
Digital Marketplaces: Driving growth in online transactions

December 2019





Mark Maitland

Partner, Strategy&
Head of Media and
Entertainment, PwC UK

mark.o.maitland@pwc.com
+44 7788 870900

Introduction to this publication

Digital marketplaces¹ are becoming increasingly important in the e-commerce and digital landscape. Amongst other things we now find ourselves ordering food, hailing taxis, buying clothes, and bidding in auctions within digital marketplaces. These aggregator platforms provide us with more choice in one place, enabling us to transact in an efficient and often more cost-effective way.

Within this publication, we have picked out some case studies of digital marketplaces to highlight how these markets are developing, how traditional models are being disrupted, and almost certainly how they provide blueprints for new digital marketplaces in the future.

If you would like to discuss anything raised in this report, please do get in touch.

Regards,



Mark Maitland
Partner, Strategy&

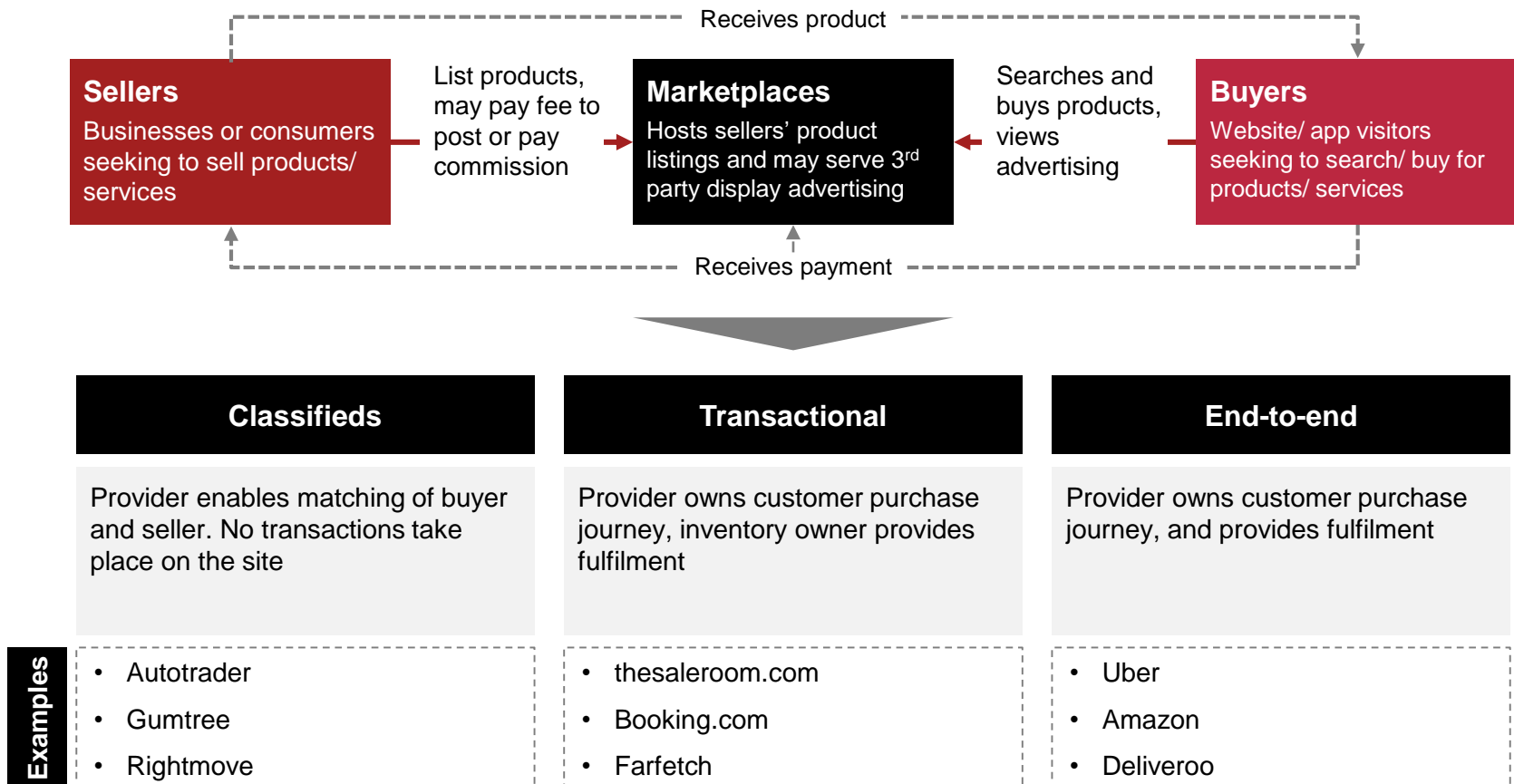
Notes: 1. Digital marketplaces defined as any marketplace with online activity

The digital marketplace model



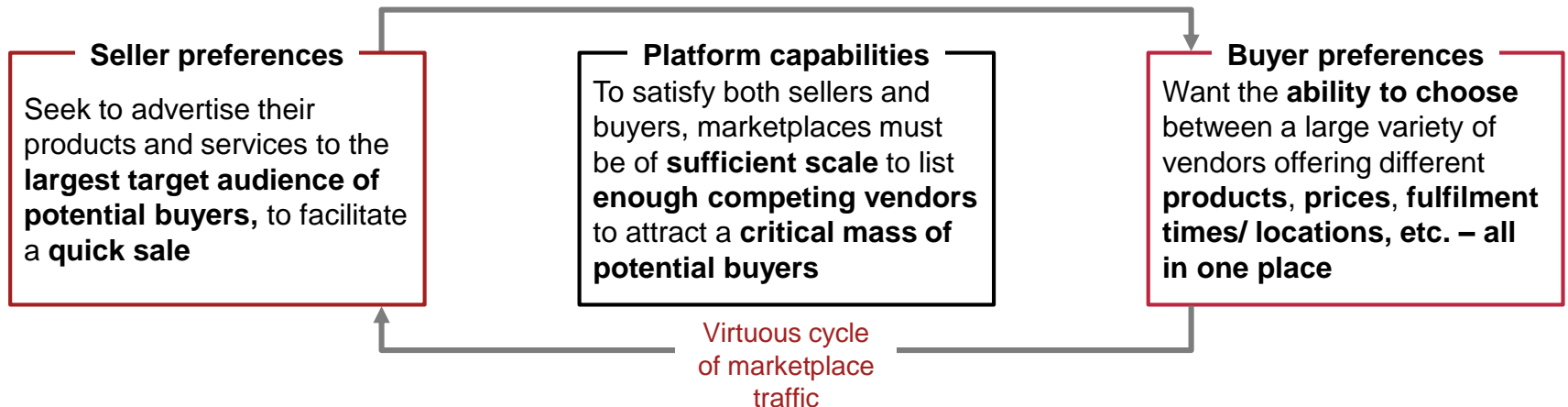
Digital marketplaces connect buyers and sellers via an online platform, offering a wide range of goods and services

Marketplace overview



Growth has been driven by an increasing propensity to shop online, supported by the scale benefits of marketplaces

Drivers of growth in online marketplaces



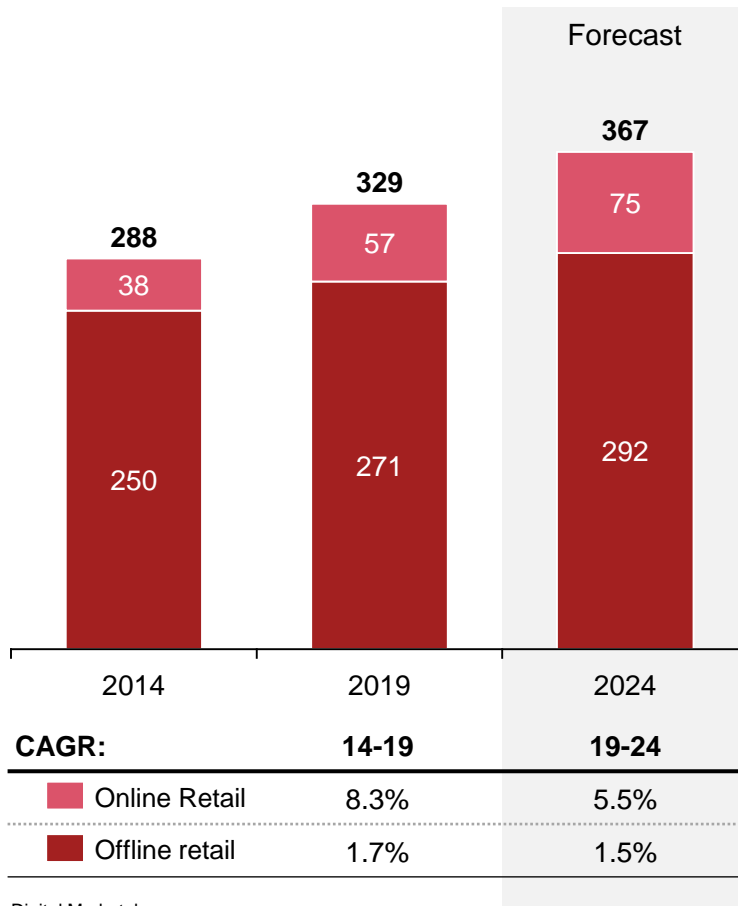
Growth in e-commerce drives underlying growth in the number of shoppers using online marketplaces

However, scale on both the buy- and sell-side are required to drive continued activity on individual online marketplace platforms

Once a marketplace has reached significant scale relative to its competitors, the virtuous cycle of traffic and stock drives future growth

E-commerce in general continues to take share from brick and mortar....

UK retail sales
£bn, 2014-24F



17%

- ...of total sales were made online in 2019
- Internet sales have **risen 50% since 2014**

3x

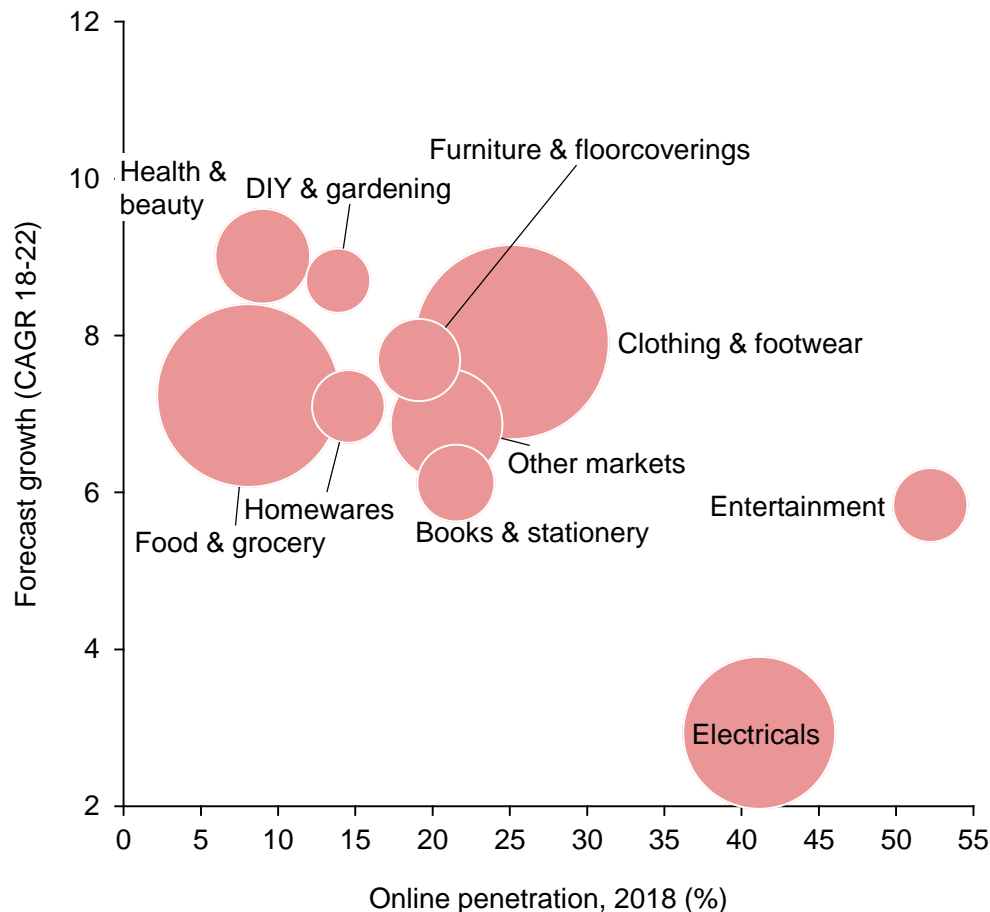
- ...**faster growth in the online retail sector** vs. brick and mortar

