# Vertical Take-Off

A New Direction for B2B Marketplaces

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The rise of vertical marketplaces in recent years has been remarkable. In fact, the growth of business marketplaces is rapidly outpacing the growth of traditional digital commerce. Vertical marketplaces are an important driver of that growth—but building them takes significant creativity, skills and stamina. Is setting up a vertical marketplace the right move for your company?

For some companies, marketplace ecosystems can be the platform for business model innovation. While marketplaces have been around for decades, we can now scale them easily using Digital Commerce technologies. This allows marketplace operators to establish an ecosystem of buyers and sellers which serve markets that are too niche or complex for a single entity to cater to on their own."

**Quinton Pienaar**, Partner, PwC UK, EMEA Customer Transformation Leader

# Vertical marketplaces on the rise

Vertical marketplaces have always existed in some form, but they've gained significant scale and visibility in recent years. In the business-to-consumer (B2C) domain, companies such as Uber have driven a boom in vertical marketplaces. Today, we're seeing an unprecedented scope and breadth of marketplaces emerging across all industries, from CPG to sports, from fashion to industrial manufacturing, and from agriculture to aerospace parts.

What is especially striking is the rise of specialised marketplaces in the business-to-business (B2B) domain. Many major technology vendors are suddenly providing off-the-shelf tools for companies to start their own B2B marketplaces. Some B2B marketplaces are even going beyond purely transactional eCommerce to provide a mix of products, services and software.

There is no shortage of eCommerce channels to connect to customers online. Companies

## Spoiled for choice

- Own brand webshop
- Shop-in-shop on marketplace
- Sell to online resellers
- B2B distributor webshop
- Social commerce
- Quick commerce
- Metaverse commerce

can leverage the web shops of their wholesale distributors; set up their own web shops, or traditional global and local horizontal marketplaces; or tap into dozens of existing online resellers. If they're bold, they can even venture into social commerce and the metaverse. There is also competition from established horizontal marketplaces that have large brand awareness, extensive local and global support capabilities, and no shortage of space in their portfolio to add B2B categories. This means that any decision to build your own specialised marketplace should have a clear rationale.

## Horizontal vs vertical

**Horizontal marketplaces** such as Amazon Business and Alibaba's B2B Marketplace connect businesses across different industries, product and customer segments.

**Vertical marketplaces** focus on connecting buyers and sellers in niche or specialised industry segments. They offer a demarcated set of products and services, and focus on specific target audiences. Vertical marketplaces are often set up by existing and strong industry players or specialists with a strong knowledge of their industry's value chain.

# Making a business case for vertical marketplaces

For a marketplace operator, there can be multiple reasons to consider setting up a new vertical marketplace platform.

## You have an existing B2B eCommerce platform

By opening up your existing platform to other sellers, your competitors become co-opetition, and their products and services help overcome the limitations of your own portfolio. This in turn attracts more buyers, creating a virtuous cycle. You don't need thousands of sellers: just having a few strong sellers on the platform could be enough to attract larger audiences with modest marketing investment.

## You want to create a one-stop shop

There are real benefits to owning a single point of customer access. Often, B2B buyers and procurement professionals use order portals and B2B web shops across multiple vendors, which means tracking orders and payments across multiple platforms and apps.

A vertical marketplace that brings together multiple vendors in a one-stop shop doesn't just make the buyer's life easier: it helps marketplace operators increase their share of wallet through third party reseller commission, and gives them deeper market insights as they can monitor their platform usage in terms of search and transaction data. This data can be monetized or used to improve the platform to create a stronger value proposition for buyers and sellers.

## You have unique products or assets

If your business has unique products or software assets which don't fit traditional warehouses or fulfilment providers—think extremely large or heavy industrial equipment, or heavily regulated products or services—a vertical marketplace could be the way to go. In this case, vertical marketplaces can, for example, provide specialised product configurators which can be re-used by multiple parties. They take on the capital expenditure to invest in niche digital and physical assets, and offer their buyers and sellers the flexibility of using their services via operational expenditure.

