

# UNDERSTANDING MARKETPLACES

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All in about marketplaces: definitions  
and categorizations with concrete  
examples, Marketplace 100 index  
analysis....



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# IN THE DIGITAL AGE, SELLERS AND BUYERS CAN BE ONLINE EVERYWHERE AND AT ANY TIME:

If you've made it here, you're probably aware that an online marketplace is a digital middleman facilitating transactions between buyers and sellers of the same products/services. These marketplaces have a broad scope and can be categorised according to various criteria. When grouped by their target audience, there are 3 main categories that exist:

## B2B

This marketplace connects organizations (consumers) with other businesses (vendors), for instance, retailers, wholesalers, or manufacturers to purchase from them. You may often see an organization behaving interchangeably as both a seller and a buyer.

## B2C

This marketplace matches vendors (an entity) with individual customers.

## C2C

This marketplace is dedicated to transactions between sellers and buyers, all of which being private individuals. Again, more often than not the users switch between being a buyer/seller.

With this whitepaper, we aim to help you get an extensive understanding of marketplaces and how to potentially classify them. We've also analyzed The Marketplace 100: 2022 ranking that focuses on customer facing marketplaces [B2C, C2C], to draw some parallels between this theory and its real-world use cases.

# 1. MARKETPLACE: IMPORTANT DEFINITIONS

## What is a listing?

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A listing is an entry that's posted on a marketplace that is the basis of a transaction between a buyer and seller. These listings can be pretty versatile and at Second, we categorize them into 4 main buckets:



Physical Goods



Physical Service



Digital Goods



Digital Service

Because these are mutually exclusive and collectively exhaustive, they serve as good guiding points.

## Goods vs Service

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A listing offers either a product [good] or a service, depending on if there is a transfer of ownership. As you try to recollect from your past experiences you will realise that every time you purchase a good, you gain ownership of it and are responsible for its well being. On the contrary, with a service it's the provider that is responsible. For example, If you buy a car then the car is yours. But if you rent a car, while it may seem to be yours for a limited amount of time, it's not yours to keep and you are not responsible for its maintenance.



## Physical vs Digital

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We attribute this classification to two criteria. Firstly, if what is listed is tangible or not. Secondly, whether or not the production and consumption of what is listed occurred at the same time. While for a good the key differentiator for physical vs digital is the tangibility, for services it is the time of production and consumption.

For example:

**Focusing on services:** a platform like JustAnswer that lets you speak with experts online and real-time would classify as one with physical listings. This is because you consume the information given by the expert while he/she is in the process of delivering it. On the contrary, a platform like Netflix that allows you to watch pre-produced and recorded content would be one with digital listings.

**Focusing on goods:** Vestiaire Collective the platform lets you purchase apparel would classify as a platform with physical listings because the goods you purchase are tangible when received. Whereas, Envato that sells digital templates, would classify as a digital good [as a result of the transfer of ownership].

	Digital	Physical
Production & consumption	Different time	Same/different time
Tangible	No	Yes/no

# Guidebook to classifying Marketplaces based on the nature of its listings

Combining the 3 important distinguishing criteria together, we have an extensive guide on how to classify marketplaces based on the nature of the listing.

The medium of delivery (i.e. online/offline) of whatever is listed does not determine if it is digital or physical. The reasoning behind this is, if a service was offered over a phone call, we wouldn't call it a Telephonic service. Similarly, just because a service was offered online, does not make it digital. Eg, Preply connects students to the best tutors, and helps facilitate their interaction online. We would classify this as a physical service that was facilitated by an online marketplace because:

1. No transfer of ownership
2. Production & consumption happens at the same time: while a tutor is teaching, the student is learning simultaneously
3. The tutoring session between the two users isn't tangible

Although the session is taking place online, it is important to realize that the tutor is performing a physical activity while teaching live. Thus, we realize how the medium of delivery would be a faulty way to say if a service is physical/digital.