85%

- ...of UK retail marketplace spend is on **new goods**
- However, this is falling with **16-24 year olds most likely to purchase second-hand** goods, driven by sustainability concerns
- Used goods can often be transacted via digital marketplaces

...although e-commerce penetration varies considerably by sector

UK online retail market size and growth by category



Factors impacting development of e-commerce in a category include:

- Ease of digital logistics (i.e. sending in the post)
- Strength of offerings in the market
- Average ticket price and total size of purchase
- The need to “touch and feel” the product
- Emotional connection customers have towards products
- Need for assisted sales
- Use of advanced technologies (e.g. recommendation engines)
- Increased customer comfort with online channels, especially among younger generations

Digital marketplaces can leverage advantages in scale to compete against traditional business models

Winning strategies

Vertical scale

- Generalist, horizontal marketplaces are highly competed, making it hard to gain share without a differentiated vertical proposition
- Specialism in a particular vertical enables a platform to cater to the specific needs of buyers and suppliers thereby building a strong and defensible base for future growth

Leverage pricing power

- Marketplaces with a clear scale advantage vs competitors have significant power across the value chain enabling them to raise prices to drive growth
- However, price rises must be implemented alongside proposition enhancements in a manner that creates long term value for both the marketplace and supplier

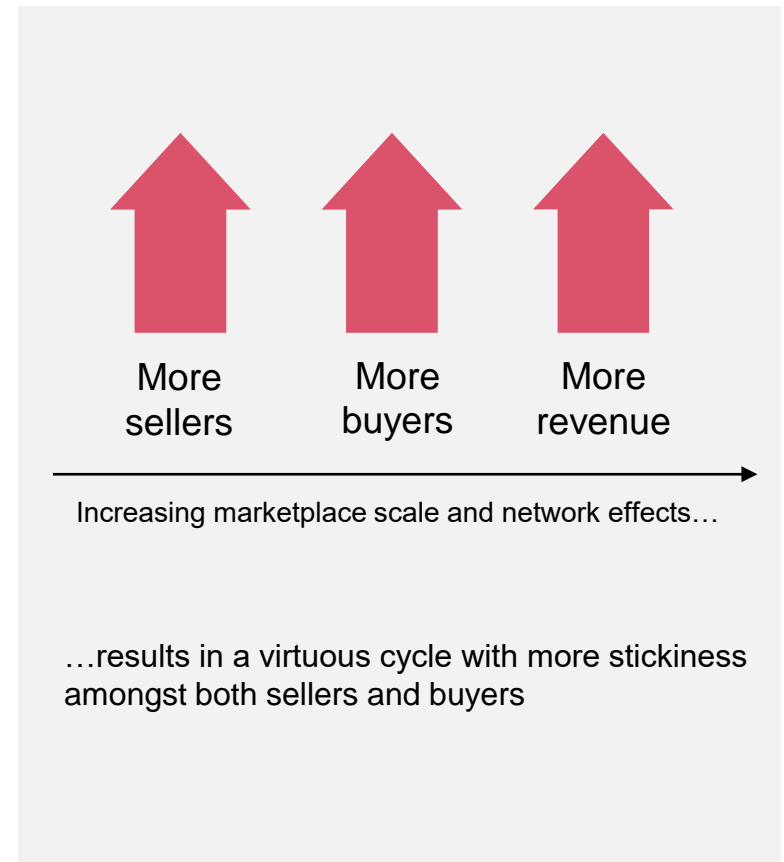
Expand across the value chain

- Alongside price rises, marketplaces can expand across the value chain to provide ancillary services such as finance, delivery and price guides
- The services that add most value are those that leverage the scale, data and technology of a marketplace to provide value-add services without cannibalising supplier margins







Many digital marketplaces have developed in a similar way, increasing scale and building sustainable revenue and profits

Common development journey

- 1 Build up scale
- 2 Drive network effects
- 3 Monetise better
- 4 Target extra services / adjacencies
- 5 Further monetisation
- 6 International expansion?



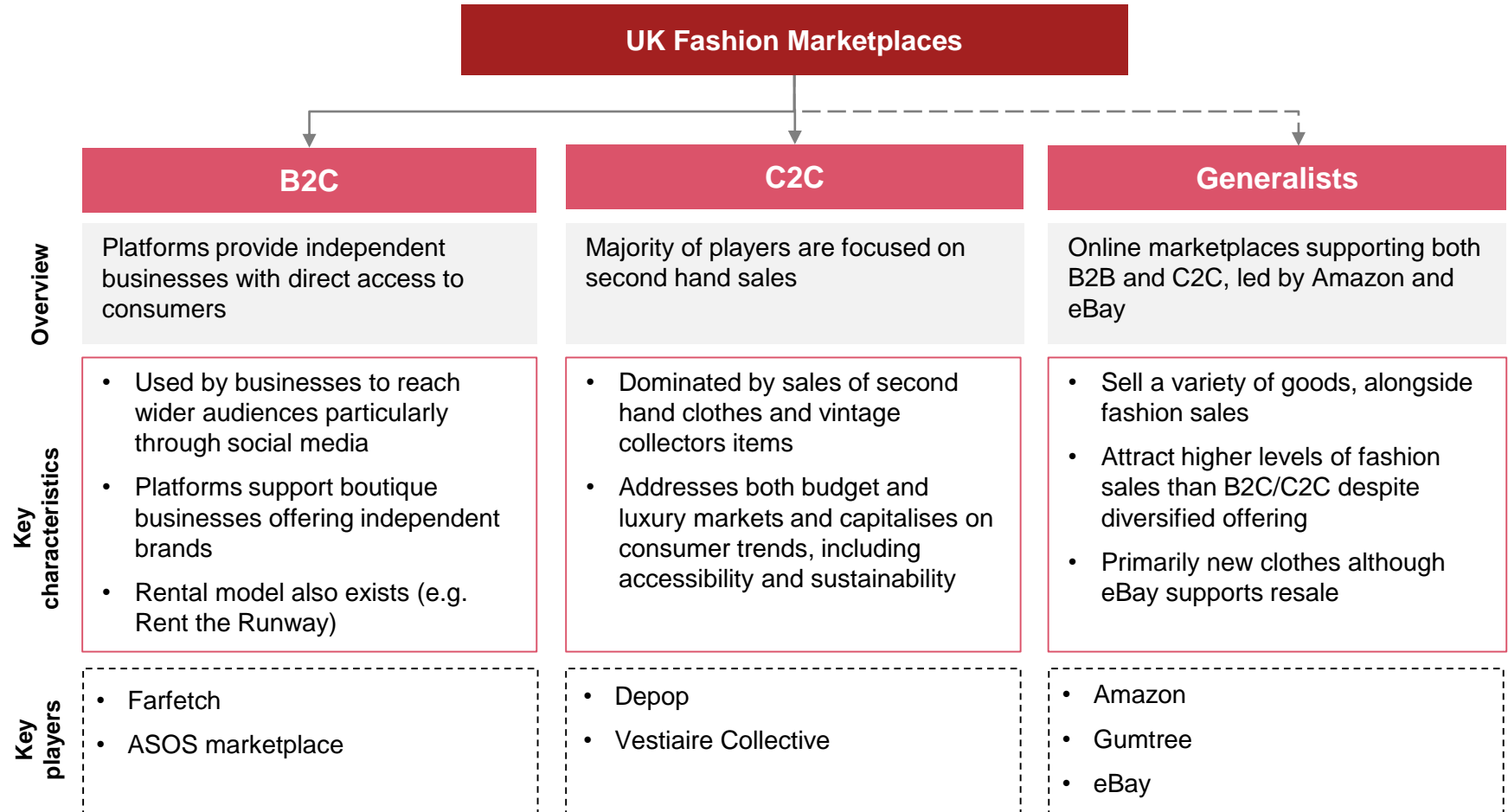
We highlight six case studies of sectors where digital marketplaces have developed, impacting industry dynamics

		Sector	Marketplace activity	Impact on the industry
1		Fashion	B2C and C2C offerings to connect consumers to specialist fashion brands	Increased competition in an already competitive online market
2		Art and Antiques	Marketplaces connecting Art & Antiques (A&A) auctioneers with potential bidders	Has driven a shift to online in Art & Antiques, aggregating a largely fragmented sector
3		Ride hailing	App-based platforms connecting drivers and passengers	Traditional taxi model heavily disrupted, with high usage of established apps, with newer apps also gaining traction
4		Takeaway food	Platforms aggregating restaurants for takeaway order and delivery	Increased delivery and takeaway penetration but equal margin hit for both restaurants and grocers
5		Industrial and Commercial	Marketplaces used industrial and commercial (I&C) equipment	I&C auctions are now increasingly online-only timed auctions rather than live in-person events
6		Automotive	Many quasi digital marketplaces, although most are classified/lead gen, not transactional	Digital is a key channel to market for the sector, but a further shift to online transactions would have major impact

Case Study 1 UK Fashion



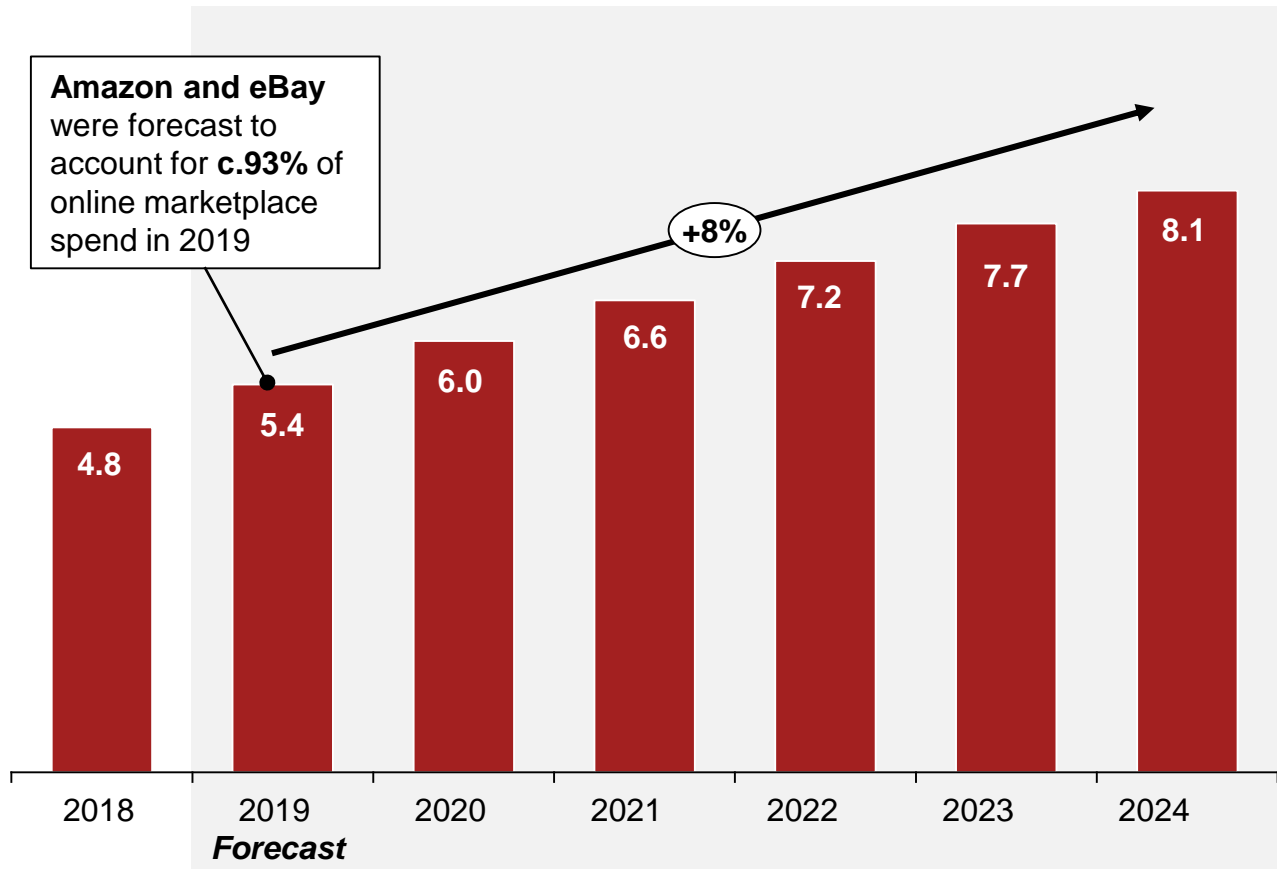
Fashion marketplaces operate both B2C and C2C models, competing with large generalist marketplaces



