



The Lean Marketplace

A practical guide to building a successful
online marketplace business.

JUHO MAKKONEN & CRISTÓBAL GRACIA

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Acclaim for The Lean Marketplace

“Juho and Cristóbal have written a practical in-the-weeds guide on marketplace execution that will prove invaluable for all entrepreneurs looking to start a marketplace. No fluff, just actionable ideas.”

– Sangeet Paul Choudary,
best-selling author of Platform Revolution and Platform Scale

“Building marketplaces can be hard. The Lean Marketplace is a very useful step-by-step guide to help entrepreneurs think through the challenges and solutions to create the next Uber or Airbnb.”

– Boris Wertz,
Founder and General Partner, Version One Ventures

“Must read for every marketplace entrepreneur. I’m going to ask everyone in our our team to read this book.”

– Bram de Zwart,
Co-founder and CEO, 3D Hubs

“As I’m friends with both authors, I know first hand that the information in their book is hard won from long experience helping dozens of marketplaces succeed and consulting the top experts from around the world. However, the quality and comprehensiveness of the content speaks for itself. It covers all the essentials of growing an online marketplace, and in the most straightforward way possible. It is an impressively practical, must read resource for any current or aspiring marketplace entrepreneur. I can’t recommend it highly enough, but please see for yourself.”

– Neal Gorenflo,
Co-founder of Shareable

“The essential guide to building an essential marketplace.”

– Tristan Pollock, Co-founder, Storefront, Partner, 500 Startups

“Reading Juho’s and Cristobal’s advice online before launching our platform helped us save so much time and avoid the most common mistakes. If you’re considering building a marketplace business, read this book first. Seriously.”

– Agne Milukaite, Co-founder and CEO, Cycle.land

“Envisioning, validating, building and growing a marketplace is no small challenge: the most important aspect to nailing this challenge down is all about avoiding losing time and energy in the myriad of wrong directions that can come up your way. This book is an essential guide, the lifeboat for the marketplace founder that faces the ocean of bootstrapping.”

– Simone Cicero, platform strategist and consultant, creator of Platform Design Toolkit

“I bootstrapped my marketplace business from launch to profitability in 6 months. Reading this book will help you do the same.”

– Mike Williams, CEO and Founder, Studiotime

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Introduction

In May 2015, we had a discussion about our experiences in helping marketplace entrepreneurs with their fledgling businesses. We noticed that both of us had heard the same story multiple times: an enthusiastic small team has a big vision of how their marketplace will change the world. They start building their business. Soon, the struggle begins. What seemed easy on paper turns out to be extremely challenging in practice.

Make no mistake: not all marketplace ideas are great. Some of them deserve to die. However, most marketplace businesses that fail today don't fail because the idea itself is bad—they fail because of poor execution. People keep making the same mistakes over and over again. If only people were aware of these situations and knew how to handle them, mistakes could be avoided.

We were both fans of [the Lean Startup](#) approach to validating business concepts quickly and with as little waste as possible. However, we realized that the existing books about the topic were lacking a practical approach for applying the method to building a two-sided marketplace in particular. Marketplaces are quite specific in nature, and building them requires specific knowledge. Previously, this knowledge has been acquired mostly through trial and error; only once you've built a marketplace business or two do you become an expert on these topics. That's how we learned this stuff over the past 10 years: by banging our heads against the wall ourselves, and watching countless other people do so as well.

It doesn't have to be this way. There's no need to learn everything the hard way. The applicable tactics and techniques can be studied in advance, helping you avoid the most common pitfalls.

This is what this book is about. It's a handbook for anyone building an online marketplace. The same methods will apply whether your organization is a startup, a cooperative, a non-profit, or a big brand. Not every marketplace will be as big as Airbnb and Uber, but we believe there are thousands of marketplace ideas out there that can make for great, sustainable businesses. With the help of this book, you're one step closer to building the next one.

February 2018, in Helsinki and Barcelona,
Juho Makkonen and Cristóbal Gracia

What you need to know before starting your marketplace business

Online marketplaces are hot. The success of platforms like [Airbnb](#), [Etsy](#) and [Uber](#) has proven that the marketplace model is very scalable and can be applied to pretty much any area of business. As one of the top VC firms, Andreessen Horowitz, [put it](#): “This is just the beginning.”

There’s no better time to become a marketplace entrepreneur. In the coming years, we’re going to see tremendous innovation in the field of building and running marketplaces.

However, even though the time is right—and the technology is finally mature enough—building a successful marketplace is far from a trivial task.

Before we start, a word of warning: there are no shortcuts to launching a marketplace and making it successful. Having a sound strategy and knowing the best practices are important, but you still need to be prepared to put in plenty of hard work to grow your community and make it flourish.

This first chapter will act as a high-level overview of the many things that are required to build a successful marketplace. These include:

- Why marketplaces are booming
- The most common challenges in building a marketplace business
- Why it’s important to understand your personal motivation
- Why the best way to learn is by launching as soon as possible
- Why engaging your users should be a priority

We are going to take a deeper dive into these subjects in the following chapters.

Why marketplaces make for great businesses

The first time we came across [Airbnb](#), we were amazed. The design and usability were excellent. Whenever we showed the service to someone, they fell in love with it. Many started searching for a host for their next trip right away. Once they returned from their trip, they recommended Airbnb to their friends and colleagues.