## GOOD

	Physical	Digital
Transfer ownership	Yes	Yes
Production & Consumption	Different time	Different time
Tangible	Yes	No
Example <i>[Delivered to customer online]</i>	Not applicable	NFT marketplace
Example <i>[Delivered to customer offline]</i>	Online-offline apparel shop	Not applicable

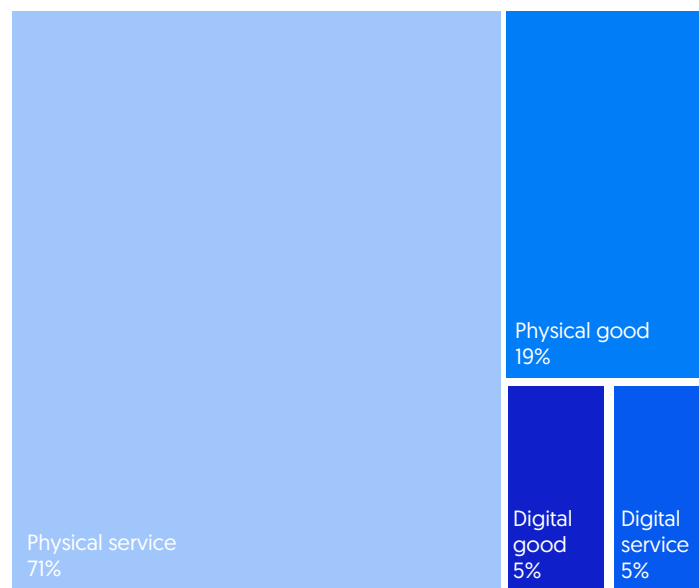
## SERVICE

	Physical	Digital
Transfer ownership	No	No
Production & Consumption	Same time	Different time
Tangible	No	No
Example <i>[Delivered to customer online]</i>	Online tutoring marketplace	Netflix, prerecorded courses
Example <i>[Delivered to customer offline]</i>	Marketplace for gardening, house repairs rental	Not applicable

## The a16z Marketplace 100: a look at real life examples

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The Marketplace 100 is a well-known ranking of the largest and fastest-growing consumer-facing marketplace startups and private companies. Every year, this ranking shows the evolution of marketplaces and highlight promising new consumer categories. It is produced by Andreessen Horowitz, an American venture capital fund, also known as a16z. If the The Marketplace 100 ranking reputation is so well established, it is also because a16z is one of the best VC funds in the world. Nowadays, this fund is one of the most watched thanks to its flair that led them to bet early on companies such as Airbnb, Facebook or Twitter...



Despite digital goods/service marketplaces being a part of the minority, with the onset of the metaverse and on-chain crypto transactions, the future should see huge growth in this space.

Physical good and services take a dominant lead at 90%, with services catering to a majority of it. This analysis is inline with the current industry observation that the physical product marketplace segment seems to be saturated with more opportunity on the side of services.

## 2. PHYSICAL SERVICE MARKETPLACES: DRILLING DOWN

Physical service marketplaces are often created from scratch because traditional e-commerce solutions do not meet their needs. Indeed, service marketplaces have very different needs [quantity, time, geography, etc.] and challenges than product marketplaces or even a digital service. To complete the sale of a product, you only need the product to be shipped whereas when it comes to a service, the sale will only be complete when this service is executed. The service execution then depends on the service provider availability. When digital services are available everywhere and at any time, physical services involve a human interaction which trigger the execution and therefore the sale completion.

### Rendering Types

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At the highest level, all services can be categorized into being commoditized or non-commoditized. While there is no absolute definition that helps you place your offerings into the first bucket or the latter, we believe the answer to one key question can give you a fair idea:



**“Is the service defined enough to be purchased online without prior discussion?”**

There is a range of inputs that goes into determining the scope of a service and its completion ie. the costs, conditions, timings, customers willingness to pay, labour charges.