## You want to improve the customer experience

A specialised marketplace offers focus, and reduces clutter and the effort required to find the right product or service through a user experience (UX) tailored to the need of specific customer audiences. It understands the specific use cases of its sellers and buyers and can tailor its site structure, app experience, customer service, product descriptions, configurators, pricing and delivery options to improve its quality of service.

## You want to build strong brand awareness

Having access to large marketing budgets is great—but strong brand awareness offsets the need for marketing expenditure. Sometimes, companies take a different approach and launch marketplaces under a sub-brand, and the existing trust of the underlying brand then projects onto the marketplace.

For sellers, brand awareness and traffic enables audience reach at scale and fast time to market. For them, it's as easy as connecting their backend to the marketplace and having their product portfolio available in real-time. When marketing expenditure is required, the marketing effort is more streamlined, as it's easier to target a specific audience.

## Your competition is intense

Horizontal marketplaces are crowded with hundreds of thousands of sellers offering the same or similar products. In niche markets, where there is no clear dominant online player, a marketplace which offers a relevant value proposition to that segment can make a difference and win market share quickly, without fighting for eyeballs across crowded platforms.

## If you decide to build a vertical marketplace:

- It should be seen as an integral part of an overall digital sales and eCommerce strategy. Operating your own marketplace is not mutually exclusive with selling on third party marketplaces, through specialised online web shops or via wholesale distributors.
- You must have a clear picture of your value proposition for buyers and sellers, and how to deliver this value. Ask yourself: How do you contribute value to your industry or market? Why should customers buy from you? Critically, why should competitors sell on your platform?

# Business models to monetize vertical marketplaces

The first and most fundamental business model question to answer is what type of vertical marketplace you want to be.

- A marketplace which buys stock from sellers. In this model, the marketplace operator owns goods and fulfils the orders to buyers.
- A marketplace which allows sellers to list goods and manage them on-site. The marketplace then fulfils orders on behalf of the sellers.
- A marketplace which serves as a storefront to drive traffic and conversion for the products of sellers. Sellers manage underlying activities such as invoicing, customer service, and fulfilment.
- A hybrid marketplace which blends elements of all the above.

## Different marketplace business models

<table>
<tr><th></th><th>Resellers and manu-facturers</th><th>Pricing</th><th>Invoice branding</th><th>Storefront branding</th><th>Distribution & logistics</th><th>Customer service</th></tr>
<tr><td>Full-service vertical marketplace</td><td colspan="6">Marketplace owned capabilities</td></tr>
<tr><td>Reseller centric vertical marketplace</td><td colspan="6">Reseller owned capabilities on vertical marketplace platform</td></tr>
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The decision on whether to own stock or not is a fundamental one, as it determines the marketplace operator's ability to influence pricing, availability and possibly delivery times. A well-known example is Fulfilment by Amazon (FBA). However, owning stock is likely to increase the level of competition with other industry players, who may cherry pick products to buy into their own inventory. While this presents a procurement risk, the upside for the operator is that it has price discretion on its own platform.

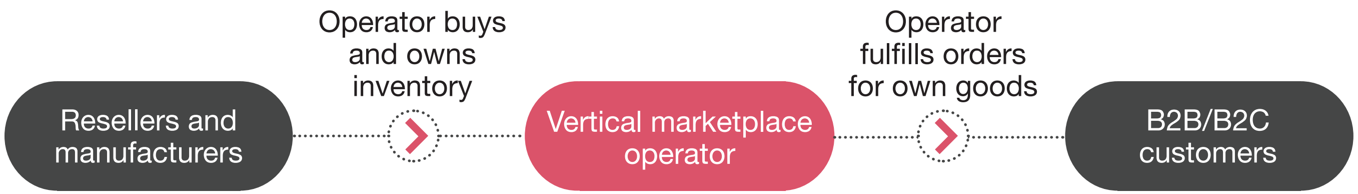
Beyond the inventory ownership model, marketplace operators have a variety of ways to monetize their platforms. They can also opt to give their sellers a choice in what type of agreement to engage with. This allows resellers to choose a business model that fits their needs depending on their own maturity and objectives.