Airbnb is a poster child of the [sharing economy](#) (sometimes also called *collaborative economy*), a phenomenon where individuals and small businesses interact with each other directly through online marketplace platforms, bypassing the big corporations that traditionally acted as middlemen.

Many entrepreneurs who approach us are eager to share their idea of creating an “[Airbnb for X](#)”. That’s normal: the success of Airbnb and the sharing economy in general is something that cannot go unnoticed. And we’re still talking about a young industry with great potential for growth. The consulting company PriceWaterhouseCoopers recently estimated that in the UK alone, the sharing economy [generated transactions worth £28B](#) in 2015. They believe that in 2025, the same figure will be £140B, and Europe’s total will reach €570B. Globally, this means the market will be worth more than a trillion.

The main reason online marketplace businesses scale so well is that you don’t need to have your own inventory to run one. Airbnb does not own any hotel rooms, but it’s already considered one of the biggest companies providing short term accommodation in the world. Uber is the world’s largest taxi company without owning any cars. This is a really attractive proposition: you can build a huge

business without having to spend a lot of money to buy the initial inventory, and thus taking on a lot of risk.

When Cristóbal started looking into how to build a marketplace platform in late 2009, the concept of the sharing economy didn't yet exist. Airbnb was virtually unknown and Uber had not yet launched. The most well-known marketplace websites were [Ebay](#), [Craigslist](#), and [Couchsurfing](#). In less than 10 years, the market has changed completely as thousands of entrepreneurs are building the next generation of online marketplaces in multiple different sectors.

Building a successful marketplace is hard

Convincing people from all over the world to sleep in private residences was certainly not easy for Airbnb. [These words](#) from Airbnb's CEO Brian Chesky are a perfect illustration of what it took:

– We met all these investors and they just wouldn't invest. So we started funding it ourselves. We sold collectible breakfast cereal and did other crazy things... We went door to door with cameras taking pictures of all these apartments to put them online. I lived in their living rooms. And home by home, block by block, communities started growing.

Building a successful marketplace business takes a lot of work. Coming up with an idea and launching the technology platform is just the very beginning. While you don't need to have your own inventory, you need to solve the chicken and egg problem: how to convince others to bring their inventory to your marketplace when there are still no buyers, and how to attract buyers when you don't have inventory (yet). In chapter 11, we'll go over the different ways of overcoming this issue.

Your idea will also likely require a large-scale change in mindset. That's certainly the case with Airbnb. Before they started, most people hadn't thought of staying at the homes of unfamiliar people, or renting out their own bedroom to strangers. Airbnb managed to change that mindset, but it required a lot of time and effort in building an extremely convenient solution to find accommodation. Marketplaces are rarely overnight successes—most of them require patience to reach critical mass.

Understand your goals

Before you get busy developing your marketplace, you should take some time to reflect on three things: *why*, *what*, and *how*.

Why do you want to create a marketplace business? Is it because you are tired of working for another company? Perhaps you want to save the world, make tons of money, or build a profitable side business. Whatever the reasons are, articulating your true motivations for being an entrepreneur is important because your strategy will depend on them.

If your plan is to build a small business and eventually support yourself and maybe a small staff, it might make sense to focus on a smaller market. If, instead, you plan to build the next Airbnb and expect to raise money from venture capitalists, your market needs to be huge. As prolific marketplace investor Boris Wertz [says](#) about the investment strategy of his VC firm Version One Ventures:

– We only invest in businesses that we believe can become really big. In the case of marketplaces, this means that we need to see the potential for \$1B in annual Gross Merchandise Volume (the total amount of transactions going through your marketplace).

The next step is to figure out *what* it is that you're planning to build. Are you passionate about a particular idea, or on the lookout for a profitable niche? Our second chapter will focus on this topic, but it's important to keep in mind that building a marketplace requires a lot of dedication. The more passionate you are about your field, the more likely you are to succeed.

Finally, you need to figure out *how* to build your marketplace platform. Do you know how to write code? If not, do you have money to hire developers? Do you have previous experience running a startup? Do you have previous experience in the target market? Do you have co-founders or are you alone? The answers to these questions will help you define the best strategy for developing your idea. We recommend being pragmatic, and taking into account both your strengths and weaknesses—your professional experience, education, initial contacts and financial resources. These will influence the way you should start your business.

Most great startups are built by really capable teams of founders. However, if you do not have a skilled team around you (yet) but still want to shoot for the moon, worry not—there are ways to move forward with your business even if you are a sole founder without technical skills. In some cases, these constraints can actually work to your advantage.

Create your Minimum Viable Platform

While software development is relevant to the success of your marketplace, it is not enough to make it successful. We have seen many cases of entrepreneurs putting all their initial resources in the development of their platform, and then realizing that nobody is interested in using it. We call marketplaces that are technologically well built but fail at attracting users “desert platforms”.

During the initial phase of the project, your main goal should be to develop a [Minimum Viable Platform](#) (MVP) and launch it [as soon as possible](#). This will help you validate your marketplace idea without having to take a big risk and investing lots of capital. The learning process only starts once you have something to offer your users, so it’s important to get to that point as soon as possible. Your first product needs to have just enough features to be able to solve your users’ core problem.