Despite slowing retail growth fashion marketplaces are forecast to grow dramatically, driven by Amazon and eBay

UK online marketplace market size – clothing and footwear¹

GMV², £bn



1.6%

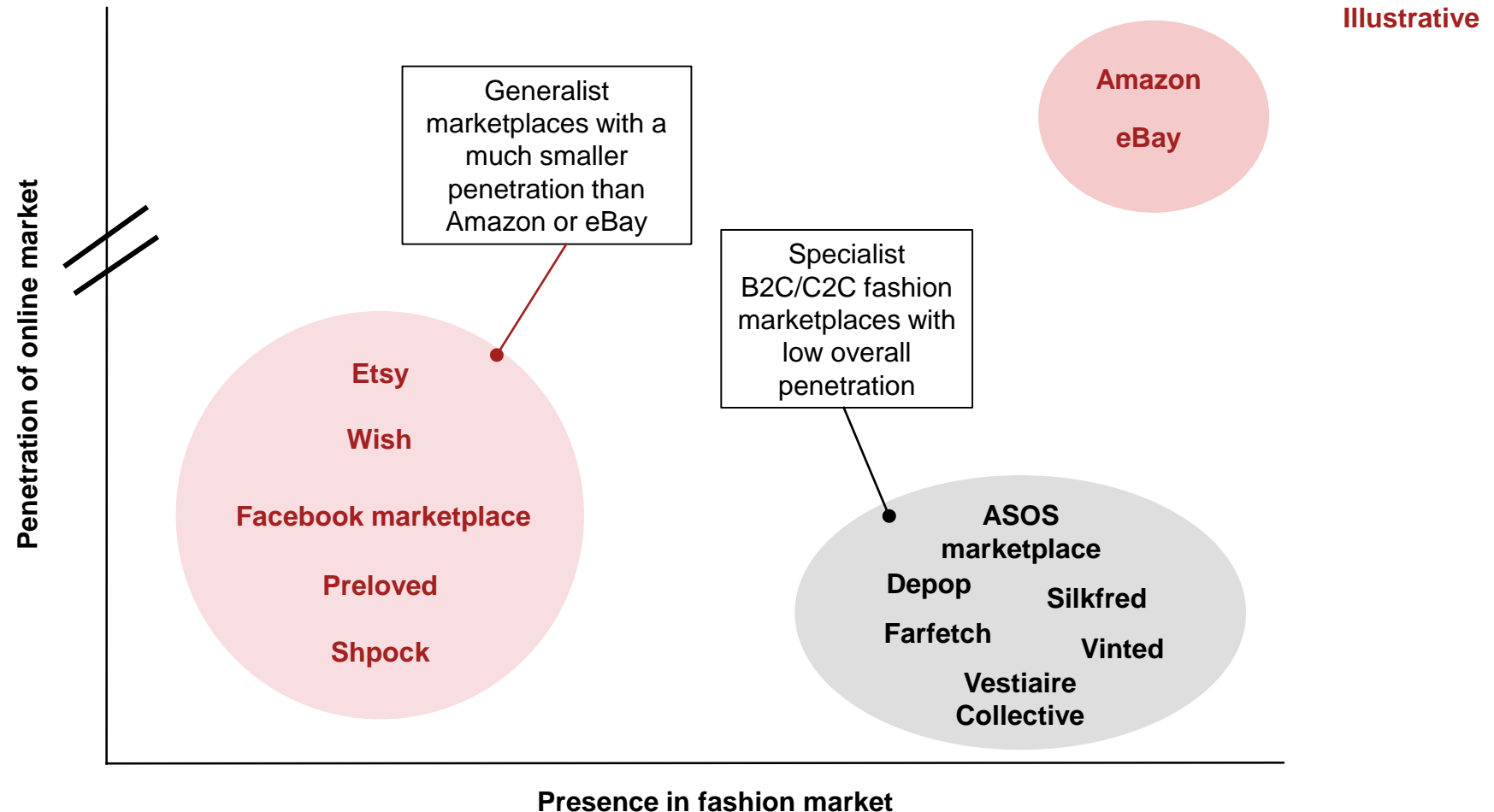
...retail growth in 2019, down from 2.0% in 2018

28%

...forecast online share of all retail sales by 2024 (2018, 18%)

Fashion marketplaces are highly specialised but have lower online penetration than Amazon and eBay

UK online marketplace market for clothing and footwear



The level of disruption from marketplaces in fashion retail is muted by the industry's experience with online offerings

Online retail has grown significantly but the majority of retail is still offline



Over 80% of retail sales are still offline but online retail is forecast to grow as a result of online access (95% of UK households are online; 83% of people own a smartphone). This has driven innovation in physical stores. Excluding Amazon and eBay, the top 10 retailers in the UK operate both physical and online stores (2019)

Barriers to entry are low given online retailing history



Fashion retailers were amongst the first to offer online access and have refined the operating model. Consumers are well-accustomed to online shopping for fashion. The convenience and cost-effectiveness of online listings for both buyers and sellers has enabled the creation of specialist fashion marketplaces

Amazon and eBay are well established and have retained popularity



Amazon and eBay have been active in the market for some time, offering both B2C and C2C capabilities; data driven and targeted advertising; and trusted platforms. Buyers and sellers build up a reputation through reviews which strengthens their reliability and consumer confidence

Online marketplaces can challenge through alliances with existing brands or a hybrid model



ASOS marketplace is successful because of its association with ASOS. Alternatively, Amazon and SilkFred sell own brand products alongside other retailers' products. The data generated allows them to develop products at a competitive price point. This is only possible for B2C marketplaces. C2C marketplaces rely on their reputation for vintage or limited edition apparel which is limited to higher income consumers

B2C retail marketplaces (e.g. ASOS) face strong competition from lower cost C2C resale challengers such as Depop

Case Studies

B2C		C2C	
ASOS Marketplace (Retail)	Founded: 2010 Locations: London (HQ), New York, Paris, Berlin	Depop (Resale)	Founded: 2011 Locations: London (HQ), Manchester, New York, LA
<ul style="list-style-type: none">• Charges £20 monthly fee and earns 20% commission on each item sold• Businesses sign up as “boutiques” and are able to list items on the platform. Connects over 750 brands and boutiques to customers• Most attractive to an independent seller who can leverage the ASOS brand. Though there are requirements for how many styles boutiques must hold• Specialises in unique vintage or limited edition items. Popular amongst younger age groups• Shipments are required to be max 2 working days which allows them to compete with other online retailers on delivery		<ul style="list-style-type: none">• Earns less commission (10% of the value of each item) to attract new vendors but it doesn't offer delivery. Prices are subsequently cheaper• c.16m users of which c.5m are based in the US, 90% of those are under the age of 26• Operates in the resale and secondhand market and is differentiated from ASOS by allowing anybody to sell• Reacts to changes in fashion rapidly as items become less popular on the platform and there are not any stock requirements• Reliant on popularity of sustainable fashion and demand for vintage clothes	

Case Study 2 UK Art and Antiques



Art & Antiques (A&A) marketplaces allow smaller auctioneers to reach large, even global bidder audiences

Typical A&A marketplace transaction

Sellers

Auctioneers selling goods on behalf of consumers, collectors or dealers, or those individuals selling them directly (typically via C2C platforms such as eBay)

Platforms

Online platforms host lots both in online-only timed auctions and hybrid live auctions, marketing them to potential bidders

Bidders

Bidders range from professional antiques dealers to individual collectors with the latter representing c. 80%¹ of the market

Key benefits:

Benefits to Auctioneers:

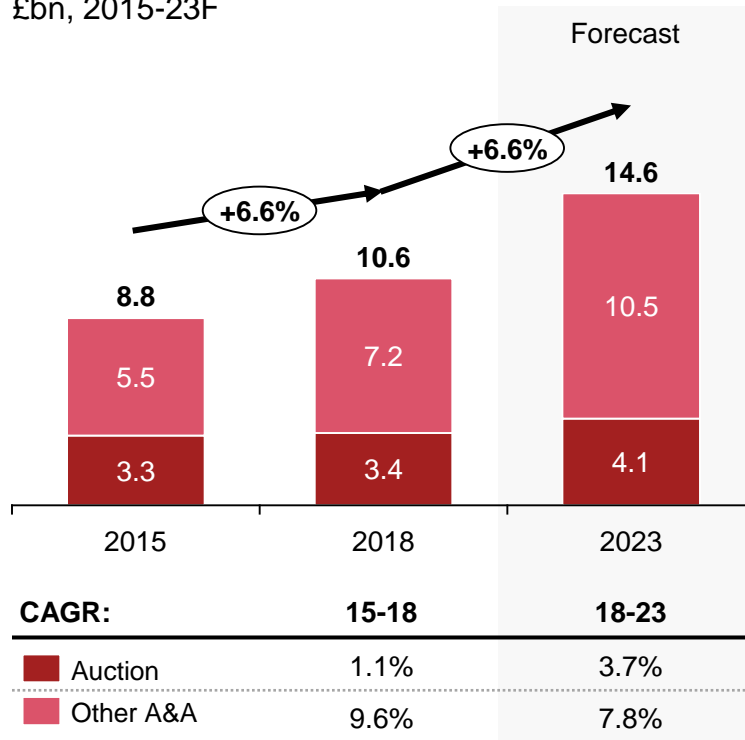
- Online auctions have a far greater reach than traditional auctions, significantly expanding the potential number of bidders
- Timed online-only auctions can be run at a lower cost as auctioneers do not have to set up and run a live, in person event

Benefits to bidders:

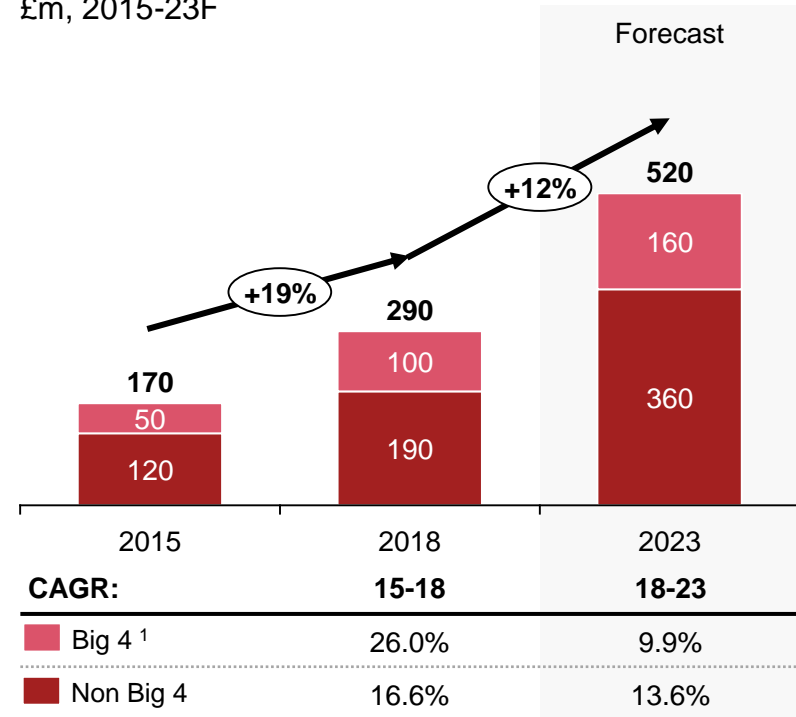
- Online auctions via a marketplace make a greater range of items available to bidders removing the need to attend multiple auctions in person
- Online auctions enable bidders to bid from any location, which has a number of benefits:
 - It allows bidders to live bid on auctions which may have been inaccessible (e.g. different state, country) and at any time
 - it allows high volume bidders (e.g. dealers) to participate in multiple auctions at the same time
- One aggregated auction platform is more convenient for bidders – one login, one KYC check, etc.

