➔ Make sure you are consistent with brand elements like colours, typography and core messages.
- ➔ Promote transparency by prominently displaying site rules, security measures and user policies. Contact information should be accurate and easily accessible.
- ➔ Display only high-quality content. Put in place a review mechanism and required fields for user generated content.
- ➔ Create a clear navigation structure.
- ➔ Get rid of bugs with regular testing.
- ➔ Leverage social proof through testimonials, reviews, case studies, security badges, and user-friendly social sharing.

Product discovery and selection

Goal: build trust in listings and vendors

- ➔ Make sure search results are relevant and suitable.
- ➔ Commit to ongoing quality assurance for listings through monitoring and moderation.
- ➔ Promote detailed seller profiles with high-quality images and accurate descriptions.
- ➔ Support granular searches with appropriate filters and sorting features. Implement a review and rating system that is easy to understand.
- ➔ Make it easy to compare products and services.

Conversion and checkout

Goal: build trust in the transaction process

- ➔ Offer insurance and guarantees.

- ➔ Make the shipping, delivery and payment processes clear with a how-to section, FAQs, chat bots and assistance prompts during transactions.

- ➔ Reassure users regarding security with badges from industry associations, media mentions, relevant certifications, and user testimonials.

- ➔ Promote buyer/seller interaction with a chat feature.

- ➔ Empower sellers with best practices and sales guides.

- ➔ Offer sellers a dashboard that allows them to track sales, manage and request reviews, edit their profile, and add new products.

- ➔ Build a strong seller community with premium recognition, e.g. recommended vendor certification.

Loyalty and advocacy

Goal: build trust post-transaction

- ➔ Collect reviews, testimonials, and case studies.

- ➔ Offer after-sales promotions.

- ➔ Implement a robust and transparent return and refund policy.

Measuring the success of your UX design strategy

Since data-driven UX design leads to better results, it's important to manage user behaviour data in an organised manner. Google's HEART framework offers a structured way to measure the quality of user experience. The framework measures user experience in terms of happiness, engagement, adoption, retention and task success.

Happiness measures how users feel about your offering and can be measured via in-product surveys and net promoter scores.

Engagement measures the extent to which users interact with your platform within a specific time frame. Engagement metrics include visits per user per month and number of products viewed per visit.

Adoption measures how many users are using your core features. The number of quotes requested from vendors in a services marketplace would be an example. This can also be considered a North Star Metric on many platforms.

Retention measures the rate at which users return to your platform. Here you can measure the churn rate – how many users stop using your platform (e.g. subscriptions) over a given period compared to the number of users at the beginning of that period.

Task success measures the time required to complete a task or how many errors occur during the execution of the task. For example, measuring the time to complete a user profile or upload a review.

Is DIY UX design an option?

Investment in the proper application of UX design principles and strategies is not a trivial matter, as can hopefully be deduced from this breakdown of UX design's scope and impact.

A cursory look at the various disciplines involved in UX design should make it clear that very few, if any, marketplace entrepreneurs are equipped to implement a successful UX strategy. You will need qualifications or experience in cognitive psychology, human-computer interaction, computer science, information architecture, product design, graphic design, front-end development, and QA testing.

The law of unintended consequences means that a novice trying to design something as potentially complicated as a user dashboard may discover too late that a number of functionalities are broken or not accounted for. If this happens during a live version of the marketplace platform, repercussions for the brand would probably be quite severe.

Focusing on UX design early on in your marketplace development process can save a lot of money down the line. According to Roger Pressman, who wrote Software Engineering: A Practitioner's Approach, fixing issues during development costs ten times as much as sorting it out during the design stage. The costs escalate a 100 times if the site is live.

Good UX design not only saves money; it can also make more money. On average, every pound or dollar invested in UX design is returned ten to a hundred fold in revenue, due to better conversion rates, customer retention, and customer loyalty.

We'll leave the final word on the subject to e-commerce and marketplace maestro, Jeff Bezos.
"If there's one reason we have done better than our peers in the internet space over the last six years, it is because we have focused like a laser on customer experience, and that really does matter, I think, in any business. It certainly matters online, where word-of-mouth is so very, very powerful."

Section 3: Testing your marketplace idea

Don't confuse Product Usability and Product-Market fit

Product Usability and Product-Market Fit are two considerations that every marketplace startup must address when building their business. The success of your enterprise will hinge upon how well you execute in these two areas.

But it is important to understand the differences between the two concepts. A common trap is that entrepreneurs think that if their product is usable, it must have a strong fit to its market. This is not necessarily true.

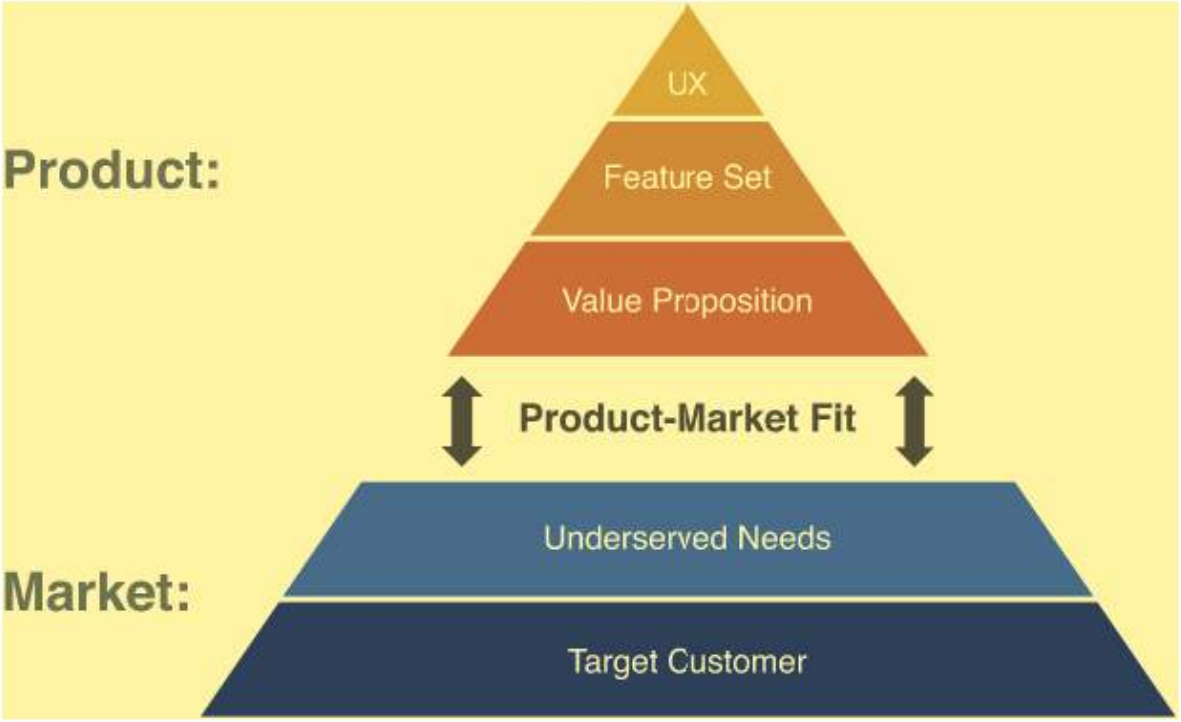
While usability might be a part of your product's value proposition, other elements determine your market fit. Those other product characteristics need to be considered and evaluated as well. Some entrepreneurs will focus exclusively on usability and will develop a product that never fits with their market, leading to a failed business.

Product-Market Fit

Product-market fit defines the niche in which your business operates. Just as a fish wouldn't last long in the desert, your product won't last long if you don't deploy it under the right circumstances.

For a more business specific definition, product-market fit is about how useful your product is to your target market and whether they are willing to pay for it.

Consider the following pyramid image which illustrates the relation between a business and what it offers the market.



Source: [the lean product playbook]

Your market is the basis for your business. Without customers that need something your marketplace can not exist. The value proposition that you offer customers in need, the features you provide to satisfy those needs, and the quality of the experiences that users have interacting with your platform will define whether people will try your product.

Something with a good product-market fit satisfies a need that a customer might not even know they have. The product saves them time or makes their production process better or

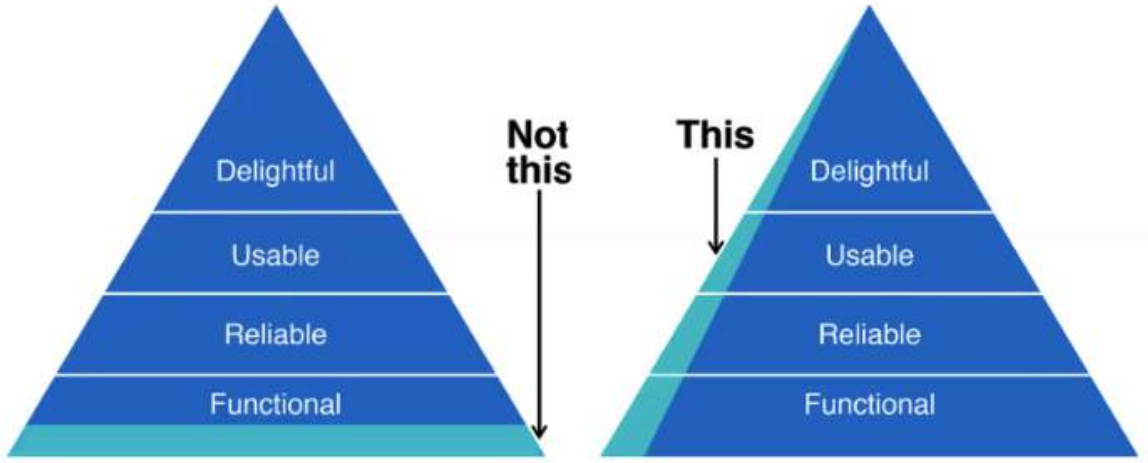
improves the quality of their own product or service. A product with a good market fit is something that, once a customer tries it, becomes so indispensable that they can't imagine trying to do their job or live their lives without it. As a result, they are willing to pay dearly for it. That is how you build your marketplace business.

Developing product-market fit is a nuanced, involved process that can take many iterative cycles to achieve. It is easier to diagnose usability problems than product-market fit issues. People can easily express why they do not find something easy to use, but it is harder for them to express why they do not find something useful.

It is "usefulness" that defines product-market fit and when you find it, that connection between goods or services and need will evoke a sense of relief in your customers that will make them dedicated to your business. If the product-market fit is strong enough, it can overcome small usability issues.

Usability

Usability measures how well someone can make your product do what it is supposed to do. A website with high usability is easy to navigate. You can find all the information you are looking for easily, and with very few clicks. The most important, most often used information and functions are located in places where the average user looks the most. For the user, it is almost like the site is clairvoyant; as soon as they think of an action, the element that expedites that action appears in their eyeline.



Courtesy of Jussi Pasanen
See Aaron Walter's book *Designing for Emotion*

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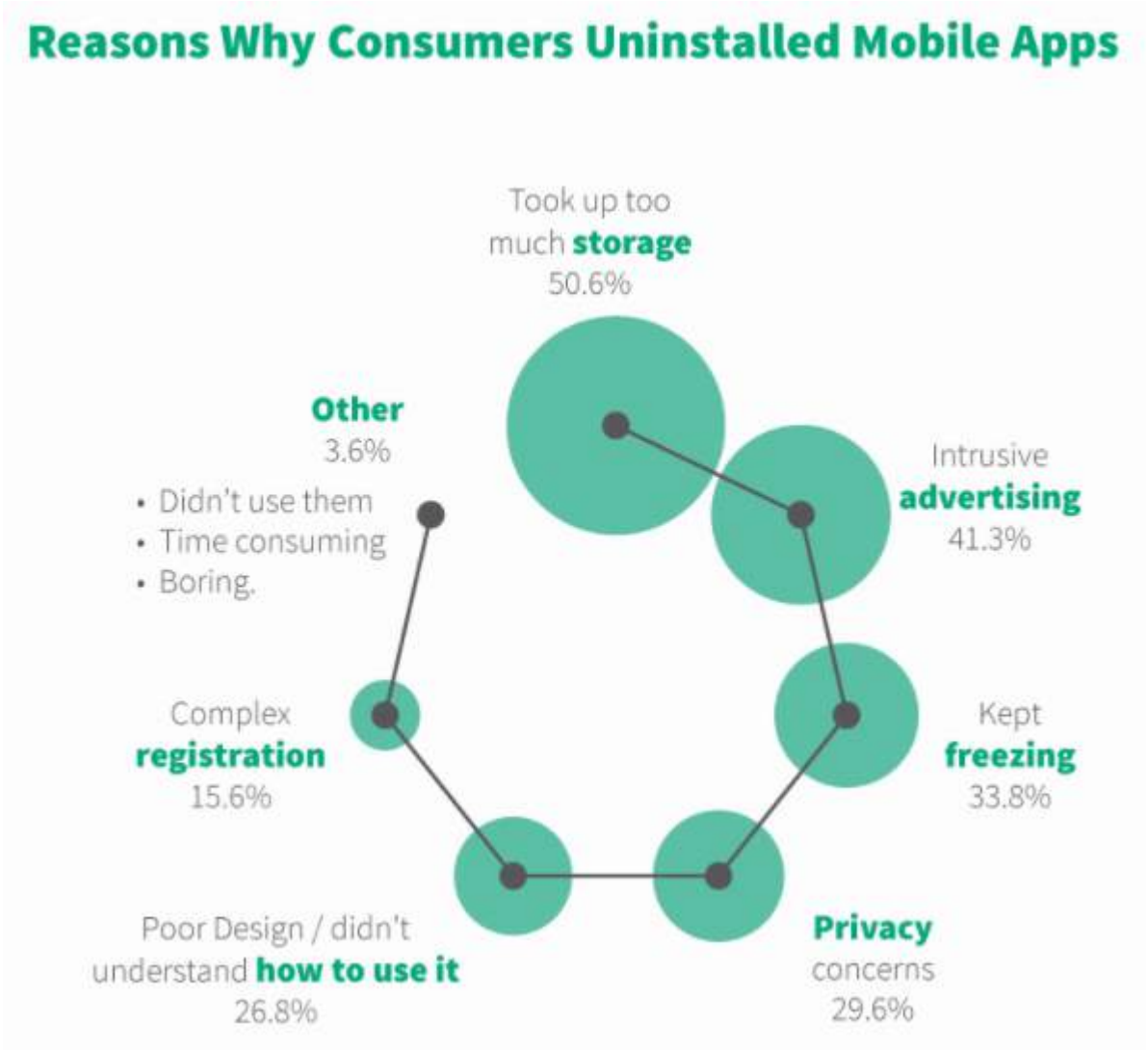
On the face of it, the idea of usability appears to be straightforward, especially in a world defined by Apple products. Usability speaks to the idea that anyone should be able to pick up a product and with minimum effort learn how to use it to do the things that the product was designed to do.

However, potential customers can have vastly different paradigms, so how they view and understand technology will vary person to person. This poses a huge challenge to developers, as it is their responsibility to find the commonalities of perspective among target customers.

What complicates this further is that customers are no longer content with a product that merely works; Apple changed that perspective, so that now people want to be delighted by the product experience. An online product needs to evoke engagement and even joy when a person uses it.

Usability poses a significant challenge to product adoption and ensuring that customers continue to use an online service. A recent survey showed that UX issues played a role in 27 percent of the instances that people deleted recently added apps from their phones.



So the challenge is to build an engaging product that is still easy to use. The solution is to balance novelty with expectation. Novelty will engage your customers, while meeting their expectations will help them navigate your application.

Novelty is easiest to develop when it comes to visual displays. Exciting, engaging images evoke a sense of engaging with something new. This triggers the dopamine rush that encourages users to repeat actions. In terms of a website or app, dopamine encourages continued use.

This dopamine rush can be extinguished if the user becomes frustrated by not knowing what to do next. This is where expectation becomes critical. By structuring your app or website according to generally accepted norms, you can minimise the risk of customer frustration by avoiding common mistakes that poorly designed front-ends tend to make.

These errors include:

- non-standard GUI (non-standard scrollbars, text and headlines; buttons that do not indicate an action);
- inconsistency (using different words or commands or using the same word for multiple concepts);
- no default values (by not using drop-down menus in your app, you can slow down user interaction);
- user “dump” (when you don’t provide easy-to-understand setup information);
- one screen size;
- small click targets; and
- feature overload.

By mixing unique displays with common structures, you can enhance the usability of your site, making it engaging and easy to use. By achieving engagement and ease of use, your product won’t just be a joy to use – for your customers it will soon become a habit to use.

Comparison Between the Two

By now you should be able to see why you need both and the difference between the two standards. Product-market fit implies usefulness to potential customers, while usability speaks to whether a customer can deploy the product and get it to do what it is supposed to do.

An easy to use product that does not address the needs of the market is not something anyone will pay for, but something that everyone needs but no one can use will actively alienate your potential customers. While usability is of course important, something that addresses a very underserved need for a large audience can overcome small usability issues, so it is crucial to address product-market fit first and well in your development process.

Addressing these dual concerns should figure significantly into your lean startup approach and how you develop your minimum viable products. The first step in the lean process is to build and deploy low-fidelity **Minimum Viable Products** (MVPs). These early prototypes should initially focus on addressing questions related to product-market fit. Product-market fit determination always starts with learning what customers need first. You can’t know how to address a problem until you know what your customers need.

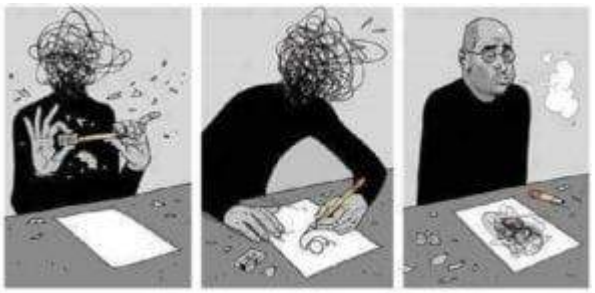
Once those questions are addressed, move on to developing high fidelity MVPs and focus on usability questions. A high fidelity MVP is closer to the more refined product that you are planning to market on a broader scale. That is why it makes sense to focus on usability at this stage. If you did the low-fidelity MVP testing correctly, you can move forward confident that the item you are making more usable is something that customers will actually want to use.

How to design and test a Minimum Viable Product

Most marketplace entrepreneurs begin their startup with a picture of a perfect product filled with features that appeal to every demographic. It solves universal problems and people gladly pay significant funds to use it.

If you are very lucky that perfect product will be something you will end up with eventually, but it probably won't be possible for years and only after constant testing and iterating.

Instead of seeking perfection from the outset, you should begin with a Minimum Viable Product (MVP). While your MVP won't look like the product you have in your head, it is the most valuable part of your product design process. If you design and test your MVP correctly, you will build a sound foundation for your business and that perfect product.



What is a Minimum Viable Product?

"a version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort."

Constructing an MVP is not a one-time event; it is an iterative process. You build an MVP to test one assumption in your business model, get feedback, make the appropriate adjustments, and then build a new MVP to test the next assumption. Each cycle of iteration builds on new insights to refine your marketplace value proposition until sufficient traction is achieved.

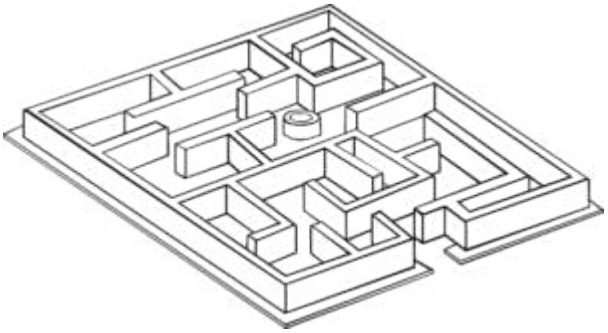
Clear Your Mind

The first step in building an MVP might actually be the hardest. Entrepreneurs are creators who are motivated by making their idea a reality. These concepts are generally complex, nuanced, and “perfect.” But complex and nuanced are rarely perfect, and never on the first try.

What is possible is doing one thing simply, quickly, and well and to use that product to make sure that you are creating something that people need. This product will not be able to solve all problems, but it should be able to address an issue that is a pain point for a group of individuals that would be willing to pay for a solution.

“Human nature has a tendency to admire complexity, but to reward simplicity,” said Brad Fell, co-founder of the incubator TechStars. “The more complicated you make your business, the harder it is to expand it. So stick with proven solutions and keep it simple. You may have to give up a few features here and there, but you’ll be more nimble as a company.”

When you look at transformative entrepreneurs like Steve Jobs, they all preach simplicity. But simplicity doesn’t mean lack of quality. Focus on doing the simple things really well. Identify and develop for a smaller group of customers at first, but make sure that their experiences with your products are unforgettable. This mindset sets you up to achieve early successes, which will motivate you for the iteration process.



Identify Your #1 Problem

Once you have committed yourself to doing simple things well, it is time to identify the problem your product is going to solve. This step is crucial, because how well you solve the problem you choose will be how your product and your business is judged.

Steve Blank, the author of Lean Startup, advocates that entrepreneurs focus on the simplest problem customers have that would be willing to pay to have solved. This runs counter to what many salespersons and marketers want to do; they tend to think the more features you have the larger the pool of potential customers.

The marketer’s approach divides your attention and decreases the possibility that you will be able to provide an exceptional experience for your target customer. There will always be room for growth later; by focusing on smaller, more attainable goals you can create a company that is defined by excellence and attention to detail, which will make expanding your market easier in the long-run.

Identifying your primary problem is simple. Find representatives of the target audience you want to reach and ask them what their problems are. Don't ask how they want to solve those problems; they will provide you with a long list of features that will make it hard for you to keep it simple. A few problems will come up routinely. Pick the easiest to solve and begin your design process.

Design Your MVP

When you are first starting out, you need to build a low-fidelity MVP and focus on validating your main assumption. A low-fidelity MVP is meant to test one thing; are you solving a problem with a service for which customers will pay? It is meant to test whether you identified the right "number 1 problem" for your business.

Your MVP needs to do a few things well:

First, you need to be able to **measure** specific user behaviour. It is not enough to build something and see if people say they like it or if they visit your website. You need a **target metric** that will provide evidence, one way or the other, regarding your product's "fit" with your target market.

Second, your MVP needs to provide you with **feedback** outside the target metric you are evaluating. These MVP testing techniques will lead to better iterations in the future. If many of your customers are clamouring for a feature or asking you to use your product to address another problem, you will know what your next step in the development process will be.

Finally, you need to develop your MVP as **quickly and as cheaply** as possible while still achieving the top two goals. Many entrepreneurs set out to build their prototype first and use that as their MVP. But building a prototype can be expensive, time consuming, and emotionally devastating if you do not get the results you are expecting.

By developing an inexpensive MVP that you are not as emotionally invested in, if you get new information that reveals an alternative approach to what you were considering you can

easily pivot. Some common examples of low-fidelity MVPs include landing pages, surveys, Powerpoint presentations, and design mockups. All of these require little in the way of coding or development, but if done correctly can provide the basics of what problem you are going to solve and why it is important to your customers.

The goal of a low-fidelity MVP is for your customers to take an action to affirm that they are interested in your concept. Possible actions include getting potential customers to submit their email address, so you can keep them apprised of your product's development, to getting them to prepay for your product when it becomes available.The more commitments you get, the more likely your product is a winner.

MVPs in the Wild – Successful Minimum Viable Product Examples

MVPs are not just good in theory; they excel in practice. Here are a few examples of incredibly successful companies that used MVPs to validate their ideas and get their start.

When the founders of Dropbox formed their business, they just had an idea. The cost of building a prototype was too high. To test their value proposition, Dropbox developed a low-fidelity MVP in the form of a video. Using simple animation, this 3-minute video conveyed the basic functionality of the product and why someone would want to pay to use it. Because of that video, 75,000 users signed up to use Dropbox before the product was developed. This gave the founders the confidence they needed to proceed with their development.

Would strangers really pay to stay in someone's house instead of a hotel? That is what the founders of Airbnb wondered. To test the principle, the founders took pictures of their apartment and advertised online that it was available for rent during a popular conference in their town.

The founders were able to "book" their apartment for the entire duration of the conference to three separate, unrelated customers, validating their initial assumption. Further, the founders were able to interact with their guests during their stay.

The Airbnb founders used this experience to understand what potential customers might want and were able to generate a list of features to develop in the future. Using this information, the founders then began to develop their now famous platform.

Before Twitter was a micro-messaging board it was a podcasting platform called Odeo. Odeo was losing market-share due to the introduction of iTunes, so the company needed to pivot fast. After a frantic hackathon, Odeo developed twttr. They initially tested the service within their own organization, and soon their employees were incurring massive phone bills due to their activity on the platform. Using that as validation of the service's popularity, Twitter was released to the general public.

Test Your MVP and Iterate

Testing and iterating comes down to one thing; finding the balance between being responsive to what you learn, but not overreacting and losing your unique value proposition. A lot of times that means your response to testing shouldn't be to add, but to subtract.

Here are a few different responses your MVP will get during testing and how to interpret it:

- You receive a ton of complaints from your users. This is a good thing. If your users are not complaining, they aren't invested in what you are doing and wouldn't try to make it better. Complaints reveal passion and an interest in making your product better.

- Your customers are disinterested. If you are convinced that this is the market you want to target, but these customers you are testing do not engage your MVP the way you like, you have two choices. You either need to leave the building and find a market that will appreciate your MVP as it is or design a better MVP for the original target audience.

- You get a lot of feedback and requests for new features. This is especially dangerous for entrepreneurs because their instinct is to build. But more features distract from your unique selling proposition, which is why people come to you in the first place. In the early days, especially, focus on the one facet of your product that keeps people coming back. Keep a list of the potential features to revisit after you have perfected your one core feature.

The purpose of a low-fidelity MVP is not to optimise your product, but rather to learn about your customers. If you make them happy, your company will be successful. Focus on them, give them what they need, and you will build that perfect product – even if it doesn't look like what you thought it would in the beginning.

High Fidelity MVP Transition - How To Do It The Smart Way

It is one thing to know your customers have a problem; a low-fidelity MVP is how you learn about what ails your target market. But you only make money if you **solve** your customers' problems. You need to know if your company merely feels your customers' pain, or if the product you are developing actually alleviates their pain.

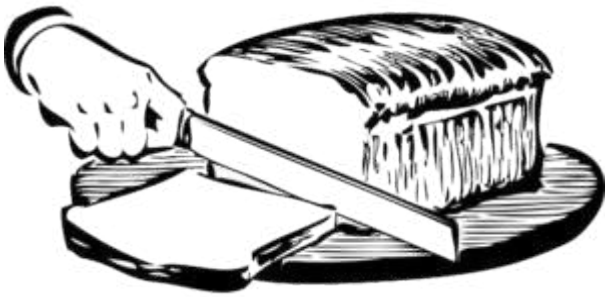
High-Fidelity MVP (Minimum Viable Product)

A high-fidelity MVP's purpose is to test whether your product solves the problem that your users are having. This is where elements such as the user interface, user experience, and user engagement are examined. A high-fidelity Minimum Viable Product is where you build your prototype or at the very least a more detailed clickable mockup.

Your first step is to figure out when you should move on from testing your low-fidelity minimum viable product to the next stage. Unfortunately, there is no obvious signal that you should take the next step. On the one hand, you want to vigorously test your core assumption. However if you focus on that issue too long you may get analysis paralysis.

You will never get complete certainty from your low-fidelity minimum viable product, so you shouldn't look for it. Instead you should move on to your high-fidelity minimum viable product when you are relatively confident you have found your problem. If you need a percentage, shoot for 85 to 90 percent confidence.

Just as with the low-fidelity MVP, a high-fidelity MVP only works if you monitor metrics that accurately represent your performance. You should be measuring those that are tied to customer engagement. Are they ordering your service (if applicable)? How long are they spending on your site or using features? Are they suggesting your service to others?



Small Batch Testing

Once you have built your high-fidelity MVP you will still want to control your audience exposure in the early days, since there is a high likelihood of bugs and other small errors that might diminish the user's experience. Studies have found you can identify 85 percent of the problems in your MVP by testing it with as small a user base as five people.

Once you have started testing, focus on how people use the site as opposed to what features your users say they want. People say what they think they want, but how they act in relation to your site better illustrates how they will interact with your product. Focus on the issues that inhibit your users from engaging the site the most, then make as small adjustments as possible to address those concerns. Doing small things to fix big problems will decrease the possibility that in your attempt to fix a problem you lose something that your users like.

The key here is to establish a baseline product. You do not want to be adding big, new, flashy features here. Think tinker, not renovate. You need to keep testing and adjusting until you get a product that works, with no bugs, and provides positive evidence that you have a product that will solve the problem you sought to address..

Small batch testing is not strictly necessary. It is a good idea if you have a minimum viable product that you are not confident will provide you with quality results due to other flaws not tied to the aspects you are testing; specifically whether your product solves the problem, whether your business model works, and the product's acquisition and activation processes.

Customer Validation

Customer validation occurs when you take your high-fidelity MVP to a larger audience. The purpose is to validate your solution and business model. Despite the fact that your product will be in front of a larger audience, the same basic tenets as with a low-fidelity MVP still apply.

Iteration is key; a series of imperfect MVPs that provide information about your core questions (the problem-solving ability of the product, your business model, etc.) is preferable to a “perfect” product that takes forever to develop and ultimately provides too much information to understand what is working and what isn’t.

You also need to make your high-fidelity MVP flexible so it can quickly and easily adjust to new information. If you get new information but have built your product in such a way that to make any changes will essentially require you to start from scratch, you have a significant problem. Building your product through incremental iterations through agile development will prevent this from being a problem.

High-fidelity MVPs are a great tool for testing whether your product solves a valuable problem and your business model. It should be the first thing you do when you are ready to test your product-market fit.

However, some might skip this step because they are confident in their product and business model. A good example of when to skip this step is when you are improving an existing product that already has a strong customer base. But be careful. Skipping this step should only be done when you are extremely confident in your product-market fit and that the risk is relatively low.

Why liquidity should be a burning priority for your marketplace startup

Just because your online marketplace is showing some user growth does not mean it is doing well. If your goal is to build a financially viable platform, your marketplace needs

liquidity in addition to user growth. Continue reading to find out what marketplace liquidity is, how to measure it, and what its key drivers are.

What is marketplace liquidity?

In simple terms, marketplace liquidity quantifies a seller's chances of making a sale or a buyer's chances of procuring the right product or service.

The smart guys at VC heavy-weights, Andreessen Horowitz, define marketplace liquidity as,

> ". . . the likelihood that a seller is able to find a buyer, or that a buyer is able to find the product or service they're looking for."

According to Julia Morrongiello at Point Nine Capital, a Berlin-based VC firm that specialises in online marketplaces,

> "Liquidity is the lifeblood of marketplaces. It is the efficiency with which a marketplace matches buyers and sellers on its platform."

Simon Rothman at Greylock Partners,

> "Liquidity is the reasonable expectation of selling something you list or finding what you're looking for . . . Until you reach liquidity, you're vulnerable. After, you have the opportunity for dominance."

How do you measure marketplace liquidity?

Well-known marketplace performance metrics such as Gross Merchandise Volume, Monthly Active Users or Customer Lifetime Value are important, but they don't tell you how liquid your marketplace is.

You want to look at the rate at which buyers and sellers match on your platform. Exactly what gets measured will depend on your business model. Since marketplaces are two-sided, both buyer and seller liquidity have to be taken into account.

Buyer liquidity

The average number of visits, search queries or quote requests that lead to transactions, also known as the Search To Fill Rate.

A retail marketplace such as Etsy would therefore look at the ratio of search sessions vs purchases, while freelance marketplaces like TaskRabbit would compare job postings with the number of hires over a specific period. On-demand marketplaces like Lyft would calculate the number of actual rides as a percentage of ride requests.

Supplier liquidity

The average number of seller listings that result in transactions within a specific timeframe is known as the Utilisation Rate.

Retail marketplaces would compare stock levels at the beginning and end of a month, while accommodation marketplaces would calculate the percentage of rooms booked per night. Ride hailing apps would look at the percentage of drivers that are working full-time per week.

The more granular your focus (zooming in on categories, locations, timeframes), the more comprehensive and useful the picture of your marketplace liquidity will be. You may discover that certain product categories are not driving much sales compared to others, which would necessitate an adjustment to either your marketing strategy or your inventory.

The type of marketplace you are building will influence which liquidity metrics you should focus on:

- Double-commit marketplaces like UpWork require engagement and agreement by both buyers and sellers to conclude a transaction.
- Buyer-centric marketplaces like Amazon or Airbnb have passive sellers that simply indicate the details of products or services and their availability, while the onus is on buyers to actively commit to a transaction.
- Managed marketplaces like Uber automatically match buyers with sellers on receipt of the buyer's request.

Liquidity challenges vary according to the marketplace type

Double-commit marketplaces tend to have the lowest liquidity as both buyers and sellers have to spend time and effort to conclude a transaction. This usually means lower conversion rates, but they have the advantage of being better at catering for custom requirements. Top focus: streamline the transaction flow to improve search-to-fill ratios.

Buyer-centric marketplaces remove some of the friction from the transaction process as no interaction is required between buyers and sellers. This tends to drive higher search-to-fill rates. A prerequisite is that sellers keep listings up-to-date with the correct product details and availability.

Buyer-centric marketplaces need to keep a close eye on utilisation rates. The lower the utilisation rates, the higher the seller churn rate and vice versa. Low match rates can also lead to multi-tenanting (where sellers post listings on multiple sites) and bad service or low quality goods. Examples of utilisation metrics include tracking the percentage of sellers that sell above a certain amount per month or work more than a number of hours per week.

Managed marketplaces, where the marketplace sets the price (e.g. Uber, Lyft), usually have the highest search-to-fill rate and liquidity. This is due to the automated matching of buyers and sellers, which removes most of the transaction friction. They demand a high degree of seller standardisation since the platform, not the sellers, is held responsible for quality and service levels. Those can be tracked via customer feedback (ratings, reviews, complaints), NPS and turnaround times (time-to-fill).

Ride-hailing and delivery platforms, for example, should therefore focus on average times to pick up / drop off. This time-to-fill metric should ideally be tracked on a location and category basis for a more granular view.

The downside of managed marketplaces is that they tend to have weaker network effects. That's because standardised supply often means lower barriers to entry which can lead to supply saturation. There's not much more benefit in adding additional sellers for buyers if the time-to-fill falls below a certain threshold. If food is delivered within 10 minutes on average, adding additional delivery drivers would not increase buyer satisfaction by much.

What are the key drivers of marketplace liquidity?

It's one thing to track your liquidity, but how do you improve it? Here are a few common elements that have proven their worth as drivers of marketplace liquidity.

Establish product-market fit

It is actually shocking how most articles on marketplace liquidity omit the first crucial step – making sure there's a need for your product in the market. This is best done with an MVP to validate your market assumptions and collect user insights.

