

# THE NEW MARKETPLACE PLAYBOOK: HOW BRANDS CAN OPTIMIZE CUSTOMER REACH, ACQUISITION AND ENGAGEMENT

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SPECIAL REPORT

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## INTRODUCTION

The breadth and depth of inventory available on marketplaces has turned them into go-to destinations for product inspiration. This year, **Amazon** officially surpassed **Google** as the top place where U.S. consumers begin their product searches, according to **Jungle Scout**.

The influence and value of marketplaces is growing, especially for brands that want to expand their reach globally. Although a recent **Global-e** survey found that **58%** of consumers would rather buy from a brand's direct website over an online marketplace, it indicated that consumers **35 and older** are more likely to discover international brands via online marketplaces (**51%**) compared to online search (**49%**).

CI&T research also found that consumers are gravitating to marketplaces not just to discover new brands but also to browse a wider breadth of inventory from an individual brand — and at a better price. As a result, marketplaces are influencing two key moments in the path-to-purchase: the **discovery** moment and the **price sensitivity** moment.

“Knowing that both need states drive marketplace shopping, it's crucial that retailers bake a marketplace strategy into their overall commerce strategy; otherwise, they're missing out on being the first stop along the path to purchase,” explained Melissa Minkow, Director of Retail Strategy at **CI&T** in an interview with *Retail TouchPoints*. “For brands where the name recognition isn't as high as it could be, marketplaces are a key opportunity for trial. Interestingly, when shoppers do know the brand they want to buy, **they often still begin their search on marketplaces**. Because consumers expect prices to be lower on marketplace sites than on branded retailer sites, they will specifically search for the brand they have in mind to see if the price looks better than what they expect it to be.”

As a result, brands of all sizes and across categories are looking at marketplaces as new vehicles for awareness, education and acquisition.

“Marketplaces have proven to be among the fastest-growing retail business segments in recent history,” said Shannon Warner, a partner in the consumer and retail practice of **Kearney**, a global strategy and management consulting firm. “They're effectively **an online version of a mall**, giving customers access to a broad range of product categories and brands, which drives consumer traffic.”

As consumers continue to gravitate toward these “digital malls,” we've seen more marketplaces emerge. Mass merchants, big box retailers and even niche brands are making their own foray into the space, working to carve out their own unique place in this growing universe. This, in turn, gives brands more opportunities to diversify their strategies and invest in targeting specific consumer markets and audience segments.

Warner explained that marketplaces offer a low-cost entry point for brands to “access either a very large group of customers, in the case of large-scale third-party marketplaces like Amazon and **Walmart** — or to reach specific market segments through [niche] marketplaces such as **Best Buy** or **Madewell**.”



## 6 KEYS TO DEVELOPING A BRAND-RELEVANT MARKETPLACE STRATEGY

With more marketplaces for brands to choose from, the process of researching options, allocating budgets and tailoring experiences becomes more complex. Brands have to consider not just the platforms and their unique services and capabilities, but also how being present on these marketplaces will connect to broader strategic goals, such as audience expansion, brand reputation and more.

Experts offered **six** key recommendations to help brands develop marketplace selling strategies that can be tailored to their unique needs and objectives:

### 1 Conduct customer journey analysis:

Because there are many mass and niche marketplaces to sell through, Minkow recommended that brands begin their journey by conducting customer journey work: “I cannot stress enough how important this is when designing a marketplace strategy to bake into an overall commerce strategy,” she said. “The key question to ask is: *‘Where does my customer most often hope and expect to find my brand when initiating their shopping journey?’* Once that data comes back, it will be clear if a mass marketplace or a more targeted entity is the right choice. Most of the time, though, a mass marketplace is likely the right move.”

### 2 Understand the operating model of each option:

“Each marketplace has its own policies (e.g. data ownership, Service Level Agreements (SLAs), support processes (e.g. product set-up, analytics, fulfillment, customer service) and seller requirements (e.g. mandatory promotions, inventory availability, customer reviews),” Warner explained. “Brands need to evaluate whether they’re able and willing to work within that operating model and if they have influence to adjust it if desired.”

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## Gauge the brand and advertising services available:

All marketplaces, both mass and niche, have different retail media and advertising offerings. Kiri Masters, Head of Retail Marketplace Strategy at [Acadia](#), said in an interview with *Retail TouchPoints* that an increasing number of marketplaces also have brand-building capabilities that allow sellers to target specific customers and activate campaigns at **certain days and times**, and to **specific geographies**.