We will go into more details on how to build an MVP in a later chapter, but one thing you should not focus on in the beginning is creating a perfect platform. We’ve met several entrepreneurs who want to develop a platform that works just as smoothly Airbnb already during the pre-launch phase, with all the same functionality. Having a long-term vision is important, but all successful platforms were Minimum Viable Platforms in the beginning.

For example, Airbnb started out with a basic [WordPress](#) site. Most of their current features were built only once they had proven that their basic concept works. You don’t need to think about scaling to millions of users right away—instead, you should focus on finding 10 people who are really passionate about your concept.

One of the most common mistakes entrepreneurs make is spending too much time and financial resources on developing the platform before they launch. Instead, they should be doing a [manual-first startup](#)—manually handling the tasks that will be automated by software later on.

Engage your users

Finally, one last thing we want to highlight in this overview is the importance of interacting with your users as soon as you start working on your project. Christopher Lukezic of Airbnb explains this well in [this interview](#). When asked for advice he would give to a sharing economy entrepreneur, his response was:

– What I’ve learned from [the Airbnb founders] is to listen to your users early on and engage them in the process at every step of the way. Don’t just meet them; engage them, converse with them, and prod them to find out what their problems and needs are. People often start companies to solve their own problems, but, over time, all entrepreneurs recognize that, to be successful, the product has to be built for a wider array of end users.

– The ones who are truly successful make sure to engage their users at every point along the way in order to solve bigger and bigger problems by presenting transformative solutions to the

way we live our lives.

Talking to your users can take a lot of time, but it's time that you simply need to spend. The platform you're building is an important piece of the puzzle, but it's your users and their level of engagement that really makes or breaks your business.

How to come up with a great marketplace idea

Perhaps you already have a business idea that you can't get out of your mind. Or maybe you are excited about the potential of the sharing economy, and are currently exploring different ideas. In either case, we assume that you're interested in building a successful marketplace business with thousands of users.

According to the [startup playbook](#) by Sam Altman, four things are critical for success: the idea, the product, the team and the execution. The same basic principles apply whether you're building a global business, a local co-operative, or a non-profit. Everything starts from the idea.

In this chapter, we are going to cover the following topics:

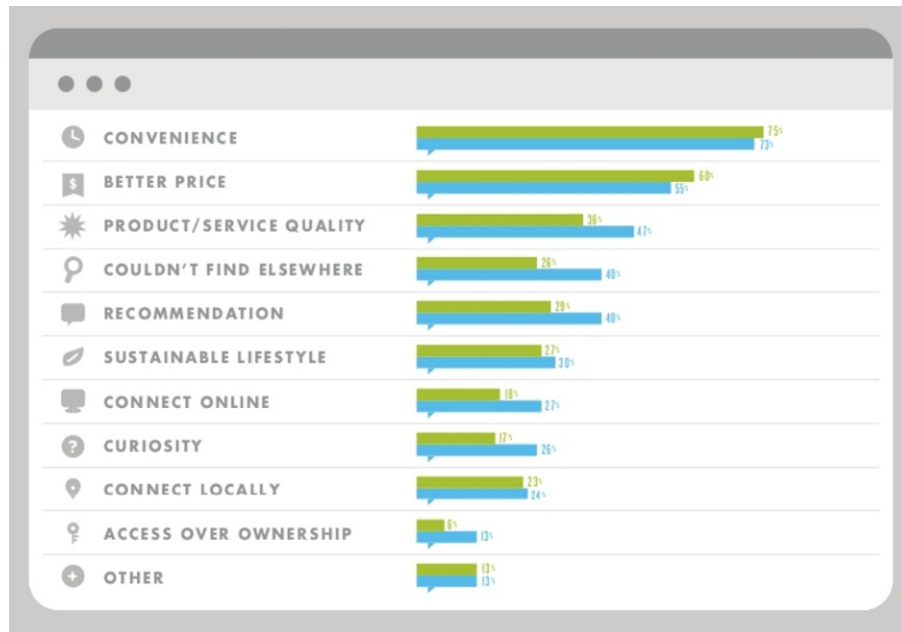
- Why you need to solve a tangible problem
- How to find the right market
- How to improve existing solutions by adding a layer of trust
- Why it's important to narrow your focus
- How to do market research

Solve a real problem for your users

When we meet aspiring entrepreneurs, they are usually very excited about their idea and have a global vision for their concept. At the same time, they usually have a much harder time defining what the value proposition is for their users or what their strategy for gaining traction is.

When someone has a marketplace idea, they tend to describe how great it is when everyone uses their platform. Let's take the most common sharing economy example: a marketplace where people from all over the world share tools with their neighbors. This concept is easily relatable—most people want to live in a world where things are shared with each other. Everyone will tell you they love the idea. Unfortunately, this is not enough to make them actually use the service. If they are not in need of tools right now, or find it too cumbersome to share theirs, you are not solving a problem for them with your tool-sharing marketplace.

In the report [Sharing is the New Buying: How to Win in the Collaborative Economy](#), marketplace expert Jeremiah Owyang shows that most people use peer-to-peer marketplaces for the same reasons they consume products in general: to get a cheaper price, better quality, or for convenience. People may claim that sustainability and a sense of community are important values to them, but these values do not necessarily guide their actions. If the thing they need is expensive, or the quality is bad, or it's not accessible, then that's a real problem.