In the UK, the A&A market is growing and the online auction market is the fastest growing part

UK A&A estimated market value
£bn, 2015-23F



UK A&A estimated online auction GMV
£m, 2015-23F

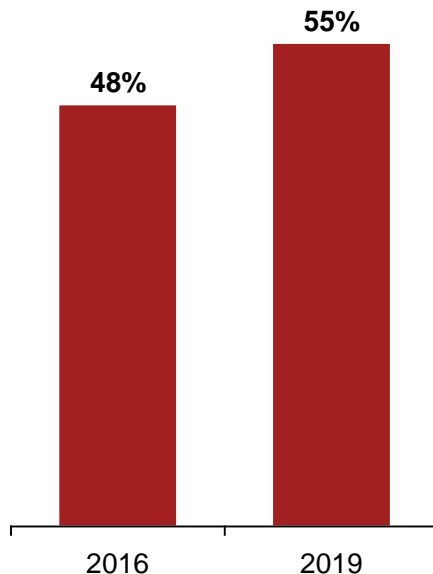


- A key forecast trend is a gradual shift towards timed online-only auctions with c. 90% of surveyed A&A bidders who either use or would consider using them

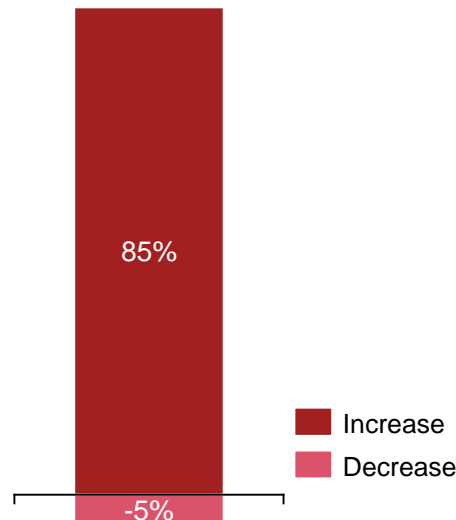
- Big 4 auctioneers are Christies, Sothebys, Bonhams and Philips, and they are treated separately given their considerable scale

Growth in online auctions should continue driven by demand from...

UK individuals likely to buy more art and collectibles online next year, 2016-19
% respondents



UK auction houses' views on A&A online sales¹
% respondents



Consumers increasingly favour online channels over bricks and mortar, with 21% of respondents saying they prefer buying art online (vs. 16% in 2018)

Note: 1. For the purposes of this report, a range of auctioneers in the A&A market were interviewed
Source: UBS (2018), Strategy& Interviews, Strategy& Analysis

The industry view:

“

Online art purchases are **growing fast for lower price points**, which is expanding the art market by **enticing new buyers** and introducing a greater number of emerging artists.”

TFAF (2017)

“

I think the **growth of online bidding is the future**... All our sales are very much that combination of room bids, phone bids, out-of-seat bids and online bids.”

UK Auctioneer

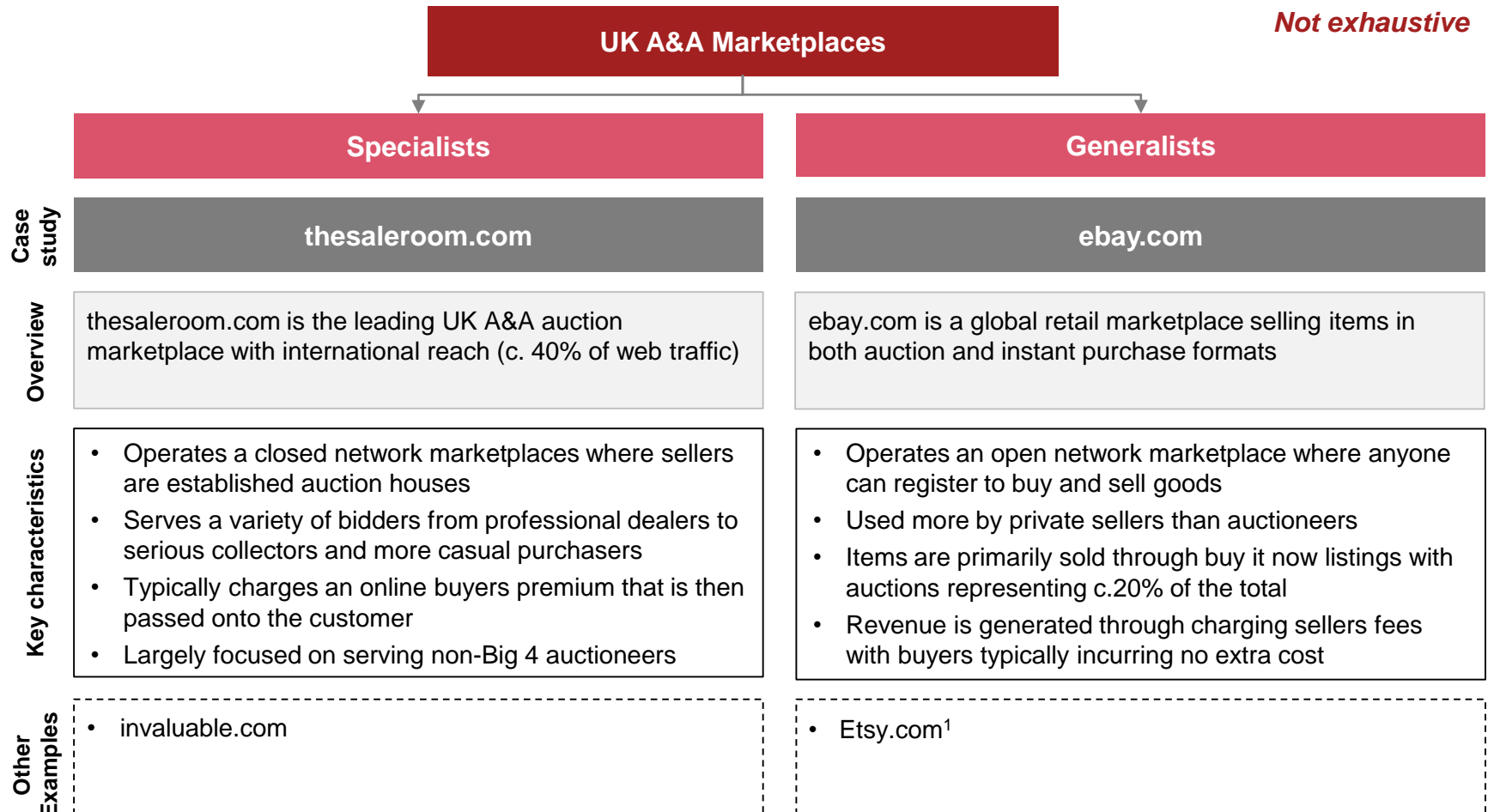
“

Even if the object is not sold to the internet, **the internet helps drive the price and demand** for a particular item.”

UK Auctioneer

The online auction market primarily consists of specialist A&A platforms and generalists such as eBay

A&A Case Studies



Due to the life event driven nature of supply, the non-Big 4 segment is likely to be relatively resilient

Whilst supply and demand are relatively resilient, there may be some pressure on pricing

During the last recession, we believe that performance of non-Big 4 auctioneers was relatively stable

Supply and demand drivers

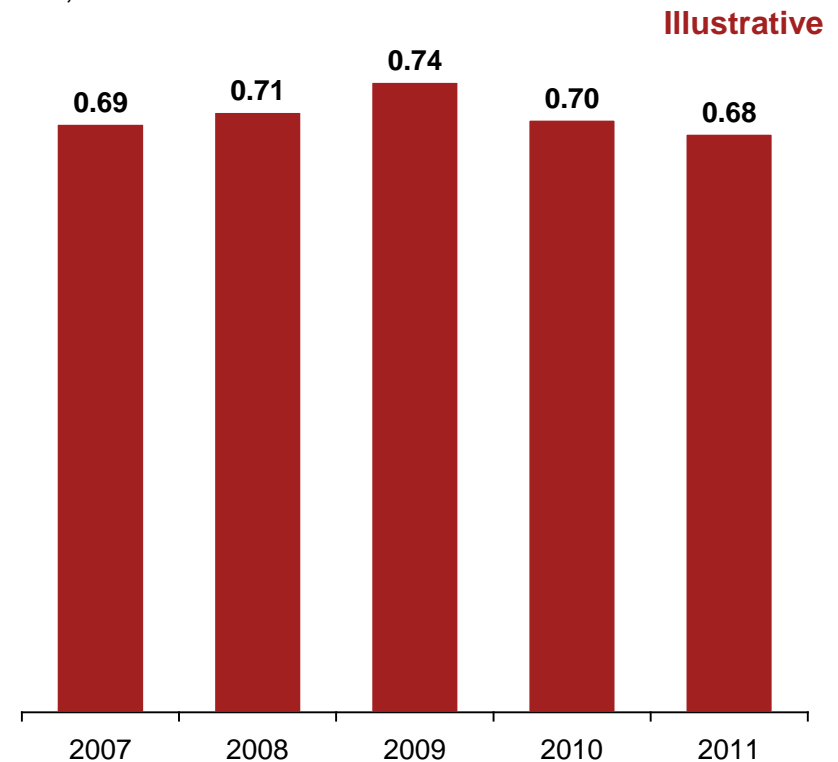
1 Supply

- Lower value items are most often sourced from the “3 Ds” (divorce, death and debt), all of which continue in times of economic downturn
- Larger value items may be less likely to be brought to market during a recession (but not core to non-Big 4 auctioneers)

2 Demand

- Demand is more resilient due to the lower value, less discretionary nature of items sold and supported by collectors trading down to cheaper items/ second-hand purchases
- However, reduced discretionary spending would likely reduce prices (particularly on larger items)