And who better to back that up than Paul Graham of Y Combinator, as can be seen in this email thread on an early-stage Airbnb's product-market fit and ability to 'make money'. The record speaks for itself – twelve years later the company is worth $74 billion.

yc applicant

Justin <justin@justin.tv> Oct 28, 2008, 12:30 AM Reply
to Paul

Hey PG,

Are the YC applications for the next round completely, 100% closed? There's a company that Mike, Emmett and I have been advising for months that I think would add a lot of value: Airbed and Breakfast (http://airbedandbreakfast.com/). They are basically a CouchSurfing.com for money, where users can list rooms in their houses/apartments for rent to travelers. They missed the deadline, but all of us at JTV are big believers in their business and they've proven that they can knock stuff out and are well on their way to product-market fit (and are making money). Any chance you want to take a look?

Justin

Paul Graham <pg@ycombi... Oct 28, 2008, 12:57 AM Reply
to Jessica, Justin

Tell them to go to http://news.ycombinator.com/apply2 and apply. They literally have to do it tonight though because we are deciding tomorrow.

Tell them to be concise and to explain how they'll make money; the former is always rare and the latter we're looking more closely at these days.

--pg

Reply Reply all Forward

By conducting your experiment with a few handpicked sellers and a small targeted group of buyers you can conduct your experiment faster and cheaper than with a full-blown platform. Once you have some user feedback and a better understanding of the market, you can iterate your way to a more sophisticated product and suitable business model. This lean approach has been proven to be highly effective in establishing product-market fit.

Solve the supply vs demand (chicken-or-egg) dilemma

One of the biggest challenges facing marketplace entrepreneurs is how to scale both supply and demand. Sellers aren't going to sign up if there are no buyers and buyers will not use the platform if there are not enough sellers. The rule of thumb is to focus on scaling one side (buyers or sellers) of the marketplace equation in order to attract more of the other side.

Some well-known techniques include:

- Create standalone value where the one side doesn't need the other to derive value from using the platform – e.g. Houzz's home improvement marketplace offers a 3D

augmented-reality tool, as well as marketing, project and client management solutions to design professionals.

- Stock the shelves by seeding the supply side with free platform-created profiles for qualifying sellers. Once there's enough traffic, you can monetise it by providing value-added services or owning the transaction pipeline. The more detailed and high-quality your seller profiles, the bigger the incentive for users to search them. The downside is that for high-volume low-value retail marketplaces it can be expensive to collect and create enough listings.

- Piggyback on another platform's existing user base. Airbnb drove more guests to their hosts by cross-listing their accommodation on Craigslist with a booking link back to Airbnb.

Hybrid approaches try to leverage sellers and buyers simultaneously:

- Provide a better way for buyers and sellers to connect and transact. Secure payments, real-time messaging, RFP tools all support this approach.

- Concierge marketplaces use human intervention such as curation to increase the likelihood of a match between buyer and seller. This can be a good strategy for early-stage marketplaces to better understand and cater for buyers' needs. Some marketplaces offer concierge services, such as personalised support, as part of a premium offering.

Increase density within the right locations

The number of users (buyers and sellers) within a certain geographic area have to be in sync. For example, a food delivery marketplace can add 1,000 customers in London and 100 couriers in Manchester, but still not increase its liquidity.

When MobyPark, a parking marketplace, realised that both search-to-fill and utilisation rates were very low, they investigated. They found that demand and supply were not in sync; most of their drivers were looking for parking spaces close to airports such as Charles De Gaul and Schiphol, not city centres. They solved the density problem by approaching hotels with excess parking space close to airports.

The size of the geographical area to be checked for density will vary from marketplace to marketplace. An apartment cleaning marketplace like Nestify will look at a smaller area than an art marketplace like Affordable Art Fair, since you need cleaners close to where the majority of your host properties are located, while art sales is a global business.

That said, it would be prudent for a startup to pursue density on a location-by-location basis, also known as a pocket approach. It's easier to build momentum with lots of liquidity in a focused area, than thinly spread liquidity over multiple locations.

Once you know where your demand is congregated you can increase seller density with a targeted marketing strategy. Grosa, a marketplace for Afro-Caribbean groceries, made

GBP3,000 in its first month by making sure its sellers and buyers are in the same location through targeted local marketing.

Ensure optimal buyer to seller ratio

Buyer-to-seller ratio = active buyers / active sellers

Marketplaces that do not have enough listings or quotes for each buyer, or enough enquiries or transactions per seller, are going to lose users. The optimal buyer-to-seller ratio will depend on the marketplace type though. A real estate marketplace will be happy with a 1:1 ratio, while a retail marketplace for FMCG would probably require something closer to 100:1.

It's also useful to calculate how many customers or transactions one seller can serve. If sellers don't have sufficient stock, or service levels drop below acceptable levels, your marketplace will suffer. Sellers that can service many buyers are more valuable to your marketplace and should be an acquisition focus for early-stage platforms. You can track the ability of sellers to service buyers by dividing the transactions per buyer by the transactions per seller.

A high buyer-to-seller ratio is not necessarily good for business. Parking marketplace, MobyPark, had lots of traffic, but low transaction volumes. Analysis revealed many dead listings as a result of property owners who did not update their parking bay availability. The solution was to make property owners more engaged by sending them regular reminders to update availability.

Market the right categories and/or products (category concentration)

Focusing marketing spend on product categories for which there is high demand can increase liquidity and reduce customer acquisition cost. The Boxhut, a subscription box marketplace, followed this strategy by basing their Google Ads campaigns on the products sold by high-volume suppliers on their platform.

Their first step was to find out what buyers were looking for. This was done by analysing the navigation filters to see which products performed best and checking Google Ads keyword planner for the popularity of keywords like 'food subscription'. They discovered that a small number of suppliers were responsible for most of the sales. This discovery helped them create a vibrant market for those suppliers through targeted marketing campaigns.

As mentioned, the strategy for tracking and driving liquidity will vary according to the nature of your marketplace. Identifying the right metrics and taking advantage of the resulting opportunities is best done with a custom marketplace.

Section 4: Building your marketplace

6 ways turnkey software solutions can kill your marketplace startup

Online marketplaces are grabbing attention like never before. Not only has the Covid-19 pandemic put the already fast-growing e-commerce sector on steroids, but growing numbers of digital entrepreneurs are chasing the marketplace business model's promise of rapid growth via third-party sellers.

For those who want to get their marketplace up and running quickly there are several off-the-shelf and plug-and-play solutions to choose from. Options range from full-stack platforms, such as Sharetribe, Mirakl and CS-Cart, to add-ons like the Dokan multi-vendor plugin and the Webkul marketplace app, built for general e-commerce frameworks WooCommerce and Shopify respectively.

Unfortunately, the easy-to-use marketing spiel of turnkey software providers often conceal pitfalls that have resulted in the sudden death of many a startup dream. At CobbleWeb we field numerous enquiries every month about how to get a marketplace up and running. Invariably, we receive lots of queries from startups that have hit a dead end due to choosing the wrong technology:

"Hi there, I came across your website after searching for marketplace developers. I'm currently building a marketplace for custom sneaker artists using WordPress, WooCommerce, and Dokan. To make a long story short, it sucks and I'm very unhappy with all the bugs and frustrations I have. Do you guys develop marketplaces? If so, I'd love more information."

This chapter seeks to clarify six specific hazards that are common to the off-the-shelf scenarios that we have come across: user experience, user flow, scalability, shipping, APIs, and revenue streams.

The user experience can make or break your marketplace

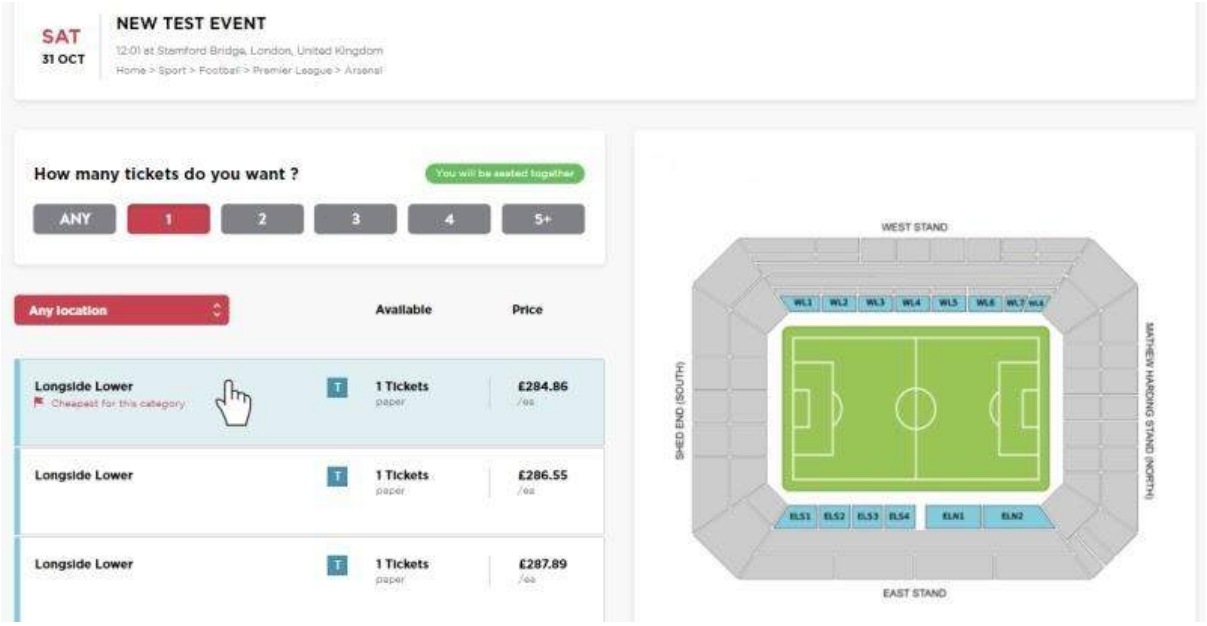
Bill Gurley, a well-known Silicon Valley VC investor, wrote a classic essay on what makes marketplaces successful back in 2012. Number one on his 10-point list? User experience.

"Great marketplaces do not simply aggregate a market; they enhance it. They leverage the connective tissue to offer the consumer a user experience that simply was not possible before the arrival of this new intermediary."

Bill knows what he's talking about; he invested in a host of successful marketplaces including eBay, Zillow, oDesk, Uber, OpenTable, GrubHub, and Yelp.

FanPass, an event ticket marketplace, is a good case in point. Event pages are at the core of their marketplace with each event page containing multiple ticket listings from different sellers. Popular events like a Liverpool vs Manchester United football match can easily see

1,500 plus users flock simultaneously to a single event page. If the page couldn't provide an intuitive user experience to visitors, bounce rates would jump and ticket sales would dive. CobbleWeb analysed user behaviour to improve key elements of the FanPass events pages. For example, we implemented a hover effect that highlights different sections on the stadium map when a user hovers over one of the ticket listings.



Another element that we optimised was when a user selects (clicks on) a particular ticket listing. When this happens the exact seat is highlighted on the stadium map with a thumbnail view from the seat.

These UX optimisations had a two-fold effect. Firstly, it minimised the number of customer queries, reducing strain on customer service resources. Secondly, conversions happened faster and at higher rates. That means more money in the bank.

The bottomline – using a cookie-cutter user experience will not differentiate your platform from the competition. If UX is a key success factor (and it is 90% of the time) off-the-shelf solutions are simply not up to the task. Only a custom process can identify those unique opportunities to delight your users.

Flexible user journeys promote product uptake

A typical VC scorecard for marketplace startups usually emphasises that the value proposition needs to include an intuitive user journey. That's because modern consumers want instant gratification. If they can't find a product or service quickly or struggle to navigate category structures they will abandon your platform.

Our advice is to check the user journeys offered by ready-made solutions. If it doesn't cover at least 80% of your requirements then there is a high risk that it's not the right fit for your business. Of course, off-the-shelf software solutions will also not be helping you map out your optimal user journeys – you'll have to do that yourself.

Here's a case in point. One of our clients is busy pivoting from single-vendor e-commerce to a multi-vendor marketplace serving the fashion industry, a very competitive vertical. They originally kicked off with a Shopify multi-vendor template, but quickly started getting negative feedback from sellers.

Shopify was forcing additional steps when sellers added products that were not necessary for their business model. This caused unnecessary friction and seller abandonment. The clients then approached us to resolve the issue with a custom user journey.

Bonus tip! The ability to customise the user journey is also key to establishing product-market fit. Without it you can't test assumptions and may miss the tweak that ignites user growth.

Scalability is key to the growth of your marketplace platform

One of our recent enquiries concerned a product marketplace built with WordPress and WooCommerce. The owner wanted to start scaling, but was held back due to the site's slow performance and limited functionality. To his horror, optimising speed and expanding functionality would cost more than a brand-new custom solution.

The reality is that one-size-fits-all solutions that cater for all types of marketplaces add lots of bloat which can slow down your site significantly. These performance issues tend to increase as traffic grows. Magento's marketplace extension, for instance, requires the installation of more than 5,000 files!

Since third-party software providers like Shopify or Sharetribe control your backend, there's not much you can do to optimise your platform performance. The irony is that most marketplace startups only need a fraction of all those bells and whistles.

Specially developed tools or features are another powerful way to scale your marketplace. It is known as the 'come for the tool, stay for the network' strategy. For example, photography marketplace, Meero, entices photographers onto its platform with business management tools, while OpenTable uses reservation software to attract restaurateurs. This avenue is mostly closed to those making use of turnkey solutions.

Shipping can be a competitive advantage

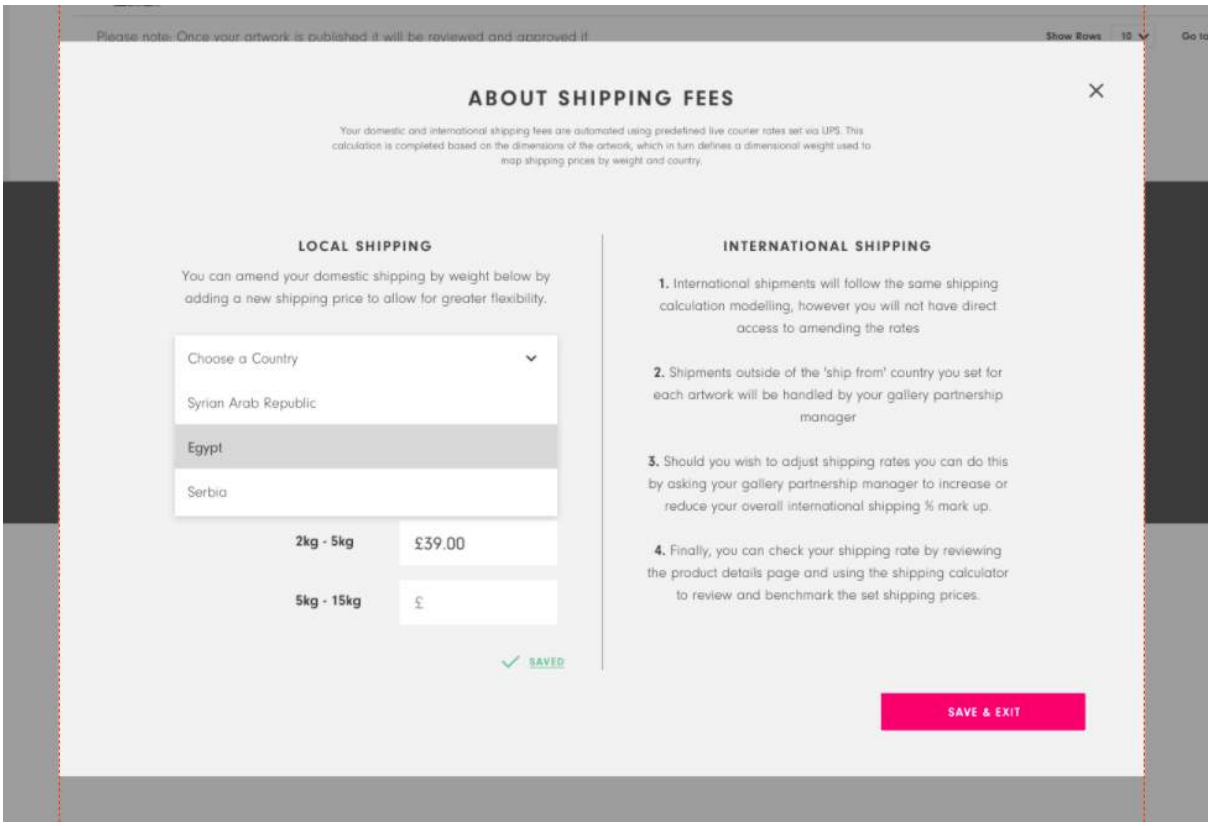
When there is lots of competition in your vertical, shipping options and costs can be a deciding factor. Most ready-made marketplace solutions offer limited shipping options which could make your marketplace uncompetitive.

From Sharetribe's community boards:
"The reason why I can't fully use Sharetribe. There are no shipping options. You can only enter shipping costs once. It must be possible to enter at least 3 shipping options: nationwide, within the EU and worldwide. Depending on the location of the seller and the buyer, an option should be automatically selected during the ordering process."

The ability to customise shipping for specific use cases can be a powerful differentiator. CobbleWeb's client Affordable Art Fair follows a model in which the buyer pays the shipping cost which is then paid over to the seller who is responsible for shipping the artwork. Originally they used Magento, where shipping costs had to be added manually for each seller, which put a huge strain on administrative resources.

CobbleWeb stepped in and streamlined the process with an automated real-time solution which uses UPS to calculate shipping costs. It solved two additional challenges:
Some sellers use special packaging (which cost more) and were unhappy with the amount paid over to them. This was solved by allowing the admin to add a percentage onto the UPS calculation for each seller.

Many sellers also wanted to pass local shipping discounts onto buyers. Our answer was to split shipping into local and international options.



Without a user-friendly API you will lose high-volume sellers

Marketplaces are ecosystems that thrive on partnerships, and in the digital universe APIs (aka software interfaces) connect partner applications. A weak API means potential partners can't join your marketplace ecosystem.

Large corporate sellers need your API for integration with their own platforms. They will only sign up to your marketplace if you make it easy for them to map and synchronise events between their platforms and yours. CobbleWeb built such an API for the FanPass marketplace which resulted in several large sellers joining and boosting revenue significantly.

In contrast, few off-the-shelf solutions allow API integration, and almost none allow seamless API integration with a wide range of seller e-commerce platforms such as WooCommerce and Shopify. Sharetribe tried to fill this gap with its Flex option, but that pretty much takes you back to square one – custom development.

So, if your target audience are mostly corporate sellers you are out of luck with an off-the-shelf solution.

Activating the right revenue streams for your business model

Off-the-shelf marketplace solutions are notoriously limited when it comes to monetisation. The rise of SaaS enabled marketplaces has made it even more challenging to integrate the right payment technology. This is especially important to consider in service marketplaces.

One of our clients built his marketplace with Sharetribe on a transaction-based revenue model. Feedback from sellers made it clear that his revenue should be subscription based. Sharetribe doesn't have a built-in subscription option and its third-party workaround was too cumbersome. Which meant his whole platform had to be rebuilt.

Conclusion

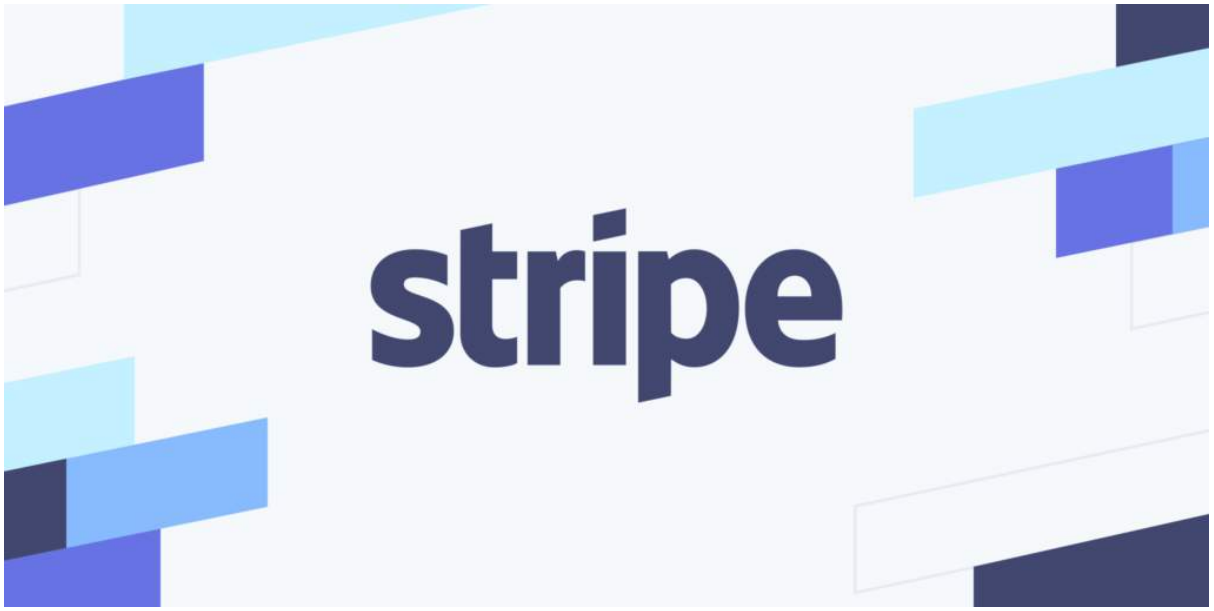
Technically, a marketplace is an intricate digital ecosystem with many interconnected moving parts. This necessitates a responsive and adaptive approach to ensure each part serves user needs (of your unique business case) in optimal fashion.

That's why rigid turnkey solutions rarely produce flourishing marketplaces. At some stage you are going to step into one of those pitfalls and have to reverse, rethink and redo your whole platform. Time, effort and money wasted, which could have been spent more productively.

Why Stripe Connect dominates as marketplace payment system

A successful online business requires a well-functioning payment system. For marketplaces, the payment landscape can be very complex, especially as multiple third-party buyers and sellers can be involved in the payment flow.

Stripe Connect was developed by Stripe specifically for multi-vendor marketplaces. It supports billions of pounds in marketplace transactions worldwide and is the engine behind iconic marketplace platforms like Lyft, Instacart, OpenTable and Kickstarter.



How your marketplace benefits from Stripe Connect features

1) Flexibility and Innovation

Since its inception, Stripe has been branded as cutting-edge technology known for its flexibility. They achieve this through machine learning and their robust APIs are quoted to be "one of (if not the) best in the industry […] driving the industry standard upwards." This means that you can customise its payment system to match your unique payment flows.

2) Compatibility

According to HackerRank in 2018, "the name Stripe holds a lot of weight within the developer community." One of the reasons for this is their robust APIs which are feature-rich, language independent and exceptionally well documented.

3) Reliability

Most prospective clients overlook this, but as experienced marketplace builders, we can attest to the importance of a reliable payment system. The internet never sleeps and when money is involved, downtime can be detrimental to your business. As such, Stripe's 99.99% uptime is music to the ears!

4) Easy entry

Stripe Connect's easy sign-up process is specifically tailored for marketplaces, which can be a massive barrier to entry elsewhere.

5) Payment methods

Stripe supports 135+ currencies and multiple payment methods, including debit and credit cards, prepaid gift cards, and ApplePay, in 46 countries.

Country of business:	US	EU	Rest of world
ACH credit	●	–	–
ACH debit	●	–	–
Alipay	●	●	●
Apple Pay	●	●	●
Bancontact	●	●	–
Credit cards	●	●	●
EPS	●	●	–
Giropay	●	●	–
Google Pay	●	●	●
iDEAL	●	●	–
Klarna	○	○	–
Multibanco	–	●	–
SEPA Direct Debit	●	●	–
SOFORT	●	●	–
P24	●	●	–
WeChat Pay	●	●	●

6) Reporting

One of the great tools that come with Stripe Connect is the dashboard. Here you can generate useful documentation like receipts and invoices. You can also set these up to generate automatically, even on a recurring basis, conveniently sent out at the end of each billing cycle or when payment is received. It even helps with tax reporting!

7) Dispute handling

In an online marketplace, customer disputes can be an everyday occurrence. If you have 3D Secure and your Terms and Conditions in place, Stripe will handle all aspects of the dispute process. For example, if a buyer chooses to cancel their payment at the bank, the money will never reach Stripe's account and it will be up to Stripe to take on the dispute between merchant and buyer – not you.

8) Cost

Stripe's fees are very similar to its competitors, but the benefit here is transparency and real-time fee reporting. Pay no hidden fees, no setup fees, no monthly fees – only pay-as-you-use transaction fees. You can see their current rates here.

9) Seamless integration

Stripe has a reputation for fast developer-friendly implementation. This reduces time-to-market and costly integration processes.

Stripe Connect also supports **white label integration**. This means that the user will never even know that they are paying through Stripe Connect. The user interface and experience will still be in your brand design and on your website.

10) Security

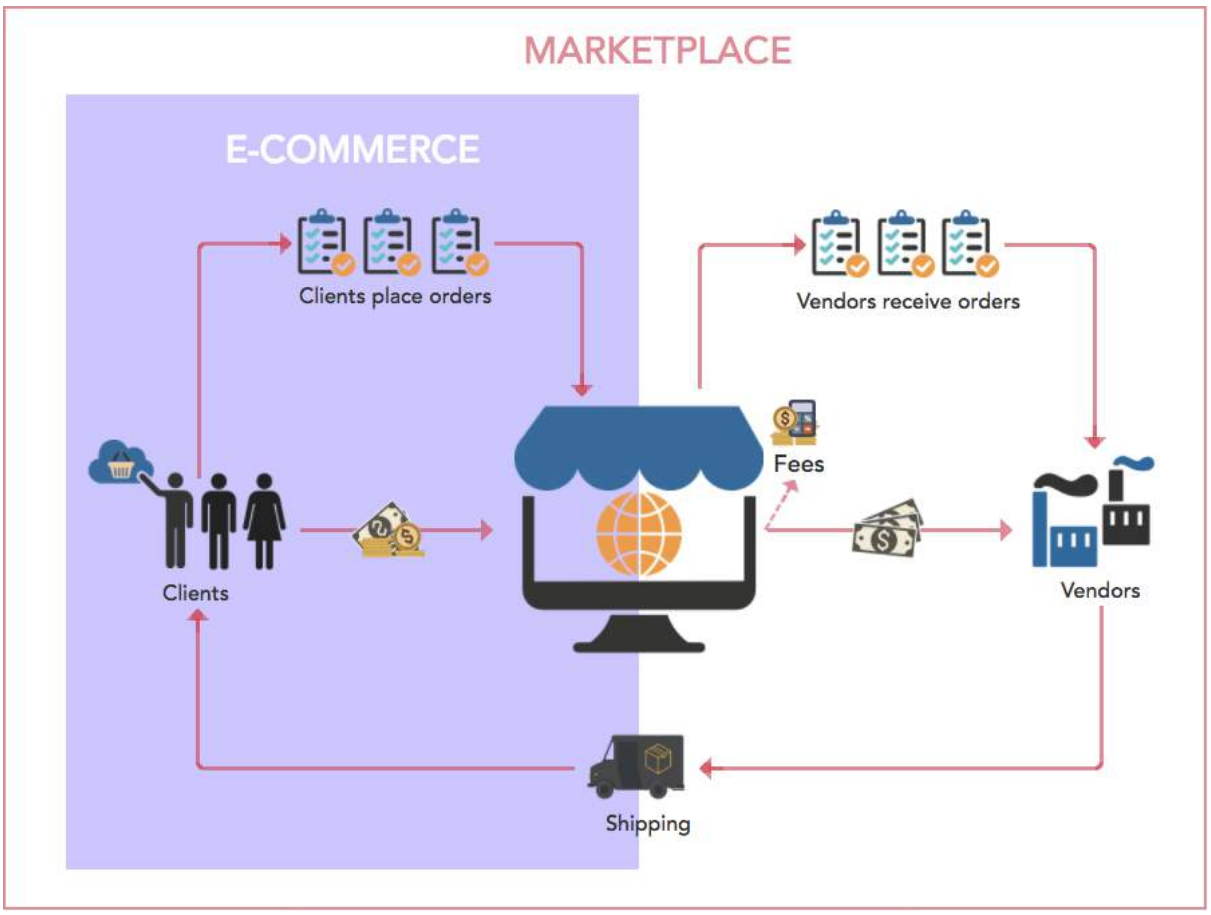
On top of wide and notable usage by Fortune 500 companies, Stripe is also said to "exceed the most stringent security standards." Stripe is a PCI Service Provider Level 1 (highest certification in payments industry). All transactions are SSL protected and all users are subject to Britain's KYC standards, meaning that every person in the picture is verified and all data is super secure.

11) Recurring payments

Stripe Connect offers full subscription functionality, which is great for SaaS platforms.

12) Split payments

This refers to the calculation and separation of an incoming payment into different portions to be paid out to multiple sellers, additional service providers like delivery drivers, and marketplace fees. Stripe allows unlimited parties.



13) Liability

When payments move through your marketplace, you are expected to take possession of these funds. While the funds are in your possession, you are considered the Merchant of Record, and as such, you accept responsibility for these funds until they reach their eventual destination. This makes you financially, legally and reputationally liable. If you use Stripe Connect. Stripe steps in as Merchant of Record.

Implementing a payment system for your marketplace

Integrating a payment system correctly within your marketplace requires certain resources and some experience. Getting it wrong can be costly and permanently damage your brand.

A short summary of the implementation process:

- ➔ **Scoping** - Gather business intelligence, e.g. product owners need to identify the flow of funds.
- ➔ **Integration** - Developers and UX teams connect the payment system to the marketplace.
- ➔ **Testing** - Developers test charge flows, product managers test verification flows, finance teams verify reports and dashboard information.

- ➔ **Training** - Customer service, finance and product management teams must understand how to handle refunds and disputes via the dashboard.

- ➔ **Go-to-market** - Strategies for user adoption. e.g. 'how it works' guides.

Which Stripe Connect account is best for your e-commerce marketplace?

Stripe's global payments platform, which facilitates the receiving and making of digital payments, is going from strength to strength. Recent funding rounds have thrust the privately-held company among the world's top ten most valuable startups, with a $35bn valuation that puts it on par with Airbnb. All that funding is good news for e-commerce entrepreneurs since Stripe has committed to using it to build more infrastructure that will further streamline online payments and billing.

One of the beneficiaries has been Stripe Connect, a payment platform specifically developed for online marketplaces. Connect is a complete payment ecosystem that covers:

- backend technology (think identity verification*, tax reporting, and currency support)
- fraud prevention
- optimised checkout flows
- split payments
- payment routing (e.g. one-to-one, one-to-many, many-to-many, escrow)
- subscription billing
- banking infrastructure
-

[*Identity verification includes a "Know Your Customer" (KYC) process for the gathering and maintenance of Stripe account holder information as required by the banking and/or anti-money laundering regulations of the country where your marketplace platform is registered.]

This end-to-end functionality has made it a popular choice for well-known marketplace platforms. A list of users read like a Who's Who of tech unicorns and include Amazon, Uber, Deliveroo, Spotify, Lyft, Shopify, Squarespace, Booking.com and Zillow.

In order to use Stripe Connect all sellers (anyone who receives money on your platform) need to have a Stripe account. These connected Stripe accounts can be created and managed by the sellers themselves or by your marketplace via the Stripe API (sellers don't have to interact with Stripe). There are three account types that offer different levels of integration, features and costs: Standard, Custom, and Express.

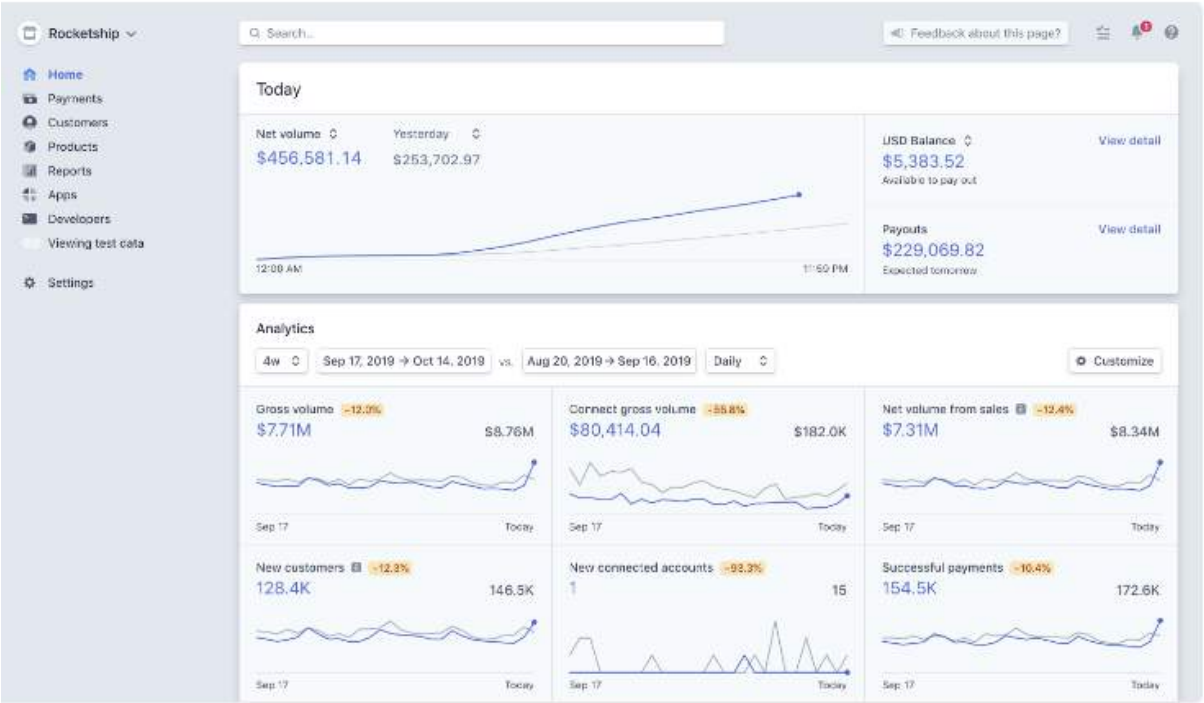
Stripe Connect Standard Accounts

Standard accounts are best for experienced online sellers who need the flexibility of the full Stripe Dashboard and best for platforms that don't want to manage liability or seller Stripe accounts. Sellers are prompted to create their own accounts (if they don't already have one) and connect them to your marketplace. They have full control over their accounts, which

allows them to log into the Stripe Dashboard, process charges, and disconnect their account from your platform.

Standard accounts work best with direct charges where buyers transact directly with the seller's account. Sellers are therefore responsible for Stripe fees, refunds, and chargebacks. This also means they require the lowest integration effort of the three account options. Use cases include e-commerce SaaS platforms like Shopify and Squarespace.

Note that with Standard accounts "Know Your Customer" (KYC) identity verification is done by the account holders themselves via their Dashboards.



The Stripe Dashboard

Stripe Connect Custom Accounts

Custom accounts can be seen as a white label option that allows full customisation of the payment process. This obviously requires the most development resources and a substantial integration effort with Stripe's API. In return it offers a fully customisable user experience, which includes the onboarding, dashboard, and reporting interfaces. Sellers can't log into Stripe and need to provide your platform with their banking details and identity verification documents.