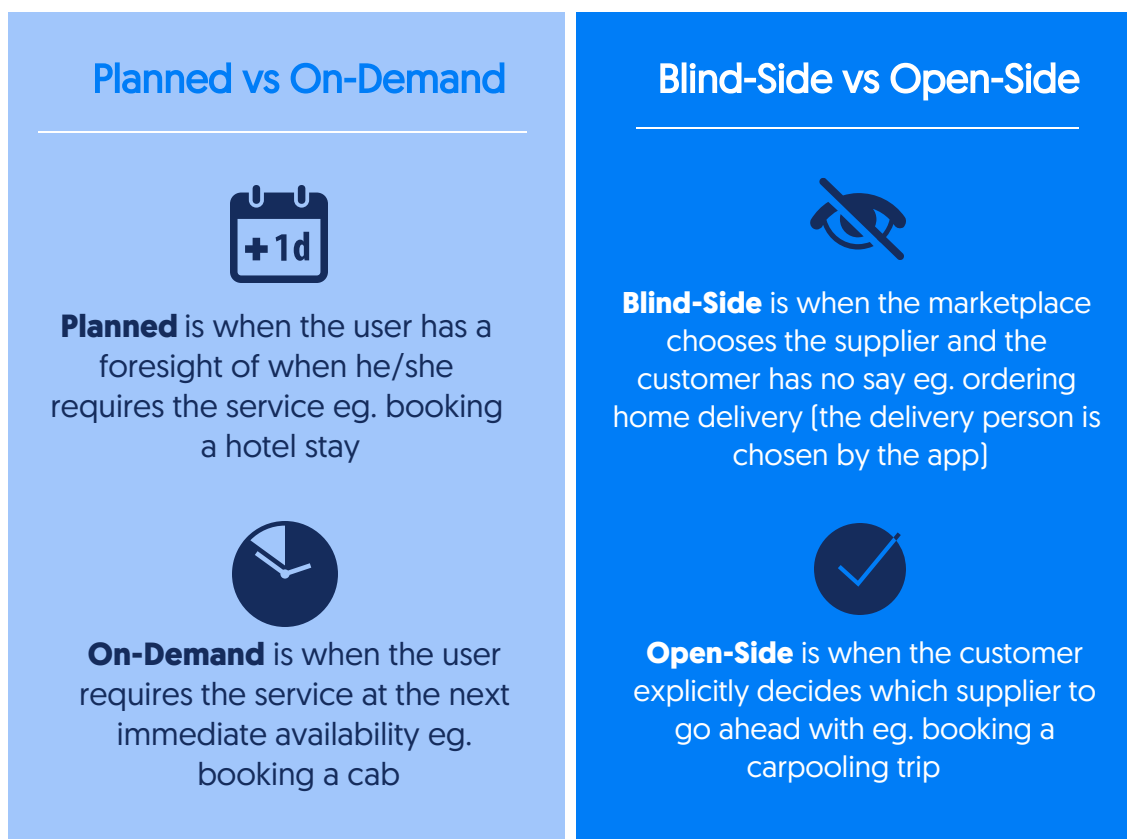


If buyers are able to get past all of this by themselves and follow through to commit and pay for your service without having to speak with the vendor, it would make it a commoditised service. Here, the key drivers that impact a customer's decision have been rightly identified, and any information relating to them is either readily provided on the platform, or already known to the customer. Thus, eliminating the need for discussion prior to purchase. The steps to avail these services are usually identical and have been standardized, even though the experiences may vary.