Reasons why people participate in the sharing economy. Source: [Sharing is the New Buying: How to Win in the Collaborative Economy by Crowd Companies and Vision Critical](#)

Airbnb is a great example of a marketplace that started by solving such a problem: offering accommodation and breakfast for conference attendees who were unable to book a hotel (due to all of them being sold out) when they came to the IDSA design conference held in San Francisco in October of 2007.

Cristóbal experienced the importance of addressing the right problem first-hand while using the popular ridesharing service [BlaBlaCar](#). At some point, he had to travel from Seville to Badajoz to give a talk. Finding a train or coach that fit his schedule was impossible, so he found a ride through BlaBlaCar instead. He talked to his fellow passengers and had a great experience during the round trip. They told him they use the platform because coaches and trains are more expensive, and their routes and schedules are not flexible enough. A [report from BlaBlaCar](#) backs up this experience with data: members use the car-sharing service mainly because it's cheaper than other mobility services.

Not solving a real problem is [one of the most common reasons for marketplace failure](#). Make sure your marketplace does not fall into this trap.

How can you be sure you have found a problem that is worth solving? Marketplaces are particularly tricky since you need to solve a problem for both sides: the customer and the provider. In other words, solving one big problem might not be enough—typically you will need to solve two.

Even if money is not always the best measure, it can be a good exercise to think about the size of the problem in terms of cash. How much would you be willing to pay someone if they solved the problem for you? This is why the sharing economy marketplaces that deal with high-value items generally fare better. Getting access to a car when you need it is a lot more valuable than being able to borrow a power drill.

As Sam Altman [notes](#), the best validation usually happens after you've launched something that people can use. This is why it's a good idea to launch as early as possible. However, there are also things you can—and should—do before building your first product. We'll cover these ideas about validating your idea in chapter six.

Unlock idle assets

A strategy many successful marketplaces use is unlocking the economic value of underutilized assets. Vincent Rosso, former manager for Spain and Portugal at BlaBlaCar, explains the potential of the platform of BlaBlaCar as follows: “Every day, there are around 100-120 million empty car seats in Spain”. BlaBlaCar’s mission is to fill up these seats with passengers, using the car in a more efficient manner. According to [sharing economy thought leader Robin Chase](#), the purpose of any marketplace platform is “[...] to liberate the value hidden in excess capacity by engaging others: their assets, time, expertise and creativity.”

It’s time to put on your “sharing glasses”. Look at the world around you. Try to find excess capacity, underutilized resources and assets that are not being used in an efficient way. Think of your work and your hobbies. Do you work in theater? Maybe a marketplace for renting out costumes. Are you a teacher? A marketplace for selling your teaching material. Do you coach junior hockey? A marketplace for selling used skates and other equipment. Do you like gardening? Build a marketplace for sharing plants and seeds! The opportunities are everywhere.

Jeremiah Owyang explains how marketplaces impact all areas of our society through the [Collaborative Economy Honeycomb](#). The first version only had six types of marketplace categories, but the latest version (at the time of writing this book) already contained sixteen. It seems inevitable that even more will be added in the future.

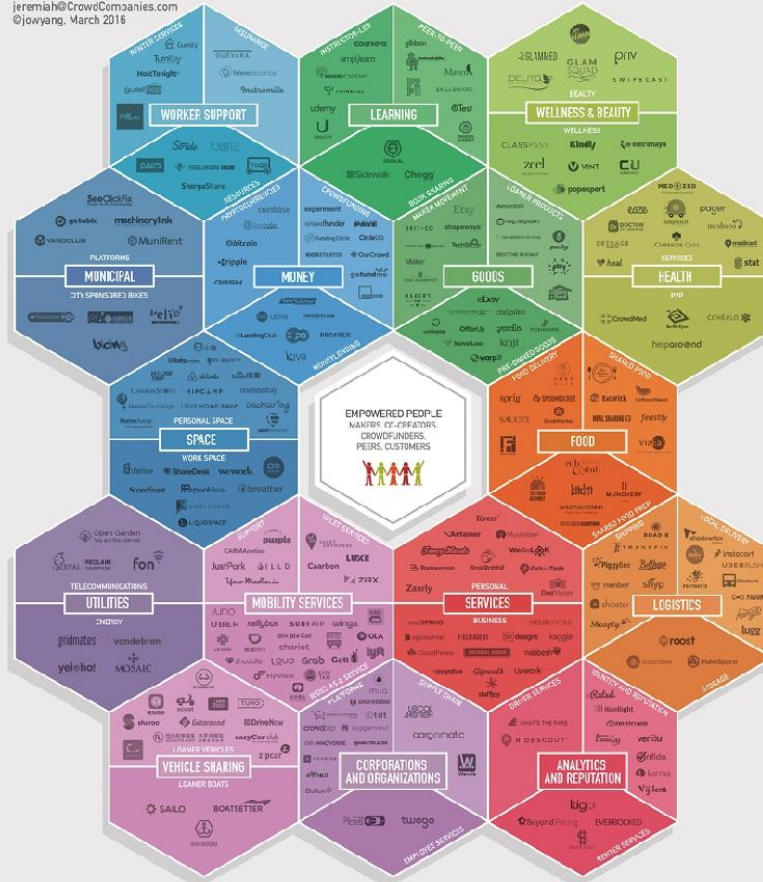
Collaborative Economy Honeycomb Version 3.0

The Collaborative Economy enables people to get what they need from each other. Similarly, in nature, honeycombs are resilient structures that enable access, sharing, and growth of resources among a common group.