A real world example occurred when Lyft's drivers wanted to get paid on demand instead of weekly. Customising the payout schedule gave Lyft a unique value proposition that attracted more drivers.

Custom accounts work best with destination charges where buyers transact with the platform, but products or services are delivered by the seller account. Net payments (after deduction of commission or transaction fees) are automatically allocated to seller accounts.

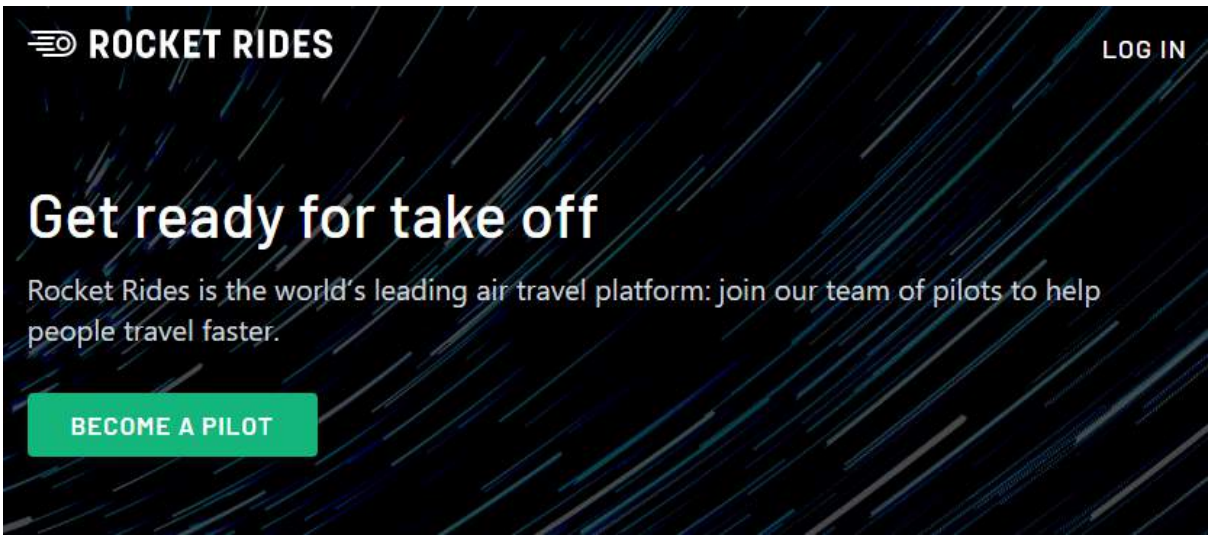
In this scenario, your platform account is responsible for and manages the Stripe fees, refunds and chargebacks on behalf of the seller accounts. Note that it is also your responsibility to vet Custom accounts for fraudulent behaviour. “Know Your Customer” (KYC) information for user accounts must be collected by your platform and submitted via the Stripe API. Information that needs to be collected varies based on the capabilities of each account.

Stripe Connect Express Accounts

In 2017, Stripe launched Express accounts, a hybrid option which allows sellers to sign up to marketplaces within two minutes. Automated onboarding instead of manual KYC identity verification helps to speed up the process. Express includes a pre-built dashboard for sellers, which reduces development time significantly. Stripe also takes care of reporting and account management.

Platform owners do have control over some elements of the user experience such as managing payout schedules and customising the flow of funds. As with Custom accounts, Express works best with destination charges. The responsibility for fraud prevention rests on the shoulders of the platform owner.

By removing the need for lots of software integration, Express helps marketplaces to get started with payments in weeks instead of months. Prominent users include Github (to pay developers for code), Spotify (to pay artists every time their music is played) and Medium (to pay writers their portion of paywall revenue). Originally only available in the US and Canada, Express was expanded to most EU countries including the UK in September 2019.



Click to test drive Stripe Connect Express onboarding

A side note on charges:

In addition to direct and destination charges, Stripe Connect also allows separate charges and transfers to cater for scenarios that require split payments. Retail marketplaces like Amazon would be one use case. In this scenario, your platform allows buyers to check out with a single shopping cart containing products from multiple sellers. Your platform receives

the full amount which is then manually distributed to the various sellers' accounts (sans commission or transaction fees).

Another example of separate payment transfers would be a delivery service like Deliveroo where funds need to be split between the restaurant and the delivery person. Carpooling on a ridesharing service is an example of separate charges that need to be processed for one transaction.

Additional account differences

Your revenue forecasts should take into account that Stripe fees vary for the different Connect account types. Standard accounts incur no platform fees, while there's an additional cost for using Express or Custom accounts: £2 per active account per month plus 0.5% of payout volume plus £0.10 per payout.

Refunds are also handled differently depending on the account and charge type. With destination charges all three account types are treated the same way. Stripe will automatically process the refund once sufficient funds are available in your platform's account.

With direct and separate charges refunds follow different paths depending on the account type. Stripe will automatically process the refund in the case of Standard accounts, once sufficient funds are available in the seller's account. Refunds are also automatically processed in the case of Express and Custom accounts, but funds can be deducted from either the seller or the platform account.

Getting your marketplace payment system right is critical for success. It stands to reason that you have to weigh up your development resources, the needs of your users, and how urgent your speed to market is.

That said, it's worth investing in the best possible payment system, since marketplaces that focus on seller services tend to attract better quality sellers.

"Over 50% of sellers will leave a marketplace for another that offers faster payments, better payment management, or integrations with tax and accounting software."
Forrester report

Fire up your marketplace front-end performance with React

Building your online marketplace with React JavaScript can boost front-end performance significantly. This can help to serve users' needs as expediently and efficiently as possible.

Marketplace platforms that load slowly in users' browsers, or on-page features that lag, will contribute to customer churn and high cart abandonment rates. Not only because of modern consumer impatience, but also because speed is a factor in trust. Additionally, Google will hate you and your SEO efforts will suffer.

It is therefore crucial to select the most suitable technology with which to build your marketplace platform. In front-end terms that means using a UI framework that is lightweight and loads almost instantaneously. Especially important when taking into account the vast amount of assets, such as images, style sheets and functionalities, that most marketplaces have to serve to users.

React has proven itself as one of the best performing front-end technologies since its inception. This chapter will explore why and how you should include it in your marketplace development plan.

What is React?

The short answer is that React is an open-source front-end JavaScript library for building component-based user interfaces.
Let's unpack that for clarity:

Open-source

React is free to use for commercial purposes under the MIT software license. It gives developers permission to reuse, copy, modify, merge, publish, and distribute the original code. Fun fact: it was first developed at and is still maintained by Facebook.

Front-end

Technologies that are used to develop user-facing interfaces such as web pages. They help developers create the structure, layout, style and interactive features of websites and mobile apps.

JavaScript

A programming language used to build dynamic web pages and non-browser applications such as mobile apps. Dynamic refers to its ability to update content, handle user inputs and animate images, as opposed to the static HTML used for page structures. If it moves or changes it's probably JavaScript!

Libraries vs frameworks

Software libraries are sets of reusable functions that make development quicker. Examples of JavaScript libraries are jQuery for event handling (e.g. form submission) or React for user interfaces.

Frameworks are supporting structures for your code; in other words, the architecture of your application. Bootstrap is one of the most well-known CSS frameworks. Examples of JavaScript frameworks include Angular for dynamic web and mobile development.

The key difference between them is the flow of control. With libraries, developers are in control of the flow – they decide when and where to make a call to a specific component in the library. On the other hand, frameworks control the flow by calling your code within its parameters. Thus libraries are less restrictive and more flexible.

Let's use boat building as an analogy. A blueprint for manually building a sailboat is similar to a framework. It gives you a set of instructions that you have to implement in a specific way to build your sailboat. If you want to use factory machines to mass-produce motorboats, you will need a different blueprint.

If however, you just want to add a mast, you only require a single schematic that fits in with the rest of your sailboat. In the same way, you can call a specific component (aka function) of a software library from anywhere within your application architecture.

Component-based

Components are independent and reusable JavaScript functions that produce on-page elements like menus and search bars. Here's an example of a React component that renders a 'like button' on an HTML page:

```
'use strict';

const e = React.createElement;

class LikeButton extends React.Component {
  constructor(props) {
    super(props);
    this.state = { liked: false };
  }

  render() {
    if (this.state.liked) {
      return 'You liked this.';
    }

    return e(
      'button',
      { onClick: () => this.setState({ liked: true }) },
      'Like'
    );
  }
}

const domContainer = document.querySelector('#like_button_container');
ReactDOM.render(e(LikeButton), domContainer);
```

User interfaces

Interactive browser applications such as web pages and non-browser applications like mobile apps. In other words, the parts of your platform (layout, style, content, features) that your users can see and interact with.

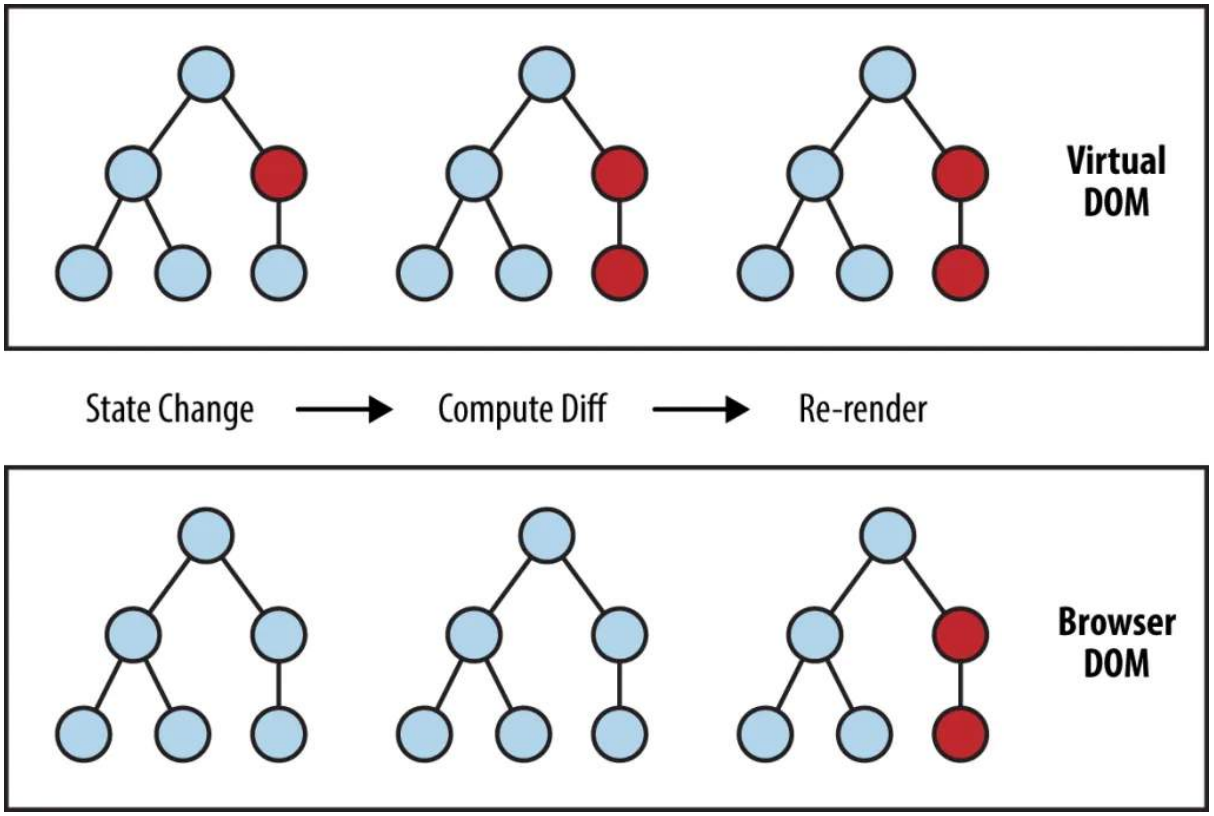
The advantages of React for your marketplace front-end

Speed is at the top of the list of React advantages. Not only in serving web applications but also in developing them.

Performance

Web pages are served faster by making changes in a virtual DOM (the data-tree that makes up the structure, style, and content of a page) instead of re-rendering the whole page in the user browser every time a change is made. This is how it works:

React creates a virtual snapshot of the DOM in the browser memory. When changes are made to a web page, React creates a new virtual snapshot and compares (reconciles) it with the prior version. The React library then only updates the components that changed without having to regenerate the whole page. This means a much smaller portion of the codebase (CSS stylesheets etc) has to be processed on the server, resulting in a major performance boost.



There are a number of ways in which React makes life easier for developers – which means a faster, more efficient development process.

Modularity

React doesn't dictate a specific architecture as it is solely focused on the view layer. It is possible though to incorporate it into a Model-View-Controller (MVC) architecture comprising three separate layers: Model contains the backend data logic, View is the front-end user interface, and the Controller layer manages how data is displayed. This allows multiple developers to work on the front-end and backend simultaneously, which expedites the development process substantially.

The ability to combine reusable UI components means that complex features can be developed much faster. This includes marketplace features such as admin dashboards, shopping carts, site navigation, and product pages.

Easy learning curve

Developers can use JSX (JavaScript XML) to create React components. Since JSX follows the widely familiar HTML syntax, developers can get up and running quicker.

```
const myelement = <h1>I Love JSX!</h1>;
ReactDOM.render(myelement, document.getElementById('root'));
```

Maintainability

React simplifies debugging and code updates due to its component structure and declarative nature – updates and re-renders only affect components when data changes. Developers can thus make changes to individual components without affecting the others.

Extensibility

React's widespread usage has given rise to a huge number of React add-on libraries and feature templates. In addition, its component-based nature makes it easier to build custom user interfaces for unique marketplace scenarios. In short, it can cater for almost any use case.

Flexibility

As a library of independent components that can be called anywhere within your application architecture, React offers more flexibility to cater for custom user flows or make rapid changes to existing elements.

Compatibility

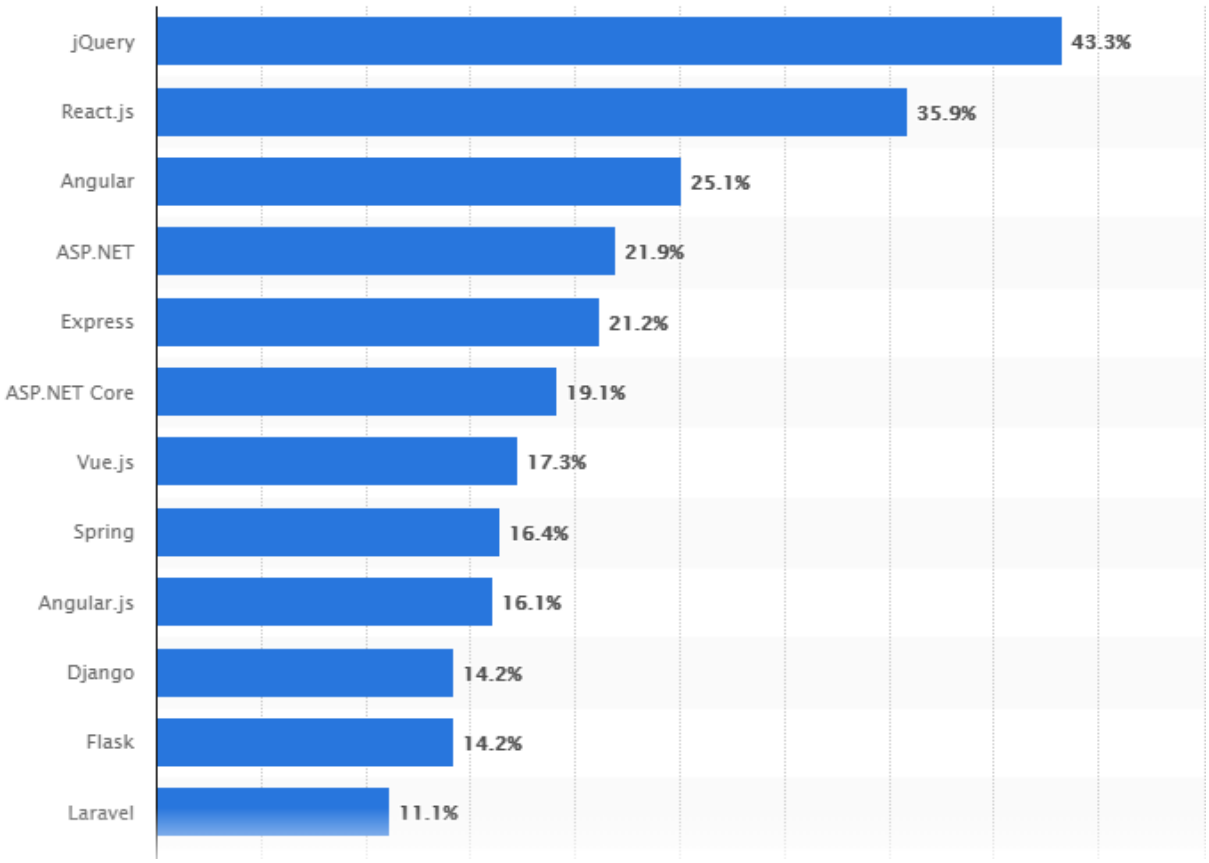
One of the reasons why React is so popular is its compatibility with most backend frameworks. It can be combined with Python, PHP, Ruby, Java or JavaScript based backend technologies.

Affordability

There are some financial advantages as well. Since its source code is open source it can be modified and used for commercial purposes without paying any licencing fees. Faster development times also mean lower development costs.

Popularity

As of 2020, React is the second most used web framework or library in the world. Its popularity has seen the growth of a large support community, which makes solving challenging problems easier.



Source: Statista

Mobile friendly

React is compatible with mobile app development on iOS and Android via its React Native mobile application framework. Since React code can be shared between platforms, React Native makes it easier to simultaneously develop iOS and Android apps.
Access to device platform APIs means that features like phone cameras or user location can be used. Another big advantage of using a common technology and a single codebase across platforms is that it is easier to maintain.

Challenges with React

For those with a basic knowledge of web technologies like HTML, CSS and JavaScript it may seem at this point that implementing React as part of a DIY marketplace project shouldn't be too difficult. That would be a mistake though; the above mentioned are simply the basics.

Combining various components to create complex marketplace features and linking them with your platform's backend and database requires an experienced development team. Facebook, for example, uses more than 50,000 React components in its social media platform.

Scalability

The front end of your marketplace should be able to handle a growing number of users and interactions as your platform grows. The freedom that React provides can be a

double-edged sword. Just jumbling components together without a proper architecture can seriously damage your platform's scalability. Disorganised files can also hamper debugging. One solution is to use a state-management library like Redux with React. It helps you manage changes in your applications via an observable data structure. This makes it easier to track data sharing across components.

For optimal results it is best to partner with marketplace development specialists who will ensure that your front-end architecture is designed for scalability.

Setting up and managing a React production environment for your marketplace front-end

To use React in production, you will need to set up a tech stack that takes care of creating, maintaining, and deploying your application. You will need testing tools, like Jest or Enzyme, a backend server environment such as Node.js, a backend application framework like Express.js, a front-end framework like Next.js, and network request tools like Axios or Fetch.

There are some shortcuts, like using a React starter kit (aka boilerplate) with a production-ready tech stack. However, you will still need to know how to execute your business logic via the correct combination of React components and what to do if your particular user flow is not catered for.

SEO issues

Search engines have to follow a more complex process to index web pages built with JavaScript than with standard HTML pages. Just one error in the JavaScript code can prevent indexing of a page.

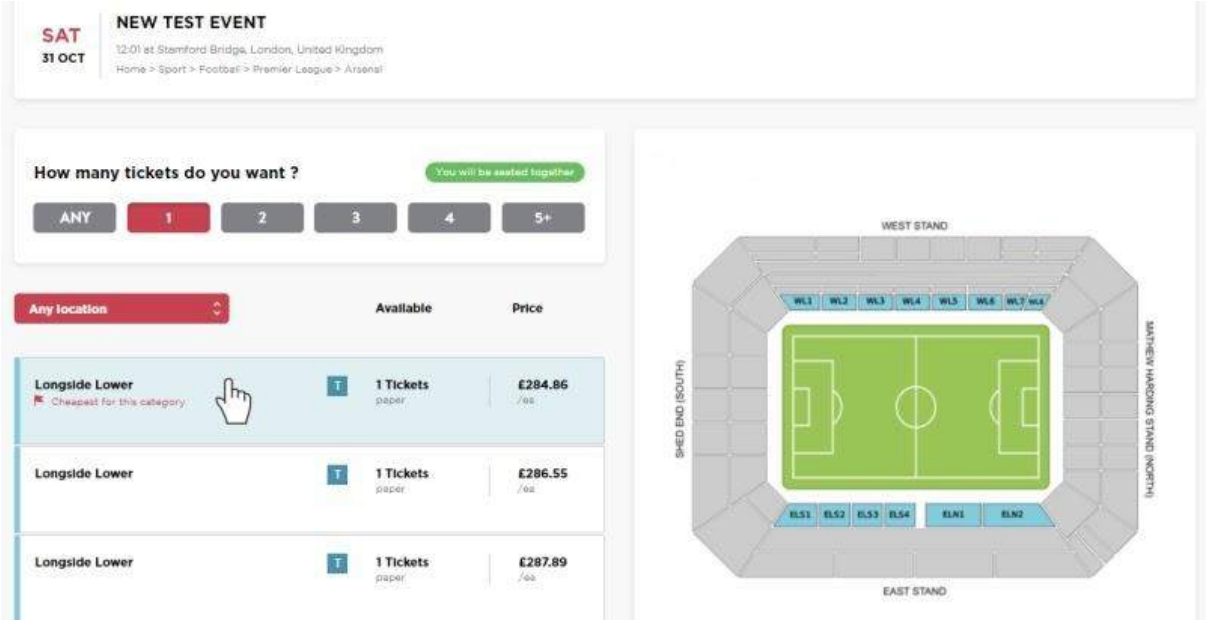
More importantly, client side rendering (in the user's browser), as used by React, doesn't serve complete HTML files (with all that SEO goodness) to search engines. The workaround is to add Next.js for server-side rendering of full HTML files that are indexable.

Successful platforms that use React

Some of the world's largest digital platforms use React. That includes streaming platforms like Netflix, peer-to-peer marketplaces like Airbnb, social media platforms like Instagram, media platforms like the New York Times, and communication platforms like WhatsApp.

Ticketing marketplace, FanPass, is a good example of a marketplace platform that used React to outshine its competitors. Not only does it load lightning fast – an important consideration for someone buying tickets to an event that is selling out – but React components were used to build innovative interactive features that add lots of extra value to the user experience.

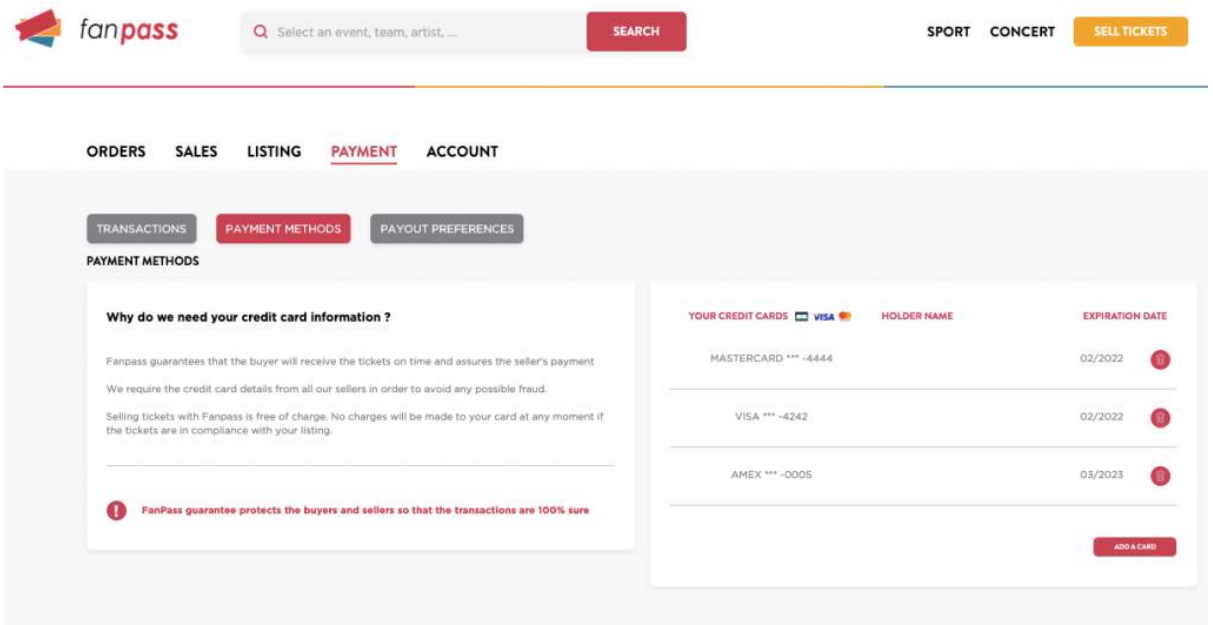
One such feature is a hover effect that highlights different sections on the stadium map when a user hovers over one of the ticket listings. When a user selects a particular ticket listing, the exact seat is highlighted on the stadium map with a thumbnail view from the seat.



FanPass – interactive stadium map built with React

FanPass – thumbnail of selected stadium seat

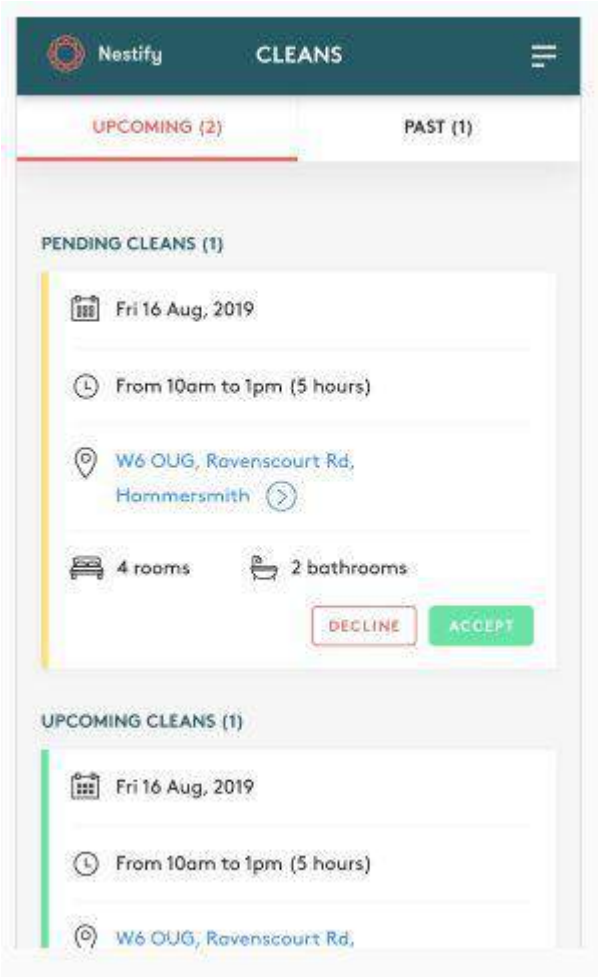
React components were also used to build a detailed seller dashboard through which sellers can track sales, manage their payout preferences and select payment methods.



FanPass seller dashboard built with React

The end result? £50,000 sales per day within the first year.

Nestify, a UK-based property management platform, created a mobile app with React that connects freelance cleaners with Airbnb properties. It allows them to sign up, select properties and signal availability. This user-friendly mini-marketplace for cleaners has resulted in better efficiencies for landlords and more flexible job opportunities for cleaners. The platform and application have so far contributed to a 30% increase in landlord revenue.



Nestify cleaning app built with React

Should you build your online marketplace with a remote team?

Headlines across the world have been pretty emphatic: the coronavirus epidemic has brought business as we've known it to a standstill. Millions have lost their jobs and even more have had to adjust to working from home.

Chances are therefore good that you have recently come across more than one article singing the praises of remote work or explaining how to run a distributed organisation. This is of course not news for digital startups such as online marketplaces. The coronavirus is just one more good reason why savvy marketplace entrepreneurs are building their platforms with distributed teams.

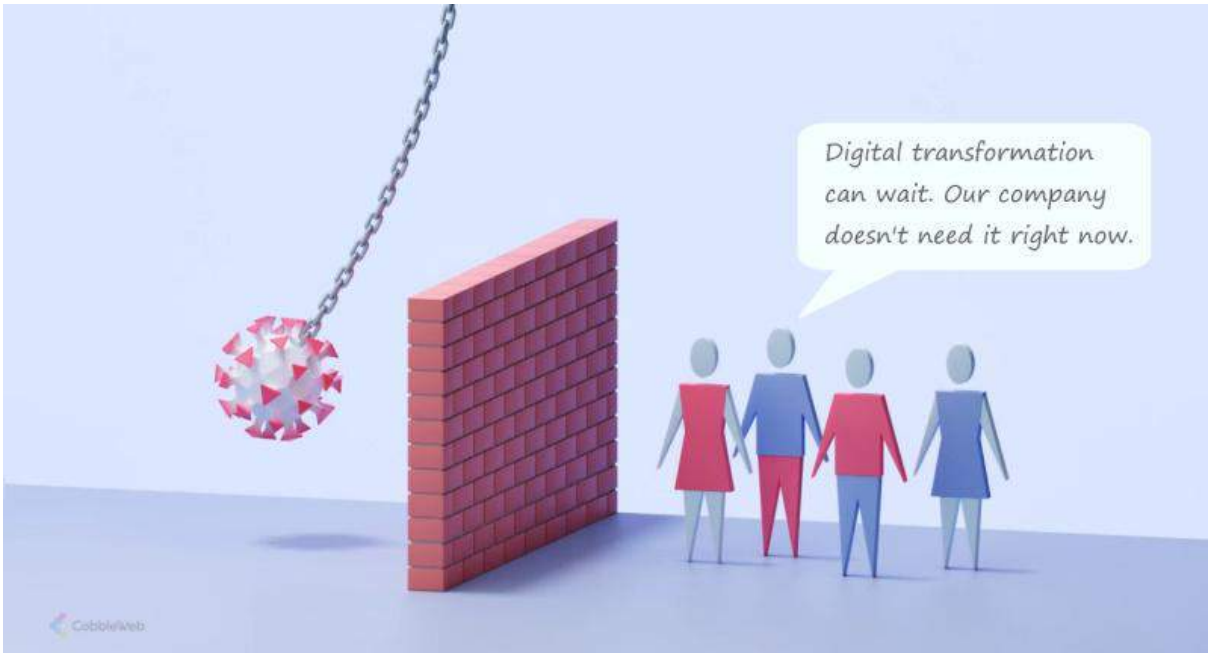
'This isn't just a pause – it's an entire reset of our economic system'

- Johann Rupert, chairman of Swiss luxury goods company, Richemont.

> "It seems extremely implausible to us that life will return to the status-quo-ante, which is the underlying presumption of virtually all the forecasts right now."

- Wolfgang Munchau, associate editor for the Financial Times.

Some pundits may be hoping for business as usual in future, but the fact is things will never be the same again. Remote work is here to stay and will surge in momentum as more businesses cross the digital divide. Business development and management models will be forced to change. Agile, digital-first companies with flat hierarchies will thrive, while traditional top-down monoliths will come under increasing pressure.



The coronavirus pandemic has strengthened the case for digital transformation, a crucial prerequisite for a distributed organisation.

Continue reading to learn more about the advantages and challenges of developing your online marketplace with a distributed organisation. We've also added a practical guide for running remote teams, based on many years of experience.

What does 'distributed organisation' mean?

In a modern distributed company, geographically dispersed employees work on related tasks and projects towards a common goal, using technology to communicate and collaborate in real time.

The key characteristics of a distributed organisation are therefore:

1. Physically remote workers
2. Team members operate as an interconnected network
3. Connections are facilitated by technology such as SaaS

The rise of distributed organisations

Although remote work is not new, the world has come a long way from communicating via telegraph, telex, or fax. Never-ending email threads and clunky analogue teleconferences have been superseded by the rapid growth in SaaS applications like Slack instant messaging and Zoom video conferencing. This digital revolution has greatly reduced the need for colocation, with collaborative cloud software now available for almost every business function.

400% growth in remote work since 2010
– Research by business software discovery platform, GetApp: Findings from a decade in tech

16% of global companies were fully remote in 2018
– Research by video conferencing tech company, Owl Labs: Global State of Remote Work

74% increase in UK remote workers between 2008 and 2018
– Research by Office for National Statistics: Labour Force Survey

Digital companies, especially startups, have been at the forefront of the move to a distributed model. Half of e-commerce platform Shopify's 5,000 employees work remotely. Software development platform, GitHub, operates with a more than 60% remote workforce.

Upwork, the global freelance platform, is a poster child for marketplaces that make extensive use of distributed teams. Even its co-founder, Stratis Karamanlakis, works from his Athens home, instead of the company's Santa Clara, California headquarters.

Successful fully-distributed digital companies include well-known names like Basecamp, Mozilla, Automattic, Kissmetrics, Buffer, Zapier and MySQL.

Tech companies that do not embrace remote work may do so at their peril. Remember when Marissa Mayer, ex-CEO of Yahoo, banned remote work? Commentators have said that loss of talent was one of the reasons why the company went from a $100bn valuation in 2000 to selling its core business for a 'paltry' $4.83bn in 2016.

However, a remote-work ethos does not necessarily guarantee success. WeWork, the shared workspace platform and champion for distributed teams, experienced a cataclysmic fall from grace in 2019, plummeting from a $47 billion valuation to below $5 billion in less than a year. The consensus was that an irresponsible corporate culture and alleged CEO malfeasance were to blame.

WeWork's collapse offers a cautionary tale. Paying lip-service to innovative organizational models is no substitute for transparency, structure, and accountability. Marketplace entrepreneurs should carefully weigh up the pros and cons of building their platform with a dispersed team. They also need to fully understand the prerequisites for a successful distributed organization.

6 reasons why you should build your online marketplace with a distributed team

It's cost-effective

Employers can save on office rentals, office equipment, utilities, and other overheads, while employees pay less for fuel, car maintenance and parking fees. Employees also save on rent as they don't have to move to expensive cities like London or New York. This is in line with the Lean approach which focuses on maximising customer value while minimising costs.

It's good for productivity

It has been known for a while that well-managed distributed teams have the ability to outperform colocated teams. Harvard Business Review reported back in 2014 that employee productivity can shoot up with more than 40% under the right circumstances.

According to research by video conferencing manufacturer, Owl Labs, better focus and productivity is the number one reason why people prefer to work remotely.

And what better authority than Google, which has 100,000 employees spread across the globe. They studied 5,000 of them over two years and found that those working remotely had the same productivity as their office-bound colleagues. Minus the long commutes and high overheads of course.