## Booking Models

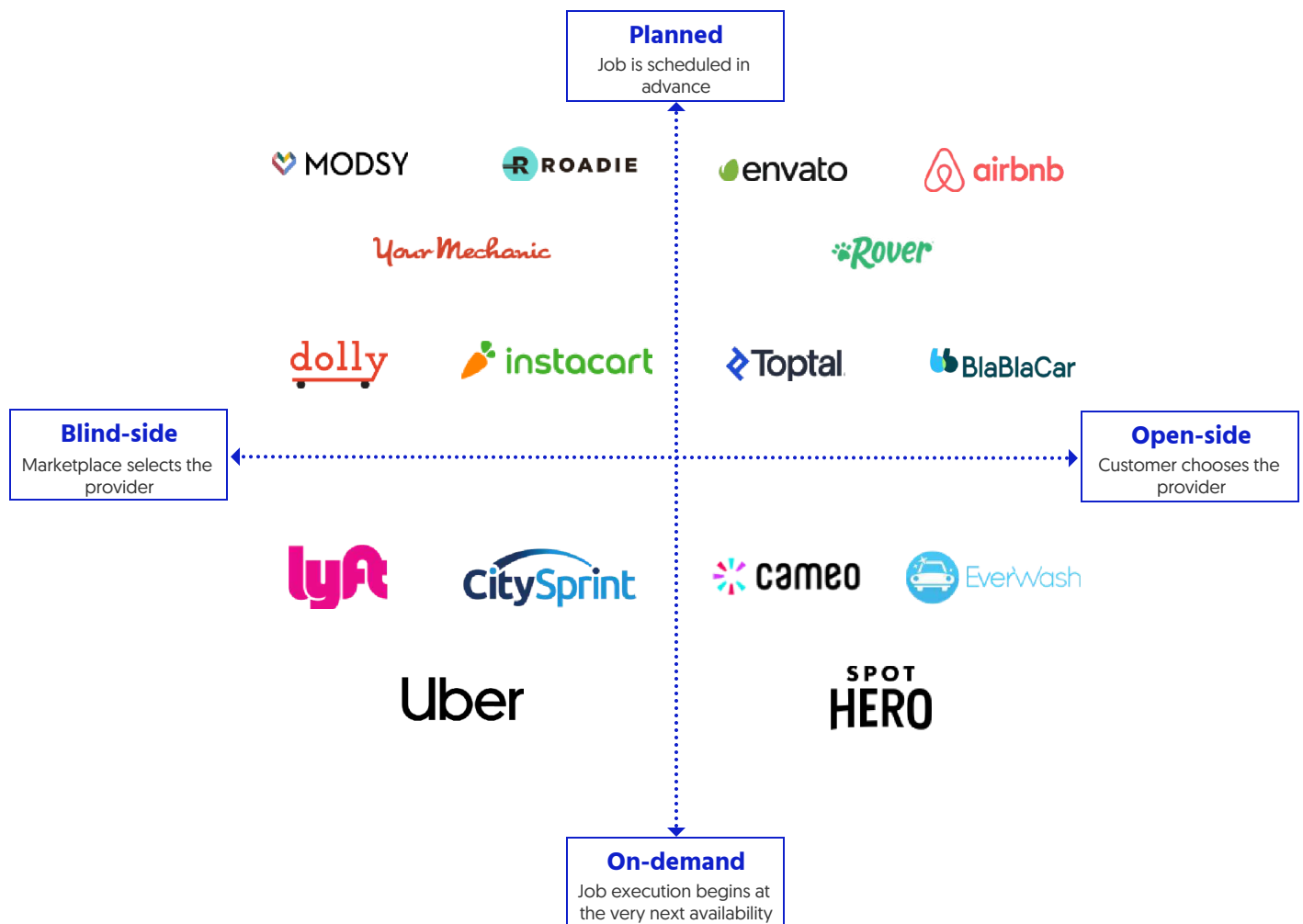
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Classifying based on booking models requires us to understand if the customer demand:



We can observe that marketplaces that have identical rendering types may employ opposite booking models. This is telling of how important this concept is.

For example, Uber and BlaBlaCar are of identical rendering types. However, in the case of Uber you will be booking the service "on-demand" and "blindsided", as the trip is short distance and consumers care little of who the driver is. BlaBlaCar on the other offers longer distance trips, where you would be planning the voyage in advance, and where you would be potentially spending a few hours with the driver (meaning you would want to know who will be driving the car - openside).

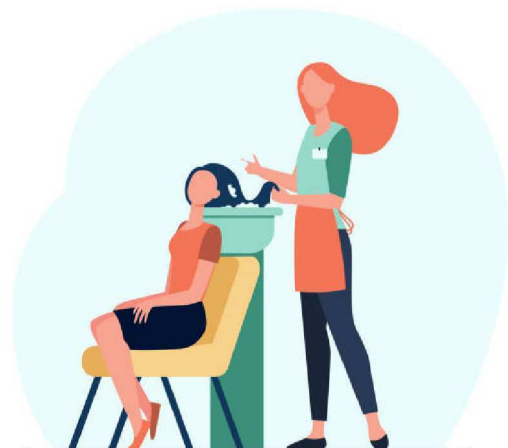


For example, while booking a hotel stay, the customer needs to know the dates and the number of nights to make his reservation for both a 2-star or a 5-star hotel. While the initial input required from the customer remains constant in both cases, his/her experience would drastically differ.