In the original Honeycomb 1.0, six distinct categories of startups were represented by the inner track of hexes. After a short period of time, Honeycomb 2.0 expanded to include six additional categories, placed on the outer perimeter.

In the new Honeycomb 3.0, four hexes are added on the corners of the graphic for a total of sixteen: Beauty, Analytics & Reputation, Worker Support, and the large Transportation hex is split into two distinct hexes.

By Jeremiah Owyang
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©jowyang, March 2016



With input from:
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Collaborative Economy Honeycomb 3.0 by Crowd Companies

By studying the honeycomb you can find new potential markets. The hottest startups have emerged in transportation, goods, space, and money, but there are still plenty of opportunities for solutions in other areas such as utilities, health, wellness, corporations, and municipalities. We're still in the early days of the marketplace industry.

Look for fragmented markets

Marketplaces are great at aggregating products or services into one place, and making them easily accessible and searchable by customers. Marketplaces thrive in areas where there are many small players offering their services instead of big, centralized providers.

Thumbtack has chosen the local professional services market, from plumbers to guitar teachers. Fiverr and Upwork cater to freelancers that provide digital services. Etsy helps individuals sell their

custom-made crafts. These types of service providers have existed for a long time, but they lacked a central aggregator before the marketplaces came along.

From the customer's point of view, the marketplace offers a one-stop shop: a place to find all the providers and easily compare them. From the provider's point of view, the marketplace brings them more clients. Both parties get their problems solved. Everyone wins.

Improve an existing solution by adding a layer of trust

There's nothing new in the real-world encounters that these marketplaces facilitate. Hitchhiking, selling second hand clothes, borrowing tools, and sharing apartments were common practices long before the new wave of marketplace startups emerged. What's new in the modern solutions is how easy it is to interact with strangers.

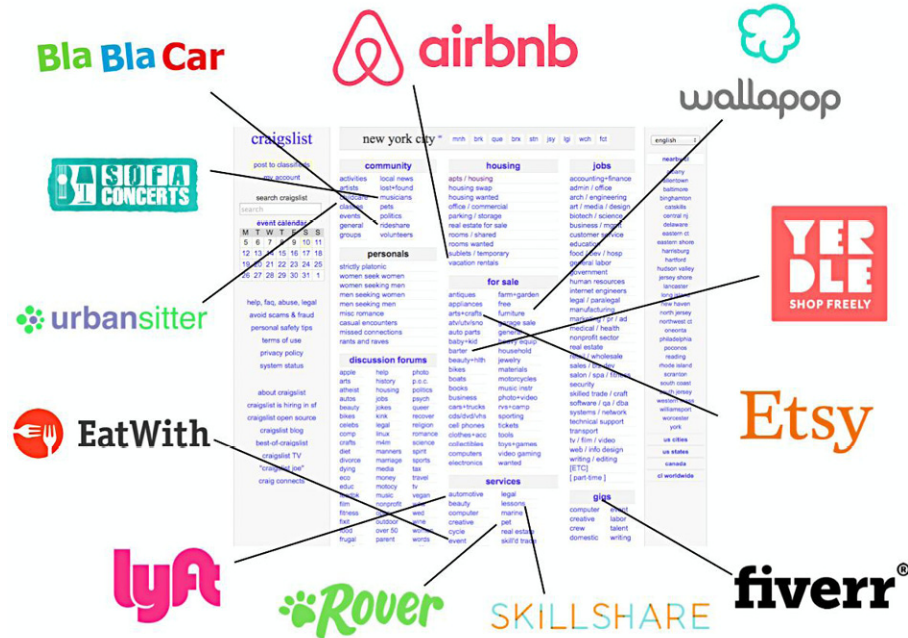
Years ago, Cristóbal used the classifieds marketplace [Loquo](#) (the Barcelonian version of [Craigslist](#)) to find rooms from shared apartments in Barcelona. He remembers only choosing listings that had pictures. He was also very picky about the way the posts were written. Loquo didn't have a reputation system, so he had to rely on intuition to decide if the apartment would be worth visiting and whether his potential roommates would be nice. Finding a room through Loquo was a tedious process: it required a lot of dedication to filter through the listings and visit potential apartments to find a suitable one.

The experience with Airbnb is totally different. You can see apartment reviews, the hosts have verifications, and even our mutual Facebook friends are displayed. Airbnb has brought trust to a market where there previously was none, and because of that, they're making the experience a lot more pleasant for everyone.

Sangeet Choudary of [Platform Thinking Labs](#) explains how [Craigslist is facing a threat from the new players](#) that are disrupting its verticals one by one:

– Ironically, Craigslist, the king of liquidity, doesn't have a reliable method of determining a user's reputation. While this may be acceptable for certain categories (e.g. selling low-value goods), it can be an important decision criterion for categories with high risk (e.g. babysitters, dating, apartment sharing) or high ticket investment (e.g. trading used high-end goods).