Brands should understand what's available across channels and use data and analytics to prioritize their investments, according to Warner: "Brands should evaluate their marketing ROI for marketplace ads, other digital advertising tactics and traditional advertising tactics to determine the best marketing mix. Today, most marketplaces provide access to robust data and tools that can help brands to make well-informed decisions. **If data and analytics are not available, it's probably an indicator that the ads are not optimized.**"

Different retail media/digital ad capabilities supported by retailer websites	amazon	BEST BUY	THE HOME DEPOT	instacart	Kroger	TARGET	Walmart
Sponsored product ads to improve search rankings	✓	✓	✓	✓	✓	✓	✓
Sponsored display ads to improve discoverability	✓	✓	✓	✓	✓	✓	✓
Brand video ads on search results page	✓	✓	✗	✗	✗	✓	✗
Editorial reviews on search results page	✓	✗	✗	✗	✗	✗	✗
Sponsored product ads to on competitor PDP	✓	✓	✗	✗	✗	✗	✓
Competitor brands' keyword conquering	✓	✓	✗	✓	✗	✓	✗
Sponsored livestreaming	✓	✗	✗	✗	✗	✗	✓
Retargeting ads on various 3rd party sites	✓	✓	✓	✗	✓	✓	✓

Source: EPAM Continuum

### 4

## Prioritize marketplace presence based on the marginal costs:

"Running an agency that manages online marketplace channels for brands, I can say that a channel costs largely the same to run, regardless of the revenue from that channel," Masters said. "How many channels can you realistically run given either internal resources or agency partners? Also add in the 'pay to play' cost of retail media. With these incremental costs, smaller brands usually need to be quite selective."

Warner agreed, adding that each marketplace has its own fee structure and digital ad requirements, so brands "need to understand the all-in costs, including fixed and variable costs, in order to evaluate the potential profitability of sales at multiple levels of volume."

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## Understand how to tailor experiences to different marketplace audiences:

Advertising services and product display page capabilities vary by marketplace. Brands should not only take stock of what's available across different platforms, but also understand what different marketplace users expect so that they can better optimize shopping experiences. For example, consumers in China expect rich product information featuring high-quality images and videos, which makes those assets a critical investment for brands selling through **Tmall** and similar sites, according to John Harmon, Senior Analyst at [Coresight Research](#).

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## Establish a budget for testing, learning and innovating:

As the space grows larger and more complicated, brands have more “levers” to pull. “This can make it harder to discern which programs and tactics are worth the time and investment,” Masters admitted. “My recommendation is to spend **90%** of your time and budget resources to master the basics of your core channels and develop a strong baseline for predictable results. Then, **10%** of your resources can be allocated to test-and-learn initiatives, whether that is new programs, ad strategies or even sales channels. This allows brands to commit to innovation without “betting the farm.”





## **5 CHALLENGES TAX PROFESSIONALS FACE WHEN MANAGING ONLINE MARKETPLACES**

By Matt Thoman, Product Manager Principal - Retail Solutions Owner, Vertex

**Editor's note:** Retailers that decide to start their own marketplaces aren't safe from complexity, either. Vertex offers perspectives on the unique operations, logistics and experience challenges, so retailers can effectively prepare and respond.

### **Challenge #1: Managing a large volume of new products**

Once your organization decides to implement a marketplace, your tax department becomes responsible for knowing every product sold through your sellers. You will need to make sure that each one has a detailed description, an appropriate image, and any other data that might impact taxability so you can make the best determination possible.



## **Challenge #2: Creating a great seller experience**

Sellers' ability to remain compliant depends on receiving complete and accurate data from your organization's marketplace. Your tax department will need to play an important role in the seller experience to attract and retain quality sellers.

## **Challenge #3: Determining who is responsible for paying what**

Many county and local taxes are not defined from a liability perspective. Additionally, special product taxes (environmental taxes, prepared food taxes, alcohol taxes, etc.) may be left open for interpretation. Your tax department must determine if you want to collect all taxes on the sale of goods and pay all the taxes on behalf of your sellers, collect only taxes you are required to pay, or collect all taxes and provide each seller with the list of taxes they are required to pay.

## **Challenge #4: Adhering to each state's strict requirements**

Multiple states have implemented new rules that require organizations to keep an accurate account of their records and respond quickly. For example, Arkansas only gives marketplaces three days to verify that third-party seller information is correct, and three days to verify any updates to that information, before being deemed non-compliant. Your tax department will need to be adaptable.

## **Challenge #5: Creating compliant invoices, especially for international sales**

When it comes to marketplaces in a Value-Added Tax (VAT) environment, the complexity lies with reporting. It requires your tax department to provide an invoice for the sale of a product from the seller to the marketplace in addition to an invoice for the sale of the product from the marketplace to the customer. You will need to account for this as well as reporting the sales properly for every single country where your products are sold.

The solution to these challenges is managing marketplaces tax through automation. Discover how by visiting [vertexinc.com](https://www.vertexinc.com) where tax experts are there to help!