Estimated UK A&A auction market (non-Big 4) £bn, 2007-11

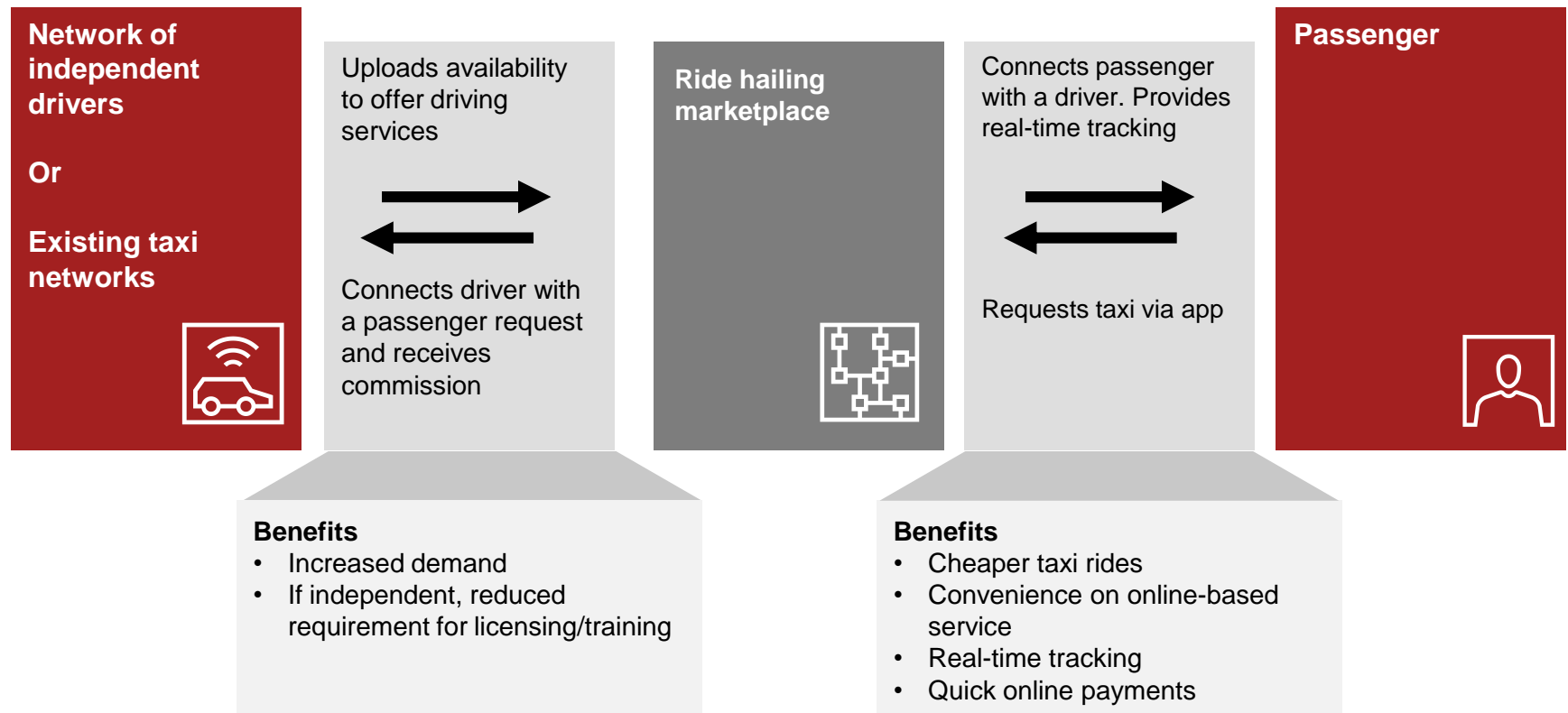


Case Study 3 Ride hailing



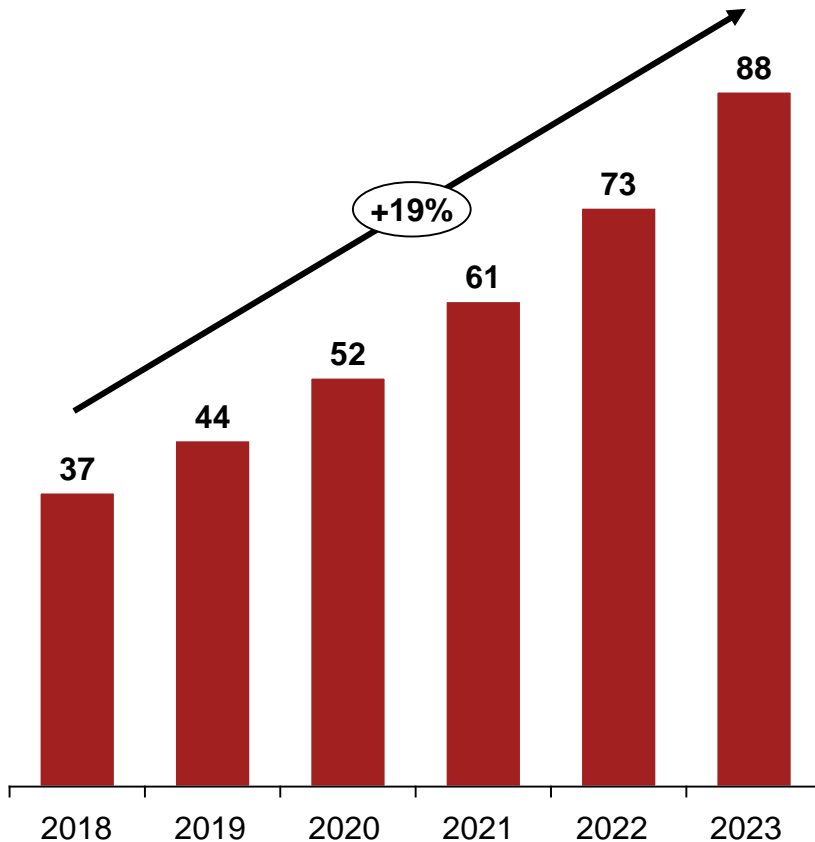
Ride hailing marketplaces connect riders with drivers, typically via an app

Global ride hailing marketplace flow chart



Growth is forecast to be driven by the convenience of app-based marketplaces, although regulatory issues persist

Global ride hailing services market
\$bn



Drivers



- New and innovative user-friendly mobile applications
- Increasing smartphone and internet penetration
- Growing preference for convenience of on-demand taxis

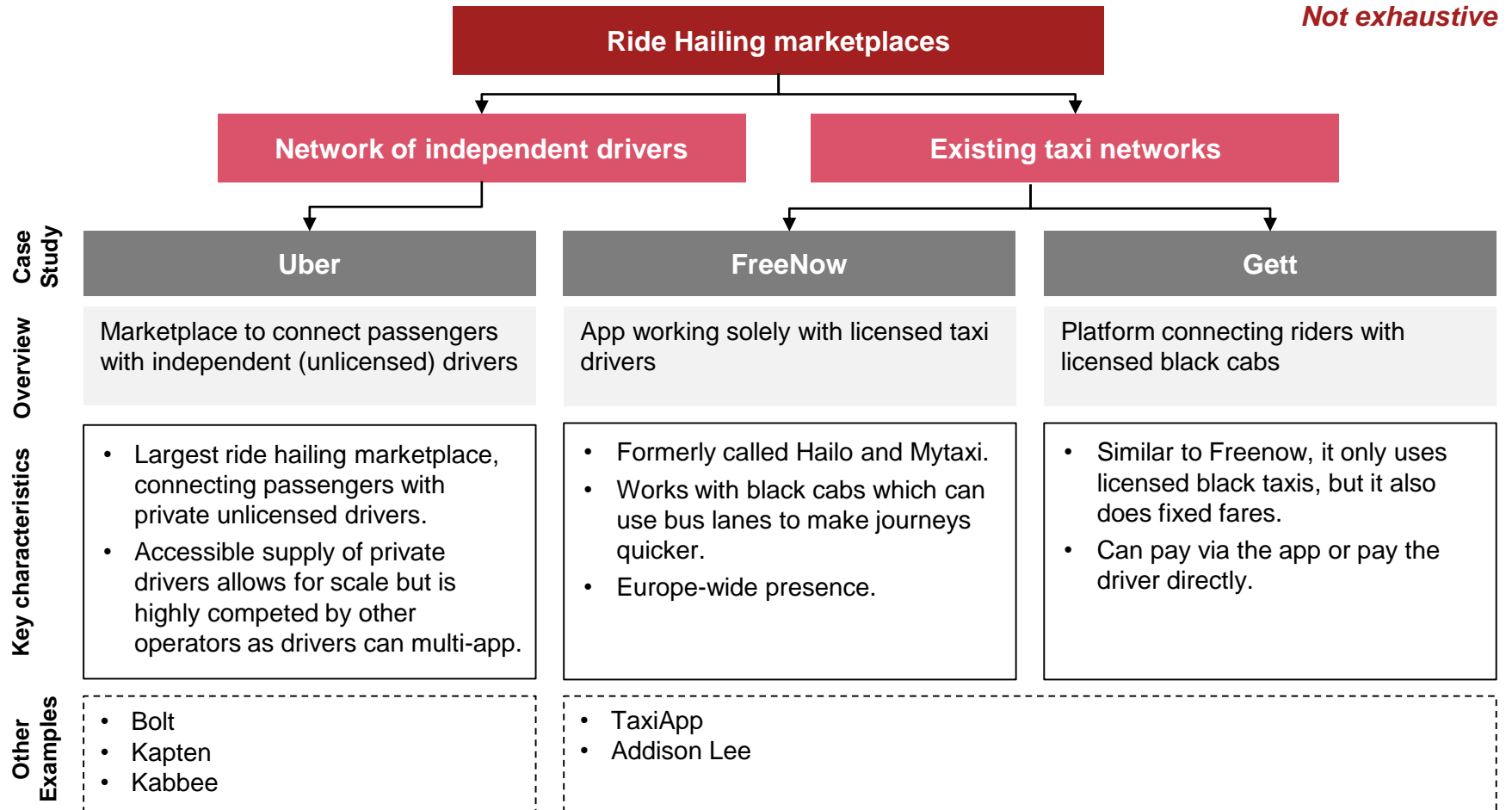
Challenges



- Compliance with Government regulations
- Issues related to safety of passengers

There are two ride hailing marketplace models: one with private drivers and one using an existing network of drivers

Ride Hailing Case Studies

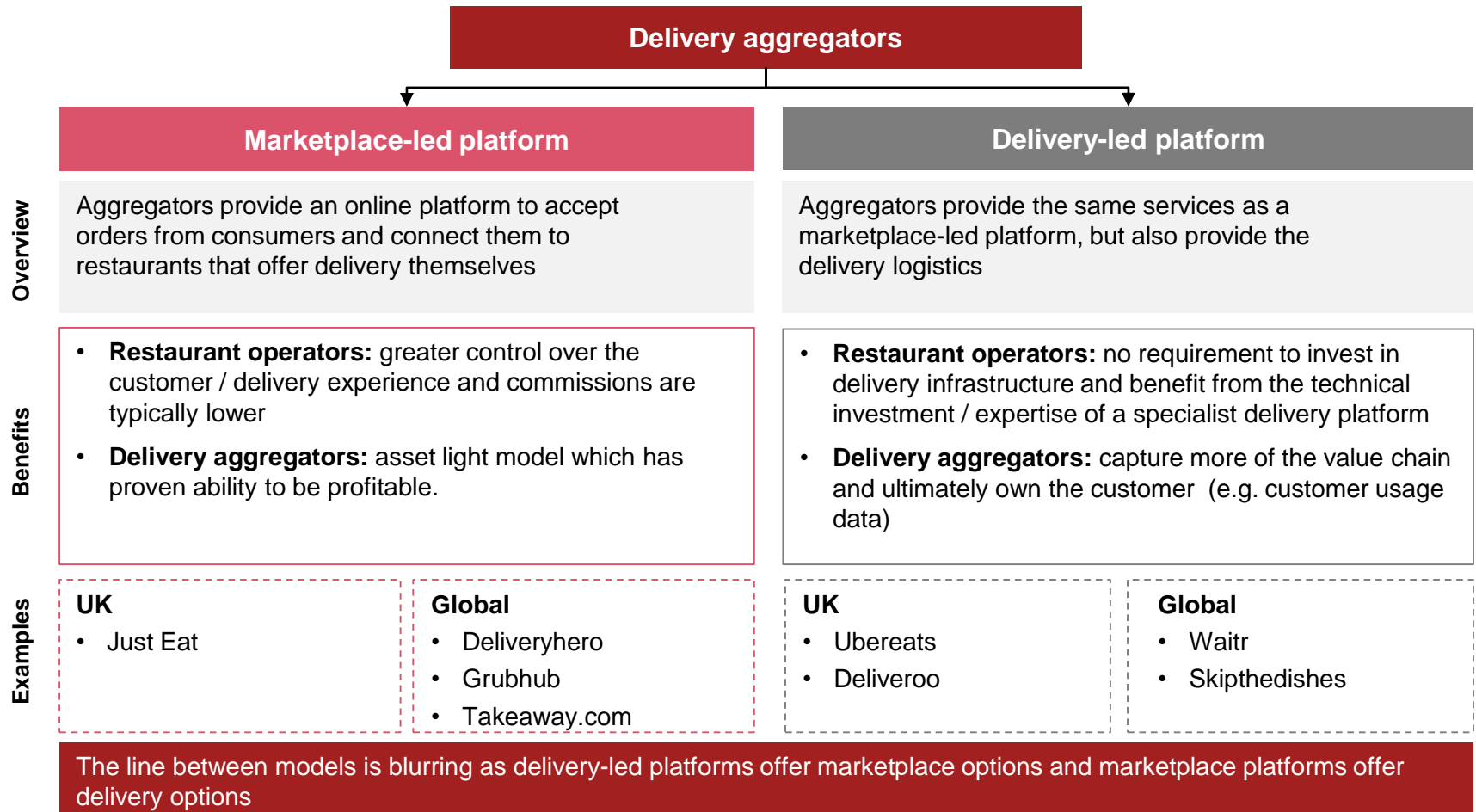


Case Study 4

Food delivery



Delivery aggregators have two main business models: “marketplace-led” and “delivery-led” platforms