Craigslist is being disrupted by Airbnb in apartments, Etsy in custom-made goods, Thumbtack in local services, BlaBlaCar in ridesharing, and so on. All these new players use elaborate reputation systems to build trust and make sure things go smoothly.



How modern marketplace startups are disrupting Craigslist category by category.

If you are looking to start a marketplace, studying Craigslist categories is a great way to understand niche markets and find ideas. The more listings there are in a certain category, the bigger the demand. Can you find a category where there does not seem to be enough trust between providers? That category might be your opportunity.

How do you design a reputation system and build trust? That's an important question, and one that we'll get back to in a later chapter.

Have a narrow focus

Classifieds marketplaces like Craigslist and Loquo are horizontal platforms: they facilitate exchanges in multiple different categories, like jobs, ridesharing, services, buying and selling stuff, renting apartments, and so on. In contrast, Airbnb is a typical example of a vertical platform. It focuses on one core problem: finding temporary accommodation.

The vertical platforms have an advantage. Since they focus on only one thing, they are often able to do it extremely well. They can build their platform solely around the one problem their users have, and thus provide a great experience.

Along with not solving the right problem, another common reason why marketplaces fail is having too broad a focus. A narrow focus is especially important during the early days of your business, when your resources are limited.

When we talk to successful marketplace founders, we always ask them about the biggest mistakes they've made. Their answer is almost always the same: they tried scaling too quickly, either by vertical or by geography. Thus, we strongly recommend you to focus your marketplace on one city and one vertical and only scale when you've truly proven that your concept is working.

Being focused has many benefits. It's much easier to build a product for a specific target group. You can tailor your message and your features with only that group in mind. If you choose a narrow vertical, it will also be a lot easier to achieve critical mass in that vertical. If your marketplace is about sharing all kinds of tools everywhere in the world, someone looking for a jackhammer in

France will likely be disappointed. If you focus only on sharing jackhammers in Detroit, it's quite likely that your customers will find what they're looking for.

When working with early stage entrepreneurs, having too broad a focus is a problem that we run into time and again. Convincing the founders to narrow their focus is always a challenge because it goes against their intuition. Having a slightly broader focus can be a good early-stage strategy to find your niche, but once it has been found, focusing on [one product or service vertical](#) is the way to go for the majority of marketplaces. It's often helpful to think about how the biggest companies got started. Amazon started by only selling books. Airbnb started by offering accommodation to designers who were attending a specific conference in San Francisco.

Do you have a great idea for a marketplace but feel there's already too much competition in that market? One strategy is to narrow your focus, both geographically and in terms of the offered products or services. You might not want to compete with Airbnb on building a global platform for temporary accommodation, but perhaps focusing only on renting summer cottages in Finland or castles in France might bring you your competitive advantage.

You can always broaden your focus later on, once you get the initial vertical going. [ThredUP](#) first started with too broad a focus, and after failing to gain traction, they narrowed it down to focus only on kids' clothes. Once they were successful in that segment, they extended their offering to adults as well. [Knok](#) started as a general home exchange platform and pivoted to focus only on families. Later on, they scaled their offering to home exchange, apartment rentals and local guides to the families as well.

We expect that as the costs of building marketplace businesses go down, we are going to see more and more specialized marketplaces that excel in serving very specific user segments and geographies. Not all of them will be the size of Airbnb, but that should not always be the goal—it's often enough to build a solid, sustainable business and focus on serving your core users. A good example of this type of niche marketplace is [Behomm](#), a home exchange community for creatives and design lovers.

See what others are doing

After you come up with a great idea, the next natural step is market research: is someone already doing the same thing? We have met many entrepreneurs who state they are “the first marketplace that allows people to share clothes from their wardrobes” or “the first marketplace for sharing idle equipment between companies” when, in fact, similar marketplaces already exist.

If your idea is any good, it is quite likely that someone else is already working on the same thing. The best ideas usually come to multiple people at once. Do not be discouraged by this. In the end, [execution](#) is what counts. As was discussed above, one good way to combat competition is to narrow your focus, either geographically or by segment.

Even though you should not be discouraged by competition, it is still important to take a quick look at the market to see how others are trying to solve the same problem you have identified. To do this efficiently, using some kind of methodology is recommended. The below is Cristóbal's approach when looking for information about competitors or similar projects. In this case, he was working with the team of a marketplace for yoga teachers that he used to advise:

First, he used Google to find initial information about similar initiatives and potential competitors.

This led him to a competitor targeting yoga centers and teachers. He concluded that their supply was built upon databases. He also discovered two other interesting and successful projects that gave his team insights to help define their strategy. It's a good idea to build a list of all the search queries you can come up with, and go through the results one by one.

He then wanted to find out more about the history of these companies.

He used Google's date interval feature to find news articles from past years with relevant information about their strategy and pivots. Using this feature, he found out that one of the companies had changed their name and had a decisive pivot in their business model.

Next, he wanted to learn more about their teams and funding situation.

[AngelList](#) and [CrunchBase](#) are convenient databases for finding this type of information. The information you will find on these sites is not 100% accurate, but it will still give you a rough idea about the state of the companies. For instance, he found out that one company had just raised an initial seed fund round.