A wider and deeper talent pool

A distributed approach gives your business access to more potential employees across the world. Not only that, it also improves the chances of recruiting top talent that are not available locally or are out of your budget. With sky-high salaries dominating labour markets in tech hubs like Silicon Valley and London, even established platforms are looking at remote teams as a solution.

Our concentration in San Francisco is not serving us any longer, and we will strive to be a far more distributed workforce, which we will use to improve our execution,
– Jack Dorsey, CEO of Twitter and Square.

Access to a larger talent pool also promotes diversity, which has been touted as an important driver of innovation by respected institutions such as the World Economic Forum and Harvard.

"More diverse companies, we believe, are better able to win top talent and improve their customer orientation, employee satisfaction, and decision making, and all that leads to a virtuous cycle of increasing returns."
– According to management consultants, McKinsey

Better employee retention

Remote teams that operate within a well-structured environment tend to exhibit better time management. Together with a lack of long commutes and time-wasting office banter this can substantially improve employee work-life balance.

Happy employees are loyal team members. No surprise then that US companies that allow remote work have reported a 25% reduction in staff turnover. Since it is accepted wisdom that it is much cheaper to retain employees than to recruit and train new ones, this can have a huge impact on your marketplace startup's financial resources.

Greater protection against unforeseen disruption

As the coronavirus pandemic has shown, a black swan event or other form of sudden disruption can cause havoc to businesses. Distributed organisations tend to be less vulnerable to certain types of adversity such as labour or geographical shocks. Amazon's sales surge during the current health crisis is a good example.

Competitive advantage

Getting your distributed organisation right will also mean that you have created a competitive advantage over your competitors. Better talent, lower costs and higher productivity could be the edge that your marketplace needs to stand out.

Getting it right also means that you should be able to scale your organisation quicker. Once the structure and processes have been set up and tested, new sub-units can be replicated at pace.

Roadblocks to building an effective distributed team

It's easy to get excited about all the advantages of building your marketplace with a remote team. Successfully pulling it off though, may not be that easy, with multiple challenges awaiting the novice founder.

Lack of a common culture

First up is the challenge of building a common culture. It can be tough to sell your startup's vision and values when none of your team shares a physical space. Without a well-defined shared culture it's hard to determine if candidates will be a good fit for your company. It is also difficult to retain people when they don't feel like they belong to something bigger than themselves.

Inadequate communication skills

This is a biggie. Without the right linguistic capabilities, the quality of communication in your business and thus the results will suffer.

All team members need to be able to communicate at a satisfactory level, both verbally and in writing. Inadequate language skills can lead to misunderstandings or mistakes and undermine your team's cohesion.

Additionally, not knowing when and how to use specific communication channels (instant messaging, comment features, email, video or audio calls) can cause confusion and frustration.

Tightly coupled work, where team members are very dependent on each other's input, presents a very specific challenge. Since tightly coupled work requires high levels of collaborative efficiency, the quality of communication is of the utmost importance.

Inadequate technological infrastructure

Slow internet speeds and lack of hardware capacity can kill your business before it's out of the gate. Your team needs sufficient bandwidth and computer power for clear communication channels (audio, video) while running multiple SaaS applications at the same time. There's nothing like frozen apps and videos, or audio that keeps cutting out, to pour cold water on team collaboration, product development, sales and customer service.

Missing technological insights

If you have never run a distributed organisation before, it can take a while to figure out which communication and collaboration tools are best for your business and how to use them. For example, not using version control software properly will probably cause a few cataclysmic disasters. Some communication tools, like Slack, can negatively impact productivity, especially if they are implemented willy-nilly without guidelines.

Weak remote management skills

Managing team members who are situated across multiple time zones is a tricky job. Poor time management and haphazard scheduling will hamper your team's efficiency, while

inconsistent information-sharing and ineffectual communication will reduce focus and productivity.

Normal leadership best practices still apply. Applying them in a remote environment can be challenging though. Many remote managers, for example, struggle to build a level of cohesion that motivates the team to work smoothly together towards a common goal.

The (in)human factor

Feelings of isolation and lack of human connections can wreak havoc on your remote team's motivation. Many remote workers complain that they are treated like disposable units or robots instead of valued team members. Finding creative ways to ensure your team is close-knit and motivated can be challenging.

Lack of accountability

With no-one leaning over their shoulders, it can be hard to hold remote employees, especially those who fail to deliver to expectations, accountable. Using time trackers and monitoring tools can be seen as invasive and demoralising, which means you have to rely on remote employees to work independently and conscientiously.

How to build your marketplace platform with a distributed organisation

After you have weighed up the pros and cons and decided to go with a distributed model, you will need a best practices framework to put it in place. With that in mind, we've put together some tried and tested tips you can use as a guide to set up and manage a remote team for your online marketplace.

Recruit the right people

According Harvard Business Review (HBR), the ideal character traits for a remote team member includes,
". . . good communication skills, high emotional intelligence, an ability to work independently, and the resilience to recover from the snafus that inevitably arise. Awareness of and sensitivity to other cultures . . ."

You would also want them to be self-motivated, fast learners who are good at task prioritisation and time management. HBR recommends using behavioural tools like the Myers-Briggs personality test to screen candidates for the right qualities.

Structure your recruitment needs by clearly outlining the required competencies for each role in terms of knowledge, skills and abilities*. By assigning a weight to each competency (taking into account the requirements of a remote role) your recruiters will be better able to compile a shortlist of candidates.

[*Knowledge refers to a person's understanding of a task, while skills are the learned and practiced proficiency they apply to a task. Abilities indicate the natural capacity or potential of a person to perform those tasks. Together they form the competencies for the range of tasks required by a specific role.]

"Vetting competencies by looking at CVs and portfolios is not enough; give candidates a practical test to see how they fare with scenarios applicable to your distributed business.

Hire people according to the work they do, not to the beautiful stories they can tell in their resumes."
– Jason Fried and David Heinemeier Hansson, the founders of Basecamp and authors of Remote: Office Not Required

A probationary period of up to three months is essential for remote jobs. It gives both the new employee and the employer a chance to see if they are a good fit for each other. Make sure that the terms of the probationary contract are clear and that your onboarding process is super effective. If you have the resources, a buddy system for new recruits may also be a good idea.

Hone and adapt your leadership skills

Those without experience of looking after distributed teams, may find the learning curve a bit steep, but at the end of the day, it boils down to applying some basic principles. Your leadership should:

- build trust
- provide direction within a clear structure
- create ownership
- exert the right amount of oversight

Displaying empathy goes a long way towards building trust and buy-in. A too rigid approach can make employees feel like robots or disposable units, which is of course not ideal for job loyalty. Where possible, you should allow flexible work hours, as long as it does not interfere with team collaboration. Make sure everyone takes enough leave to maintain a happy work-life balance.

Show that you care with occasional video or audio check-ins that cover not only the business, but also how it fits in with their lives. Displaying an interest in what remote employees care about will give you better insight into their level of commitment and job satisfaction. Sometimes a more casual conversation can even reveal a skill or insight that you were not aware of.

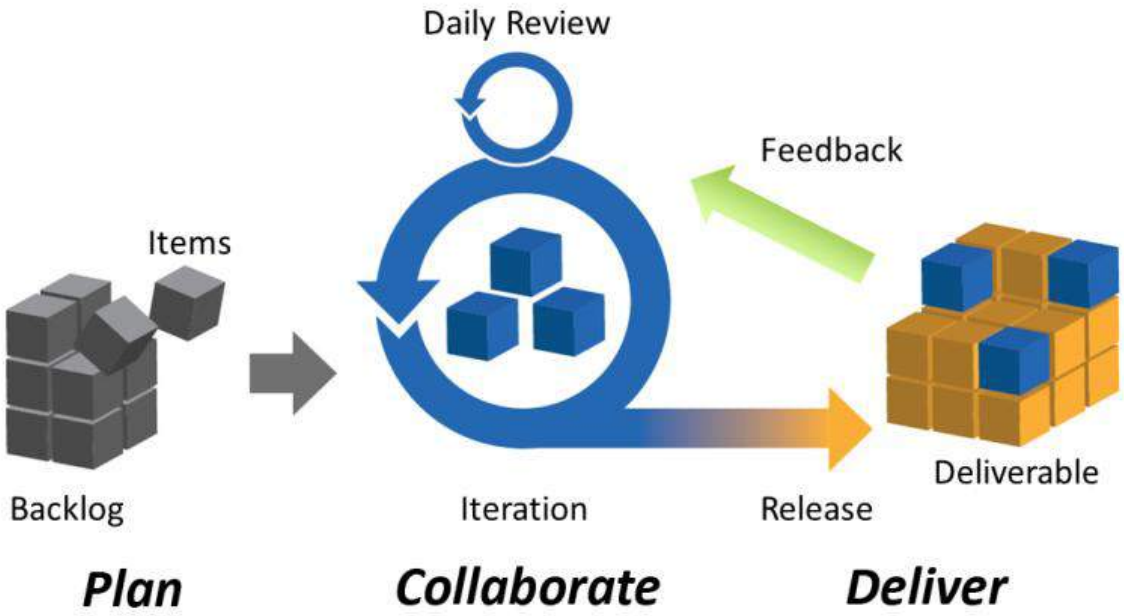
Transparent communication and open dialogue are important ingredients for building trust and providing direction. Set clear goals and expectations; then make sure everyone understands and buys into them.

Promote the company's vision and values on a regular basis via internal newsletters, IM updates, and video conferences. Also share updates about significant milestones and celebrate individual or team achievements. After all, you should be your business and your people's number one cheerleader.

Always welcome suggestions and inculcate a culture of robust but respectful interaction. Since you employed your team members based on their expertise, you should be listening to them too!

Remote leaders need to be adept at driving accountability without micromanaging. Staff monitoring and tracking tools can be perceived as invasive and distrustful. Rather take a leaf

out of software development's Agile handbook and implement sprint cycles with agreed upon time allocation for each task. Sprint planning and reviewing at the beginning and end of each cycle contributes to ownership of tasks and projects.



Agile sprint cycles will promote better task ownership & time management
Monthly one-on-one meetings and quarterly reviews should be used to track performance, exchange feedback, and implement corrective measures if required. For that you are going to need a productive framework like Objectives and Key Results (OKRs) which relies on specific measurable actions to achieve clearly defined goals. OKRs can be expanded from individual to team and even company level.

Formal documents can provide structure and a sense of security for your people. A code of conduct, company values, mission statement and a list of minimum expectations should be drawn up and presented to new team members when you on-board them. Make sure it contains procedures for grievances and the disciplinary process.

Build a strong collaboration & communication framework

The quality of your distributed team's communication and collaboration hinges on three aspects: skills, structure, and technology. Communication skills have been addressed in the recruitment section above, so we'll focus on the other two here.

Technology such as video conferencing software has made it much easier for remote teams to communicate and collaborate.

The structure

First of all, it's important to promote collaboration, not compromise. Your goal should be to merge the different skills and perspectives of all team members in a productive manner. Creating minimum standards for communication can drive that goal.

Make sure your team knows when and how to use different communication channels. Use instant messaging for brief conversations, email for detailed fact-filled exchanges, and voice calls when urgent feedback or lots of discussion is required. Instill proper communication etiquette; for instance, don't mix physical and virtual teams. As with all tasks, your communication culture should emphasise follow up and follow through. If someone does not respond to an email, phone or message them!

Software development's agile methodology offers another great tip. Short daily standup meetings are great for making sure everyone is on the same page and checking if anyone is struggling with a task. Collaboration software like Jira offers remote teams a digital equivalent with team members summarising what they have accomplished the day before, what they are working on that day, and whether they have encountered any roadblocks.

The technology

Who remembers the cumbersome old technology of the 1980s? Physical answering machines that ran out of tape, fax machines that ran out of toner and paper, and simplistic pagers seem so archaic and cumbersome these days. Ironically all the advances in hardware and software have created a new problem: too many options make it difficult to choose the right ones. Here's list a of tried and tested technology to simplify the process:
Hardware

Get your team to run a virtual desktop from their own devices with Amazon Workspaces. It eliminates issues with hardware and operating system compatibility. Workspaces also expedites the onboarding process and makes it super easy to add or remove software applications to your team's virtual desktops. In addition, software applications are always up to date and all data is securely encrypted in the AWS cloud, with none stored on the local device.

Amazon Workspaces makes it easier, cheaper and more secure to connect your remote team via virtual desktop infrastructure.

You can take your team's hardware performance one step further by shipping them each a cheap Thin Client that is optimised for Amazon Workspaces. It may also promote better separation between private and professional lives since it contains less distractions.

Software

- Video conferencing: Zoom is all the rage, but there's also a strong case for Google Hangouts Meet. Skype is still widely used and GoToMeeting has a loyal following.
- Project management: Jira, Trello, Asana, Airtable
- Collaboration/Team workspace: Basecamp, Confluence
- Instant messaging: Slack, Microsoft Teams, Google Hangouts Chat
- Screencasting (aka screen capture): Loom videos are great ways to explain what words can't.
- Virtual whiteboards (for brainstorming or mapping product development, a process sequence, or campaign): Miro, Realtime Board
- Design collaboration: InVision, Sketch, Figma
- Software development (collaboration, version control, repositories and code reviews): GitHub, GitLab, Bitbucket
- File management (creating, collaborating, storing, sharing): Google Drive, OneDrive
- HR (payroll, onboarding, leave tracking, performance management) : BambooHR , Gusto, Rippling
- Recruitment (applicant screening, candidate pipeline management, job board integration, interview scheduling): Recruitee, BambooHR
- Password manager: LastPass, OneLogin
- Workflow automation (connects apps, expedites software integration): Zapier

Build a productive & motivated culture

The more energy and thought you put into processes, habits and behaviours that make work easier and more enjoyable, the more motivated and productive your people will be. Achieving this within a distributed organisation requires some creativity and smart use of technology.

Foundations for a productive environment

In the absence of physical oversight, clearly structured processes are key to productive remote work. All tasks should have someone assigned to them, have due dates, and show a status (e.g. in progress, in review, finalised).

Most collaboration tools allow you to add observers to tasks, who will be notified when the task is created, changed or completed. A task comment feature can help discussions take place within the right context, makes general chat less cluttered, and leaves an easily accessible record.

Make sure goals and expectations are clear and bought into at every level via quarterly action plans, monthly one-on-ones, sprint planning and sprint reviews. Keep those goals front of mind with regular mentions and track progress with OKRs (set up an auto update with a goal-setting tool like Weekdone). Avoid robotic processing of tasks by focusing on the quality of outcomes. Roles and responsibilities should be clearly defined to provide direction and prevent overlap.

Establish common ground through shared knowledge. Repositories on an intranet, wiki pages and blogs can help new team members get up and running quicker. These channels can also serve as a minimum standards reference point for the whole team.

Don't try to do everything; it makes sense to outsource non-core competencies to specialists. Learning how to code (even when using a marketplace template or web builder), while simultaneously trying to build a distributed business, is a recipe for disaster.

Inspire, Nurture and Motivate

Sell your marketplace vision often and well. It provides an important sense of purpose and inspiration for people who do not share an office. Use every available opportunity and channel for community building and information sharing.

CHANNELS FOR REMOTE COMMUNITY BUILDING & INFO SHARING

Channel Type	Channel Description	Examples
Push channels	Broadcast information to employees (passive recipients)	Email (newsletters), instant messaging (Slack company channel), intranet, videos
Pull channels	Search for information when you need it (repositories)	Intranet, wiki pages, blogs, company website
Talk channels	Interactive forums that promote debate & understanding	Daily standups, monthly 1-on-1, quarterly reviews, digital Town Halls, conference calls
Community channels	Channels that foster team cohesion & company values	Yearly/quarterly physical team retreats, social media team pages, social caring projects
Engage channels	Dedicated to inspiration, recognition & improvement	Competitions, awards, courses, certifications, team spotlights
Intelligence channels	Space for employees to voice concerns & give feedback	Surveys, polls, focus groups, 360 reviews, grievance policies & procedures

CobbleWeb

Online competitions and challenges promote friendly rivalry and help your team to get to know each other. Balance out the fun and games with plenty of acknowledgement in the shape of awards (e.g. problem solver of the month) and incentives. Acknowledgement can also take the form of extra responsibilities, such as giving a virtual presentation to the team. Create community channels for the aforementioned on Slack or social media.

Support personal and professional development by giving paid time off for courses and certifications that are relevant to the different team roles. Your employees' sense of achievement will translate into better retention and higher skill levels for your business.
Get feedback, lots of it. Polls, surveys, 360 degree reviews can all help to find out where your team's weaknesses and strengths lie.

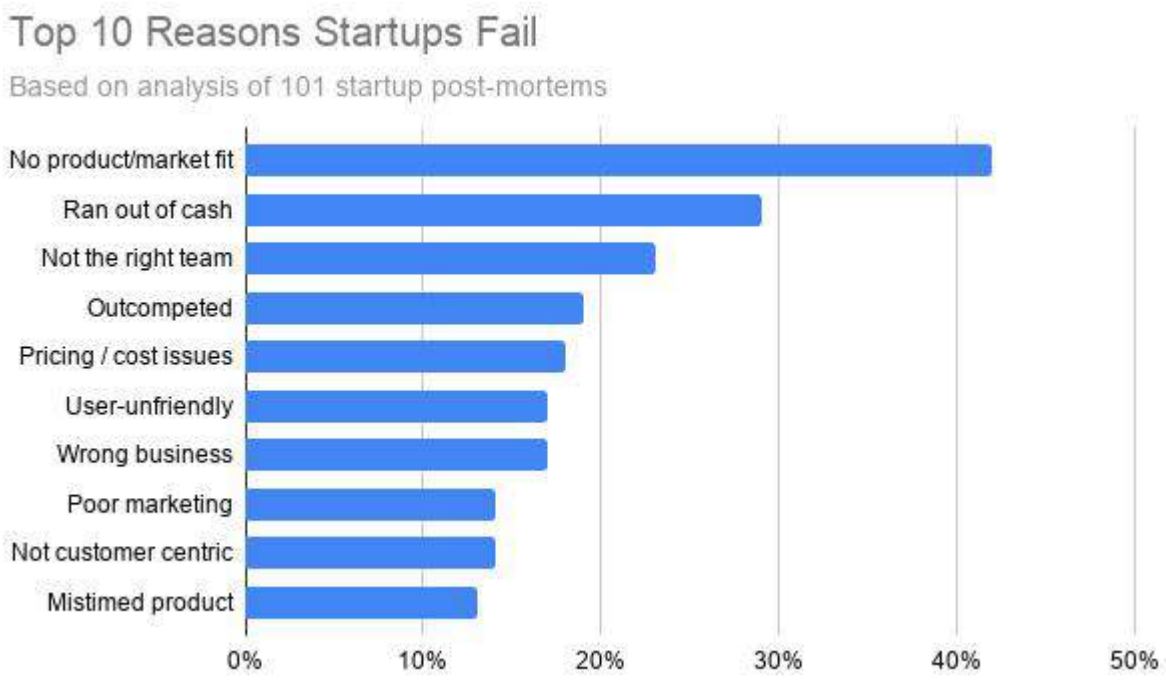
Some remote-first teams, like Zapier and Buffer, organise quarterly or yearly meetups to foster more personal relationships within their workforce. Occasionally, meeting face to face

can help to humanise and contextualise people, which in turn can boost remote communication and teamwork.

A proviso would be that the meetups are organised around constructive interaction without being too prescriptive. Alternating conference-style presentations with fun activities and excursions should do the trick.

A less expensive digital, but still personalising, option would be to share video tours of team members' work spaces. Just make sure they're neat and clean.

Which remote roles do you need to build your marketplace?



According to CB Insights not having the right team is the 3rd most common reason why startups fail.

Getting your team right is crucial, both as a startup and as a distributed company. During the early stages of your marketplace some functions can be fulfilled by the same team. For instance, sales and customer success can be combined initially. The scope of your remote teams will depend on your platform's requirements and your financial resources. Here is a brief summary of some of the most important roles.

Marketing

Your marketing team should focus on creating brand awareness, driving demand side traffic (buyers), and generating supply side leads (sellers) via on-page SEO, advertising channels, and other forms of content marketing.

Recruiting one or two full-time marketing specialists with some knowledge of your market and product will give you the most bang for your buck. Look out for candidates with business development and leadership skills and experience; they can help you scale this team.

Sales

The sales team is responsible for merchant generation (seller signups), lead qualification and conversion (paid users), looking after new merchants, assisting with user onboarding, eliciting and analysing user feedback, audience segmentation, and customer success.
Remote sales teams can be run full-time in-house, outsourced to an external company, or made up of part-time freelancers. Remember to compare scalability with cost and effectiveness.

Product

This team looks after product vision and strategy, outlines the product roadmap, analyses the competitive landscape, identifies new features and schedules updates. In an early-stage startup this is usually a collaborative effort between the founders and the development and sales teams. Once the marketplace has achieved product/market fit it is probably a good idea to employ dedicated product managers.

FinOps

You will need a finance and operations team to take care of human resource aspects such as recruitment and payroll, company logistics, financial modelling, internal audits and day-to-day accounting. Ideally this team should be headed by a qualified accountant, in conjunction with one of the founders, and make use of a team acquisition specialist.

Development / software engineering

Developers form the engine of your remote team, without them there is nothing to market or sell. This team is responsible for designing the system architecture, building the platform, delivery of new features, optimising and maintaining platform performance, and sorting out bugs and site incidents. UX/UI design can form part of the development team or stand on its own, depending on resources and available skill sets.

In general there are three options: DIY with an off-the-shelf marketplace template, using freelance platforms like Toptal and YouTeam, or contracting with a development partner that specialises in custom marketplaces. A potential fourth option, building an in-house development team, is beyond the budget and expertise of most early-stage marketplace startups.

Using a DIY marketplace builder may seem cheaper and quicker initially, but there are some serious drawbacks, especially if the founders have no software development expertise.

Building a remote development team with freelancers can also be problematic. Startup gurus like Michael Seibel, CEO of Y Combinator, are not fans. In their opinion, freelancers lack commitment and don’t really care about your business success. And then there’s the question of who will manage them if the founders have no software development experience?

In contrast, an experienced development partner with its own distributed team offers several advantages. They can keep costs down compared to a colocated company, have the expertise to get up and running quickly, can offer valuable advice, and can scale to suit your needs. All of which means a better quality product with better chances of success.

Section 5: Launching your marketplace

How to launch your online marketplace with a winning go-to-market strategy

As a marketplace entrepreneur you want to give your new digital baby every possible chance of success. One of the most powerful weapons in your arsenal is to launch your marketplace with a detailed go-to-market strategy in hand.

What is a go-to-market strategy?

A go-to-market (GTM) or market activation strategy is the game plan that outlines how you are going to use the resources at your disposal (team, budget, tools, skills) to sell your unique value proposition to a specific audience and in the process gain competitive advantages and/or create network effects that will grow your marketplace.

What it is not:
Marketing vs go-to-market-strategy. Marketing strategy is an ongoing activity aimed at growing competitive advantages over time, while go-to-market strategy outlines how you will successfully introduce a new product or service to an existing market or expand into a new market. As such GTM is a subset or the ignition of your marketing strategy.

Business plan vs go-to-market strategy. GTM forms part of the more comprehensive business plan. Business plans are long-term focused and also include many other aspects like detailed financial forecasts, legal and organisational structures, team and founder profiles, use of funds breakdown, and more.

Why do you need a go-to-market strategy?

It increases your chances of success and decreases your costs by minimising wasted resources. It also provides structure and focus for your team. And of course, because Guy Kawasaki said so. Jokes aside, most investors will want to link their investment to an agreed-upon market activation strategy.

Guy Kawasaki says you better have a go-to-market plan

Setting up your go-to-market strategy

Start by defining your target market and ideal customer personas. Use published market research, pre-launch promos and surveys to learn more about your target audience. The more you know, the better you can sell your product.

Understand the difference in size between your:

Total Addressable Market (TAM) – the total number of customers in a market multiplied by their average annual spend.
Serviceable Available Market (SAM) – the total number of customers who could potentially buy your product (taking into account competitor market share and consumer preferences) multiplied by their average annual spend.

Serviceable Obtainable Market (SOM) – the total number of customers who would realistically buy your product (taking into account your reach based on current resources) multiplied by their average annual spend.

If you don't go through the TAM, SAM, SOM exercise, you may just launch in a market that can't support your product offering. In general, starting off with just a portion of your SOM market, the so-called pocket approach, is a wise way to start testing your product-market fit without risking your wider brand exposure.

You will need to do a detailed **competitor analysis** using a framework like SWOT or PEST. This will give you the necessary insights to create unique selling points that differentiate your marketplace and which can develop into competitive advantages.

The next step is to clarify your **value proposition**. What problems are you solving and how are you solving them? This is closely linked to making sure you have product-market fit. This is a biggie, since lack of product-market fit is the number one reason why startups fail. Minimum viable products (MVPs) and rapid iteration cycles have been proven to be highly effective in validating product-market fit for marketplaces.

It is important to map out the **customer journey** so that any potential friction points can be identified and resolved. The customer journey should also form the basis of the MVP version of your marketplace. Having an experienced UX team on your side will help a great deal at this point.

The above items will determine the nature of your **business model**: B2C, B2B, P2P etc. Once you have chosen a suitable business model, it's time to identify potential revenue streams and a pricing structure. Don't take this lightly; your monetization strategy should be reflected in the flow of value to all users of your marketplace.

Your chosen **tech stack** has implications for your marketing, sales and development functions. For one, you will need to make sure your in-house teams have the right tools to execute on their part of the go-to-market strategy. Not sure if you should take care of a function yourself? The rule of thumb is usually, if it's not a core function, outsource it.

One very important tech consideration concerns the actual building of your marketplace. You will need to decide if you will be using an in-house team, an online marketplace builder, or an experienced development agency. Just remember, your choice may have far-reaching implications for the quality of your payment or shipping systems, and your user onboarding process, which are all key to a successful market activation.

The penultimate step in the setup process is to choose suitable **marketing and sales channels**. Whether your approach will be marketing or sales intensive will be influenced by your business model (B2B, B2C, P2P), the nature of your target market (where do your customers congregate), and the complexity of the product. An omnichannel approach may be appropriate in some instances. Broadly speaking there are the following direct and indirect market activation channels to choose from.

Direct market activation channels

Advertising and PR

Includes pay-per-click and display ads on search engines like Google and social media platforms like Facebook, affiliate marketing, event marketing, experiential marketing, and out-of-home advertising (outdoor billboards etc). This channel is very effective at driving conversions at the bottom of the customer funnel. Due the cost advertising that can quickly escalate it is important that landing pages are super-optimised for conversions.

Direct mailing

Despite its age, email still offers one of the highest conversion rates. Use newsletters, product updates and promotions to create brand awareness and nurture prospects. The clever use of interstitials (popups) on your site are proven mailing list growers.

Your marketplace itself

Use technical SEO and content marketing to drive organic traffic to the top of the customer funnel. Relevant and useful owned media like videos, podcasts, information hubs and blogs, as well as user generated content like reviews, can contribute substantial traffic over the long term. A big caveat is that your marketplace UX needs to be top notch in order to wow the incoming visitors and convert them into repeat users.

Third party platforms

Social media channels like Facebook groups are ideal since members may have a common interest that is aligned with your marketplace offering. Another option is to incentivise influencers such as bloggers and industry figures who have substantial online followers with free access and exposure in return for their endorsements.

Direct sales teams

If you are selling complex products like SaaS you will probably need expert sales people. This can be done either in-house or by outsourcing to relevant partners. Adding a customer success component will help with retention, which tends to be much cheaper than acquiring new customers

Indirect market activation channels

Partnering with other companies

Look for companies whose customers are likely prospects for your own products or services. A mutually beneficial relationship can be built on commission, sponsorships or value added to the partner company's offer. Food classification platform, Spoon Guru, uses AI and machine learning to connect retail products and restaurant dishes with consumers based on dietary requirements, food preferences, medical guidelines and government regulations. This helps Tesco's customers make healthier choices, stay ahead of emerging food trends, foster closer customer relationships, and increase sales.

Piggybacking on another platform

Targeting another platform with a similar audience can be a quick way to grow your marketplace. Airbnb employed a notorious hack to draw browsing guests away from Craigslist to their own platform by creating an application that automatically uploaded a link to Craigslist after renters posted their information on Airbnb.

A more benign form of piggybacking also involves Airbnb. Service platforms like bnbLord have sprung up to provide value added services, like professional photography and cleaning to Airbnb hosts. It creates a symbiotic relationship between the two platforms; the better Airbnb does, the better the complementary service platforms do, while Airbnb benefits from the added value to its users.

Value-added resellers

In this scenario your marketplace or some of its features get bundled with other software. This can also take place as a white label solution where another platform licenses and

rebrands your functionality. A third scenario would be outright acquisition as part of an exit strategy.

What kind of support services are required for your market strategy? Not having a customer success solution or onboarding system in place, for example, may undo all the hard work of your marketing team. Fortunately for cash-strapped startups, AI chatbots and knowledge bases have made this a bit easier to manage.

Go-to-market elements for success

Chicken or egg?

One of the most important elements for a successful market activation is growing the right side (demand or supply) of your platform first. For a marketplace that means stocking the shelves with enough sellers to ensure there's sufficient options for buyers.

Don't wait too long before driving buyers to your platform, otherwise sellers may abandon your platform forcing you into a liquidity conundrum. Well-executed review and rating systems are good ways to build trust between buyers and sellers and create the network effects that generate more traffic

It is important to follow the sharing economy principle of first giving before asking towards both buyers and sellers. By solving real problems and adding lots of initial value, stickiness is created, meaning that users are more likely to return. Free or low-cost delivery options and personalised content can help make buyers more sticky.

Team

Finding the right people can be one of the biggest challenges for implementing a go-to-market strategy. While a marketing team usually drives marketing strategy, a go-to-market strategy requires close collaboration between product, sales, marketing and even FinOps teams. A strong internal team allows you to be very reactive to market conditions and consumer behaviour and increases your chances for success.

Know your Goals from your Objectives and Key Performance Indicators

Go-to-market strategies should have very clear milestones within a fixed timeline. That is best managed by defining a hierarchy of goals, objectives, and key performance indicators. Be careful though; confusing them can put your whole go-to-market strategy in jeopardy.
Goals are focused on the long-term results of all activities combined, e.g. achieve break-even after 12 months. They should be closely linked to your vision.

Objectives are the specific measurable targets that contribute to those goals, e.g. grow subscriptions by 20% every month. The various teams within your organisation will have different objectives, but they should all work towards common goals.

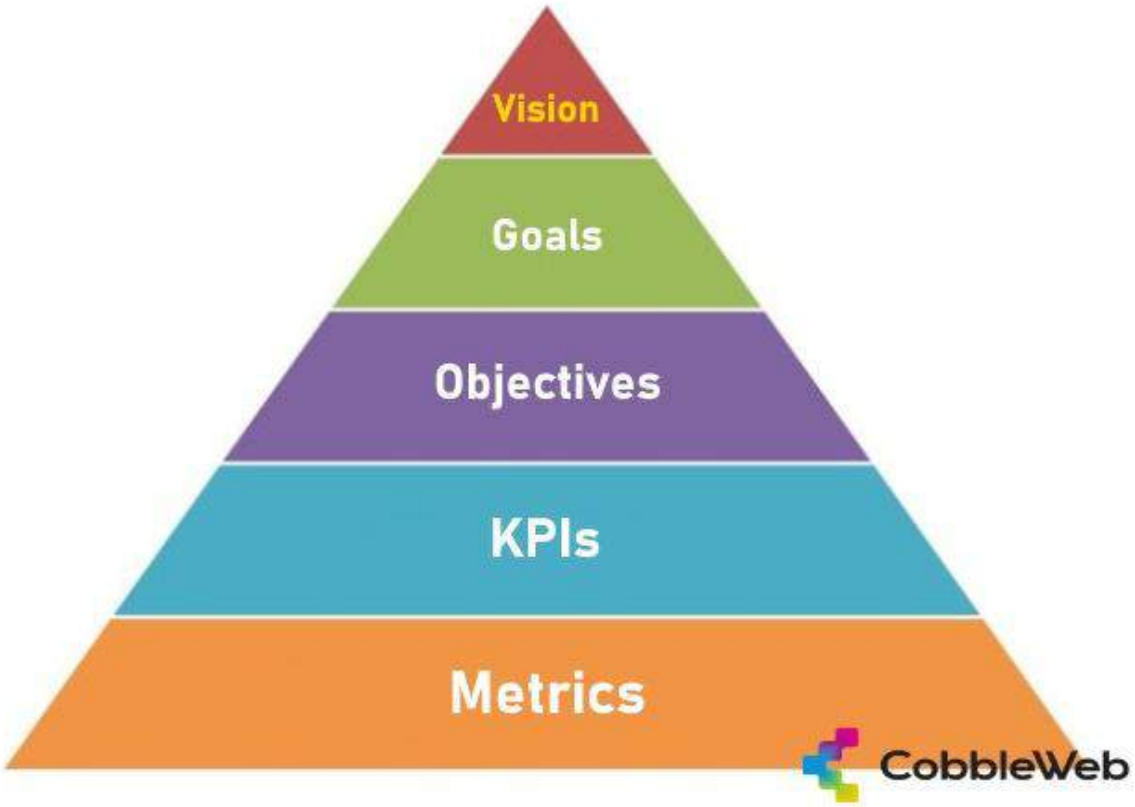
Marketplace objectives have to take both sides of the platform into account. That could mean lead generation and sales on the supply side (sellers) and traffic and engagement on the demand side (buyers).

Key performance indicators (KPIs) are the critical success factors (strategies) that help you achieve your objectives, e.g. generate 10,000 website visits per day.

Objectives and KPIs should always be SMART:

- Specific – use concrete numbers
- Measurable – you should be able to track your performance in real terms
- Attainable – make them challenging but not impossible to achieve
- Realistic – take into account your resources and any obstacles
- Time-bound – without a time frame there's not enough motivation to reach them

While objectives usually remain constant, KPIs are more fluid; they answer how you will reach your objectives. KPI strategy should be constantly tested against performance metrics to increase your chances of successfully reaching objectives and goals.



Make sure your vision, goals, objectives, KPIs, and metrics are properly aligned
Metrics are quantifiable measurements that show how well your KPIs are doing, e.g. the actual number of daily website visits. Figuring out which metrics to track can be tricky for first-time marketplace entrepreneurs. Chasing the wrong metrics down a rabbit hole can put paid to your marketplace dreams very quickly.

Fortunately, the AARRR framework, also known as Pirate Metrics, helps to give better context to metrics by linking them to the customer funnel: acquisition, activation, retention, referrals, and revenue. This makes it easier to decide which strategic metrics (e.g. customer acquisition cost, customer lifetime value, churn rates) or operational metrics (e.g. ad click-through rates, website visits, newsletter open rates) should be focused on.