Their emergence has had a number of impacts on the Food and Beverage sector

Consumers



- Consumers are given an **increased choice of restaurants** to get delivery from, and a much more **user-friendly** online experience
- As a result, more consumers are **ordering delivery more frequently**
- In the UK, frequency is currently at 60% penetration of the population, 2 orders per month and £9.50 average spend
- In the UK, the delivery market is forecast to grow to be **c.20%** of total restaurant market by 2028

Restaurants



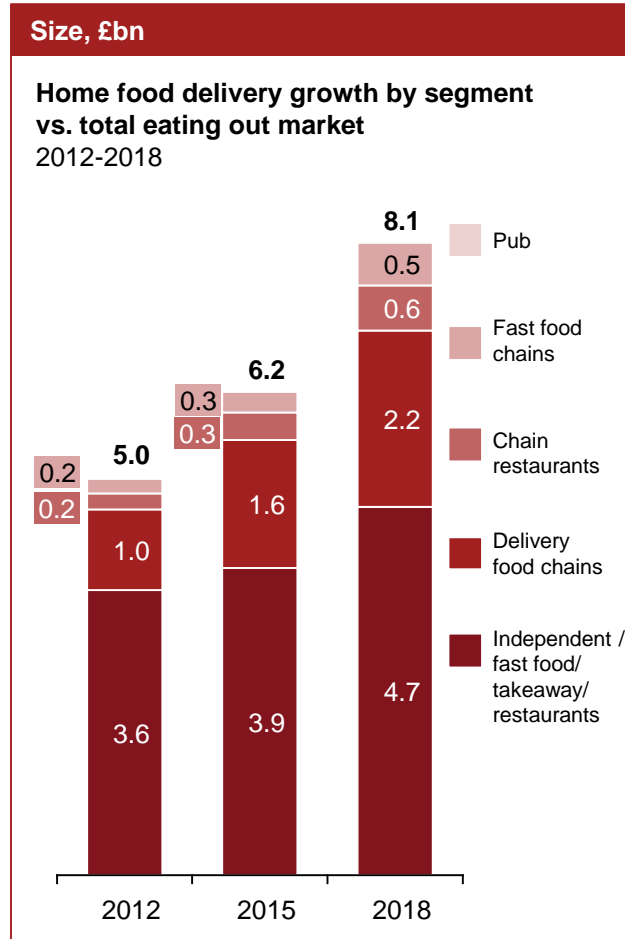
- The emergence of delivery-led aggregators has given restaurant operators the **option to participate in delivery** (85% of top 100 UK restaurants now do)
- Restaurant operators **have to embrace delivery** to grow in line with market, but still win on the high street, and in doing so, navigate the appropriate mix of channels (dine in vs. delivery, direct channel vs. third party)
- Our research suggests that delivery meals have been cannibalising restaurants and grocers with an equal weighting

Grocers



- UK consumers have indicated they are **less likely to cook at home** given ease and choice of restaurant delivery (similar level of impact to restaurants)
- Grocers are **innovating** to defend share of stomach, from **partnering** (e.g. Coop and Deliveroo, Morrisons and Amazon) to **investing in technology** (Ocado and Karakuri robotics) and **enhancing in-store meal solutions** (e.g. Sainsbury's in-store sushi counters)

Home food delivery, has grown ahead of the wider restaurant market, driven by marketplace activity



CAGR

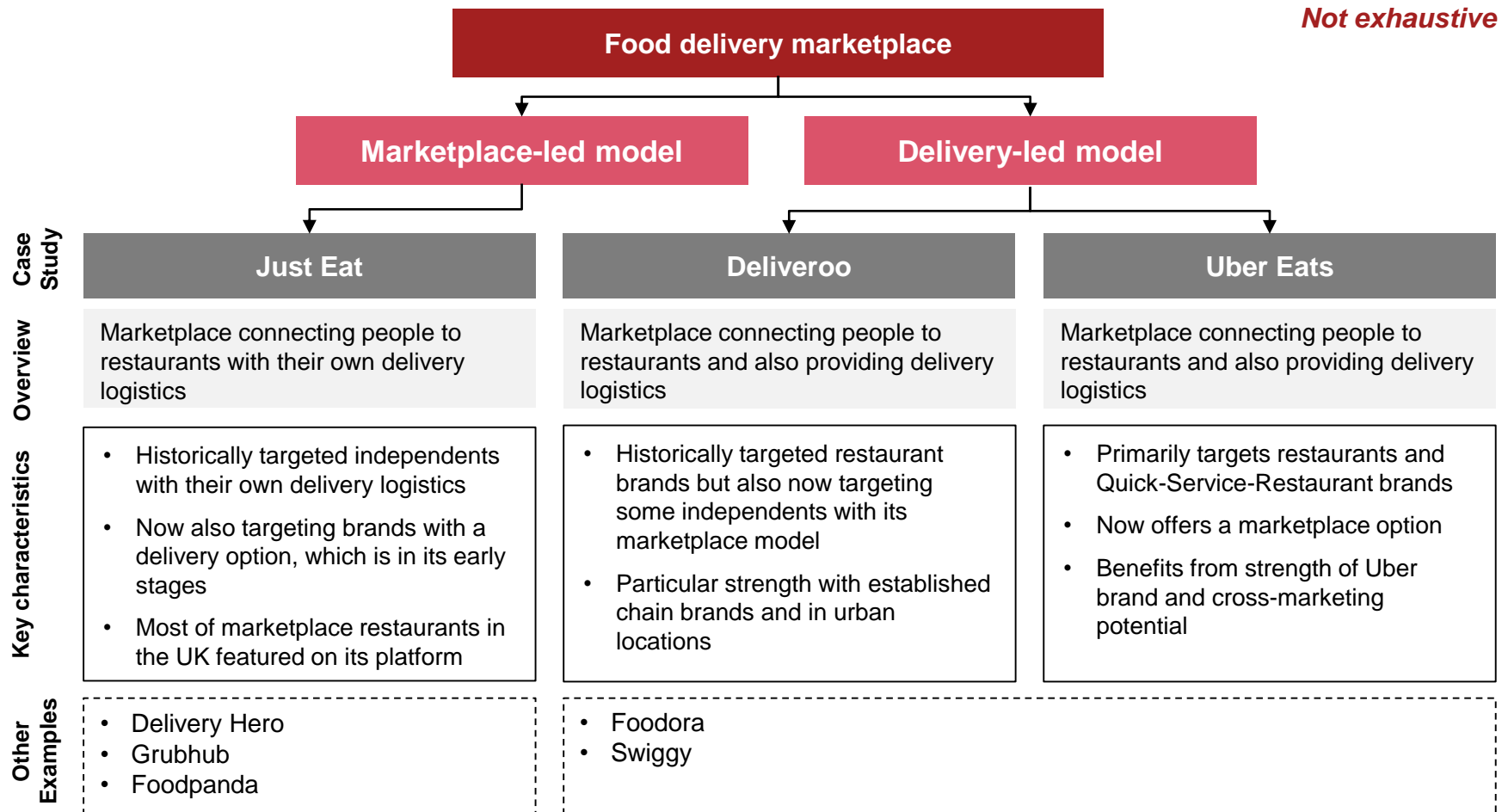
Home delivery		Total restaurants	
12-15	15-18	12-15	15-18
5%	16%	0%	1%
12%	27%	7%	6%
19%	18%	6%	5%
17%	11%	17%	10%
3%	6%	-1%	-3%
Total 7%	Total 9%	Total 2%	Total 2%

Segments where home delivery is out-growing the most

Constraints on growth

- Frequency will be limited by the **number of meal occasions** that delivery can serve without an **economically viable way of penetrating breakfast/lunch** at scale for more consumers
- Growth of delivery will also be constrained by both the **numbers of drivers** and the **economics of delivery in less dense catchment areas**
- A step change in technology could overcome supply constraints (e.g. drones) but are **unlikely to become widespread in the next five years** (particularly in dense urban areas where most volume exists)

There are key players within each model, however companies are starting to offer services in line with alternative models



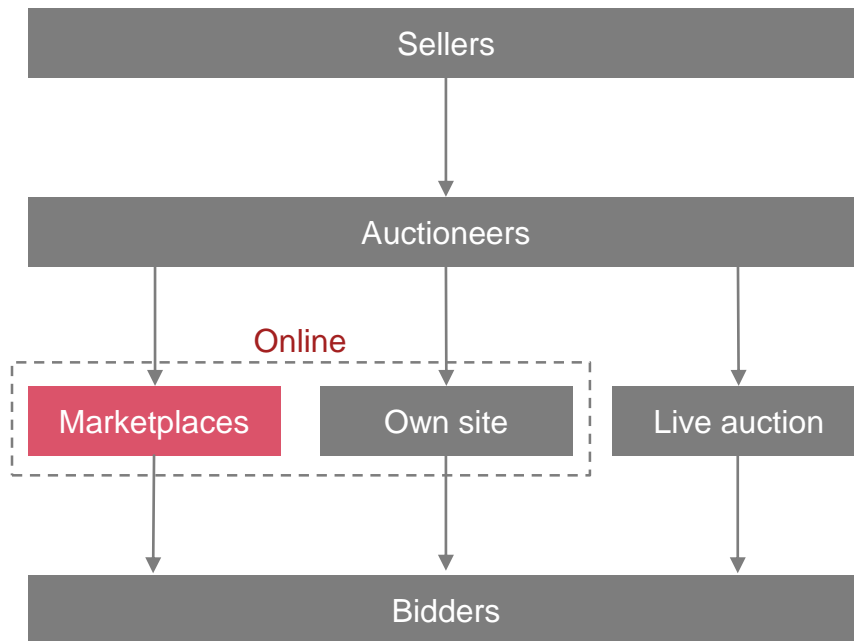
Case Study 5 US Industrial and Commercial



Within the Industrial and Commercial sector (I&C), used equipment purchasers are increasingly buying via marketplaces

Typical I&C marketplace transaction

Not exhaustive



Key growth drivers

Accessibility

- Online auctions enable a greater number of bidders to bid from more locations than a traditional live auction, driving market growth