He finally made searches in marketplace directories.

There are several directories out there, including [mesh directory](#), [honeycomb 3.0](#) from Jeremiah Owyang and [consumo colaborativo](#) directory for Spanish and Latin American projects.

Talk about your idea with everyone

As said, if your idea is any good, you can expect others to be working on the idea as well. This means that you should not be afraid of talking about your idea with others. On the contrary; you should talk about it with everyone you know. As Sam Altman [points out](#):

– You don't need to be too secretive with your idea. There are at least a thousand times more people that have good ideas than people who are willing to do the kind of work it takes to turn a great idea into a great company. And if you tell people what you're doing, they might help.

Sharing your idea with others is a great way to get relevant feedback, and perhaps hear about related projects. Share your idea with friends and family, the people in your coworking space, the people you meet in networking events, the people you meet at a nightclub, anyone and anywhere. Cristóbal remembers being in a party in Paris when someone was excited to introduce him to the founder of [WhereIsMyMat](#) just because he knew Cristóbal was working on the marketplace for yoga teachers mentioned before. If nobody is familiar with your business, they won't be able to help you.

It might also be a good idea to contact the other companies in your field. This lets you learn more about them, understand their strengths and weaknesses, and have a better idea of where you should focus on.

Summary

Finding a great idea is a critical step in building a sustainable marketplace business. You should make sure that you're solving a real, painful problem for both the customers and providers of your marketplace with this idea. In the early days, it's especially important to focus on a narrow niche to that mission.

Many great marketplace ideas are based on unlocking idle assets or aggregating small providers from fragmented markets. In many cases, you can improve on the existing solutions by building a layer of trust with your marketplace.

Once you have come up with an idea, research the field to find out what others are doing. If your idea is any good, others are likely working on it as well. Don't be discouraged—instead, talk about your idea openly to everyone and try to find a unique angle and strategy to focus on.

Already have a great idea? Great, let's move forward and start designing the business model of your marketplace.

How to choose the right business model

Marketplace businesses are long-term initiatives. To build a sustainable and successful marketplace, you need to find a revenue stream that will finance its operations.

If you are running a non-profit or a hobby project, funding the development and maintenance of the site can be done through donations or from your own pocket. However, in most cases, funding eventually needs to come from the community you are serving—the users of your site.

One of the most common reasons why startups fail is that they pick a business model that does not scale to ensure long-term sustainability. In this chapter, we review different options for marketplace monetization, and give guidance on how to choose the right model for your idea.

Commission

The most popular revenue stream for modern marketplaces is to charge a commission from each transaction. When a customer pays a provider, the marketplace facilitates the payment and charges either a percentage or a flat fee.

The biggest benefit of this model is that providers are not charged anything before they get some value from the marketplace. This is a really attractive model for the providers, as the money they pay is directly aligned with the value they get. At the same time, from the marketplace's point of view, this model is usually the most lucrative: you get a piece of all the value that passes through your platform. The best known marketplace platforms—[Airbnb](#), [Etsy](#), [eBay](#), [Fiverr](#), [TaskRabbit](#) and [Uber](#)—all use commissions as their main business model.

The biggest challenge in getting the commission model to work is to provide enough value for both the customer and the provider. If your users do not get enough value from your platform, they will find a way to circumvent your payment system, and you will not get paid. How do you prevent this phenomenon (often called *disintermediation*)? We'll dive into that question in the next chapter.

Another challenge with the commission model is the commission structure. How big should the commission be? Should it be the same for all users? Should I charge the customer, the provider, or both? Should I first have a lower commission to get people to join my platform, and raise it later on? We'll dedicate chapter five to these questions.

Our recommendation is to use the commission model as your main revenue stream whenever possible. Especially if you're targeting a narrow niche, the commission model is often the only way to ensure sufficient revenue. We anticipate more and more marketplaces adopting this model in the future.

There are, however, scenarios in which it is not feasible for the marketplace to facilitate payment transaction. In these cases, the commission model does not work. Examples include:

- When the size of the typical transaction is huge. With car or real estate sales, for instance, it's difficult for the marketplace to justify the commission.
- The marketplace has many different types of offerings. It becomes impossible to design a transaction process that provides value for all of those cases. Traditional classified ads are a good example of this.
- The invoicing process is too complex for the marketplace to facilitate it. This is common in business-to-business (B2B) and some business-to-consumer (B2C) marketplaces.
- Money is not exchanged at all in the marketplace. For instance, if the marketplace is about dating, finding people to hire, bartering, or sharing something for free, there's no monetary

transaction involved, and thus no way to charge a commission.

In these cases, you need a different type of revenue stream. Below are some examples of other possible revenue models.

Membership or subscription fee

A membership fee (sometimes called a subscription fee) is a model where either some or all of a marketplace's users are charged a recurring fee to access the marketplace. With this model, the typical value proposition for providers is that the marketplace helps them find new customers. For customers, it helps them save costs or find unique experiences.

The membership fee is a good choice if the value you provide is high and a typical user will engage in several transactions, but facilitating a payment is challenging or impossible.