Streamline your sales, marketing, and customer success teams

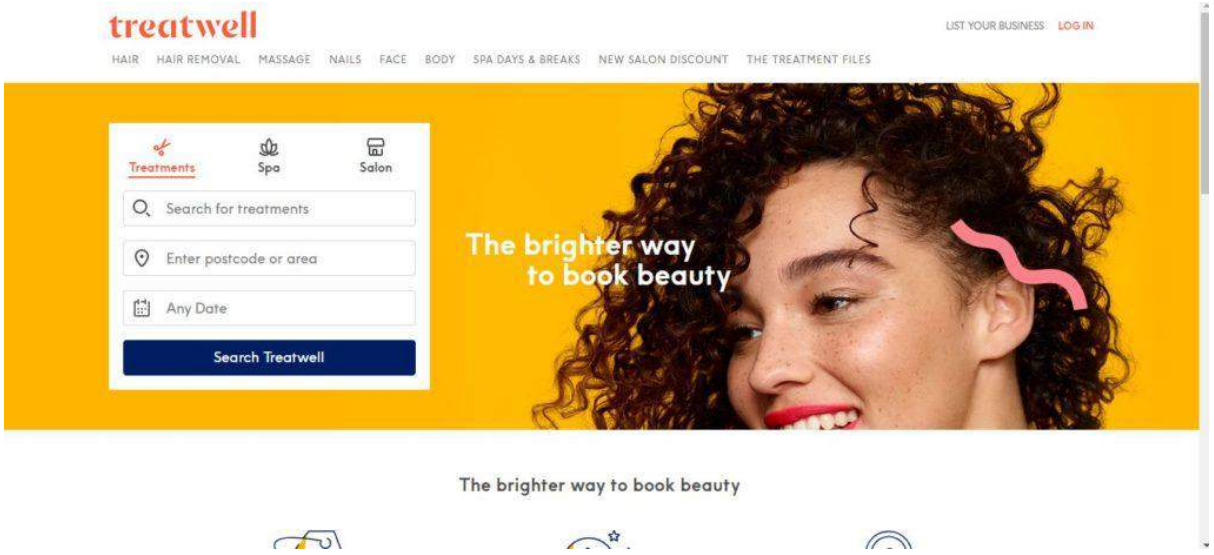
The Revenue Operations (RevOps) framework removes silo mentality and operational inefficiencies within an organisation by joining key functions of marketing, sales, and customer success into a holistic unit focused on revenue growth.

Traditionally each team would take care of a narrow segment in a linear process. The marketing team would look after branding, lead generation and user acquisition in the first phase of the customer lifecycle, followed by the direct sales team driving conversion and revenue generation, and finally customer support would take care of after-sales service and churn mitigation. This fragmented approach leads to suboptimal business outcomes.

Changes in customer expectations across all stages of the customer journey has created a need for closer collaboration between teams. By sharing information within a single RevOps team or using tools that integrate data between teams, a 360-degree customer view is created. This makes it much easier to anticipate and deliver on the needs of customers. RevOps thus drives better revenue growth as a result of a sharper focus on goals and objectives.

A marketplace go-to-market case study

Treatwell, a UK-headquartered hair and beauty marketplace boasted 10m users and £84 million sales in 2016. That is a long way from their humble beginnings in 2009 when founder and CEO, Lopo Champalimaud, got irritated when he could not book a massage after normal business hours. Under its initial name of Wahanda, the platform expanded from its base in London to 12 European countries, including five acquisitions of competitors, within just 18 months.



That performance means that Treatwell did a few things right when it came to its multiple launches in new markets. It all started with identifying a real pain point for consumers – not being able to book a treatment when you wanted to. At that stage you couldn't search review sites like Yelp for specific treatments, check availability, or see salon menus either.

Champalimaud and co made sure they had a very good understanding of their target market. The opportunity was vast. Despite a £87 billion hair and beauty services industry in Europe, less than 5% of the market was online. Most women still booked hair and beauty appointments via phone, text, or walk-in. The market was also incredibly fragmented, with tens of thousands of suppliers of which beauty chains made up less than 3%.

Their first strategy was to make sure the platform added lots of value on both sides. Salons joined to gain access to the custom reservation management and loyalty software, with additional business from new clients a secondary consideration at that stage. Customers flocked to it, because it made it easier to search for special offers on treatments and quickly find availability based on time and location.

By making it possible to book anywhere and anytime, and simultaneously help grow the market for hair and beauty salons, Treatwell started transforming the industry. Today more than 50% of bookings on the platform are made outside of regular business hours, and 20% are made within three hours of the appointment. Salons also win with 15 – 20% more traffic being driven their way. This win-win situation made it possible to develop successful revenue streams based on salon subscriptions and commission on appointments.

Those were not their only go-to-market strategies though. A lot of time was spent on creating a knowledge base that could drive traffic to the platform. For tips, advice, or inspiration clients can visit The Treatment Files or search The Treatment Guide, Treatwell's A-Z guide to beauty. Three quarters of the platform's search traffic is now organic.

Direct traffic and brand recognition was actively promoted by OOH marketing in the London Underground. Treatwell currently gets a massive 38% of its traffic from direct sources.

Treatwell gets loads of direct traffic due to its investment in OOH media

Other strategies included campaigns that incentivised the leaving of reviews which of course pushed user-generated content and network effects. Customer acquisition and retention was targeted with promo vouchers at the beginning of market activation and then scaled down to avoid damaging the brand's luxury positioning.

Treatwell also made sure to outsource marketing tasks that were not part of their core competencies. Although they were quite adept at digital media marketing they realised they needed outside experts for traditional media buying and planning like TV ads.

The platform continues to differentiate itself on multiple layers. On the surface it changes brand colours with every season, while under the hood it continues to be obsessed with data and the hyper-local strategy that brought it so much success.

"Part of our growth is attributable to not being afraid to change direction if we believe it is the right thing for the business."

- Treatwell CEO Lopo Champalimaud

A go-to-market-strategy is not static. Many of the above-mentioned variables will not be immediately clear when you start out. That is why it is so important to build a culture of constant measurement and improvement into your marketplace development. Following a lean Build-Measure-Learn approach based on MVPs, rapid iteration cycles, and user feedback loops has been proven to be highly effective in fine-tuning your marketplace go-to-market strategy.

10 ways to create competitive advantages for your online marketplace

Competitive advantages make it difficult for your competitors to step into (and stay in) the ring with you. You can make your online marketplace even more unassailable by turning early-stage competitive advantages into long-term defensive moats.

Uncovering and exploiting potential competitive advantages are key to creating a sustainable growth path for your marketplace. It is what made Airbnb, Amazon, Etsy, Upwork and eBay the giants they are today. In this chapter we explore some of the areas that successful marketplace entrepreneurs have mined for leverage over their competitors.

"The fundamental basis of above-average performance in the long run is sustainable competitive advantage."

- Warren Buffet

A high barrier to entry

Marketplaces may be the most scalable growth engines the business world has ever seen, but building them demands a lot of effort, resources and skills. It's not easy or cheap to:

- come up with the right revenue streams and business models
- sort out demand generation and vendor acquisition
- design two-sided platform architecture
- prove product-market fit
- integrate multi-vendor payment and shipping systems

And that's just the basics – aspects like technical SEO, UX/UI design, and review mechanisms add further complexity.

This high barrier to entry is one of the reasons why marketplace platforms can be so much more profitable than single vendor e-commerce sites. To be truly successful though, you need the right resources (team, finance, etc) to create competitive advantages that are difficult to replicate within your chosen vertical.

Let's be honest, if it was possible to put a winning marketplace together with a £3,000 off-the-shelf DIY template we'd all be rolling in the dough like that Amazonian Croesus, Jeffy B.

There is no I in Team

Ask any Silicon Valley VC what their prerequisites for funding a startup are and team quality will make the top three every single time. That doesn't mean that you should have every single C-level position covered on a bootstrapped budget. Investors simply want to know that founders and their teams or partners have the necessary complementary skills and experience to grow their investment. Getting your team mix right is the first step in creating a powerful competitive advantage.

> "Your employees are your company's real competitive advantage. They're the ones making the magic happen."
>
> - Richard Branson

Some key characteristics of a successful marketplace startup team:

Subject expertise. Someone who understands the competitive landscape and consumer challenges (usually one of the founders).

Operational nous. A project manager who gets things done. Superb organisational skills. Follow up and follow through are part of their mantra.

Visionary leadership. A leader who can map out the road to success and create buy-in from all stakeholders (usually the CEO).

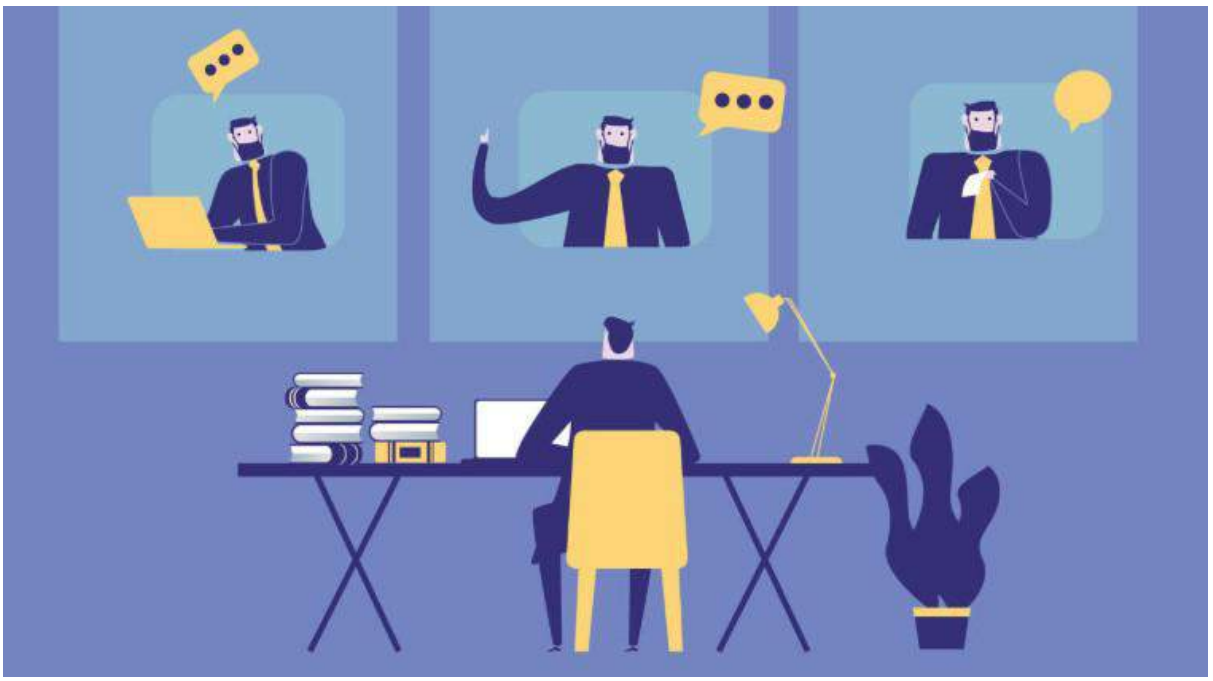
Product insight / technical experience. Startups should use an experienced development partner unless the founding team includes people with a software development background.

Growth hacking skills. Someone who can sell Crocs to Anna Wintour. Knows how to scale sales and marketing activities for high-growth demand generation and vendor acquisition.

Financial acumen. The numbers wo(man). Can handle financial modelling, tracks the right metrics (e.g. burn rate, churn rate, LTV, ARR, CAC) and is adept at resource allocation.

Customer advocacy. Someone needs to be a champion for your marketplace customers, whether through engaging UX/UI design or brilliant customer service.

Amazon's 14 leadership principles offer a handy way to measure how your team's leaders are performing. The higher the quality of your leadership the easier it will be to turn your team into a competitive advantage.



An innovative team model can also provide your marketplace startup with a competitive edge. Etsy runs the world's largest arts and crafts marketplace with a partially distributed team – their 1,000 employees either work from one of the company's ten international office locations or from home.

Freelance marketplace, Upwork, has acquired 12 million freelancers and generates revenue of $300 million (2019) with the help of a mostly remote workforce.

The main advantages of a distributed organisation is that it gives you access to a wider and deeper talent pool at a better price point. Building and managing a remote team can be challenging though; certain skills and conditions need to be in place.

Don't underestimate the impact of team culture. Promoting values like continuous learning, transparency, community, a commitment to diversity and user centricity have driven many startups to the top. Vice versa, WeWork's well-publicized woes is a good example of how a toxic culture can achieve the opposite effect.

"The values we developed were instrumental in gaining a competitive advantage."
– John Collison, co-founder of Stripe

First mover advantage – not all it's cracked up to be

There's been a persistent myth in startup circles that being the first platform in a particular market segment almost guarantees success. Like many myths it did its fair share of damage, most memorably as one of the main causes of the 2000 dot com bubble and subsequent crash.

Although eBay (the first marketplace platform to implement a consumer auction process) was one of the happy exceptions, digital history is littered with pioneers that simply faded away.

There's Six Degrees, the first real social media site, founded in 1997. Today, very few have even heard of it. Compare that to Facebook, founded in 2004, with 1.73 billion daily active users. Book Stacks Unlimited, later known as Books.com, started selling books online three years before Amazon was launched. It also disappeared after being gobbled up by (the currently struggling) Barnes and Noble.

The numbers don't lie. Early market leaders (aka fast followers) have shown much better success rates than first movers: 8% vs 47% failure rate. Which is why Amazon sells more books than anyone else today.

So, it's not about being the first to enter a particular market, but being the first to understand that market which gives your marketplace an advantage. But how do you do that?

The proven recipe is to establish product-market fit. By utilising a minimum viable product and rapid iteration you will gain a better understanding of the problems your target audience face. Once you have those insights you can develop a solution that they actually want and need.

Proprietary Technology and Unique Processes

Intellectual property rights (copyright, trademarks, design rights, trade secrets and patents) can protect your marketplace from copycat competitors. This can be an expensive and time consuming process, especially if you need to register your intellectual property (IP) in multiple jurisdictions.
Fortunately, new legal services applications like Cognition IP can help startups formalise their IP rights quicker and cheaper by using technology like artificial intelligence. Markify, a global trademark search and monitoring platform, is another helpful tool that uses algorithms to help you avoid infringing on existing trademarks and conversely protects your trademark from infringement.

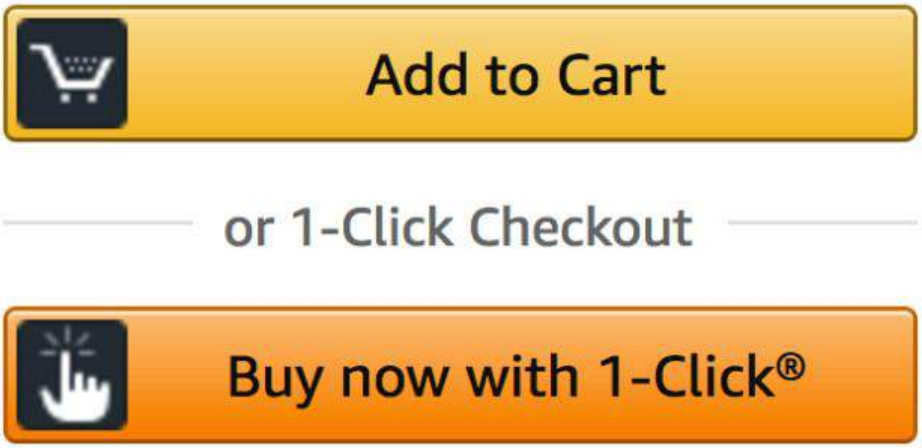
Which intellectual property rights apply to different elements of your marketplace platform?

Website text, designs, graphics, data, layouts, and images are protected by copyright which automatically vests in your name the moment you create them. To protect your logos and other branding elements you will have to register a trademark.

In Europe, software is generally protected by copyright and not by patents. According to this UK law firm, patent protection may be possible if “the software is new, involves an inventive step, is capable of industrial application and has a technical effect”.

In the US you can patent both software and business processes. The rule of thumb is that copyright protects the actual code, while patents protect the ideas, processes, procedures, systems and concepts behind the code.

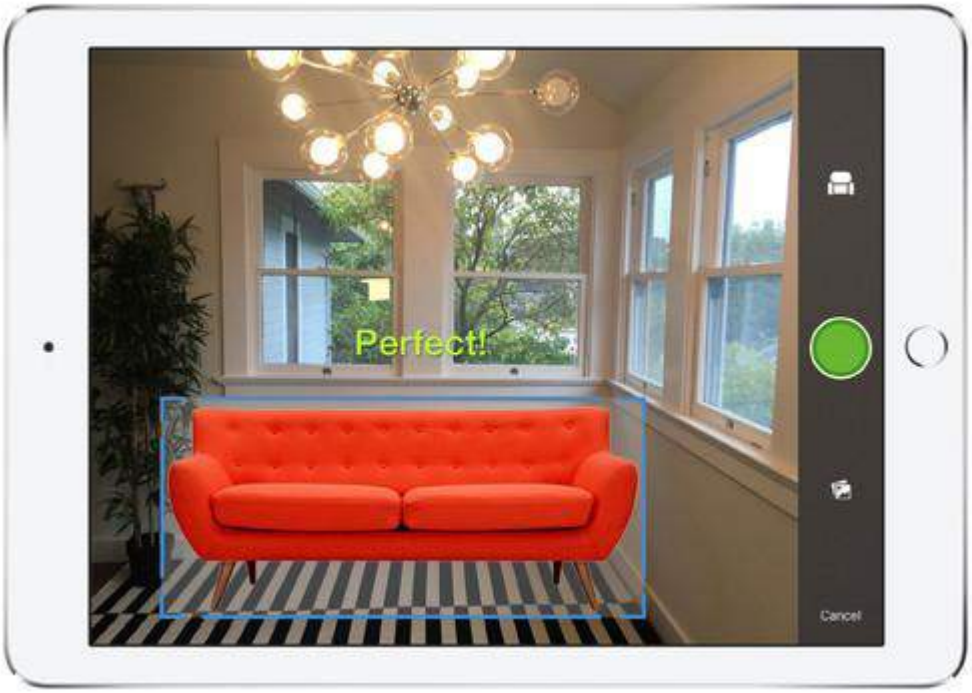
One famous example is Amazon’s 1-Click technology. It gave Amazon an advantage over competitors by allowing customers to purchase items with a single click based on pre-collected billing and shipping details. This removed a lot of friction from the checkout process, which meant lower shopping-cart abandonment rates and higher sales. Amazon’s 1-Click patent was granted in 1999 and only expired in 2017, giving the company an almost two-decade competitive advantage over rivals.



Priceline’s reverse auction business model is another well-known example of this type of patent protection. Newer kids on the marketplace block are also not shy with patents.

Airbnb's 53 current patents include processes as diverse as password protection systems and machine-learning assisted search.

Ancillary tools that make it easier for users to conduct their business can also form part of your IP. The Houzz marketplace has become a leader in home improvement and interior design by developing tools for its users that add lots of extra value. Customers can use a 3D floor planner and mood boards, while vendors such as architects can use specialised online collaboration, design, and proposal tools. To maintain a competitive advantage, Houzz holds patents on the software technology that supports its tools.



Houzz's patented View in My Room tool allows you to place virtual products in images of your house.

In both instances, copyright or patents, your software must be original to qualify for IP protection. Using an off-the-shelf website builder template means the software rights belong to someone else – you are simply licencing it to build your platform. The same principle applies to open-source solutions like WordPress – the underlying technology is licenced under a GNU General Public License with copyright vesting in the original open-source contributors.

A custom marketplace is the only way to ensure that you have full IP rights to all the software. Your software development partner usually signs both a non-disclosure agreement and a contract that transfers the software rights to an entity nominated by you. Since software is the engine of your marketplace platform, owning the rights to it can create a significant imitation barrier.

Things that are hard to copy

Some processes may not qualify for copyright or patent protection, but could still be difficult to replicate. The quality of Airbnb's host profiles is one of the secrets of their success. The trick was to kick off with a non-scalable process – using professional photography for host property images – to ensure high-quality outcomes.

Innovative processes that gave Amazon a competitive headstart included quick and easy shipping, user-friendly return policies, and a personalised recommendation system. Since most retail marketplaces have adopted these processes and technologies today, the race is on for new technological advantages that are hard to copy.
Large marketplaces are betting on IoT (e.g. your fridge places an order when you run low on groceries), drone deliveries (being tested by Amazon), image recognition technology (Google Lens for visual commerce), computer vision, smart sensors (Amazon Go), and virtual assistants (Alexa or Siri for voice commerce) to become the next generation of hard to copy advantages.

Adapt or die

Amazon may have started as an online book store, but it very quickly morphed into a virtual mall of products and services. Physical books were followed by other retail goods, web hosting, the Amazon Prime loyalty programme (free shipping and other benefits), Kindle e-readers (for e-books), audiobooks (Audible), robotics (for warehousing), video game streaming (Twitch), a virtual assistant (Alexa), smart speakers (Echo), and grocery deliveries (Whole Foods).

By keeping pace with consumer trends and staying ahead of technological advances Amazon has become the world's largest retail marketplace with additional revenue streams from cloud services, entertainment streaming and advertising. In the same vein, Airbnb went from selling budget accommodation on a stranger's couch to being a purveyor of exotic travel experiences, neatly capturing millennial aspirations in the process.

Amazon's logo changes over the years reflect the platform's evolution.
The lesson: the better you are at analysing consumer behaviour, the more actionable insights you will have to adapt your marketplace to the needs of the market.

"Innovation is the new competitive advantage."

- Julie Sweet, CEO of Accenture

Leverage your Brand and USP

Many of the most successful marketplaces turned their unique selling points or brand positioning into a competitive advantage.

Amazon's brand was built around trust, based on its product review system, strong customer service, and efficient shipping. eBay focused on mobile transactions (it's mobile app is the world's most downloaded ecommerce app) and made click-and-collect one of its key selling points. Airbnb leveraged their brand's sense of community to create a loyal user base.

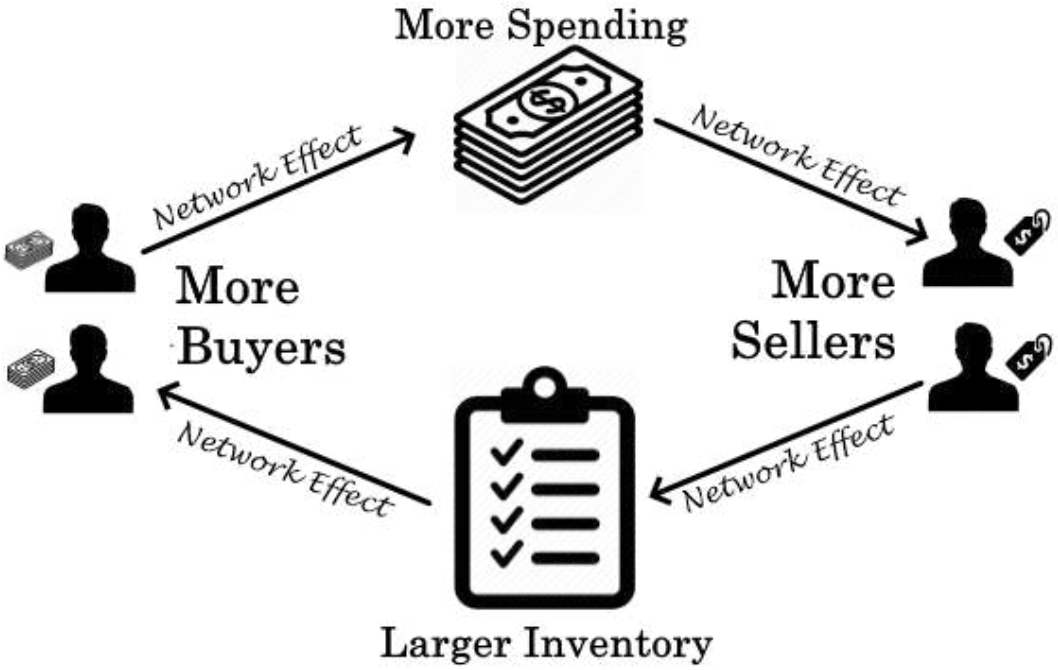
The above examples show that making the user experience an intrinsic part of your brand can lead to a competitive advantage. The more people associate your brand with a certain level of satisfaction, the stronger your advantage.

"There's no competitive advantage in being just like everyone else."

- Daniel Burrus – New York Times best-selling tech futurist

Network effects

Unique to multi-sided platforms like marketplaces, network effects can be your most powerful competitive advantage. Ensuring product-market fit will help you trigger the compounding feedback loop that makes your marketplace more valuable for all its users every time a new user joins.



Network effects played a huge role in Airbnb's rapid growth. As hosts and guests across the world adopted Airbnb en masse as their go-to property renting platform, it created an impressive defensive moat for the world's largest accommodation provider.

The journey to achieve network effects can be summarised in three steps: create immediate value for early adopters (product-market fit), drive engagement (amount of time spent on platform), and increase usage (frequency of transactions).

Logistics

Leading marketplace companies have long used superior logistics to create a competitive advantage. The secret is that it should form part of your topline strategy and not just function as a support activity.

Making sure that your platform always delivers the right products, at the right time, to the right customers can be a significant, if not always easy to achieve, advantage. Amazon's impressive integration of both its fulfillment centres and shipping service with its seller network is well known. Supported by excellent customer service, their logistical efficiencies have lowered delivery costs and increased satisfaction rates as well as trust, which promoted widespread adoption at the expense of their competitors.

Platforms that go the extra mile to personalise and expedite product deliveries will see their market share grow. As same day delivery, multiple delivery options (time, place, cost) and item tracking have become standard features, marketplaces have been forced to search for new ways to hold on to their logistical advantages.

This quest for innovation has seen new technology like drone deliveries, warehouse robots, autonomous machines, and predictive inventory software become part of the marketplace landscape.

Platforms like Uber Eats and Doordash are testing autonomous vehicles like the Kiwibot to make last-mile deliveries cheaper and more efficient.

Not all marketplaces follow a centralised shipping model. Many marketplaces put the burden of warehousing and shipping products on individual sellers. That doesn't mean that the marketplace owner can't pursue a logistical advantage.

Quality control of sellers is key to a decentralised shipping model. The better your vetting process and the tools or training you provide, the better the quality of your sellers and products. Make sellers choose your platform over competitors by providing superior:

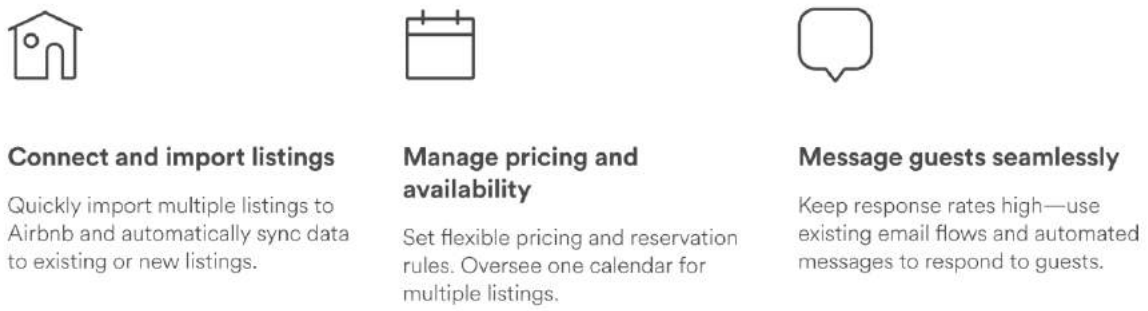
- Inventory management
- Payment options
- Order management
- Knowledge & training channels

Say 'open sesame' to unlock API value

It sounds counter-intuitive, but opening up your marketplace platform so that other companies' applications may interact and share information with it, can be a powerful driver of competitive advantages. Uber, Airbnb, and Alibaba have all used an API strategy to make their platforms more useful and thus become indispensable to consumers.

Just think how many ancillary services piggyback on Airbnb. Many of them use an API to synchronise their offerings with the Airbnb platform. Nestify, which provides Airbnb host management services, is one such an example. Its services, which include interior design, pricing management, guest relations and maintenance, add extra value to the Airbnb platform.

Multiply that extra value with hundreds of external service providers and you have a vast and growing ecosystem that can only entrench Airbnb's position further.



Airbnb's API allows third parties to upload and manage multiple host listings.

APIs don't only provide additional value to users. They are also huge repositories of exclusive customer data. This can come in very handy when you develop new features, products and revenue streams for your platform. To put that into perspective, Amazon spent $22.6 billion and Alphabet (Google's parent) dropped $16.2 billion on R&D in 2018. A sizable portion of that money was spent on data gathering and analysis.
It is one of the great strengths of the platform economy that sharing information can unlock new growth opportunities. Your marketplace would be remiss if it did not investigate the potential for integration with external applications.

Acquisitions

Mature cash-flush marketplaces have the further option of turning their competitive advantages into long-term defensive moats by acquiring potential competitors and new exclusive technology.

Airbnb has used acquisitions to rapidly expand its inventory (buying CrashPadder made it the largest accommodation site in the UK), make its service hyperlocal (Nabewise, Localmind), gain top talent (Tilt), and access new markets (HotelTonight).

Home improvement marketplace Houzz, acquired Ivymark's specialised business management platform to improve its service offering to interior designers, an important customer cohort. This is a good example of using a tool to entice users away from other platforms. Since Ivymark is packaged as a premium subscription service it also created an additional revenue stream for Houzz.

Acquisitions don't always work out. Amazon bought Quidsi (owner of Diapers.com and other e-commerce platforms) for $545 million in 2010. Seven years later they closed all the subsidiary platforms down since they weren't making any money off them.

Test and iterate till you find your competitive sweetspot

As a startup it can be quite daunting to identify the right competitive advantages to pursue. The best approach is to use an MVP combined with rapid iteration to identify opportunities to serve your target market better than your competitors.

Section 6: Optimising your marketplace

Profits Ahoy! Use AARRR's Pirate Metrics to Improve your Marketplace Performance

The life of an entrepreneur is a bit like that of a pirate, since the course entrepreneurs must travel is also often beset by hidden currents that they must navigate. Let us not romanticize this process though. It might be a compelling image to see a pirate behind the wheel, staring off into the horizon, seemingly navigating through instinct alone. But they never did. They used specific tools to help them get from port to port. Similarly, great marketplace entrepreneurs use the right metrics to measure and improve the performance of their online platforms throughout the customer life cycle.

The pirates of the 1700s had an advantage over modern day entrepreneurs. Although pirates only used a few tools for navigation, they were generally effective in most circumstances. Entrepreneurs, on the other hand, have access to a host of metrics, but only some are right for their particular businesses. It is the challenge of the marketplace owner to not only interpret metrics correctly, but also to choose the right metrics.for their circumstances.

This chapter is going to dive into the murky sea of online marketplace metrics and teach you how to wrest free the treasure of improved performance from the briny deep. We'll first introduce you to a crew of standard metrics. Next we'll introduce you to the AARRR framework (aka Pirate Metrics) and how it helps you organize metrics so that you can get the most out of them. Finally, we'll discuss how to apply the AARRR framework to an online marketplace so that your business can set sail for success.

Metrics Can Keep Your Online Marketplace From Sinking

It is important to disabuse the notion that successful businesses are built by intuitive savants who simply know what their customers need and how to get it to them in the best possible way. Maybe there are a handful of people like that, but there are a lot more successful businesses than a mere handful. So we need to account for the difference between the myth and the reality.

You cannot constantly ask your customers and stakeholders what is going on, whether they like your service, and how it can be improved. Even if you had the time and resources to do so, your clients probably won't respond all the time or give you actionable information. Entrepreneurs need to be able to derive clear conclusions based on customer interaction with their marketplaces. In short, they need to be able to take surface level observations and use it to understand what is happening at a deeper level.

Metrics fulfill this function by converting observable information into customer insights. However, there are dangers to this approach. There is a risk in attributing the wrong motivations to observable phenomena. For example, let's assume a marketplace is not getting a lot of traffic. It might be easy to assume that the word is not getting out to people, e.g. the wrong marketing channels are being used. It is also possible that the right channels

are being used, but the wrong message is being conveyed. Two possible causes with two very different remedies.

Metrics can help you see shortcomings in your strategies and suggest solutions, but only if you use the right ones for your business context. In the next section we will discuss a few of the more popular marketplace metrics and the insights they provide.

Your Crew of Marketplace Metrics

A metric is only relevant if it supports the profitability and customer growth of your marketplace. It doesn't matter if a metric helped another platform. They need to measure your marketplace performance. Below are a few standard marketplace metrics, but be forewarned; they might not be the best for your business.

- **Liquidity**. This is not about how much cash you have in the bank, but how well you are matching buyers and sellers on your platform. Liquidity is an efficiency measure regarding how long it takes for your buyers and sellers to find each other. Often measured by how long it takes a listing to generate a sale, the perceived importance of liquidity is that it measures momentum. Low liquidity means buyers aren't finding what they want and sellers aren't finding customers. High liquidity means a company is ready to scale up.

- **Customer Acquisition Cost** is the total cost of bringing a new customer to your platform, including marketing. One way to calculate CAC is to take the total expenses for a given time period, such as a month or quarter, and divide it by the number of customers acquired during that period. High cost of customer acquisition over a protracted period can kill a marketplace.

- **Customer Lifetime Value** is a measure of a customer's total value to your marketplace over time. So a customer who provides repeat business has a higher long-term value than one who only uses the platform once over the same period. If your average customer lifetime value is lower than your customer acquisition cost, you have a business model problem.

- **Net Promoter Score** is a measure of a customer's loyalty, which has an effect on their long-term value to your marketplace. Customer satisfaction is gauged by surveys after they have participated in a transaction.

This is just a small sample of the available metrics that can be used to evaluate a marketplace platform. It is one thing to understand these measures in isolation, another to combine them into a cohesive system that allows you to evaluate your whole business. That is where the Pirate Framework comes into play.

AARRR – a Framework for Contextual Metrics

The benefit of the Pirate framework is not as a list of metrics, but as a system to contextualise metrics. This distinction is crucial. Metrics are meant to evaluate customer

behavior. But no single metric can ever capture the totality of customer behavior. Metrics only highlight aspects of why your customers do what they do.

It cannot be overstated that the value of a metric is directly tied to whether it provides insight on how to find, convert and retain loyal customers. The Pirate framework allows entrepreneurs to contextualise metrics by linking them to their marketing funnel.

The 'pirate' epithet is derived from the 'AARRR' acronym which stands for the following stages in the customer journey:

- **Acquisition** – how to make people aware of your platform. This is a crucial first step in any business analysis. Customers don't just appear from the ether. You need to go out and find them. Then you need to interact with them on some level to encourage them to buy your product. A well recognized acquisition tactic is content marketing; in exchange for a whitepaper or blog post, you get a potential user's attention.

- **Activation** – how to ensure that your customer's first interaction with your product is great. Assuming you are finding the right customers, the next step is ensuring that you are giving them a reason to stay and use your platform. There is no second chance at a first impression, and the activation step is to ensure that your platform is taking full advantage of those opportunities.

- **Retention** – how to keep your customers coming back. You can't just deliver an initial good experience and then expect that to be enough for your customers to stick around. You have to not only provide an exceptional experience every time, but your platform needs to evolve as your customers do. The Pirate framework's retention step addresses these important factors.