Lower cost with timed online-only

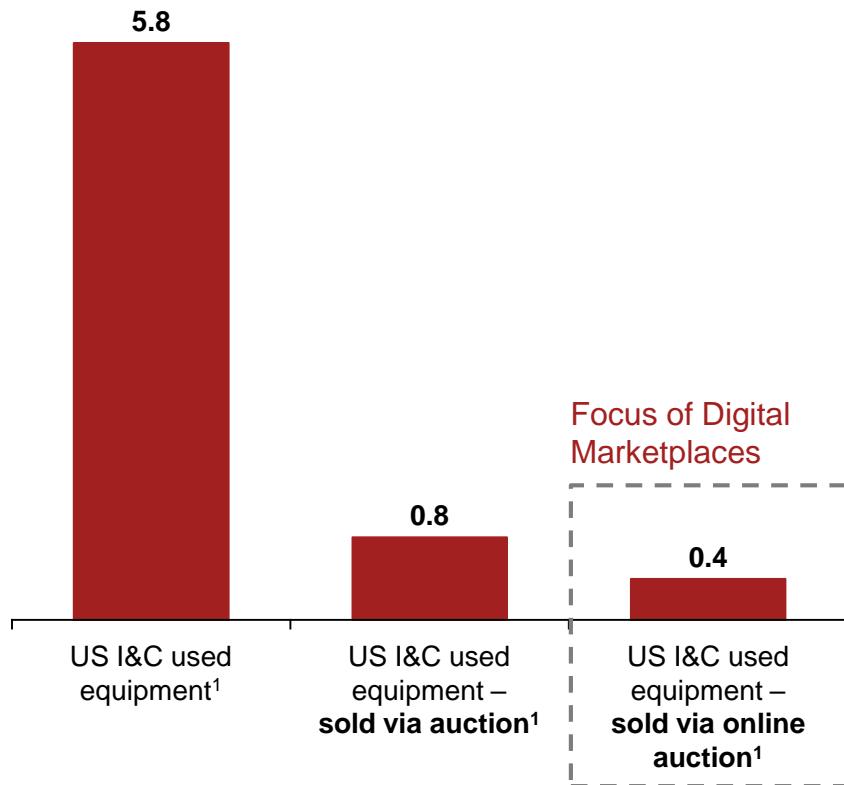
- As auctioneers see the benefits of online auctions they are moving towards timed, online-only auctions where 100% of lots are sold online – meaning they don't have the cost of setting up or running a live auction

Data

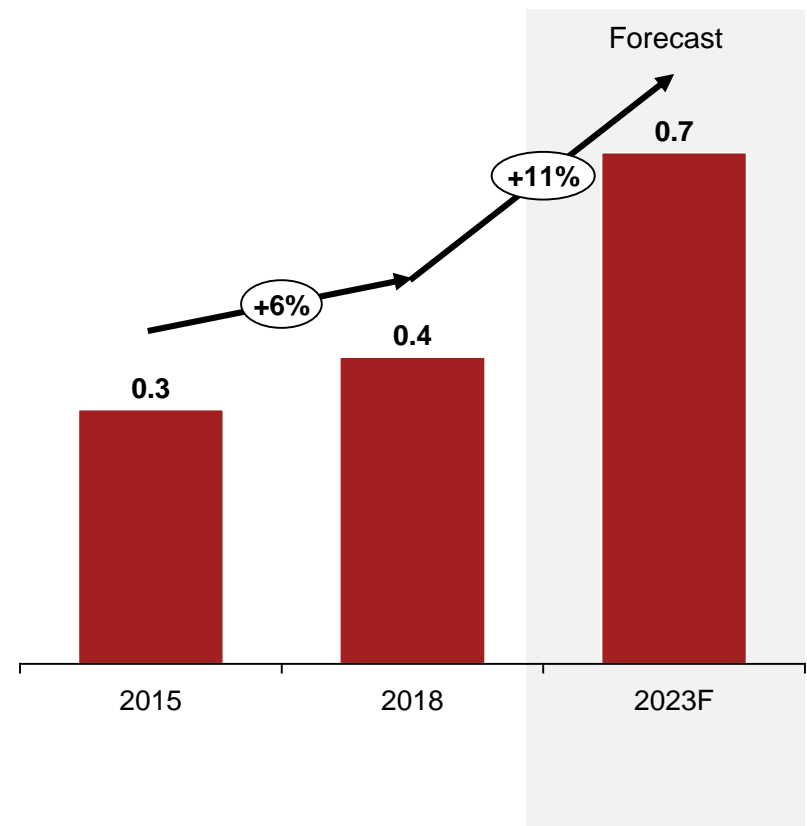
- Auction marketplaces can aggregate data from thousands of sales to conduct targeted marketing as well as provide accurate pricing data

Focussing on some core I&C categories¹, we estimate an online auction market of c. \$400m, growing at c. 10% p.a.

US I&C used equipment market¹
\$bn, 2018

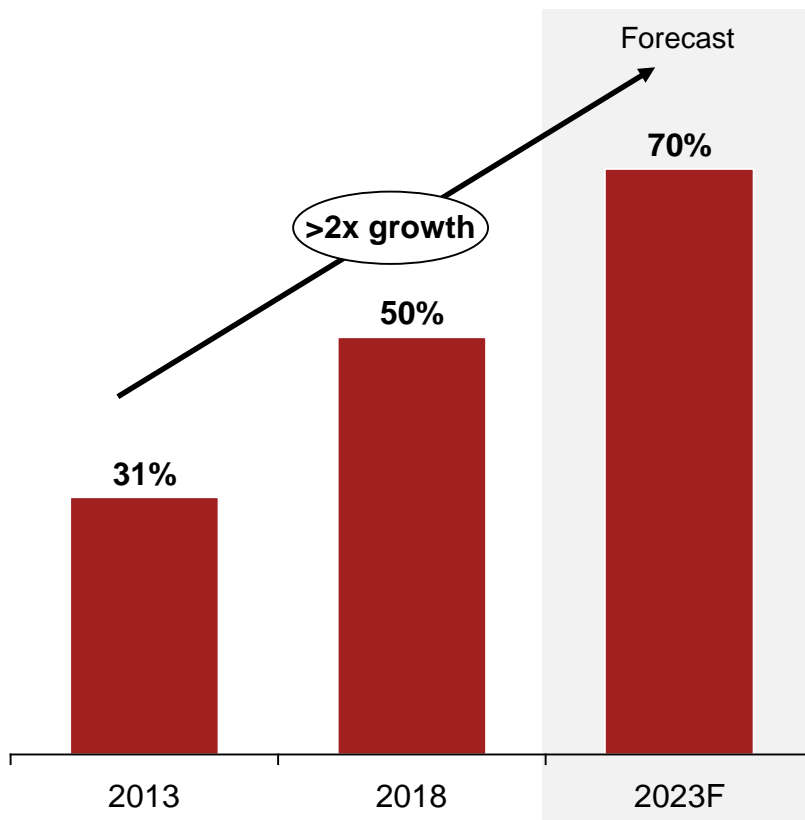


US I&C online auction market value (GMV)¹
\$bn, 2015-23F



This growth represents a significant growth in online share, underpinned by timed auctions

US I&C used equipment market online share
\$bn, 2013-2023F



The industry view:

“

It's moving towards timed online-only because of the economics. Online auction makes more sense economically because you don't have to move any items. **There's been a huge change in the past 3-5 years** because of smartphones and having richer data.”

Auction Marketplace Employee

“

The **auction world continues to trend to timed online-only auctions.** Crowds are continuing to shrink and the additional cost from holding a live auction no longer makes sense.”

Auction Software Provider

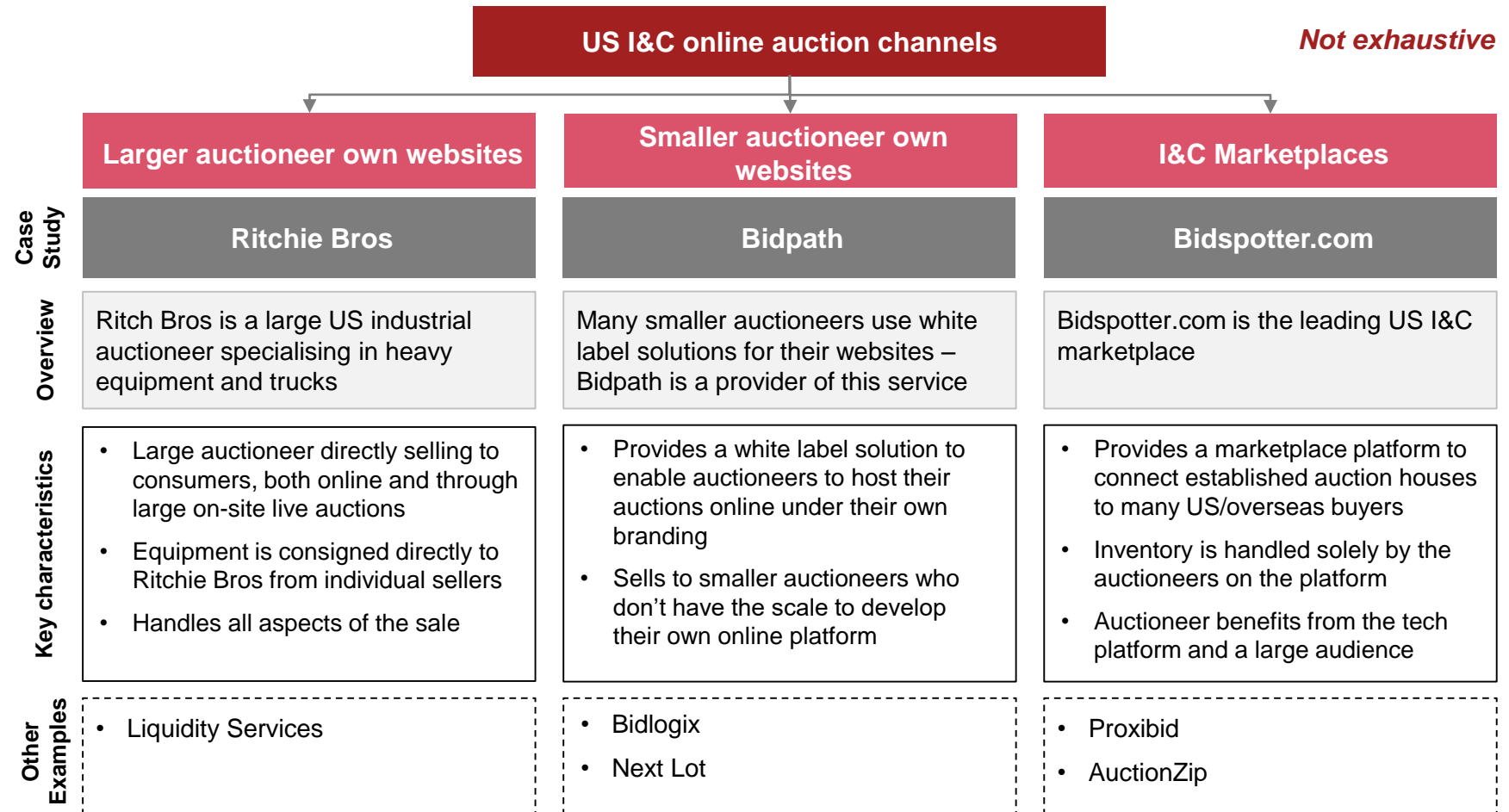
“

The industry has changed drastically switching from traditional to mainly online auctions. **Online has now become the main auction format.”**

Auctioneer

I&C online auctions can be accessed via marketplaces or auction house websites; many auctioneers choose to do both

I&C Case Studies



Used equipment marketplaces are relatively resilient, supported by more stock due to increased liquidations

Factors affecting used I&C equipment during a downturn

1

Supply

- Increases in the number of insolvencies and facility consolidation releases more used equipment into the market
- Conversely, extended replacement cycles delay the purchase of new equipment and the sale of old equipment, negatively affecting supply

2

Demand

- Online (timed-only) auctions are typically cheaper and easier to organise making them more appealing than other sales channels during a downturn
- Goods sold via auction are typically lower cost than elsewhere, increasing appeal during a recession

The auctioneer view:

“

When the economy goes down, dealers can buy more and when we are doing well, people buy more because they need it. **I guess the auction industry is always going to be resilient.**”

“

There's not a huge swing in our business (less than 10%). Regardless of the economic conditions. The one thing is in an economic downturn there's more goods for us but it's harder for us to move it with less buyers.”