Examples of how to monetize vertical marketplaces include:

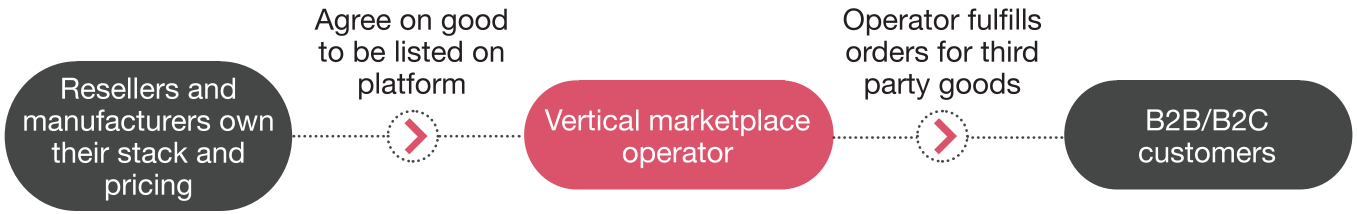
- **Access and memberships.** Marketplace operators can provide membership tiers which vary in features and account management support levels. Tiers give sellers additional insights in their performance and offer access to additional on-site features. In niche industries, membership models could even extend to buyers as well as to sellers.
- **Services.** Marketplace operators can offer a range of services, including invoicing, customer service, warehousing and fulfilment. Each of these services can be monetized, with support levels varying from hands-on (where the marketplace operator handles everything) to a more shop-in-shop model, where sellers take on more responsibility and only pay to fill gaps in their capabilities.

## Inventory ownership model

### Vertical marketplace owns stock model




### Vertical marketplace ad passthrough model



- **Transactions.** This model allows the marketplace operator to grow together with their sellers. Typical models here can be a fixed price per item, a percentage of each item, a percentage of total sales, or a handling fee.
- **Advertising.** There are many ways to monetize advertising. Marketplaces with high traffic can provide display advertising services for advertisers to reach specialised audiences. Operators can also sell advertising services to resellers, from prioritising ad spots in the search results with pay per click type of services, to brand and product positioning in product configurators and key landing pages.
- **Data.** Marketplace operators gain valuable insights into which categories, brands and products are growing or declining, pricing, search keyword popularity, upcoming niches, conversion rates and more. This data is of interest not only to sellers on the platform, but also to sellers on other platforms, research analysts, agencies and other industry players.

## Access and memberships

- Membership tier fee
- Licence fee
- Usage fee
- Subscription fee
- Certification fee

## Service

- Value-added service fee
- Fixed fee
- Per occurrence fee
- Variable fee per case type
- % commission or revenue share on sales conversion

## Transactions

- Fixed price per item
- Percentage per item
- Percentage commission
- Percentage revenue share
- Handling fee
- Verification fee

## Advertising

- Display advertising/banners fee
- Search ranking fee
- On-page brand/product positioning fee
- CTR based fee
- Campaign optimization fee

## Data

- Fixed fee
- Subscription fee
- Per occurrence fee (e.g. API hits)
- Variable / project based fee

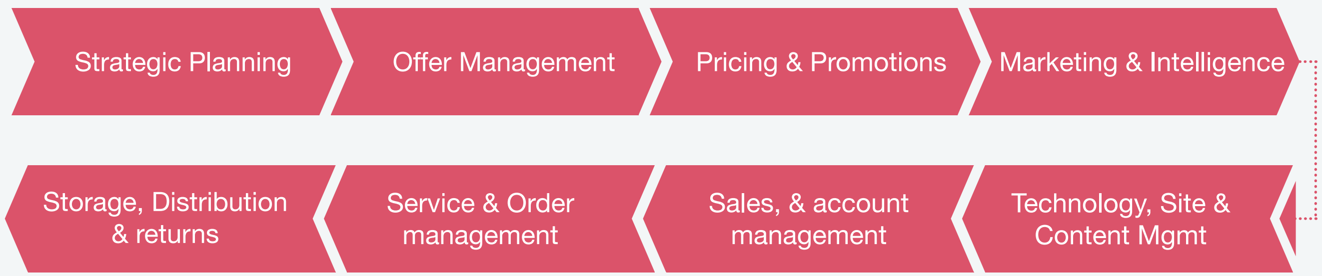
# Building organisational capabilities for vertical marketplaces

The capabilities required to build and operate marketplaces are similar to those in traditional eCommerce environments. The major difference is that your clients are both buyers and sellers, and your organisation should reflect both the B2B and the B2C implications accordingly.