Typical examples of consumer-to-consumer (C2C) marketplaces with membership fees are home swapping sites ([Love Home Swap](#), [Home Exchange](#)) and dating sites ([OkCupid](#), [Match.com](#)). Oftentimes, these sites vet all the subscribers in order to guarantee quality matches and create a sense of exclusivity that justifies the fee.

In the B2C market, the membership model is common in recruiting. For instance, [LinkedIn](#) and [StackOverflow Careers](#) charge companies a subscription fee to get access to their talent pools. [Studiotime](#), an “Airbnb for record studios”, is an example of another niche where membership fees work as the main business model. With B2C companies, the platform is typically free for customers, but requires a paid subscription for providers.

A membership fee can also be a good initial business model for B2C marketplaces that eventually want to charge a commission but don't yet have the tools in place to facilitate transactions in their particular niche. [Venuu](#), an “Airbnb for event spaces”, started with the membership model in order to get revenue upfront, even before launching their site. Later on, when they had validated their business plan and had the resources to build an invoicing system, they moved to the commission model—a model that was much more lucrative for them. Studiotime used a similar strategy.

The challenge with the membership fee model is that it makes the “chicken and egg problem”—how to find providers without customers and how to find customers without providers—even worse. You need to have enough users on your platform to make it valuable for both providers and customers, and a mandatory payment discourages users from signing up. One way to get around this is to offer heavy discounts for early adopters, or even lift the fee completely to build the initial user base.

Listing fee

Some marketplaces charge a fee from providers when they post new listings. This model is typically used when providers get value based on the number of listings they have on the site, and the potential value per listing is big.

This model is quite common with classified ads. The value proposition of the website is very simple: it aggregates a massive volume of listings into a single online destination, and guarantees lots of visibility for those listings. Classified ad platforms typically don't even try to facilitate the transaction.

Perhaps the most well-known example in this category is [Craigslist](#). It is a collection of local sites where people can post listings about anything they want, whether it's about selling goods, services, jobs, finding an apartment, dating, or something else. Generally, posting a new listing to Craigslist is free—this is how they managed to reach critical user mass—but in certain categories (namely, job and apartment listings in some cities) they charge a fee for each listing.

It can sometimes be useful to use several business models on the same site. For instance, Etsy is an example of a B2C marketplace that uses the commission model, but also charges a fee to post new

listings. Etsy's reasoning for this is likely that its *sell-through rate* (the probability of a certain item being sold) is not as high as it wants it to be. While there are some hugely popular items on Etsy, most items likely never get a single sale because Etsy's total volume of listings is massive. By using both the commission model and the listing fee model, Etsy gets revenue from both popular and not so popular items.

A listing fee is better than a membership fee in cases where providers don't want a continuous subscription, and only want to sell a few items or sell for a short period of time. This is the case with [Mascus](#), a B2B classifieds site for expensive machinery.

The challenge with the listing fee model is that it doesn't guarantee value for providers, and thus the fee cannot be too high. This results in the marketplace being able to capture only a relatively small portion of the value going through the site. A sustainable business model that depends solely on listing fees thus requires a very large volume of listings. Additionally, since paying a listing fee does not guarantee that the item is sold, the marketplace will have a harder time proving that it provides actual value to its providers.

Lead fee

The lead fee model is somewhere between the listing fee and commission models. In a typical lead fee model, customers post requests on the site, and providers pay in order to make a bid for these customers. The model gives a better value proposition than the listing fee model: you only pay when you are put in touch with a potential customer.

The lead fee model only works if the value of the lead is high. For this reason, this model is not common in C2C marketplaces. A typical use case is B2C or B2B services, where each new lead can lead to a long-lasting customer relationship with multiple deals. A recent well-performing example of this model is [Thumbtack](#), a B2C marketplace for all kinds of local professional services, from plumbers to guitar teachers. The fast-growing startup was recently [valued at more than \\$1 billion](#).

However, while Thumbtack has been doing well with the lead fee model so far, their challenge is that providers stop using Thumbtack with existing customers—instead, they build the relationship outside the platform once they have the lead. This is why Thumbtack has said it's going to build [invoicing, payment and scheduling tools for professionals](#). Thumbtack is likely to eventually move towards the commission model to extract more value from the transactions they help facilitate.

Freemium

How can you monetize a marketplace where people share low-value items for free? The Dutch startup [Peerby](#) built a C2C platform where people can borrow things from each other at no cost. The basic experience is free for all the users of the platform. Peerby monetizes by offering premium services. They have two main offerings: insurance (the provider can request that the customer, while getting the item for free, pays an insurance fee that guarantees the item will be replaced if it is damaged or stolen) and delivery (the customer can pay a small fee to get the item delivered to their door instead of having to go pick it up from the provider).

The logic behind the freemium model is that the core offering is free, but after you get your users hooked, you offer paid value-adding features. The challenge with this model is that these paid services need to provide enough value to be tempting to a good portion of your users. If only 1% of your users are interested in your premium offering and everyone else uses your site for free, it's probably not enough for a sustainable business model. Coming up with a premium service that is interesting for a wide enough audience can be very tricky.

Because of this, many platforms use premium services as additional revenue streams. For example, Mascus offers [premium web page services](#) to complement its listing fee based business model. Etsy complements its transaction and listing fee based model by offering premium services