- **Referral** – how to make your customers your marketing team. It is almost a cliche, but it is still true, word of mouth is the most powerful tool a business can use to build its customer base. People trust their peers more than advertising. People also tend to associate with others who are like them. Happy customers will therefore spread the word of your product to people who are like them and are more likely to appreciate your services. Word of mouth is contingent on getting your customers to talk about you. This step in the Pirate framework addresses how you are going to convert your happy customers into zealous advocates.

- **Revenue** – how you can increase revenue. The big question, and it should go without saying. But all too often in their haste to maximize performance in certain metrics, some entrepreneurs lose sight of the goal – which is to generate revenue. They become so sure that improvement in isolated metrics will also increase revenue, that they don't monitor to see if that is actually the case. This is why this step in the framework is so crucial.

The framework sounds great in theory, but how does it work in practice? The next section will look at utilising the framework to measure marketplace performance.

Anchors Aweigh! Setting Sail with Pirate Metrics

When applying the Pirate framework, it is vital to remember that you have two classes of customers – buyers and sellers. So when identifying metrics, you need to ensure that you are monitoring both sides of the equation. If you only look at buyers or sellers in isolation, it could be incredibly misleading. Buyers and sellers obviously have a symbiotic relationship on any marketplace platform, so something that influences one will have an impact on the other. Be sure to structure your metrics so that both buyers and sellers are monitored.

The AARRR framework helps to contextualise your marketplace metrics:

- **Acquisition metrics**. This is all about the cultivation of new leads. Consider this a sort of 'first date' measurement. Can you get a potential buyer or seller to give you their contact information so you can make further contact down the road? Unlike dating, the goal is quantity as well as quality. Metrics for this stage includes the number of subscribers to your newsletter, how many people are viewing your blog posts, and how many are downloading your e-books.

- **Activation metrics**. If acquisition is about building a relationship with content, activation is about deepening the relationship with a user by getting them to use your marketplace. Strategies for generating activation include deep discounts (loss leaders) that get people to start using your platform. The goal is to get feedback on the user experience and to measure how many people are taking advantage of the discount. If no one is buying your service or the goods of the sellers on your platform, even though it is dirt cheap, you have a business model problem.

- **Retention metrics**. Once you get a customer to buy that first discounted product or service, you need to convert them to someone who will pay full price. This is the retention stage. How many of your first time customers are you able to retain? This is where churn metrics, or the number of users (buyers and sellers) who discontinue

using your platform, are so crucial. This is also a good stage to review your platform's customer acquisition costs.

- **Referral metrics**. As described above, referral marketing is crucial but it can also be difficult to measure. By definition, your customers are discussing your service off-platform with non-users. It is difficult to measure something that occurs in an area you don't have control over. One way around this is to offer a referral code. When a new client uses your service, they can use the code to mention that someone referred them. The person who did the referral then receives a benefit, such as 10% off their next purchase. These sorts of programs can provide you with the data necessary to develop relevant referral metrics for your marketplace. You can also monitor social media to see how often you are mentioned there.

- **Revenue metrics**. At this stage the customer lifetime value and net promoter score metrics discussed above come into play. You also want to evaluate the first non-promotional purchases, i.e. purchases that occurred without the enticement of a discount. An important area to monitor is your shopping cart function. You want to minimize the number of people that fill their cart just to abandon the purchase. Ensuring you don't lose customers at this last stage is a key element in maximizing revenue.

Technical SEO: the hidden engine of marketplace growth

Your e-commerce marketplace idea is taking form. You have chosen a business model and some revenue streams, you have a plan to prove product/market fit, and you have a development partner on board. Only one major hurdle remains – driving traffic to your platform so that people can start using (and transacting) on it. Technical SEO has the potential to overcome that challenge and grow your online marketplace.

But let's start at the beginning. How do you prioritise the right growth drivers for your startup? Affiliate marketing, content marketing, pay-per-click, display ads, social media marketing, SEO, and email marketing are all part of a bewildering array of options. Choosing the wrong traffic generators can see you running out of funds and dash your marketplace dreams very quickly.

Weighing up the potential impact and cost of each traffic source against your available resources can be a pivotal moment in your marketplace journey. We all know startups generally don't have oodles of cash and armies of marketers to throw at expensive or labour-intensive marketing campaigns. Fortunately, technical SEO offers a cost-effective, scalable way to drive targeted traffic.

Understanding what technical SEO entails, how to implement it, and how it compares with other marketplace growth drivers can be challenging though. Continue reading to learn:

- What technical SEO is
- Best practices for implementing and managing technical SEO
- The advantages of technical SEO vs other marketplace growth drivers

What is technical SEO?

Search Engine Optimisation consists of various activities and techniques that help your website content appear as high as possible in unpaid search engine results, when people search topics using specific keywords. The higher in the Search Engine Results Pages (SERPs) your web pages appear, the more of this organic traffic your website should receive.
That's the part that most online entrepreneurs are aware of. What is not so commonly known is that SEO is not a monolithic structure and has over time evolved into a many-headed beast.

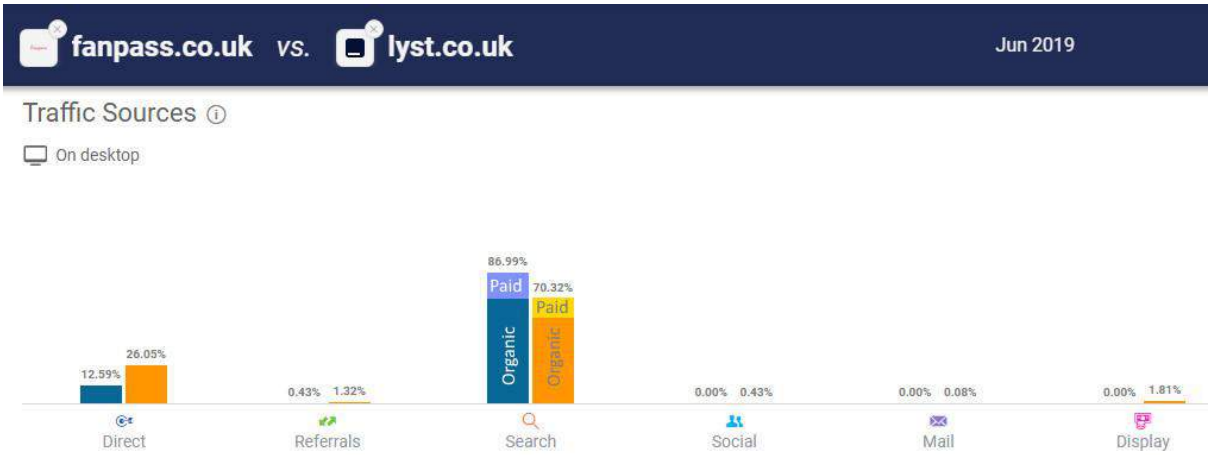
The three main distinctions are between on-page, off-page and technical SEO. While off-page SEO is mostly concerned with creating incoming links from other websites and platforms, on-page SEO focuses on creating and distributing valuable, relevant and targeted content. Technical SEO, on the other hand, concentrates on the non-content or structural aspects of your site. Its main purpose is to enhance your site's discoverability, readability, and usability.

Before we look at technical SEO in detail, we must first question the ongoing relevance of SEO within the greater digital marketing universe. Is organic (free) traffic still a thing? After all, digital (paid) advertising is forecast to make up two-thirds of UK media ad spending in 2019.

Fortunately for startups everywhere, research shows that organic traffic is still very much alive and kicking:

- ➔ 46% of e-commerce traffic is organic
- ➔ Organic traffic generates 41% of online revenue
- ➔ 80% of online users ignore paid ads in search results
- ➔ 44% of B2B marketers say SEO is best for lead generation

The above stats are supported by an analysis of two popular UK marketplaces, lyst.co.uk and fanpass.co.uk. Both derive more than 55% of their desktop traffic from organic searches.



Now that we know that SEO is a worthwhile pursuit, let's have a closer look at some technical SEO elements.

Technical SEO Checklist

Like other areas of SEO, technical SEO goes through constant change as consumer behaviour, technology, and search engine capabilities evolve. There are a number of important benchmarks though, that will have a big impact on your marketplace performance if implemented correctly.

1. Structured Data

Structured Data are formatted descriptions in your website code that tell search engine crawlers more about your content. It provides better context and thus helps search engine crawlers to improve their indexing of your site. Structured data also helps search engines to display more information about your business, products, and services via so-called rich snippets.

Rich snippets in search results include extra details such as images, star ratings, number of reviews, product details, and breadcrumbs. These extras have been shown to increase click-through rates which indirectly (due to the popularity signal it sends to Google) improves search page ranking. This is especially important for marketplaces that rely on comparable variables such as reviews, ratings, and prices.

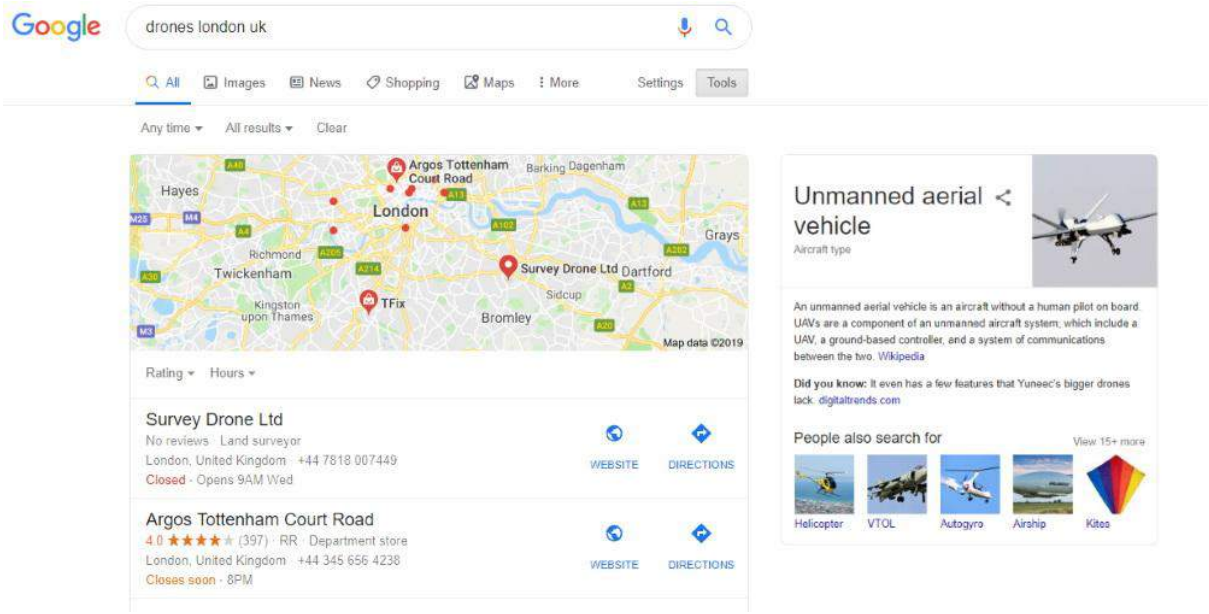
Which search result would you click on first?

Another reason why structured data is only going to get more important is the ongoing growth of voice, video, and image search. Business research and advisory gurus Gartner have even stated:

"Early adopter brands that redesign their websites to support visual and voice search will increase digital commerce revenue by 30% by 2021."

Structured data is also important for your marketplace vendors due to its impact on local search results. Adding markup that highlights vendor addresses for example will help Google identify vendors on your platform closest to the searcher's location.

But wait, there's even more structured data can do for your marketplace. It increases your chances of appearing in Google Maps as well as Knowledge Graph cards – the prominent infobox that sometimes appears next to search results.



So how do you implement all this wonderful structured data?
Schema.org is a semantic library founded by Bing, Google, Yahoo!, and Yandex in 2011 to standardise structured data. Its structured data snippets can be implemented using markup formats like Microdata, RDFa, or JSON-LD.

With only 54% of websites using structured data and so many benefits, it is a golden opportunity to grab pole position in search rankings for all your vendor categories, products, and services.

2. Security

Security should be an obvious focus for any platform that handles user data, especially financial details. It's no surprise that 84% of internet users will not buy anything on an unsecured website these days.

To secure an unsecured HTTP site you need to install an SSL (Secure Socket Layer) certificate on your server. This will allow your site to be accessed via HTTPS which encrypts all information (such as usernames, passwords, and other personal information) that is transferred between your website and its server.

Search engines highlight HTTPS sites with a closed padlock:

Except for creating trust with users, HTTPS has a few other advantages. Google has already made HTTPS a ranking signal back in 2014, so it can increase your position in search results. HTTPS also loads faster than unsecured HTTP sites, which supports another ranking signal (page load speed) and creates a better user experience.

Another important reason to migrate to HTTPS is that payment gateways like Stripe require it before you can use their applications. Since a marketplace without a payment system is like a car without an engine, it should be seen as a fait accompli.

If you really need any further convincing, Google now warns website visitors that HTTP sites are not secure:

3. Site and Page Speed

Site and Page Speed have become major factors in both user satisfaction and search engine rankings. The prevalence of mobile search now means that If your mobile page takes more than three seconds to load, you will lose 53% of your visitors. That partly explains why Google made mobile page speed a ranking factor in their search algorithm.

Pages that are slow to load also contribute to a high bounce rate, which is another Google ranking factor. High bounce rates occur when people only visit one page on your site and fail to interact with any of its elements, e.g. clicking a menu item or playing a video.

Slow pages don't only affect traffic, they also have a huge impact on your revenue. E-commerce behemoth, Amazon, calculated that a mere 100-millisecond drop in page speed can lower revenue by 1% – and that was ten years ago! A more recent study by Akamai Technologies, based on 10 billion user visits, has shown that today that same 100-millisecond delay can decrease conversion rates by seven percent. Ouch!

Technically, more than one speed measurement plays a role. Time to first byte, the amount of time it takes a browser to start rendering a page, is used by search engines, while Google's Speed Index measures how quickly a page displays content to users.

The biggest reasons for slow websites or web pages:

- Individual web pages should not be more than 1MB (desktop) or 500KB (mobile) in size.
- Unoptimised images
- Lack of HTTP compression
- Expires headers not set (tells browser when to serve a cached version of page)
- Not using caching
- Too many plugins (WordPress)
- Not using a content delivery network
- A slow web host or server (As your marketplace grows you will need to move from shared hosting to a dedicated server)

Potential solutions for making your marketplace site faster on mobile devices include Progressive Web Apps (PWAs) and Accelerated Mobile Pages (AMP).

PWAs mimic native mobile applications, but are actually web applications built with JavaScript service workers. This allows them to combine the discoverability and accessibility

of websites with the functionality of native apps. Since mobile users currently spend most of their time in native apps, rather than the mobile web, PWA promises to be a game changer. Just like native apps, PWAs can send push notifications, can be added to phone screens via an icon, load almost instantaneously on repeat visits, and can be used without an internet connection.

PWAs have several advantages over native apps though. They cost less to develop, work on all devices (no need for separate iOS and Android apps), don't have to be downloaded and updated via app stores, and can be crawled and indexed by search engines. One of the few drawbacks is a lack of hardware integration, e.g. with fingerprint sensors.

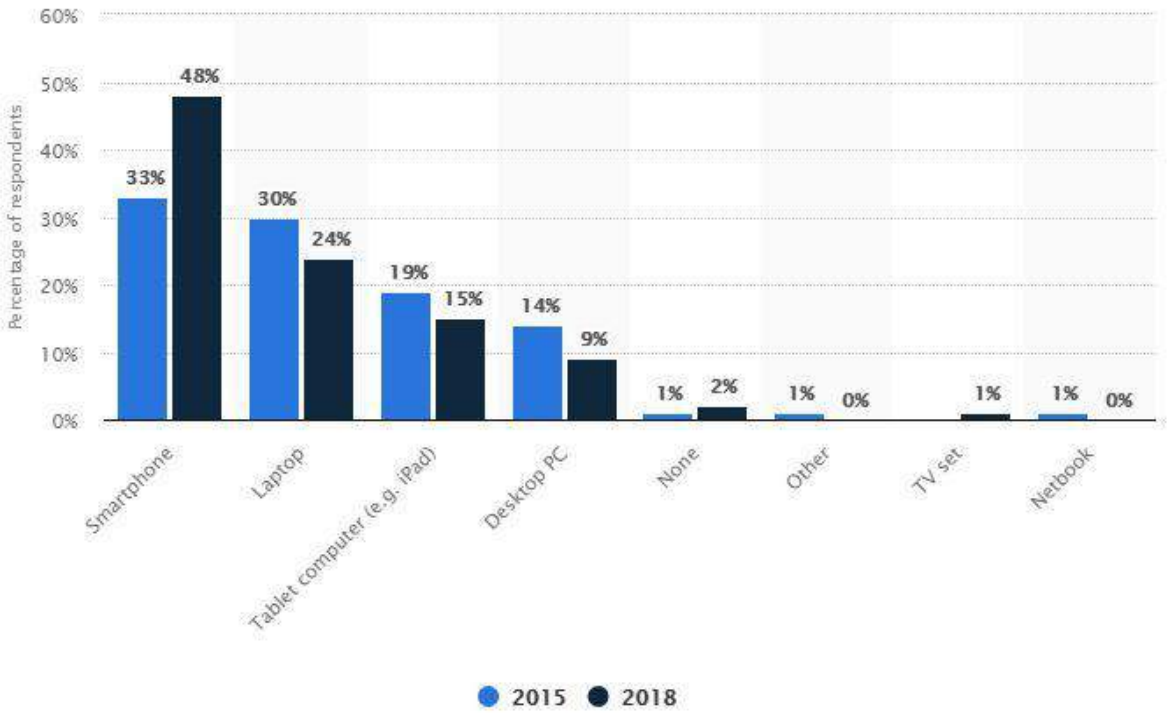
Well-known companies like Trivago, Flipkart, OLX, and Twitter have all implemented successful PWAs. Trivago saw a 150% increase in engagement and 97% increase in click-through rates after implementing their PWA.

AMP is a set of open standards backed by Google to help web pages load quickly on mobile devices. In essence it is a simplified HTML framework with streamlined CSS and limited JavaScript. AMP can also combine with PWA to ensure a fast first load of your progressive web app.

The power of AMP has been demonstrated by marketplaces like Event Tickets Center and WeGo, both of which have seen substantial increases in click-through and conversion rates. To see how quickly AMP loads, check out Google's e-commerce mockup site.

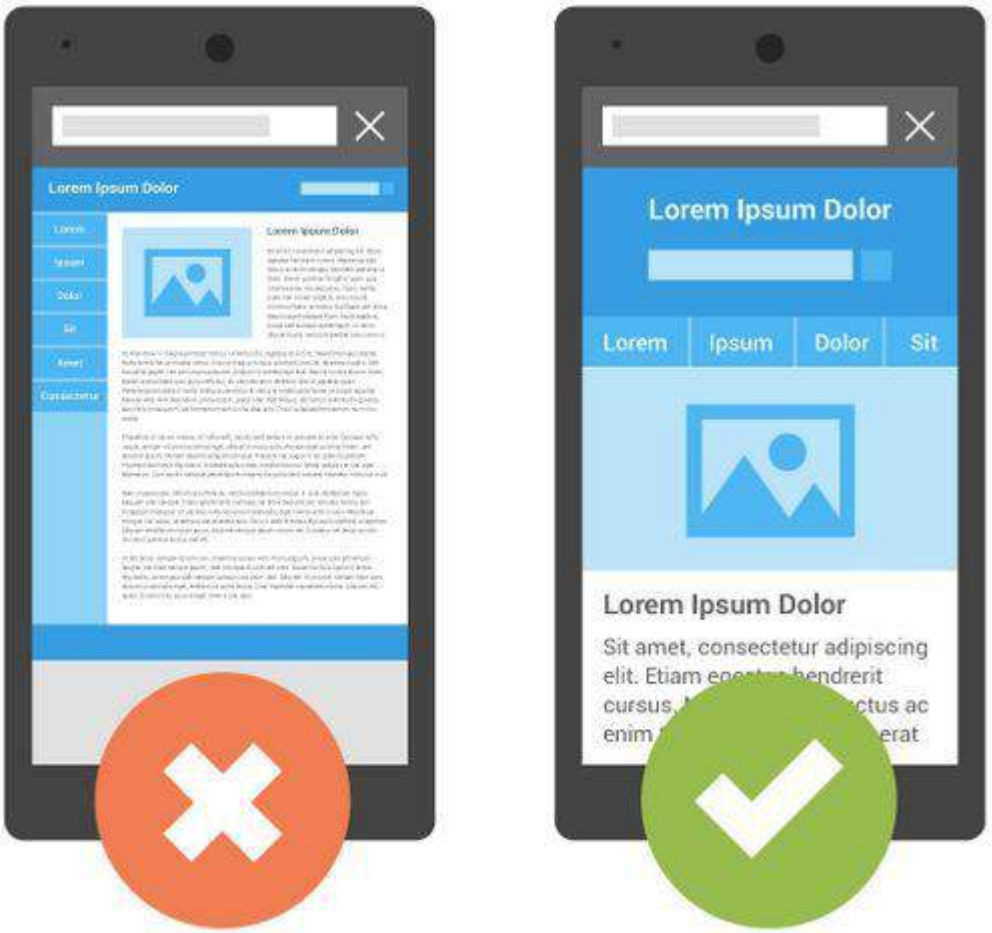
4. Mobile Friendliness

Mobile-friendliness has become non-negotiable. Ubiquitous smartphone usage demands it. In 2018, 48% of UK respondents indicated smartphones as the primary device with which they access the internet, according to a Statista survey. It's a trend that is set to continue, based on the 15% jump in UK smartphone usage between 2015 and 2018 (see below graph).



48% of UK internet users use smartphones as primary device

As usual, Google's algorithm followed consumer behaviour. First, with a mobile-friendly update in 2015, which boosts the ranking of mobile-friendly web pages in mobile search. If your page elements are spaced too close to each other or if users are forced to scroll horizontally, your site's mobile search rankings will suffer.



Google's mobile-friendly update rewards mobile sites with easy-to access features

Then, in 2018 Google introduced mobile-first indexing. It differs from the mobile-friendly update in that Google now crawls and indexes the mobile version of sites specifically. This is a break with the past when Google primarily used desktop versions for indexing.

Sites that utilise responsive design, which renders content in a user-friendly manner on all devices, should be in the clear. If you have a separate mobi site (m.yoursite.com) though, you will need to make sure that your mobile and desktop versions display the same information. Google will only index the AMP version of your site if it is tagged as the canonical version.

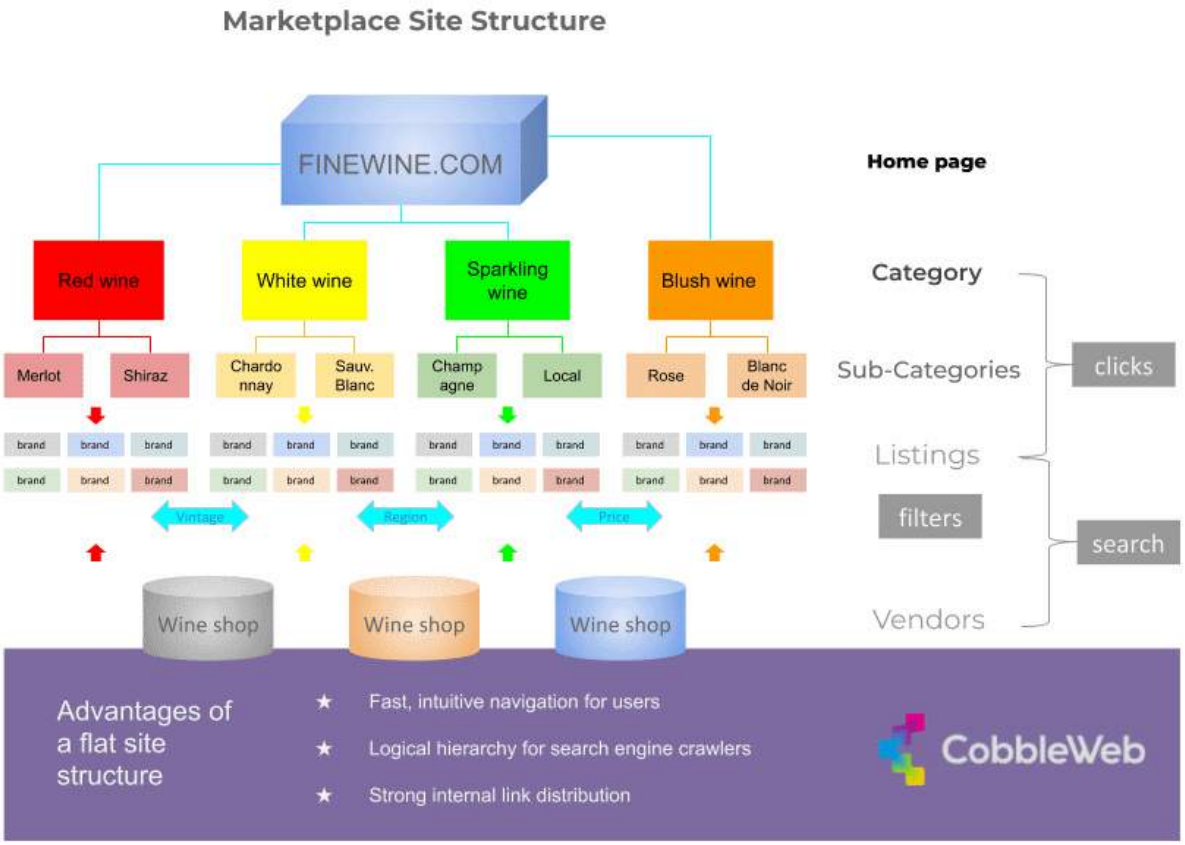
5. Site Architecture & Navigation

Site Architecture & Navigation are critical for marketplace success. Your marketplace should have a clear, easy-to-navigate site structure based on products, categories, and your target audience's search behavior.

Some basic guidelines for effective site architecture:

- ★ The site structure should be logical and scalable.
- ★ Pages should not be more than three clicks from each other. You want to shorten the buyer's funnel as much as possible.

- ★ Category, sub-category, and product pages should be aligned with relevant keywords.
- ★ Filters and search offer users additional entry points to search results while keeping the page structure flat. This is known as faceted navigation which facilitates fast granular search. The downside is that it can lead to duplicate content, wasted crawl budget, and diluted link authority. One solution is to add noindex tags to filtered pages.
- ★ Breadcrumb menus help users navigate category hierarchies quicker and offer another way for search engines to understand the structure of your site.
- ★ Replace low-value dynamic URLs (e.g. *domain.com/cat/?cid=7078*) with an SEO-friendly URL structure that follows a logical page and category hierarchy (e.g. *domain.com/redwine/merlot*).
- ★ Add an XML Sitemap via Google Seach Console and Bing Webmaster Tools. It helps search engines crawl and index your site.
- ★ Add an HTML Sitemap. It is a human-readable version of your sitemap that is good for internal linking (especially if it's in your footer) and another way for users to navigate your marketplace.
- ★ Add sitemap locations to your robots.txt file. It tells search engine crawlers where to check for sitemaps.
- ★ Internal links should follow a silo structure that passes link authority from the home page, through category pages, to listings and product pages.
- ★ Avoid keyword cannibalisation by flattening your URL structure: *example.com/wine/dom-perignon* instead of *example.com/wine/sparkling-wine/champagne/dom-perignon*. You can use breadcrumbs so that users can still see all the sub-categories: wine > sparkling wine > champagne > Dom Perignon
- ★ A flat site structure (see below graphic) offers fast, intuitive navigation for users, a logical hierarchy for search engine crawlers, and strong internal link distribution.



A flat marketplace site structure is better for your users and SEO

6. UX and UI design

UX and UI design have a ripple effect on many aspects of your marketplace. A good user experience increases the chances of backlinking, sharing (those all-important referrals), and conversions. It also has an impact on whether search engines like your content or not.

With RankBrain, Google introduced machine learning to its search algorithm in 2015. It is now considered one of the most important ranking factors due to its ability to detect the intent behind search queries and how happy people are with search results. By looking at user experience signals like time spent on page, number of pages visited, bounce rate, and click-through rate, RankBrain can judge if a page is delivering useful information in a user-friendly manner.

It boils down to making sure that technical SEO elements like navigation, site architecture, mobile-friendliness, and page speed combine optimally with quality content to make both your users and search engines happy. Your SEO and UX strategies should therefore be closely aligned.

Tools like heatmaps can give you valuable clues about areas on your platform where users are active, versus elements that are under-performing. Maybe it is just the positioning of a call-to-action button that must change or perhaps an entire page layout needs to be updated. Keeping track of clicks and scroll depths can help you make those decisions.

Pages should be built with the content in mind. For example, your design should always prioritise business goal-related content, such as your value proposition, explainer copy and calls to action, above the fold. Sites that prioritise visuals over well-placed and well-written copy will probably see a slide in search rankings.

Google's UX playbooks are valuable resources for making sure your marketplace conforms to these UX best practices. Their e-commerce playbook highlights some universal elements that contribute to a positive customer experience.

7. Duplicate Content

Duplicate content can harm your search engine page rankings. We've already mentioned the impact of faceted navigation and how to ameliorate it. Here are some other common causes of duplicate content and what to do about them.

Duplicate title tags can also negatively impact your page ranking since it makes it difficult for search engines to distinguish between different sets of content. Duplicate meta descriptions are not such a big deal anymore, but you should be circumspect about when to use them. Site crawlers like Screaming Frog can help you identify duplicate titles and meta descriptions.

Badly structured pagination can result in duplicate content issues. Use rel="next" and rel="prev" links so that search engines know that a series of pages are a continuation of the first (main) page. This will consolidate page rank in your first (main) pages.

User-generated content is very valuable to your marketplace, but it can create its own duplicate problems. Vendors are prone to uploading the same content multiple times or just copying and pasting from other sites. Using moderators is one way to approach this issue, but that can be very labour intensive. A more scalable option is to use an external SaaS solution for moderation.

Dynamic parameters created by faceted navigation (filters) can lead to duplicate issues when Google indexes multiple pages that vary only by URL parameters. The below examples demonstrate the issue:

https://example.com/redwine/merlot/chateau-petrus
(reached by clicking through categories)

https://example.com/redwine/merlot?brand=chateau-petrus&vintage=1996
(reached through search and filters)

You can use the URL Parameters Tool to block Google from crawling URLs with specific parameters. Use this option only if you have 1,000+ pages on your site and you can see that Google is indexing lots of duplicate pages which only differ by URL parameters. Warning: only for experienced users.

Canonical links are very powerful arrows in your anti-duplicate quiver. They tell Google which of similar pages is your preferred version and thus prevent duplicate penalties. They

can be easily added to pages via HTML or HTTP headers, although using sitemaps may be a better method for large marketplace sites.

Via HTML:
<link rel="canonical" href="*https://example.com/wine/merlot*" />
Via HTTP headers:
HTTP/1.1 200 OK

Content-Type: application/pdf

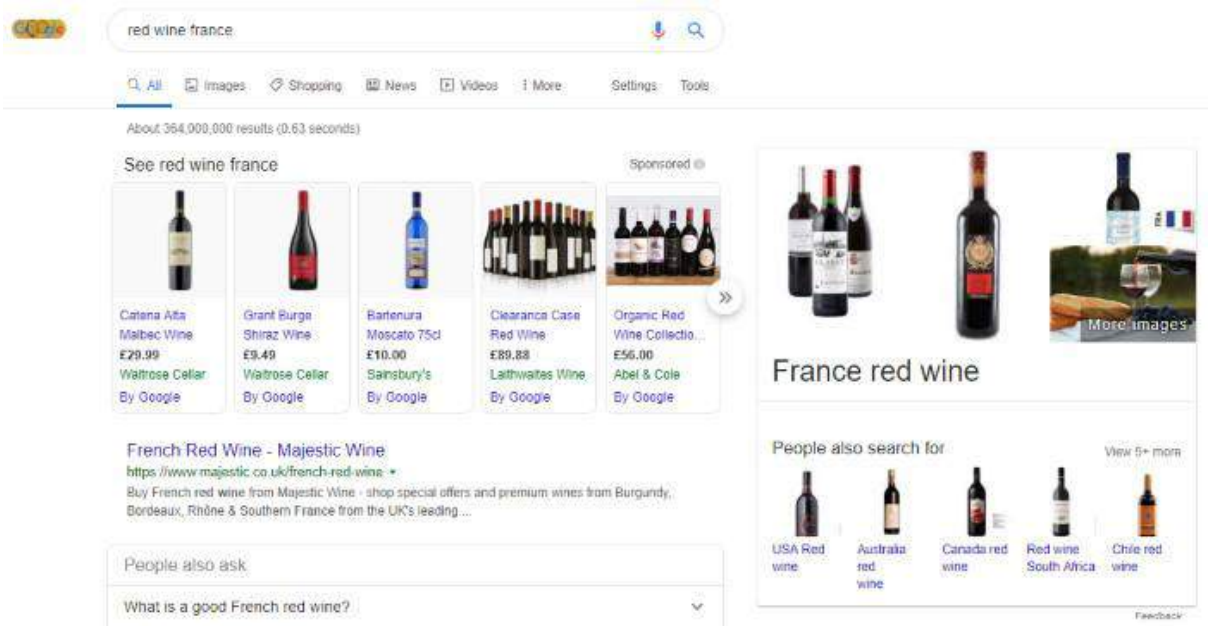
Link: <*https://example.com/page.php*>; rel="canonical"

8. Image Optimisation

Image optimisation can have a major effect on your site's performance, as we mentioned earlier under Site Speed. Images have ramifications beyond speed though, mostly due to changing consumer behaviour.

More than 60 percent of Millennials and Generation Z want to use visual search to find and buy products. Overall, 50 percent of online shoppers say they have made a purchase based on product images. In addition, a study by BigCommerce and Square has revealed that product images are the #1 factor that enhances the shopping experience for consumers.