This means there is a dedicated need for capabilities in areas such as strategy, product offer management, marketing, technology, customer service, warehousing, order fulfillment and account management.

## Different marketplace business models

**Image: typical capabilities to consider when building eCommerce organisations**



**From an organisational design perspective, this leads to several questions.**

## What capabilities do you offer with the marketplace, and what do sellers bring?

Business model choices can have significant implications on what physical assets and capabilities you require to operate the marketplace—such as whether to build warehousing capabilities. Similarly, they impact the digital capabilities you offer, such as loyalty tools and schemes. Loyalty can be built into the marketplace platform, but some marketplace operators choose to let sellers use their own loyalty schemes.

## What capabilities do you in-source or outsource?

Several capabilities can be outsourced to safeguard costs, quality and time to market. These include multi-language customer service, web shop development, IT maintenance and order fulfilment. In practice, we see some companies outsourcing these and other non-native capabilities like content creation and media buying, which can be taxing to build and maintain if they are not native to your organisation. The trade-off with outsourcing is to what extent a platform can provide differentiating capabilities, which may need to be built in-house instead.

## Where in your organisation do you locate vertical marketplace capabilities?

Vertical marketplace capabilities can reside in multiple places, depending on whether your marketing team is centralised or not. A centralised team can reside in the sales or marketing organisation, in an existing eCommerce team, or in a category team which aligns with the vertical focus of the marketplace. This team can combine the capabilities required to build and operate marketplaces—ranging from UX/UI design to supply chain, multi-country account management and contracting.

In practice, we often see companies setting up a hybrid marketplace capability. This allows them to reuse existing resources and avoids duplicating organisational capabilities. An added benefit of decentralisation is that internal adoption of the marketplace is easier to drive when each organisational function has a role in driving its success. The trade-offs are the higher governance complexity of such a decentralised model, and whether the existing departments in the organisation have sufficient digital skills to successfully run a marketplace.