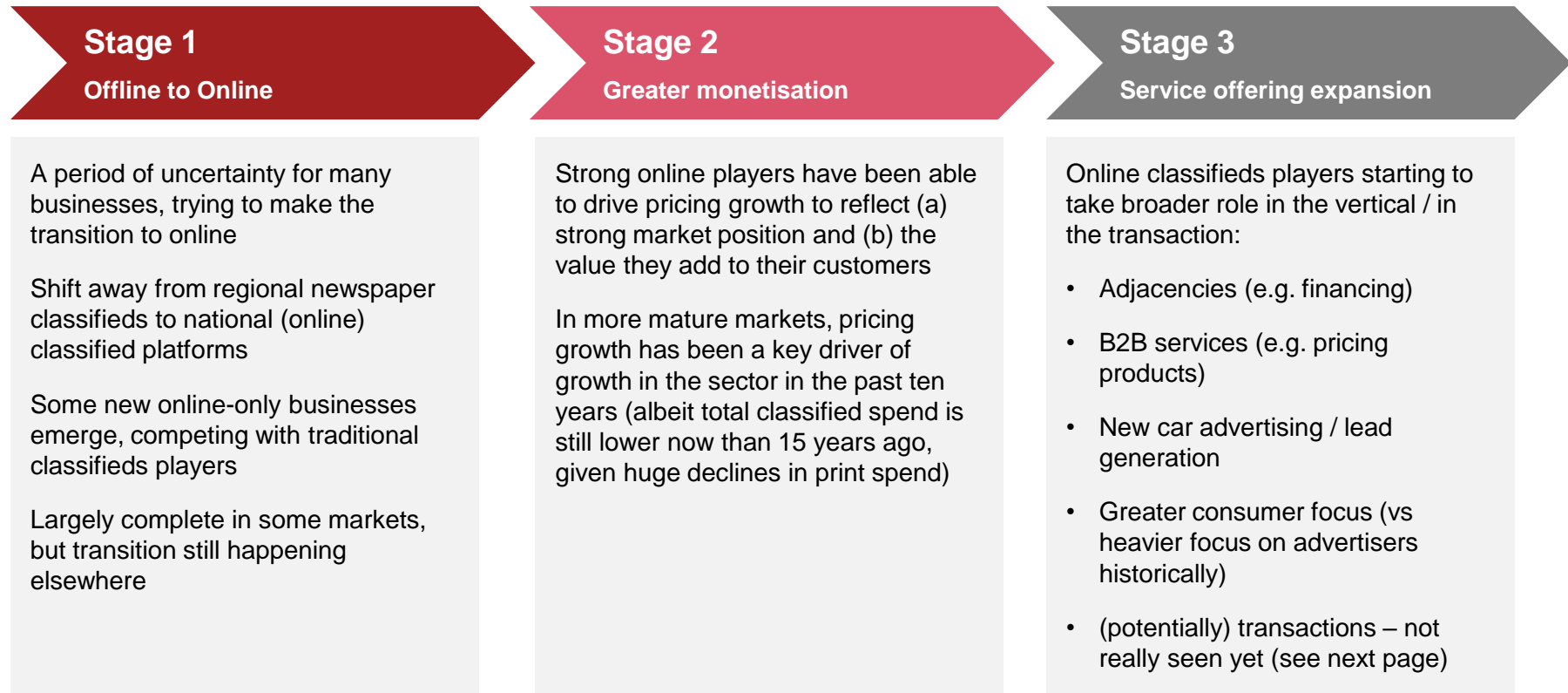
“

While profits are squeezed in an economic downturn, there's also **more items that are available which is a positive** because more stuff is being liquidated.”

Case Study 6 Automotive



The key 'digital marketplace' in car buying is online classifieds, which have developed considerably in 15 years



Currently the main classified portals are still not 'full' digital marketplaces, stopping before the actual transaction

Leading auto classifieds now offer many services...

Players

- Autotrader.co.uk
- Scout24
- Carsales.com.au
- Autotrader.com
- CarGurus
- ...
- ...many more



Services

- Classified
- Data
- Financing
- New car
- Part exchange
- ...
- ...many more

...but few, if any, are platforms for the actual transaction

1

Would risk damage to dealer relationship if classified platforms move towards 'being the retailer'

2

Existing classified model is very successful and growing (as are revenues from other services)

3

The scale and nature of the purchase makes many consumers resistant as they still want the 'physical' element of the purchase journey

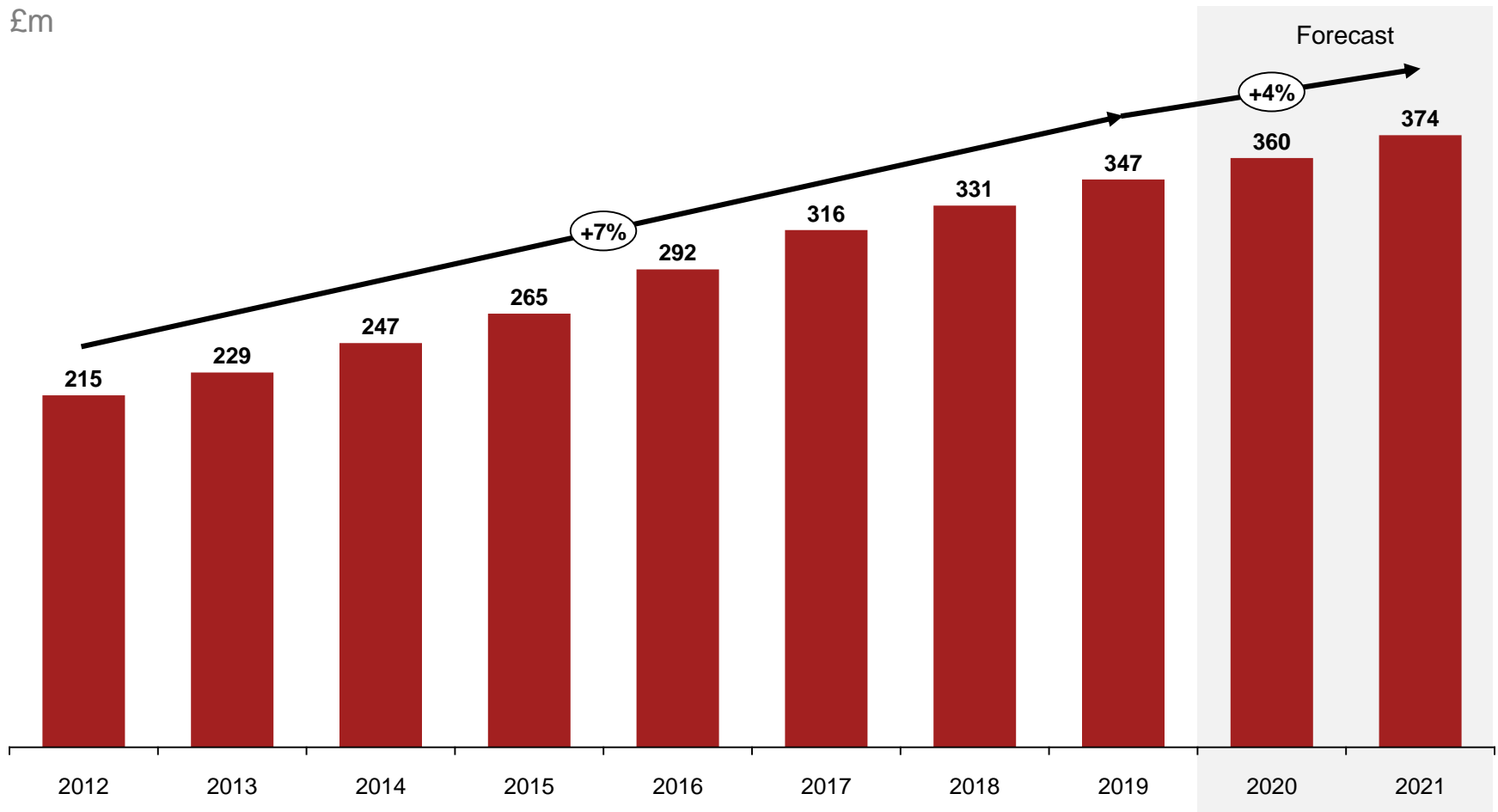
4

Delivering an omni-channel experience is far from simple, particularly given the fragmented nature of dealers

This continued success of online auto classifieds can be seen in UK market growth

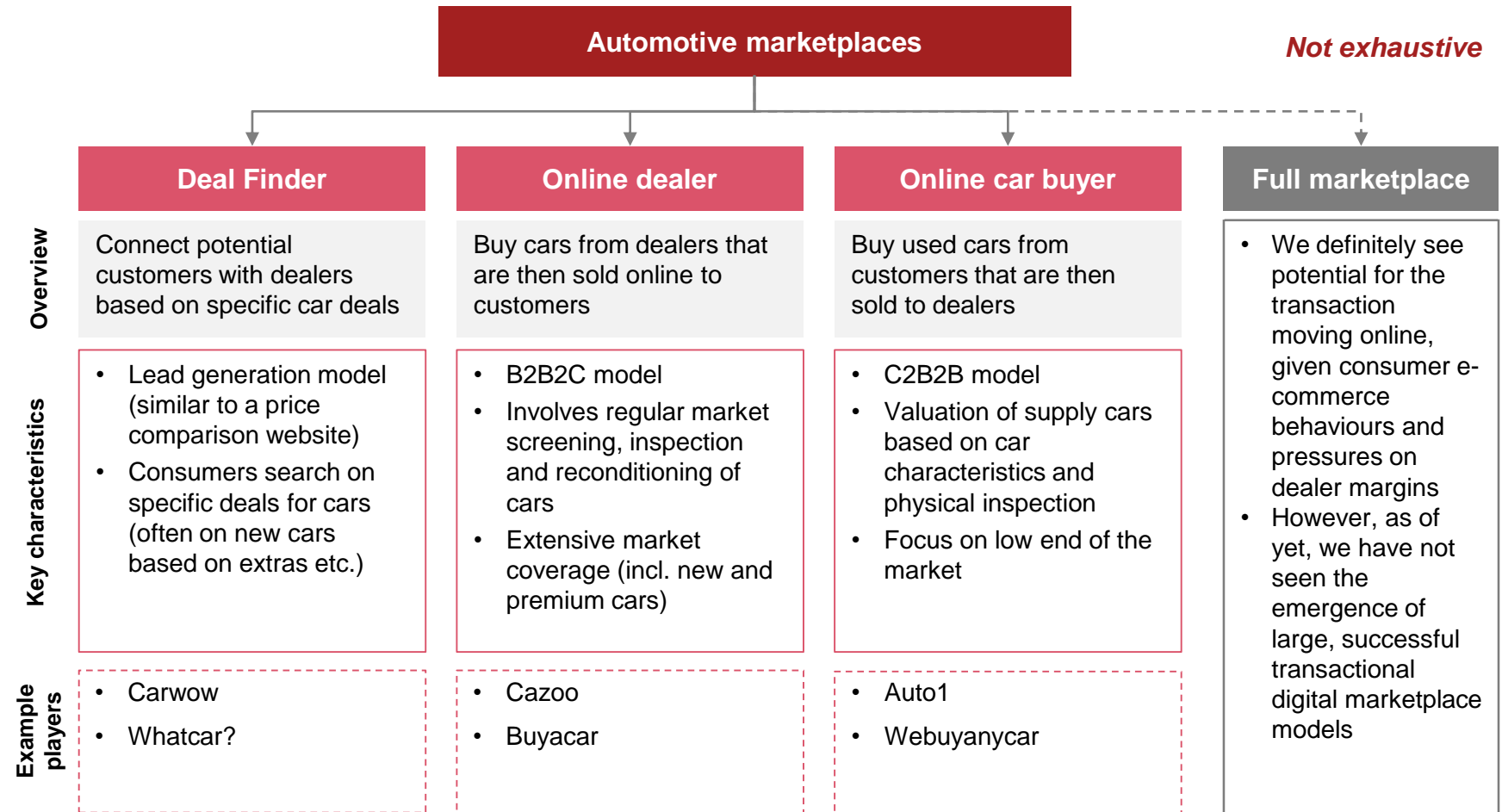
Auto classifieds advertising expenditure

£m



There are however a number of emerging business models that could disrupt the landscape

Emerging business models



Thank you

strategyand.pwc.com

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2019 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see pwc.com/structure for further details.

191223-135949-AS-UK