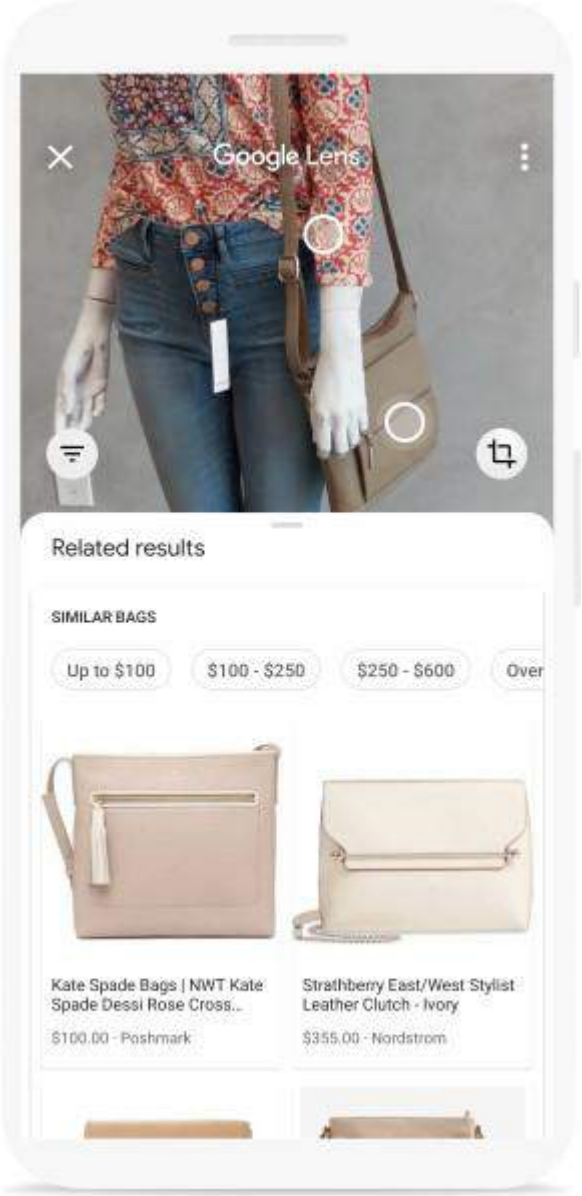
This preference for visual answers has influenced the evolution of search engines. With the help of machine learning and artificial intelligence, many search engine algorithms now include images in search results. Moz analytics show that 22 percent of Google's search results include images.



Images now make up more than a fifth of Google's search results

Applications like Google Lens take the potential of machine learning and AI-driven image recognition a step further. Google Lens uses your smartphone camera to identify objects and

make suggestions based on contextual factors such as your location. One use case would be a potential customer who notices someone carrying a nice handbag. Pointing their camera at the handbag will allow Google Lens to identify the type of handbag and offer options to buy similar items.



It's clear that visual search is poised to have a big impact on e-commerce. We've previously mentioned Gartner's prediction that e-commerce platforms that adopt image and voice search can expect up to 30% revenue growth. In fact, many large marketplaces like Alibaba, Amazon, eBay, and Houzz are already offering visual search on their platforms.

Making it easy for vendors to add optimised images to their product pages can therefore have a huge impact on your marketplace traffic. Conversely, unoptimised, low-quality images can actually hurt your site. There are three dimensions to making sure your platform's images are optimized for the best results: discoverability, deliverability, and shareability.

When it comes to deliverability, images should be optimized in two ways. Firstly, they should be served in different dimensions, depending on the size of the user's device or where they appear on your marketplace site, e.g. as category thumbnails, as product pages, or as zoomed product images.

Serving 4000 px by 3000 px images on a five-inch screen or on a category page with 49 other product images will definitely have a negative impact on performance.
Secondly, images should be compressed with a tool like TinyJPG to reduce their size below 100kb. Remember, the average iPhone image is about 3MB and the size of a fast-loading web page should be under 1MB!

From a UX point of view, you can also use lazy loading to load images asynchronously. It simply means that the rendering of images are deferred until the visitor has scrolled to their position on the page. It helps pages load quicker which reduces bounce rates and increases engagement.

Structured data is one way to enhance discoverability. Including descriptive ALT tags is another. Both make it easier for search engines to crawl and interpret your images, which increases their likelihood of being added to relevant search results. ALT tags should be short and include the product keyword and topic.

Adding image galleries and infographics to your existing sitemap can help search engines find them easier. You can further optimize image entries by adding schemas like URL location, title, description, caption, and licence.

The third part of image optimisation – shareability – can be improved with the OpenGraph protocol. It ensures that the preferred (featured) image of the product accompanies the text description when a post or product page is shared on social media. According to BuzzSumo, Facebook posts with images get 2.3 times more engagement.

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Mistakes Made by Online Marketplaces - Tragedy of the Common

Building an online marketplace isn't easy. There are a lot of mistakes to be ma...

OpenGraph protocol enables better sharing of page images

As your marketplace grows you will eventually require an image optimisation solution that can scale with your platform. Dedicated image servers and SaaS software can take care of image processing and CDN delivery for you. You will have to weigh up the cost to benefit ratio before making the move though.

9. Redirects

Redirects should be minimised as far as possible. They can slow a site down if there are too many and cause ranking issues if they are not implemented properly.

Most redirects are caused by the 404 or Page Not Found error, displayed by browsers when they can't find the page for a specific URL. A dead end with other words. This usually happens when a page has been deleted but some links pointing to it are still floating around.

There are a few things you can do about 404 errors:

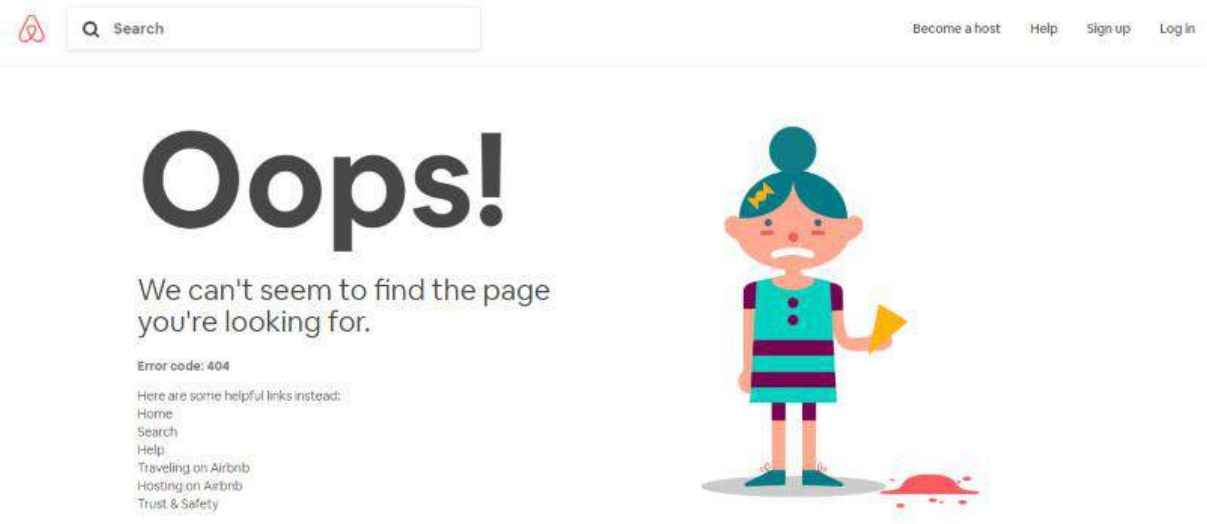
- ➔ Use Google Search Console to check your site for broken links. Note that Google won't check for broken links on pages that are not being indexed. A broken link scanner like Screaming Frog should cover those.

- ➔ Manually update the links from the directing pages if they are on your site.

- ➔ If the broken links originate from external sites or if there are too many of them you will have to implement 301 (permanent) redirects.

- ➔ 302 redirects should only be used for temporary redirects like site maintenance. The reason for that is that 302 redirects keep search engines focused on the original page, while 301 redirects point them to the new page.

- ➔ Create a custom 404 page with alternative navigation options for missing pages that slipped through the above net. This will somewhat minimise the impact of dead ends for users.



Custom 404 pages can soften the impact of a broken link

10. Code Health

Code health plays a vital role in technical SEO. Marketplaces should validate their code on a regular basis to make sure search engines can crawl the site properly. This includes checking for broken links and tags. HTML, CSS and JavaScript files should also be minified, compressed and bundled to help your site load faster.

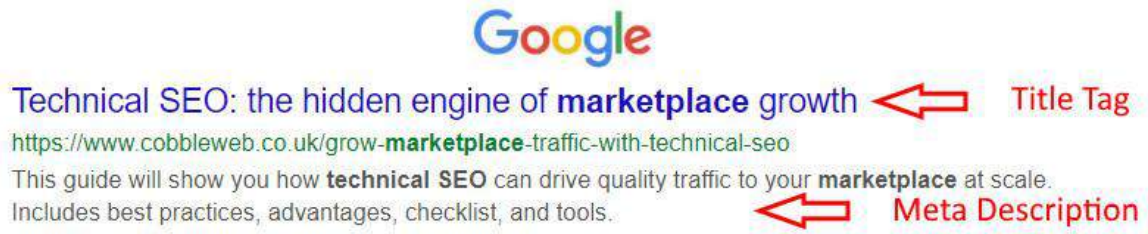
11. Meta Tags

Meta tags are snippets of text in your HTML that provide information about your web pages to search engines. This information helps them to categorize and sort your site's pages. Since Google does not recognize all the meta tags we will only cover the major ones here. Some meta tags do overlap with on-page SEO, but it is important to include their use and structure within all marketplace content generating activities, e.g. new product pages created by vendors.

The title tag is arguably the most important meta tag. It introduces the topic of your page and should therefore be unique for each page. Since title tags are visible to both search engine crawlers and humans they play a triple role in: on-page SEO, search result click-through rates, and social media sharing. Optimization includes limiting title tags to about 60 characters, including focus keywords, and making sure they are easy to read and relevant to the page content.

Meta descriptions provide a brief summary of your page content. They don't have a direct impact on SEO, but since they sometimes appear in search result snippets they can

influence click-through rates, which do affect page ranking. They are also used in social media snippets in the absence of OpenGraph data. Meta descriptions should be less than 160 characters long and written in a way that entices people to read more. It is basically an advertisement for your page.



Title tags and meta descriptions promote higher click-through rates.

Robots meta tags instruct search engines to either index, not index, crawl or not crawl a page. Noindex robots tags are useful for preventing the indexing of thank you pages, admin and login pages, shopping cart and checkout pages, as well as internal and paginated search results. Nofollow robots tags are used to prevent search engines from crawling certain links or passing on any link juice.

12. User Generated Content

User generated content can be a fantastic way to scale marketplace traffic. It requires the right infrastructure though. You have to make it easy for vendors to add optimized product descriptions and multimedia and for customers to add reviews.

Vendor content uploads should make use of pre-formatted forms that add appropriate heading tags and structured data. Your review system should be robust enough to handle moderation and threaded responses. Reviews have the potential to be a massive driver of traffic to your platform, but can be tough to moderate.

13. Internationalisation

Internationalisation becomes important when your marketplace crosses linguistic and geographical boundaries. If your marketplace operates in more than one country it may make sense to target the country code top level domain (ccTLD) of individual countries.

For example, registering finewine.com.au for Australia. An alternative would be to create a country-specific sub-folder for individual countries in the generic top-level domain (gTLD). E.g. finewine.com/au for Australia. The hreflang attribute tells search engines which language you are using on a specific page, so it can serve content suited to users searching in that language.

Tools for managing technical SEO

Here's a non-exhaustive list of tried and tested tools that can help you improve your marketplace's technical SEO:

Google Search Console – Submit sitemaps and check for broken links and crawl errors.

PageSpeed Insights – Test page speed and get recommendations for optimization.

Mobile-friendly test – Make sure your site passes Google's mobile-friendly test.

Mobile site testing – Test mobile page speed and get recommendations for improvement.

Screaming Frog – Check for duplicate content, broken links. Locate missing alt text, meta descriptions, or H1 headings. Audit page titles and meta data. Generate XML sitemaps. Visualise site architecture.

Structured Data Testing Tool – Make sure your structured data markup is in place and works properly.

Imgix – Scalable image processing and CDN.

Lighthouse – Test progressive web apps.

Mouseflow – Heatmaps for analysing user behaviour.

Google XML Sitemap generator – Iconic WordPress sitemap generator.

Siteliner – Check for duplicate content and broken links.

Yoast WooCommerce SEO plugin – Optimize sitemaps, add breadcrumb navigation, add structured data for rich snippets, and internal link suggestions.

GTmetrix – Measure site speed and get granular optimization recommendations.

Minify code – Minify HTML, CSS, and JavaScript files.

Websiteplanet GZIP – Test GZIP compression.

Cloudflare – Content delivery network (CDN) that speeds up your website by serving content from servers closest to users.

Raven Tools – SEO audits that break down website issues into categories like link issues and image issues.

Technical SEO vs other marketplace growth drivers

Let's cut right to the chase. Organic search still drives more than 65% of website traffic, with social media and paid search in distant second and third places. But what about the quality of that traffic? Does it convert into active users and subscribers?

According to Adobe subsidiary and marketing software giant, Marketo, inbound marketing (which includes technical SEO) is the third best driver of conversions after referral and partner marketing.

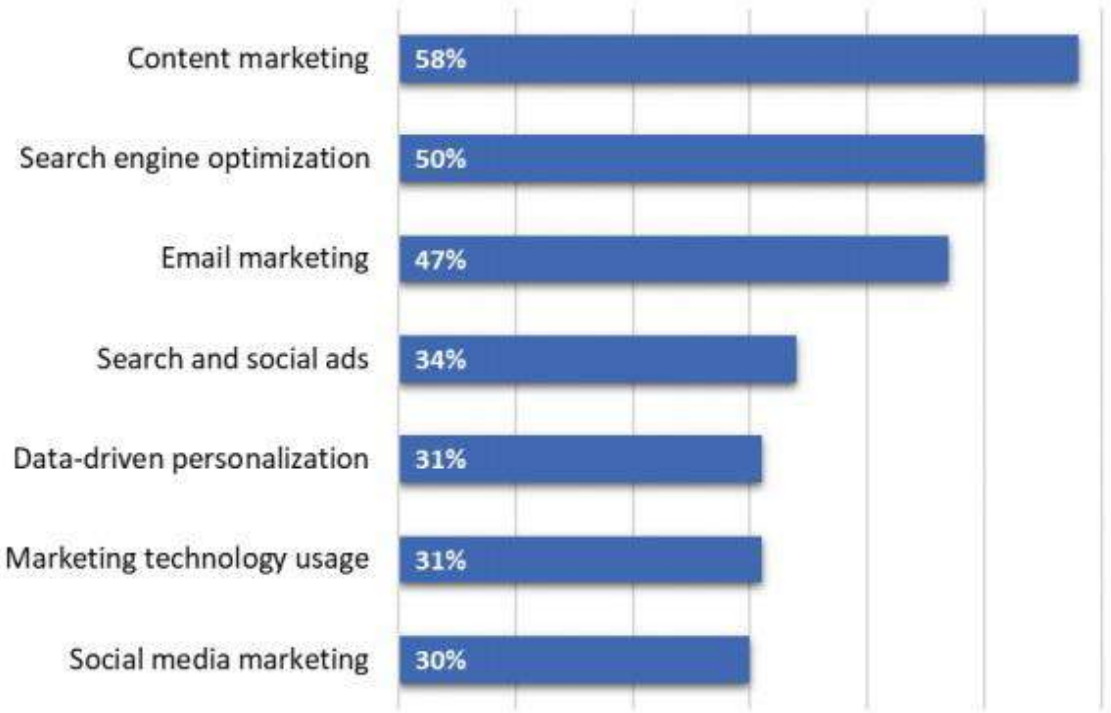
Acquisition Channel	Conversion Rate - Lead to Opp	Conversion Rate (normalized)
Sales Prospecting	0.90%	0.31
Email	0.55%	0.19
Inbound	3.82%	1.30
Event	1.48%	0.50
Paid Marketing	2.98%	1.01
Webinar	1.61%	0.55
Nurture	0.58%	0.20
Referral	10.99%	3.74
Partner	4.54%	1.54
Social Media	1.95%	0.66

Comparison of acquisition channel conversion rates

Be careful though. Conversion by itself, just like traffic, is not always the best benchmark of success. If it costs you £400 in marketing spend to convert one customer who bought a single £100 item, you are on a slippery slope to nowhere. In the same vein, if it takes six months to convert that £100, your marketplace prospects are also not good. It should be clear that spending large amounts of money or time on either paid advertising or content production does not necessarily guarantee success.

It is therefore important to look at your growth drivers holistically. Comparing each channel's conversion rate with other variables, such as the effort required, time to conversion, cost per acquisition, targeting options, and scalability, will give you a much better idea of their ROI potential.

A 2019 survey of marketing influencers, by Ascend2, revealed that content marketing and SEO are seen as the most effective ways of driving website traffic, customer acquisition, and sales leads.



Our own research and experience of helping marketplaces grow have shown that a sound SEO infrastructure, together with low-cost, scalable channels like referral marketing, produces some of the best results for marketplace startups. The below matrix highlights technical SEO's ability to drive quality traffic to your marketplace at scale.

Comparison of Marketplace Growth Drivers

Channels	Conversion	Effort	Lead time	CPA	Targeting	Scalability
Pay-per-click	Medium	Low	Short	High	High	High
Display Ads	Low	Low	Short	High	High	High
Technical SEO	High	Medium	Short	Low	High	High
Off-page SEO	High	Medium	Long	Low	High	Medium
On-page SEO	High	High	Long	Low	High	Medium
Email marketing	High	Low	Medium	Low	High	Low
Social media marketing	Medium	Low	Short	High	Medium	High
Referral marketing	High	Low	Short	Low	High	High
Affiliate marketing	Low	Low	Short	High	Medium	High
CobbleWeb	Sign-ups, leads, transactions, new users	Time spent + difficulty	How long before you see results	Cost per acquisition action	Quality of target audience	Ease of growing audience

Comparison of marketplace growth drivers

Advantages of technical SEO – the gift that keeps on giving

Technical SEO can help solve the pervasive chicken and egg problem of marketplaces – should you focus on buyers or sellers? If you already have a strategy in place for the supply side, technical SEO can balance it out by driving demand side traffic which is an attractive metric for vendors.

Technical SEO supports network effects. By helping to add new users to your marketplace equation it increases the value of the marketplace for all other users.

It is closely linked to a better user experience. By giving search engines richer, more descriptive information and helping users negotiate your site as fast and easy as possible, technical SEO promotes repeat use and referrals of your marketplace.

Since it can be difficult to implement on their own websites, well-implemented, continuously updated technical SEO can be an additional benefit for vendors on your marketplace.

Technical SEO supports all stages of the marketing funnel (acquisition, activation, retention, referral, revenue).and fits in well with growth frameworks like AARRR aka Pirate Metrics.

The rise of ad blockers and voice search has diluted many digital marketing strategies that worked well before. An estimated 22% of UK internet users used ad blockers in 2018 and at least 50% of all search will be voice and image-based by 2020. Technical SEO can support voice search and makes organic content more discoverable.

Most forms of marketing have a symbiotic relationship with technical SEO. For example, content marketing and paid search ads both rely partly on the technical elements of your site to be successful. Without a fast-loading, mobile-friendly site, visitors will leave without reading your content and Google will penalise your ads via its Quality Score for bad landing page performance.

Well-known companies have benefited hugely by implementing better technical SEO. Even marketing experts like Hubspot managed to increase their traffic with more than 50% after they jacked up their technical SEO.

In the words of Neil Patel, New York Times bestselling author and Forbes Top 10 Marketer,
“Technical SEO is becoming more important than any other SEO tactic. It is the structure of your website. Without it, everything else falls apart.”

Caveats for technical SEO success

As powerful as technical SEO is, you still need product/market fit, relevant and targeted content, and superb UX in order to produce the required results.
Don’t rely on SEO in isolation. A change in algorithm can result in a dramatic drop in traffic and revenue. Follow a holistic approach and optimize all other sources of traffic as far as possible.

This means continuous measuring and testing. Except for traffic fluctuations, you have to keep a constant eye on indexed pages, page load speed,link health, Google Ads quality scores, bounce rates and of course your user feedback.

There are some tricks of the trade as well. Testing certain elements of technical SEO, like site structure, with an MVP version can prevent a lot of headaches down the road.

Technical SEO is a bit of a canary in the coal mine. If there's not a decent trickle of traffic after implementing some basic technical SEO, you have bigger problems than traffic drivers. You may need to relook your value proposition and pivot.

Conclusion

Google made 3,234 changes to their search algorithm in 2018. That's nine updates per day. Staying ahead of the SEO game can be exhausting. Especially if you are trying to run a company with lots of other focus areas.

The brutal reality is that technical SEO can be very complex and requires a good understanding of web development. It may look like we had a lot to say in this chapter and all the above-mentioned points are important, but they only scratch the surface.

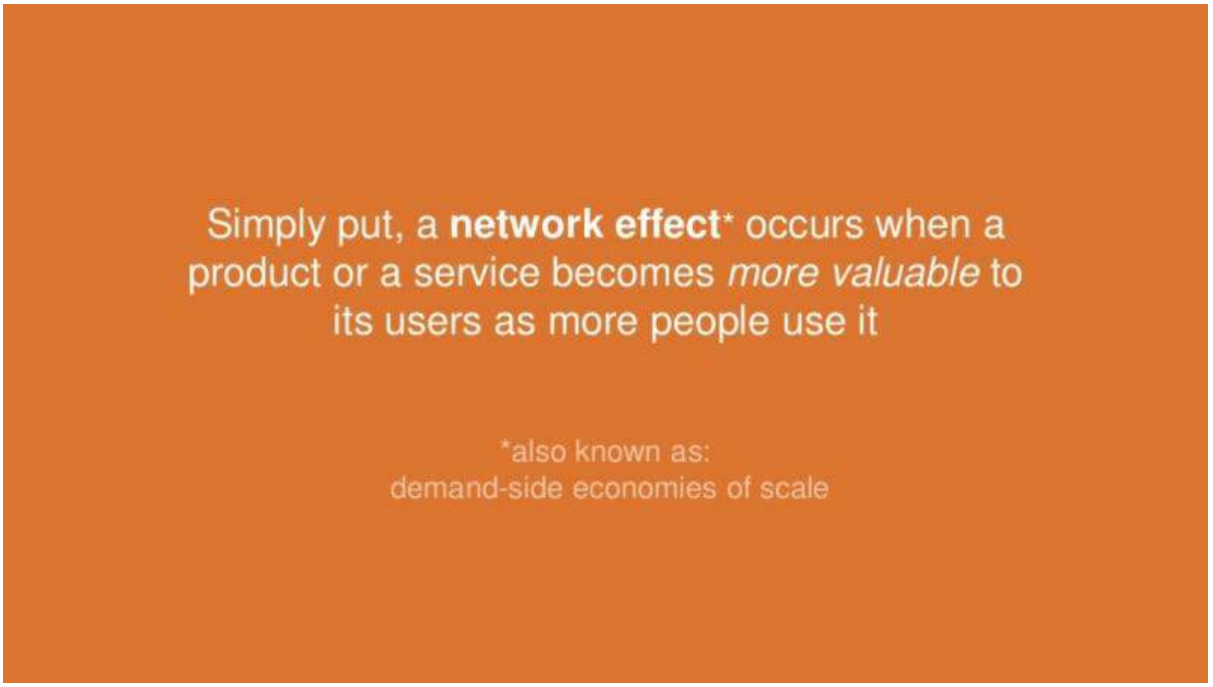
Getting it right, however, is non-negotiable for success. There is nothing sadder than a sound marketplace idea disappearing into the digital abyss just because there is no structure to support its content.

Grow the value of your marketplace with powerful network effects

eBay, Houzz, Etsy, and Airbnb are very different online marketplaces, but they all share one common trait that made them massively successful: network effects. An ecosystem that increases value for all its users every time a new user joins the community has been shown to be a critical success factor for digital platforms.

It is the main reason why Uber has a larger market capitalisation than either Ford or General Motors, and Airbnb is worth more than the Hilton and Hyatt hotel chains combined, despite being far younger companies.

> "a network effect is the single most predictable attribute of the highest value technology companies"
>
> - James Currier, Silicon Valley entrepreneur and VC



Network effects definition from the Andreessen Horowitz playbook

Many marketplace entrepreneurs tend to lose sight of this core principle amid all the other much vaunted advantages of marketplaces. Not having to buy or manage inventory and being able to stock a greater variety of products are good and well, but it doesn't help much if no one is buying what your vendors are selling.

Network effects amplify the liquidity in your marketplace by increasing the chances of a match between buyers and sellers. The higher the frequency of matches, the better the chances of creating unassailable defensive moats, also known as barriers to entry.
There's even a technical law for the effect. Metcalfe's Law holds that the total value of a network grows by the square of its size (n2), where 'n' is the number of users.

Why your marketplace needs network effects

Although network effects sound like a modern term, they have actually been around for ages. When the first telephone network emerged in 1878, it created additional value for its users every time a new phone was installed. What has changed is how important they have become, especially for online marketplaces.

As global marketplaces like Amazon and Alibaba entrench their hold on global B2C and B2B retail and vertically-focused marketplaces mushroom, competition for consumers' wallets will get more fierce. It has become crucial to differentiate your marketplace's value proposition from that of competitors. As already mentioned, network effects can create those competitive advantages by promoting a higher ratio of matches between what sellers offer and what buyers want.

Another big advantage of focusing on igniting network effects, is that it cures the fanciful entrepreneur of the 'if we build it, they will come' syndrome. It forces marketplace owners to put the relationship between buyers and sellers at the core of the platform's development,

which means constantly analyzing user behaviour and using rapid iteration to establish product-market fit.

Network effects versus virality and economies of scale

Although a marketplace can contain elements of virality, network and viral effects are two different concepts with diverging goals. A product goes viral when the rate of adoption increases rapidly as more people are organically introduced by existing users. As we've seen, network effects are more concerned with the additional value, not volume, that is created.

Put another way, virality is about growth in numbers through referrals, while network effects are about growth in value through higher engagement rates. Some successful marketplaces, like Airbnb, often have low virality, but very powerful network effects. While virality can peter out suddenly when the fad had its moment, network effects are longer lasting and contribute to user retention and the defensibility of a business.

Economies of scale can affect either the demand side or the supply side. Supply side economies of scale kick in when products become cheaper to produce as a company gets bigger. Usually that is a result of fixed costs (warehousing, assembly lines) that remain the same as more goods are produced, or due to increased purchasing power that lowers the cost per unit.

Demand-side economies of scale is simply another way of looking at network effects. Since network effects dictate that a product becomes more valuable the more people use it, demand side economies of scale tend to be stronger than supply side economies of scale.

Not all network effects are created equal

Broadly speaking there are five types of network effects: direct, indirect, two-sided, local and global. Many digital platforms, including marketplaces, are able to leverage a combination of network effect types. Facebook, for example, makes use of all five.

Direct network effect aka same-side network effect

Each user adds to the value of the network by way of their mere presence since everyone is looking for and receives the same benefits. Examples are social networks like Facebook and messaging apps like WhatsApp.

Indirect network effects aka cross-side network effect

Increases in usage of one product or network spawn increases in the value of a complementary product or network, which can in turn increase the value of the original. Examples include software and apps for operating systems such as Apple's App Store, or secondary platforms that deliver additional services like Nestify's property management services for Airbnb hosts.

Two-sided network effects

An increase in the activity of one group of users creates more value for another group of users. This is particularly true for buyers and sellers on marketplace platforms. Two-sided network effects are tough to compete with once they reach critical mass. Challenges: difficult to acquire users and you need to balance supply and demand. Examples include marketplaces like Houzz and Airbnb, as well as social networks like Facebook, where user attention and brand ads constitute the two sides.

Local network effects

Sometimes the value that is added is confined to a subgroup even if the total user base increases. In this instance, users derive value from the growth in numbers and activity of the smaller group. Local network effects can be seen in social networks like LinkedIn and on-demand platforms like Deliveroo. If more lawyers in Los Angeles join LinkedIn there's no added value for a civil engineer in Sydney, but if more customers join in an area where Deliveroo partner restaurants are based, extra value is generated.

Global network effects

These tend to occur in international marketplaces like Airbnb that have few barriers in the form of language or payment. An apartment for rent in Paris is equally desirable for a tourist from Germany or Mexico. Some marketplaces like Uber can straddle both local and global network effects, since visitors from other locations also use local Uber drivers.

How do you build network effects on a marketplace platform?

To get the flywheel of momentum going is the holy grail of network effects. This occurs when a compounding feedback loop kicks in at what is known as a critical mass point. At that point the perceived value received from a product or service becomes greater than its cost. For instance, if enough good teachers join a peer-to-peer education marketplace like Skillshare, users will happily pay subscriptions because the value exceeds the cost.

It can be challenging to reach critical mass if the cost of adding value is very high. This is often the case with complex service platforms like Zillow, which has to spend a lot of money on buying, fixing and marketing properties. In their case, the answer was to increase commision rates.

Strategies for building network effects can be divided into a trigger stage and expansion stage.

Factors that can kick-start network effects

Build a system that is valuable to early adopters. Using an MVP to establish product-market fit is a smart way to get this done. Successful marketplaces don't happen suddenly; they grow on the back of product iteration that is in turn based on user behaviour and feedback. Focusing on a niche vertical or single location initially makes it easier to solve product-market fit.

Introduce your product to the market with a freemium model that allows users to try out basic features for free. Once they become regular users make them pay for premium features or additional services.

Technical SEO can play a huge role in driving network effects by making it easier for users to discover and engage with your marketplace. For best results, design and implement a technical SEO framework when you start your marketplace.

Know what your critical mass goals are. Facebook established early on that each user required at least 10 friends to stay engaged. In the same way you need to know how many product options your buyers need or how many quote requests will keep sellers happy.
To solve the chicken or the egg problem, you can subsidise the side of your marketplace that is more challenging to acquire. Strategies that may work include free access, zero commission, and volume discounts.

Paul Graham, an iconic VC and co-founder of startup accelerator, Y Combinator, wrote a famous essay about the value of manual (non-scalable) activities to kick-start network effects. A great example is the effort Airbnb's founders made to take photos of hosts' properties themselves, to ensure good quality profile images and better conversion rates.
Triggering engagement with curation tools like ratings and reviews is a powerful network effects driver. Low-friction curation tools such as 'likes' and 'favourites' make it even easier for users to share their feedback with peers. Other engagement strategies are 'refer a friend' and suggested products or sellers.

Keep it simple. Make sure you have established product-market fit for your core value proposition before adding the bells and whistles. Too many extras can obfuscate which aspects of your marketplace platform users really want or are in need of improvement.
Users need to feel safe for them to be willing to transact on your marketplace. Trust generating mechanisms include ratings and reviews, guarantees, and a transparent payment system.

Expanding network effects

Once you have kick-started network effects, there are additional strategies to increase their impact.

Use data to tailor products and services to the individual needs and tastes of users. Investing in machine learning and the right data infrastructure can generate additional value in the form of personalised recommendations. This is something that Amazon and YouTube do very well.

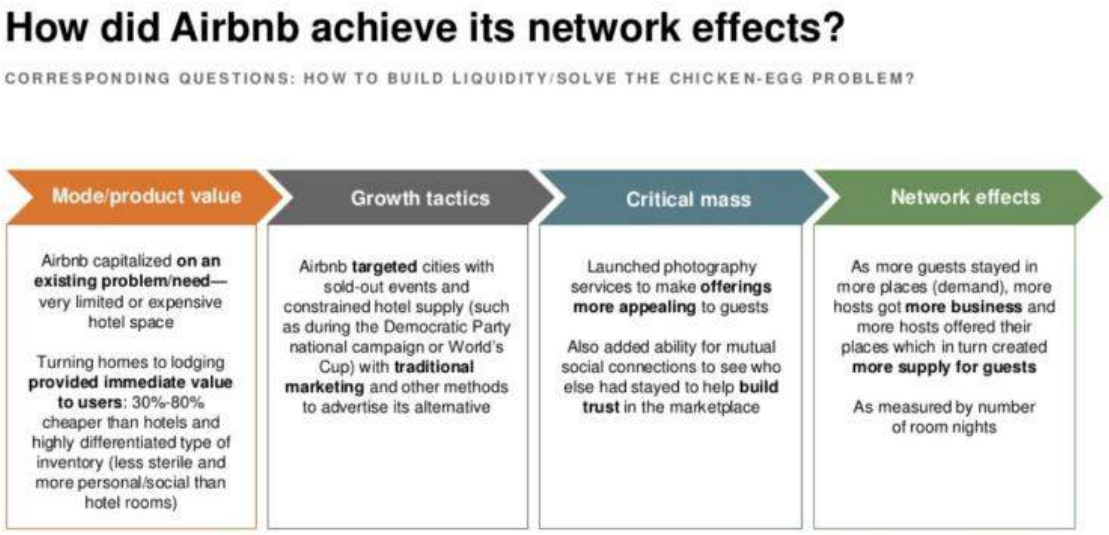
Interoperability increases the size of marketplace networks by making it possible for other devices and platforms to connect and interact with it. This is a foundational principle of the Internet of Things (IoT). For example, almost 500,000 apps have been built with Amazon's API, creating lots of added value for users of their platform.

Value can also be added by growing the on-platform services available to users. Opendoor is a managed (full-stack) real estate marketplace that not only connects buyers and sellers but actually buys your house upfront, before doing the maintenance and marketing to find a suitable buyer.

Focus on things that are working well. That means identifying and supporting products, locations, and target audiences that see the most activity and produce the best returns. E.g. how-to manuals and promotional services for performing sellers can boost their contributions even further.

A network effects case study

Airbnb is arguably the most famous example of network effects driving incredible growth in value over a short period of time. Our in-depth essay covers every step of the accommodation platform's rise to world dominance. For a quick summary, have a look at the below graphic by VC giants, Andreessen Horowitz.



In general terms, the network effects process can be broken down as follows:

1. Create immediate value for early adopters
2. Drive engagement (refer a friend, curation tools, suggested products/sellers)

3. Increase usage (product and UX improvement, new features) per user
4. Network effects

Measuring network effects

It's not enough to simply implement network effects strategies; you also need to measure how successful those strategies are at driving network effects.

Andreessen Horowitz identified five main categories to measure network effects: acquisition, competitor, engagement, marketplace, and economics-related metrics. Of course, marketplace businesses will measure different metrics based on the product or service verticals, users, and locations they are targeting.

Acquisition metrics:

Organic vs paid users. As the network grows and becomes more valuable for users, more users should be joining on their own rather than due to advertising.

Traffic sources. The higher the ratio of direct vs external traffic, the stronger the network effects. Yelp provides an example of the 'come for the tool, stay for the network' principle. Users initially search for a restaurant and then book via Yelp's reservations widget on the restaurant's website. Eventually they go directly to Yelp to search for restaurants and make reservations.

Customer acquisition cost. High CAC can be an indication of saturated markets such as those found with ride hailing and can highlight the effectiveness (or not) of your marketing channels.

Competitor metrics:

Multi-tenanting. How many of your users also use other similar services and how active are they on those services? This can be determined by using surveys and countered with subscriptions and a superior user experience.

Switching costs. How easy is it for users to join another network and how much additional value can they get from joining a different network? The level of friction created by competing onboarding processes can either lock existing users in or chase new users away. The immediate value offered by, for example, job listing marketplaces, provides a powerful incentive to sign up to multiple platforms. Sellers will also compare the amount of time it takes for a lead or sale to take place.

Engagement metrics:

User retention. Are newer users (who signed up to a larger more valuable network) more active and loyal than older users (who signed up when the network was smaller and less useful)?

Core action retention. How many new users are completing your platform's central activity, e.g. requesting a quote? Also known as a North Star Metric.

Paid user retention. How long do new users remain subscribed or continue to use paid products?

Retention by location. Users in older, more mature markets with denser networks should display better retention rates than younger less-developed markets.

Power user curves. Are users becoming more engaged over time? This can be measured by looking at the number of times a particular action (e.g. requesting a quote) was completed over a specific time period.