## Where do you locate vertical marketplace capabilities geographically?

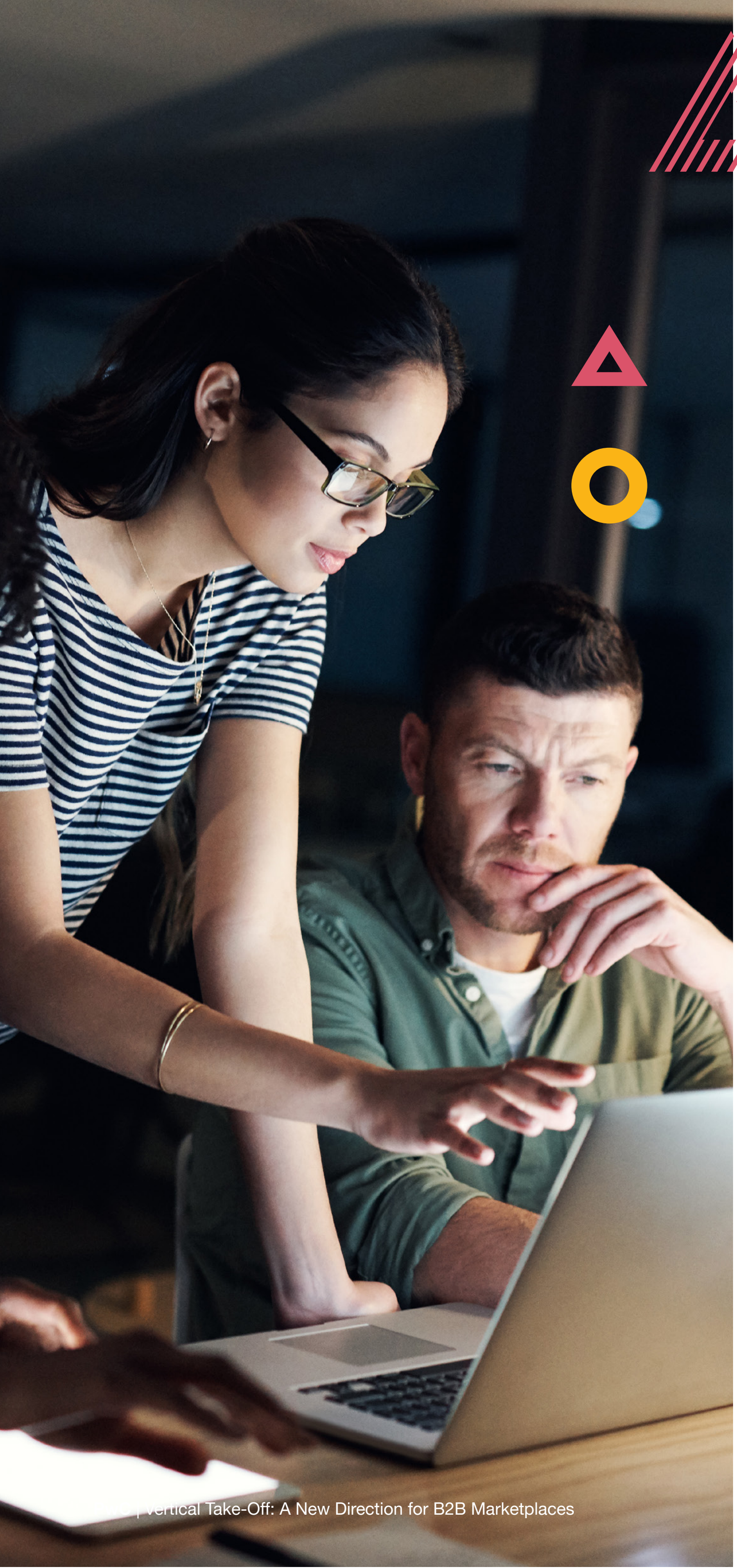
There are multiple criteria to consider where you locate your capabilities, such as distance to local markets and avoiding duplicate operations. A key consideration is how to optimise for tax and legal requirements. Doing business via a marketplace may require you to set up a new legal entity to process payments, employ staff, provide cross-border services and benefit from local tax benefits. Setting up local P&Ls for vertical marketplaces means additional thinking around how to fund the centralised vertical marketplace capabilities, however.


## What technology stack will you build?

At its core, a vertical marketplace should offer a strong web shop experience for both buyers and sellers. Getting that done requires much more than a CMS and a Commerce platform. Vertical marketplaces require a full technology stack in areas such as identity and access management, order management, pricing, product information and many others. At the backend, sellers need to be able to integrate to the marketplace via APIs to provide their product portfolio, stock, pricing and product descriptions to the marketplace in real-time.

Before committing to a marketplace, ask yourself whether your company has the technology infrastructure, applications, analytics, data security, and integration capabilities to support the development and maintenance of vertical marketplaces.

Companies launching vertical marketplaces will have to decide their technology approach: re-using existing technology vendors, setting up a secondary technology stack or by leveraging a 'marketplace-in-a-box' SaaS providers.



# Risks and challenges for vertical marketplaces

Don't under-estimate setting up a vertical marketplace. On the one hand, the opportunity seems comparable to a web shop, with extra logins for resellers. However, it's important to consider the complexity of building new technology, hiring new digital talent, building international organisational capabilities, and mitigating potential channel conflict while actually running the operation.

Another challenge is the quickly developing eCommerce landscape. We're seeing a growing trend where if a vertical marketplace is successful, large horizontal players will dive into the same space and deepen their product specialisation in line with specialist web shops and vertical marketplaces.

As a response, vertical marketplaces must keep developing and expanding their products and services. A large fashion platform can launch a range of beauty products as an adjacent category to its fashion portfolio. An international farming supplies marketplace can sell everything from tractor parts to animal care products. While it's unlikely that vertical marketplaces will ever broaden to the extent of the current horizontal players, we do see the distinction between the two blurring and competition increasing.

There is also a risk of **too many players launching marketplaces**. While one dominant vertical marketplace can offer a one stop shop, five of them with limited differentiation leads to fragmentation and lack of adoption. The risk is that companies take an inside-out perspective to vertical marketplace projects, but the question is whether they actually solve a customer problem with another storefront. When thinking about launching a marketplace initiative, it can be important to partner with other players in an industry upfront—and consciously decide whether your company should be in the lead or a contributor to the initiative.