## UNDERSTAND THE RISKS AND RED FLAGS

Marketplaces offer a number of benefits for brands, especially if growth is a key goal. However, all experts agreed that this growth should not come at all costs. As you begin your venture into the world of marketplace selling and advertising, be mindful of the following:

### Risk 1: Brand damage



“It’s always key to find a [marketplace] partner that protects and enhances the brand’s value. Brands don’t want to sell on a marketplace with a bad reputation that ultimately tarnishes their reputation.”

— John Harmon, Coresight Research

### Risk 2: Margin erosion



“By selling via a marketplace, the brand is essentially sending a price-focused message. Since consumers expect better prices on marketplaces, the positioning of the brand may inherently change a bit if it’s a higher-priced label. Brands will want to carefully think through how they can avoid sending a ‘discounted’ message, especially if it impacts brand equity.”

— Melissa Minkow, CI&T

### Risk 3: Overwhelming demand



“Marketplaces can create more demand than a brand is prepared for, creating inventory issues and resulting in dissatisfied customers and poor reviews.”

— Shannon Warner, Kearney

### Risk 4: The wrong metrics



“The biggest and most dangerous mistake I see brands making is using the wrong metrics to track their overall brand objective. Most frequently, this looks like brands that have a growth-based objective obsessing over return on ad spend (ROAS). ROAS is a great metric for a brand with a profitability-based objective, but brands focused on growing market share or total revenue should be tracking different metrics, like new-to-brand customers or click-through rate. Get clear on your ultimate objective and understand what really drives that.”

— Kiri Masters, Acadia



## ***DTC AND MARKETPLACES: BETTER TOGETHER?***

The extended reach and impact of marketplaces is leading many executives to question the role these platforms play in the context of broader ecommerce growth strategies. Should their marketplace strategy coexist with a direct-to-consumer (DTC) ecommerce strategy, or are marketplaces valuable and impactful enough to be the sole growth lever for a brand?

**The simple answer? It really depends.**

For brands that have one or two key products, a DTC presence may not make sense considering the costs associated with managing an ecommerce site, customer service, packaging, logistics and other components. Marketplaces provide these brands with significant audience reach for minimal effort and, depending on the partner, offer a breadth of services to support customer experiences.

But situations like these seem to be the exception, not the rule. Warner advised that selling both directly and through marketplaces “should not be evaluated as an either/or proposition,” and other experts agreed that a blended approach allows brands to leverage the benefits of each channel.

“Some people love the convenience of Amazon and trust that platform to deliver a predictable experience, more so than a DTC site,” explained Masters. “Conversely, some shoppers do prefer to buy direct from a brand for different reasons. I think brands are shooting themselves in the foot by dictating where shoppers can interact with and buy their products. By being active and available on marketplaces, you’re making your brand available to customers who prefer to shop through those channels.”

To maximize the impact of their presence on DTC sites and marketplaces, brands need to understand the value and impact of each. A Cl&T survey of **400+** consumers found that consumers expect a different type of experience on marketplaces — one that is largely convenience- and price-driven — than DTC sites, which are designed to be more brand-led and immersive. Specifically, the survey found that:

- **43%** expect prices to be different;
- **32%** anticipate that product assortment will vary; and
- **23%** believe delivery options will differ.

**“A marketplace presence is significant for the efficient, mission-oriented shopping that is the primary approach for consumers today,”** Minkow advised. “DTC channels are for brand research and exploration in that they provide a level of product detail consumers aren't necessarily seeking in the first couple steps of the purchase process, but may desire later on when they're closer to the decision.”

Brands that effectively use both DTC and marketplaces understand the unique purpose each serves in a broader marketing and distribution mix. For example, DTC is a “fantastic channel” for early-stage brand development to “educate customers about products, particularly if they are new or innovative,” Masters said. “**KIND** did this when they broke into the granola bar category. More recently, **TRUFF** is an example of a digitally native brand that used DTC to drive hype and demand before launching into national retailers.”

More mature brands can use their DTC sites to conduct more extensive customer listening and build deeper connections with brand fans. Masters shared **Snacks.com**, the DTC site from Frito-Lay, as an example. It offers the brand “great insight” on popular snack combinations and gives consumers access to more niche products. “I find it hard to imagine that a **\$15** order of chips with free shipping is profitable,” she added, “but contribution margin is probably not Frito-Lay’s main priority with this channel.”

As brands mature and change, they should continue to weigh the costs and benefits of both DTC and marketplaces, Masters concluded. “Brands must consider the purpose of a channel at various life stages and adjust their mix as their brand matures and objectives change.”





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1.844.321.3346  
[vertexinc.com](http://vertexinc.com)



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[info@retailtouchpoints.com](mailto:info@retailtouchpoints.com)



#### ABOUT THE AUTHOR

Alicia Esposito, VP, Content

Alicia is an editor-turned-content marketer, with a passion for all things focused on digital-powered experiential retail.