Marketplace metrics:

Match rate. How successful are the two sides of the marketplace at finding each other? Examples include the percentage of time ride-hailing cars are occupied with passengers, how often employers fill positions posted on job marketplaces, the percentage of shopping carts that are abandoned, and the ratio of successful vs unsuccessful quote requests.
Once the reasons why some matches don't occur have been identified, steps can be taken to improve the product offering and/or user experience.

Market depth. Is there enough supply of services or products that fulfill users' needs? In a heterogeneous marketplace with many different products or services this will be dependent on a user's ability to find a specific match, i.e. a product they want to buy or a service they want to rent. Homogenous marketplaces rely on the ease with which a product can be accessed. Bike or scooter rental marketplaces, for example, should have enough bikes or scooters in the vicinity of potential users.

Time to find a match. How long does it take for supply and demand to match? This can be the time it takes an employer to fill a position via a jobs marketplace or how long it takes for buyers to receive their first quotes.

Concentration or fragmentation of supply and demand. The higher the fragmentation of a market (number of unconnected sellers and buyers), the more valuable the marketplace becomes. Concentration can be gauged by measuring the percentage of total sales that are driven by top sellers or buyers.

Economics-related Metrics:

Pricing power. How much are you able to charge for your service? As users receive greater value from the network, they are willing to pay more for access, in the shape of subscriptions, listing fees, commissions and other sources of revenue. Stronger pricing power makes it easier to increase prices without increasing the churn rate.

Unit economics are direct income and expenses associated with a particular business model, e.g. customer acquisition cost and customer lifetime value.

Future-proof your network effects

Increased competition in the online marketplace sector, due to easier marketplace creation options and faster product iteration cycles, has caused network effects to change at a rapid

pace too. Today, a first-mover advantage does not mean the network effects-driven market domination it once did and in some instances network effects can even follow a negative trajectory. MySpace is a well-known example of reverse network effects that killed a platform.

To stay ahead of the competition you need to keep an eye on three important facets of your marketplace that can affect network effects: your value proposition, your users, products and/or services, and your competitive landscape.

Combat product saturation by creating additional value for users. Ubiquitous ride-hailing services like Uber or Lyft have realised that adding more drivers doesn't add more value. They had to experiment with pricing and better customer support to retain their competitive advantages.

Sometimes marketplace network effects create lots of value for users, but are difficult to monetise. This holds especially true for so-called complete marketplaces like Foursquare and some event and job listing sites, where users expect comprehensive listings without wanting to pay for access. Offering a secure payment and shipping system to process transactions between buyers and sellers is one way to overcome this challenge.

Marketplaces with differentiated products or services have longer-lasting network effects than those with commoditised products or services. The diverse inventory of an Etsy makes it easier to cater to the unique tastes of multiple customers, while most users are agnostic about which ride-hailing company they use. That's why Uber has differentiated themselves with new products like Uber Eats.

Of course, the more differentiated your product offering, the more emphasis there should be on the curation of high-quality products and services. Your users need to be protected against bad actors such as fraudulent sellers through mechanisms like transparent reviews or service/product guarantees. Airbnb has done this by creating a Trust and Safety team as well as offering a Host Guarantee in addition to peer reviews.

As mentioned in the metrics section, you can assess the level of competition in the market by staying on top of multi-tenanting and switching costs. Low barriers to entry and network overlap may necessitate a rethink of your value proposition. Craft marketplace, Etsy, managed to increase its revenue by 37% in 2018, despite competition from numerous copycat marketplaces, by focusing on free shipping and seller advertising tools.

Optimise your marketplace category structure for stellar growth

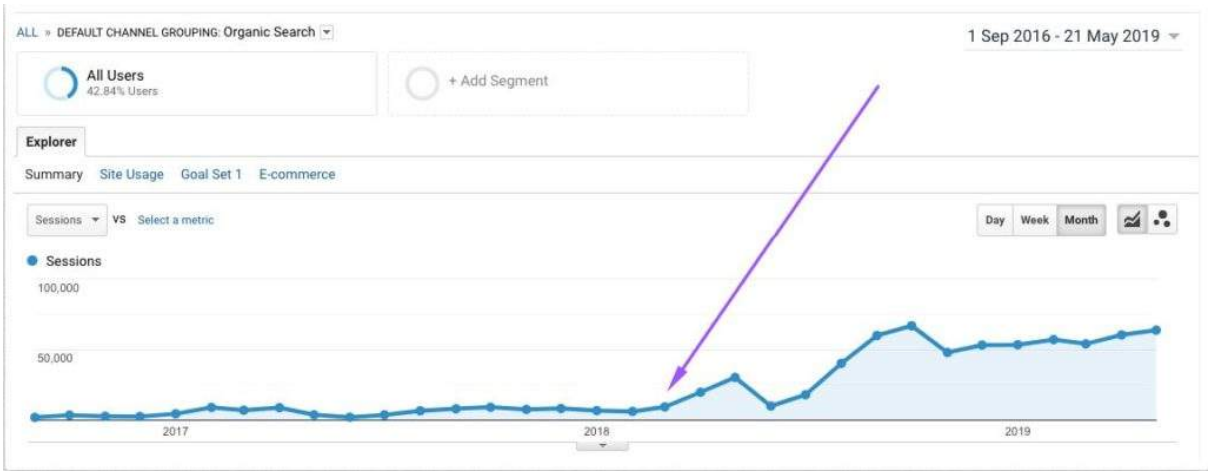
In a previous chapter we discussed how you should approach the designing of your marketplace product category structure. Once you have gone through the discovery and validation stages and established a workable category structure, it's time to take it to the next level.

We've analysed a number of successful marketplaces and came up with the following SEO, UX, and Marketing strategies to boost your marketplace category performance.

Make your marketplace product categories more discoverable

Search-optimised category pages can be a major source of traffic for your marketplace platform. You should use them as dedicated landing pages that capture searcher intent for each category.

Events marketplace FanPass is a good example of driving lots of traffic with optimised category pages. Their platform has a WordPress CMS integrated with its back-end framework, so that whenever vendors add a new event listing, its details (title, date, image) are immediately added to a content-rich category page created by the site owner. After their implementation, these dynamically updated category pages powered an increase of tens of thousands of new visitors each month.



Tips for search optimising your marketplace category pages

There are some standard aspects of your category pages that can be optimised to drive greater numbers of qualified traffic towards them and your sellers.

Category page titles should be optimised with relevant keywords. This is a major SEO signal, so make sure your keyword research is done properly. That means finding keywords that people are using to search for particular categories.

Use relevant and related keywords in your landing page copy. The more your content correlates with the main topic (i.e. the category) the better search engines will index your page. LSIGraph is a neat tool for this purpose.

Category titles and descriptions should also be accurate, informative and compelling enough that buyers will want to interact with your category pages. Vague descriptions and exotic neologisms will have the opposite effect. Test a category's click rate with different titles and descriptions to make sure they carry a strong information scent.

Category keywords should also be used in H1 heading tags and image ALT tags. If possible, add a field in the seller dashboard so that sellers can add ALT tags to the images they upload themselves.

Your category page URLs should be machine and human readable, with a clear link structure that reflects your parent and child categories. Semantically accurate URLs with relevant category keywords have better click-through rates.

Keep URLs as short as possible for readability by sticking to a maximum of three categories in your link structure. Which URL would you rather click on?
example.com/weddings/catering/vegetarian
or
example.com/products?category=12&pid=25

Make sure that SEO juice flows to your main category pages by appending modifiers (colour, size etc) – created when buyers use attribute filters – as strings, instead of including them in the URL.

By using
example.com//fashion/footwear/sneakers?material=canvas&color=beige
instead of
example.com//fashion/footwear/sneakers/canvas/beige
you can avoid duplicate content and increase the visibility of your sneaker category in search engines.

Well-written blog posts that link to category pages can boost traffic further. Make sure the content is relevant, useful and compelling for best results. Marketplace startups with budget constraints should consider user generated content. Entice some of your top sellers to write blog posts on appropriate categories by dangling the carrot of extra exposure in front of them.

It's important to avoid vague categories such as 'other' or 'miscellaneous'. That's right, you guessed it, nobody is searching the interwebs for those keywords. Unfortunately, too many e-commerce websites, including some marketplace platforms, step into this pitfall. Rather create a dedicated subcategory or add to an existing one.

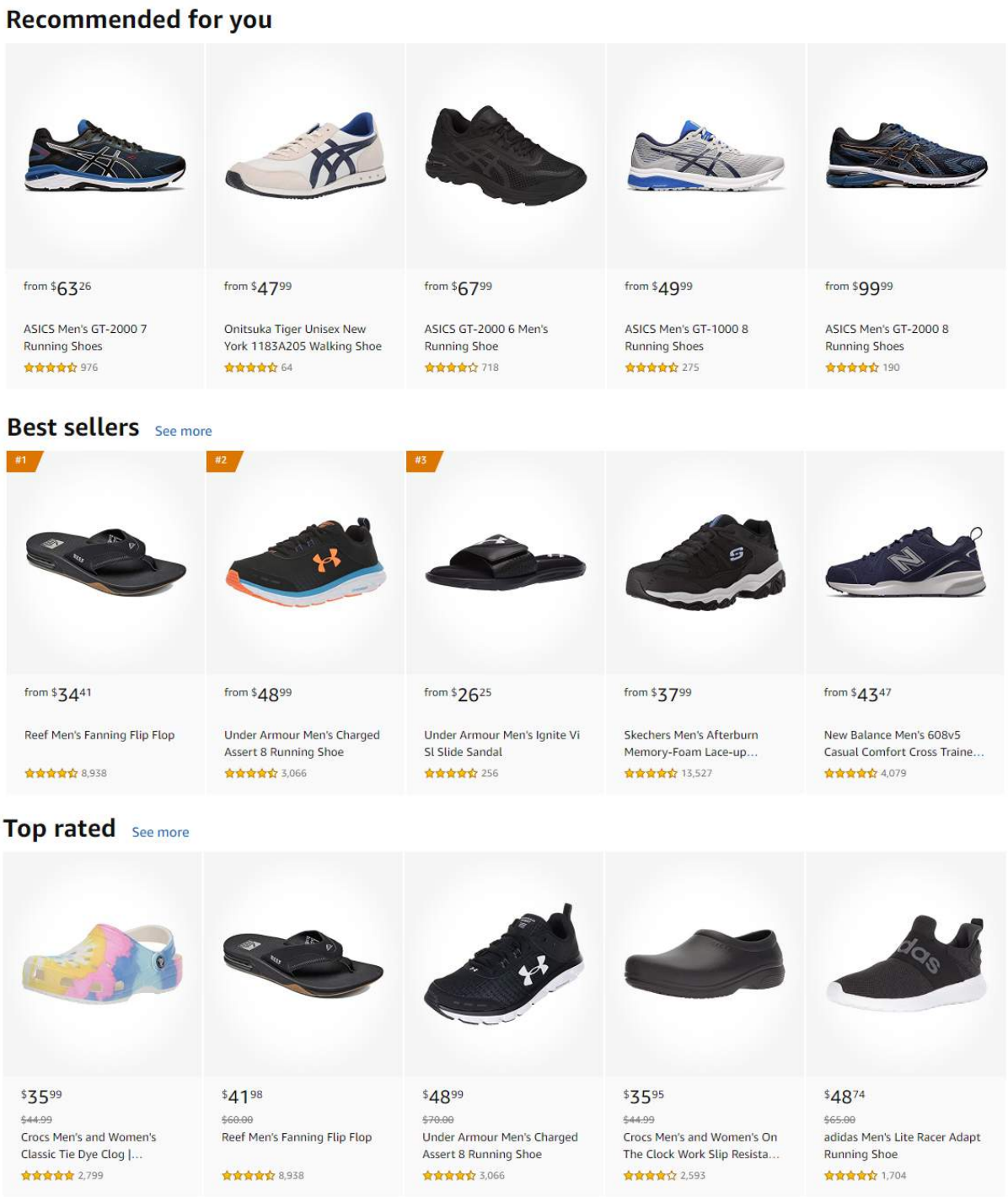
Use marketplace categories to provide a superlative user experience

It's one thing to attract potential buyers to your marketplace platform, but another thing to help them enjoy the experience so much that they purchase loads of products and services. Paying attention to the user experience design of your marketplace product categories can pay off handsomely in the shape of higher conversion rates.

Make your marketplace categories more user friendly with these UX design tips

Parent categories should be clickable (and not just text labels) for a better product browsing experience. By linking them to an SEO-optimised landing page you not only promote a better user experience, but also drive traffic to your platform.

Add sections such as ‘recently viewed’, ‘best seller’, ‘on promotion’, ‘recommended for you’ or ‘customers also viewed’ to your category pages. Personalising the shopping experience can be an effective way to increase repeat sales, while highlighting similar and complementary products promotes cross-sales. Amazon is the grand master of this art.



Users get frustrated when they’re not able to find a specific subcategory. Avoid sabotaging usability and conversions by allowing them to search the parent category that best fits their needs. You can achieve this by putting some subcategories in multiple parent categories. There’s no need to create duplicate landing pages; simply link to the same subcategory

page from both parent categories. Thus breadcrumb paths would be *example.com* > office > printer and *example.com* > electronics > printer.

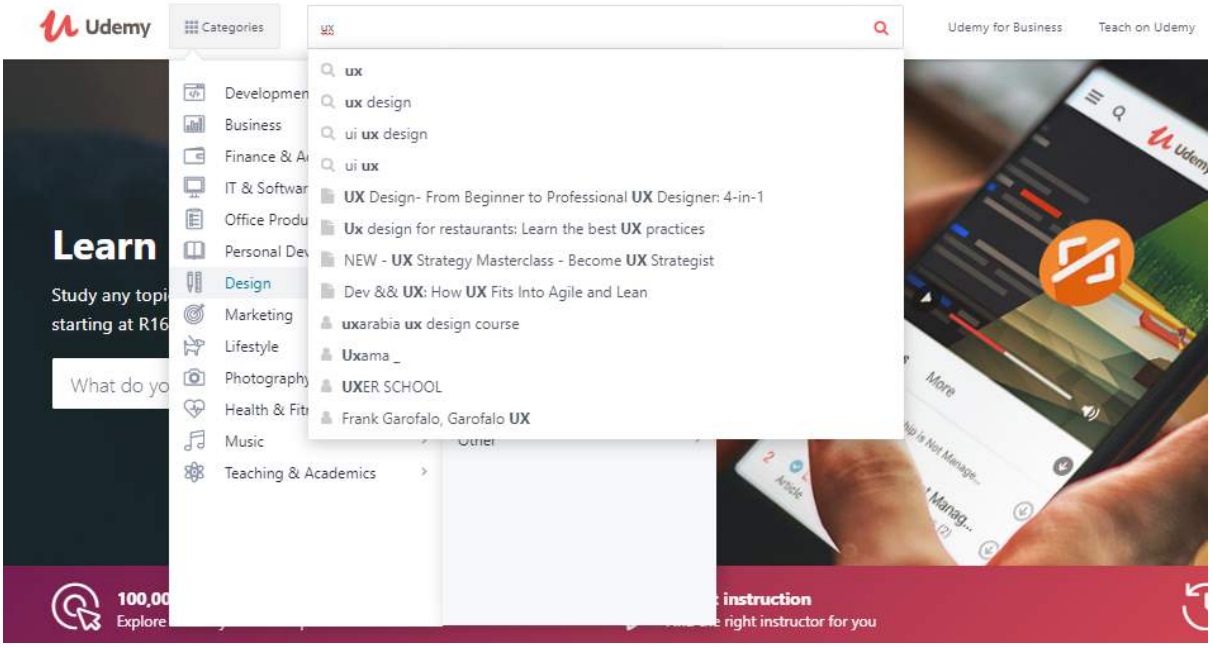
Create a new or seasonal arrivals category so that return customers don't have to browse through all of your existing inventory again. It may be worthwhile to add this category to filters instead of the dropdown menu. That way buyers can filter to see the latest arrivals in each subcategory.

Present your category taxonomy in an accessible way so that buyers can easily find parent categories and related products. They should be able to comprehend and negotiate all the products or services on offer no matter where they find themselves in the site hierarchy.

Category accessibility is very important since a visitor's first introduction to your site is often after they clicked a link on social media or a search engine and landed deep inside your site. Therefore make sure that your dropdown menus and filters are intuitive and easy to find. Breadcrumbs are another great way to improve navigation and reduce bounce rates.

Remember that customers search for products and services in different ways. Some will browse through category menus till they find the right one to search in. Others know exactly what they want and want to get to the right item pronto. These guys usually have a high buy intent, so keeping them happy with an accurate search feature is paramount.

Optimising your on-site search functionality can be done with customisable search tools like Algolia and Elasticsearch. Custom on-site search engines may cost a bit more, but they will help you avoid blank results by offering related or alternative products in the same category. They also offer autocomplete features that highlight relevant categories and keywords. Don't forget to make the search box easy to find with a clear call to action in the placeholder text.



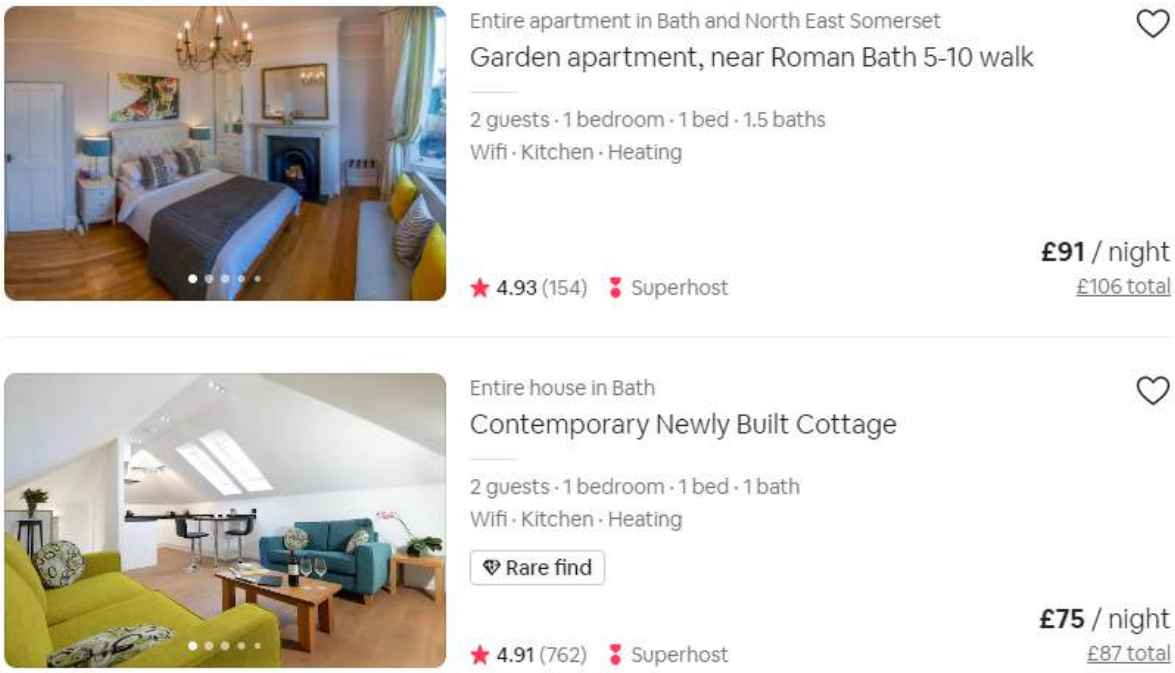
Educational marketplace, Udemy, offers users different ways to negotiate the platform's product categories.

Filters for attributes should be subject to continuous testing to optimise their effectiveness. Use A/B testing to find out how adding new filters or tweaking existing ones affect conversion rates. If you have a lot of values for each attribute it would make sense to use dropdown filters.

Image quality is key to marketplace conversion as the guys at Airbnb discovered. Use high-quality thumbnails for product summaries on category landing pages, but make sure they don't slow down the page too much. That can be achieved by using image optimisation techniques like resizing for different screen sizes and lazy loading of images. Some large marketplaces invest in dedicated image servers.

Category page product images should fit well into the visual hierarchy, elucidating text elements without being overpowering. Features like quick zoom can add extra value to the buyer's browsing experience by making it quicker to inspect items.

92% of online consumers will think twice before buying from a site with no reviews and 97% concede that reviews (including the number of reviews) influence their buying decisions. To that end, it makes sense to add the number of reviews and average rating to the product listings on your category pages. It's good for SEO too!



Airbnb's category landing pages make it easy to compare the number of reviews and average rating for each listing.

Don't confuse users with too much clutter on category pages; some features do not add value. Rather kick off with the bare necessities and implement additional features incrementally to make sure they have the desired impact.

Ensure high-quality sellers for popular product categories

Good category management can play a big role in the virtuous cycle of network effects. That's the positive feedback loop in which high quality sellers attract more customers; which entices more sellers and so on until critical mass is reached.

To do this you need to identify and support the categories that drive the most traffic and/or transactions. That includes making sure your most popular categories have enough high-quality sellers. Without them you will not be able to scale properly.

Strategies for getting category appropriate sellers include affiliate marketing on niche websites and reaching out to sellers who are selling those category products on their own websites, online business directories, social media or other marketplaces. Targeting sellers who are not online yet can be low hanging fruit, but you will have to hunt them down at trade fairs, physical markets and brick and mortar stores.

Make sure your marketing channels and product categories are synchronised. Your sock sellers are not going to be happy if the platform is flooded with people only looking for shoes. You can keep both sock and shoe sellers happy by leveraging cross-selling. Achieve that by using transactional data such as repeat purchases, types of products purchased, and purchase intervals to customise promotions. Those promotions can take the form of related products in the same category or complementary products in another category.

Conclusion

The importance of good category management for your marketplace can not be over-emphasised. Your category landing pages are not only traffic drivers, they are the most important advertisement for your marketplace products or services. If they fail to entice buyers to browse or search further you will not be able to deliver the right number of sales to your sellers.

Marketplace curation: boost trust and growth with seller quality control

Like all aspects of building an online marketplace, vendor management can appear deceptively simple. On the surface, it may look like a simple case of inviting and onboarding sellers to do business on your platform. In reality, how you select and screen sellers can make or break your marketplace. Your curation process should be able to handle a number of variables:

Are you attracting bona fide sellers or fraudsters? Are your sellers offering quality products or sub-par knock-offs? Are sellers offering what buyers want? Do sellers have enough stock and are they delivering on time?

Great products and services delivered at the right time and price build trust in your marketplace platform. Trust drives sales and growth. Without the right sellers that will not happen.

Marketplace seller curation as part of an overall quality control process is therefore critical to your platform's growth strategy.

The open marketplace – when low-friction curation ruled the world wide web

To understand the evolution of marketplace curation we need to go back into the mists of time when the first marketplaces crawled from the digital swamp. In 1995 eBay opened its platform to anyone who wanted to auction off a collectible item. By 2000 this had evolved into almost unrestricted sales of any item under the moon. Anyone could sell nearly anything. One guy even tried to sell his own kidney on the site!

eBay's wide-open limited-rules approach drove massive traffic to their site. However, this put them at increased risk of alienating buyers who got defrauded, getting sued for endangerment (e.g. unsafe products), or being on the wrong side of the law (e.g. counterfeit goods) or even public sentiment (e.g. offensive slogans on clothing items).

A growing marketplace needs quality control

To avoid damage to their brand, eBay's listing policies started including an ever-expanding list of prohibited and restricted items, as well as rules to govern issues like misrepresentation. A clever move was to implement feedback ratings and a 'report item' feature, which empowered users to help them police the platform.

In a further effort to curb bad actors and help novice sellers learn the ropes, eBay also introduced seller limits that put a cap on the number of items a seller may sell per month. These limits are reviewed every month and increased based on a seller's sales volumes and customer feedback. This incremental process minimises the damage done by fraudulent and low quality listings, while offering bona fide sellers sufficient scope as they grow.

eBay also added some carrot to its stick to coax sellers into being more customer focused. Sellers are now graded into three levels (top rated, above standard, and below standard) based on longevity, adherence to guidelines, sales performance, and customer metrics (e.g. out of stock -, items not received -, incorrect item -, and late shipment rates). Top rated sellers qualify for additional benefits such as discounted transaction fees. Conversely, sellers that fall below the minimum performance standards are sanctioned with restrictions on their account.

What does eBay's curation evolution mean for your marketplace startup?

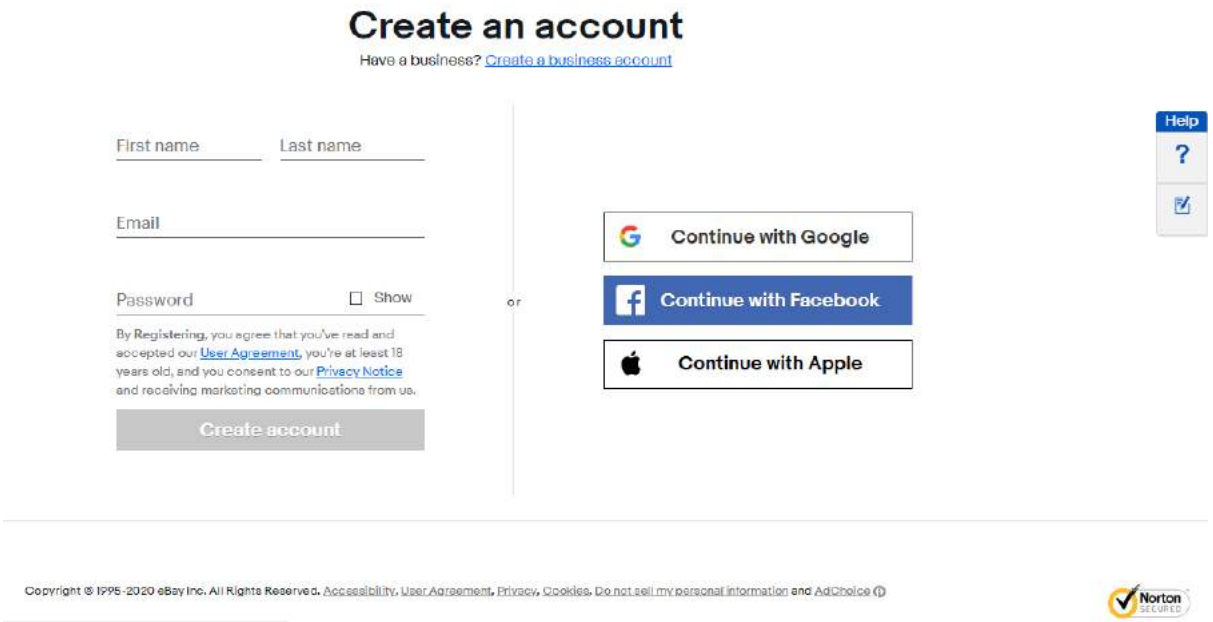
A number of useful insights can be gleaned from eBay's seller curation journey. For starters, they managed phenomenal growth early on, despite minimal vetting of sellers, due to their horizontal business model. This would be very hard to replicate today in a world that is dominated by general marketplace giants like Amazon, Mercado Libre, and of course eBay itself.

However, that does not mean you should not use low-friction curation for your marketplace MVP. eBay's explosive initial growth is a good example of first testing product-market fit before putting up quality control hurdles for sellers.

Low-friction curation that occurs after sign-up can also help you to quickly build up a large selection of products or services. This will in turn attract more buyers and lower seller acquisition costs. Just make sure you time the implementation of additional curation measures right, otherwise your brand may suffer irreparable damage.

As its platform matured eBay put in place preemptive (seller limits, guidelines) as well as reactive (seller levels, feedback ratings, item flagging) curation measures to minimise risk and increase quality. This metric-based user-focused approach is much more scalable and cost-effective than running an internal team that manually curates sellers.

Although eBay increased rules and restrictions over the years, it kept the platform open to newcomers via a low-friction post-signup curation process. Getting started as a seller remains quick and painless; simply sign up with your basic details (name, address, email and contact number) and link to a PayPal account for payouts. In-depth identity and business verification only takes place once specific sales thresholds are reached.



ebay

Provide your contact details

United Kingdom

Enter your street address

+44 Mobile number

I only have a landline

Continue

Verify your Identity

Before finalizing, we need to make sure you're you. First, make sure your contact info is up-to-date. This info will never be displayed publicly on eBay.

John Doe
8 Thackeray Crescent
Bath, UK BA1 0BZ
+44 7xxx xxx456
Edit

Next, you need to verify your phone number. Please select how you want to get a security code.

Text me

Call me

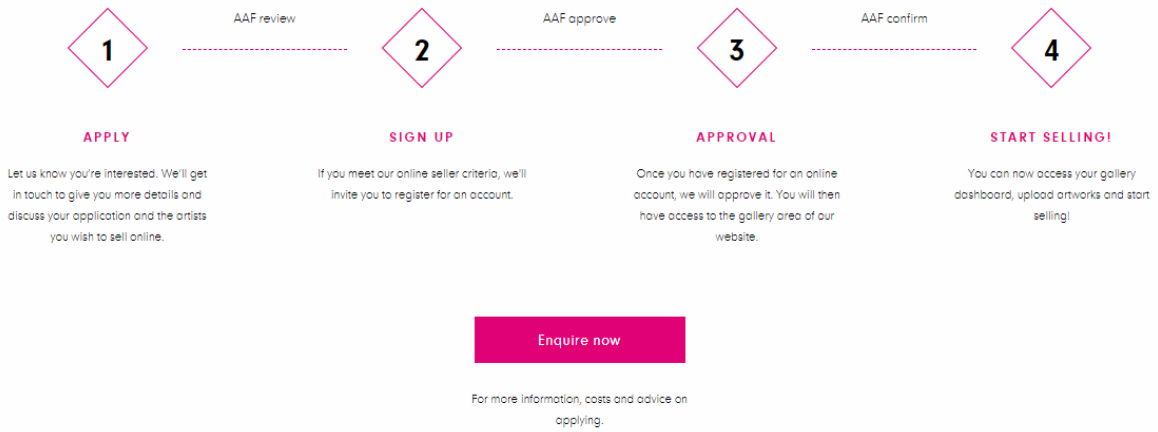
By **requesting a text or a call,** you confirm that this is your number and can receive an automated text or recorded message. Message or data rates may apply.

The tightly controlled marketplace – when quality is everything

If your marketplace focuses on high-volume, low-value products (FMCG) you can get away with light seller curation while looking for product-market fit. In contrast, marketplaces that sell high-value luxury items run the risk of permanent brand damage if they follow that same route.

So let's look at a new marketplace startup with a very different approach to seller curation. Affordable Art Fair (AAF) launched their online marketplace in 2018 to complement their popular international art fairs, which have been thriving for 20 years. Since AAF's mission is to make contemporary art accessible to everyone, they need to make sure their curation process promotes a diversity of styles and prices that will appeal to a wide range of buyers, without compromising quality.

AAF therefore uses a stringent seller curation process to make sure its value proposition is maintained. Firstly, sellers can't simply sign up, they have to apply for inclusion on the platform. Applications have to meet certain minimum criteria: prospective sellers have to offer original work by living artists at prices under £6,000. An expert panel then reviews the application to make sure the seller's art will add value to the platform.



Different verticals demand different levels of curated trust

We mentioned earlier that selecting the right sellers contributes to trust in your marketplace platform. Obviously buying a pair of £5 socks online doesn't require the same level of trust as buying a relatively expensive artwork without physical proximity.

To complicate matters further, art is not just a luxury product, it is also highly subjective. Whereas star ratings or reviews will suffice for socks, art buyers need to place a lot of trust in the curators of the platform.

For that reason, AAF uses a variety of features to create a sense of curated inclusivity and transparency.This includes expert advice for buyers, hyper-granular search, clear pricing, and detailed art and artist descriptions.

Sharing-economy marketplaces where a uniform experience is required to maintain user trust, go even further control-wise. Uber, for example, chooses which service provider a customer gets to ensure consistent service and pricing levels.

The takeaway for other marketplace startups is that specialised verticals will often require a more controlled approach to curation. This presents challenges for scalability, seller acquisition costs, product diversity, and competitive pricing.

The upside of increased seller curation

Increased curation has played an important role in marketplace disruption. Airbnb's usurping of Craigslist accommodation listings is a famous example (read our case study). By providing renters with a curated experience Airbnb was able to provide more value than Craigslist. As competition increases between platforms curation's disruptive role will only grow.

We've already mentioned trust. Ensuring consistent product quality and service levels promotes loyalty among buyers. Expect higher retention and referral rates.

Minimise fraud. Thorough vetting of sellers not only minimises losses, but also protects your brand.

Increase revenue. High-quality curated products and services allow marketplaces to increase their take rate (fees, commissions, etc).

Improve UX. Curation practices, such as making sure that sellers have items in stock, promote a better user experience.

Protect your brand. Airbnb and Uber have had to improve their screening methods to address safety concerns. The same applies to specialised medical verticals that require licenced health practitioners.

Tips for implementing a marketplace curation strategy

Have a look at your market and business model before deciding on a curation strategy. As we've seen, your industry vertical, platform stage and the competitive landscape all play a role in seller curation.

Startups that still have to prove product-market fit should find out whether handpicking vendors or attracting them via marketing will get them there quicker. Use an MVP to test your assumptions before implementing a resource-heavy approach.

Also use an MVP to test whether curation should happen pre – or post sign-up. Options for pre-signup curation include KYC identity verification which can be done by a payment gateway like Stripe. Post-signup curation can take the form of a review system, star ratings, and trusted or verified sellers. An example is Uber's removal of drivers that have below three-star ratings.

Automated restrictions such as sales thresholds and user features such as flagging of shady listings can take some pressure off marketplace resources.
Determine which products or services sellers should offer by tracking the conversion rates of listings in different categories.

Test whether your seller curation approach is working by tracking net promoter scores, referral, return and retention rates.

Improve seller quality by providing training and support in the form of online tutorials, checklists, guidelines, and community forums. Data can also be used to support sellers – Amazon uses it to advise its marketplace sellers on stock levels and product types. Logistics is another area where you can support sellers – FanPass provides shipping labels so that sellers can ship faster.

Talk to your sellers. Find out what works for them and where they experience friction or challenges by phoning or surveying top sellers.

Back your curation process up with guarantees such as a money back guarantee. This can be a useful safety net when you follow a light curation approach.

Next steps

Hopefully, this e-book has provided you with a better understanding of the opportunities and challenges facing online marketplace entrepreneurs. The main takeaway should be that while marketplaces are complex digital ecosystems under the hood, they should solve real customer needs in an elegant, user-friendly manner.

Marketplace entrepreneurs who use off-the-shelf DIY templates often struggle to get their concepts off the ground. Inflexible user flows, limited features, lack of scalability and inexperience with mapping out and testing user journeys are just some of the factors that cause many to abandon their ideas.

Custom solutions offer higher success rates by combining an agile development process, based on constant user feedback, with the right technology and features to establish product-market fit and identify growth opportunities.

As marketplace specialists, CobbleWeb have a sterling track record of planning, designing, developing and optimising high-growth online marketplaces. Give your marketplace idea the best chance of success by getting in touch with us:

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