**Regulation and taxes** around online platforms are a topic of their own.

The ongoing development of the platform economy is attracting increasing levels of regulation, especially to the platforms themselves. One reason for this is to ensure compliance with tax laws and data protection obligations. Regulators are also wary of the risk of anti-competitive behaviour.

Regulating the platform economy aims to obtain detailed information about transactions and to share this information with key stakeholders to ensure fair competition between the platform economy and the offline sector. An example of this is the DAC 7 directive[1], implemented in EU member states since 2013, which requires platforms to report certain information about platform vendors and their activities on the platform.

Regulators also monitor areas such as VAT payments and liability for tax losses, as seen by the eCommerce package implemented in EU member states since July 2021. This will be expanded further from 2025 as part of the Commission's 'VAT in the Digital Age'[2]. From January 1 2024, EU-based payment service providers will also have to comply with certain reporting obligations regarding payments, while the DAC 8 Directive[3]—which comes into effect on January 1 2026—provides for reporting obligations for crypto exchanges.

Additional framework-building regulations in the areas of competition, security and trust for the platform economy are also being set in many countries, including the Digital Markets Acts[4] (effective May 23) and the Digital Services Act[5] (effective February 2024).

On the one hand, this raft of regulations will mean platforms will incur significant expenses to incorporate the necessary reporting and data protection obligations. But as the platforms assume these obligations for their platform vendors, it offers an opportunity for platforms to monetize these services accordingly.

The bottom line is that it is critical for all players in the platform economy to familiarise themselves with regulatory frameworks and to stay abreast of further developments. These regulations will influence how you operate and report on your vertical marketplace business. It is also important to monitor the alignment of consumer rights across the EU on digital platforms following the 'Consumer Guidelines' that have been put into effect.

**Examples of platform regulation**

[1]COUNCIL DIRECTIVE 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

[2]Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC as regards VAT rules for the digital age (COM/2022/701 final)

[3]Proposal for a COUNCIL DIRECTIVE amending Directive 2011/16/EU on administrative cooperation in the field of taxation (COM/2022/707 final)

[4]REGULATION (EU) 2022/1925 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 September 2022 on contestable and fair markets in the digital sector and amending Directives (EU) 2019/1937 and (EU) 2020/1828 (Digital Markets Act)

[5]REGULATION (EU) 2022/2065 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 October 2022 on a Single Market For Digital Services and amending Directive 2000/31/EC (Digital Services Act)

# Summary and conclusion

Vertical marketplaces are not new, but are changing buying behaviours in industries that have been clinging on to the traditional sales model. Their value proposition lies in the specialisation that allows operators to build additional value services and claim an intermediating role in the industry.

When pursuing a marketplace strategy you must be clear about your value proposition, both for your customers and your sellers and you must have a plan to overcome the critical mass challenge when starting the marketplace, i.e. knowing how to attract customers without having enough sellers on the platform and vice versa.

Be clear about your business model and how you want to monetize your marketplace. Be aware of risks in areas such as the quickly changing eCommerce landscape and also keep in mind the various regulations in effect or in the making. In the beginning you probably need to start small, but once you have the traffic, transactions and data you can start building additional services on top of that.

Marketplaces are not just another eCommerce project with an additional side to take care of. It requires conscious thinking about how to set up your operating model and where to place certain capabilities. Especially as there is an option to place capabilities with your partners or take them on as a paid service for your partners.

Lastly, your marketplace ambitions should be embedded in your general sales and commerce strategy. It is not a one-off venture but requires constant re-invention and evolution to keep up or stay ahead of the market.

## This is the **first article** in a three-part series on marketplaces.

The first article looks at **vertical marketplaces** from a business rationale perspective.

Part 2 examines the **technology enablers** behind marketplaces.

Part 3 explores the **regulatory frameworks** that marketplaces must deal with.

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Pascal is leading the EMEA Digital Sales Centre of Excellence. He is responsible for identifying market trends and developing go-to-market strategies for topics around sales and commerce. He has experience in delivering sales and eCommerce projects in both B2C and B2B markets.


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# Thank you