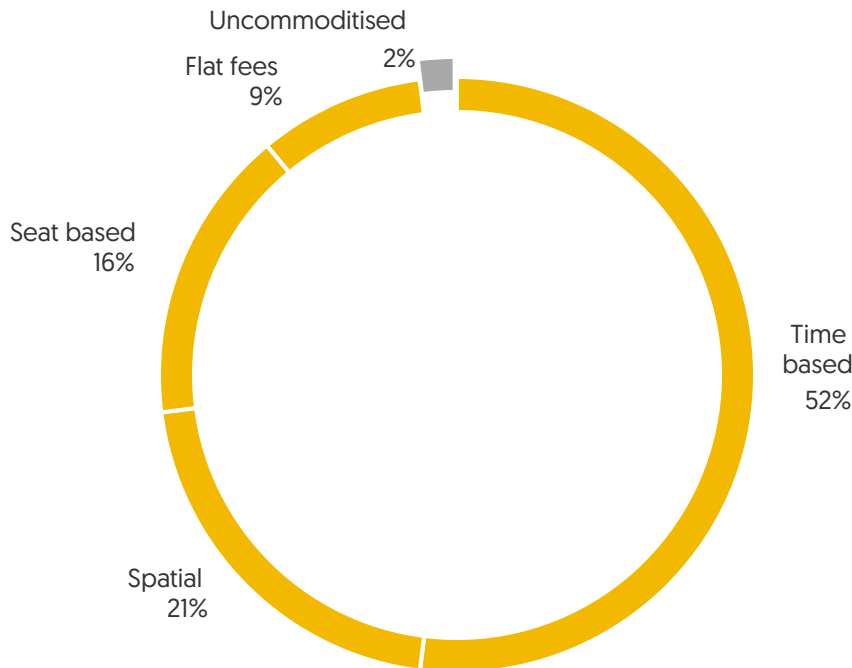
Non-commoditized services, which represent the majority of the service industry, require at least one interaction between the buyer and the seller before the purchase. For example, if you want to replace the boiler in your flat, you will probably have to send pictures and dimension to the plumber before he can make a quote for you.

While answering the above question it is important to note that there is a special emphasis on the word purchase. There may be communication required for the completion of the service, but because implementation occurs after the purchase and outside the online platform, it isn't highlighted.

<b>Commoditised</b>	Services that are defined enough to be purchased online without prior discussion.	<b>Uncommoditised</b>	Services that require discussions to determine price, timing and conditions.
<b>Flat rate</b>	Prices are independent of the duration of execution. Think haircuts, phone repair...	<b>Quote request</b>	One to one. Quote request destined to a specific provider. Think professional services.
<b>Seat based</b>	Customers pay for access, typically per person. Think collective lessons, events...	<b>RFX</b>	Requests are open to multiple providers. Think larger BtoB contracts.
<b>Time based</b>	Prices are set per time unit (hour, day, night...). Think Booking.com or legal services.		
<b>Spatial</b>	Prices are set per spatial unit (m <sup>2</sup> /ft <sup>2</sup> , km/mi, kg/lb...). Think transport & logistics services.		
<b>Conditional</b>	Vendors set variables, clients enter values. Together these output price & conditions. Think insurance, finance, AWS, APIs...		



## The Marketplace 100: 2022 Analysis



It is interesting to see that most physical service marketplaces are commoditised. However, when you think about it, it makes absolute sense! Commoditised services have a predefined structure making it easier to create platforms for them.

A finding that might strike as surprising is the fact that spatial marketplaces take up 21% - the second-highest share of physical service marketplaces after time based. This is because we classify marketplaces based on what adds the most value to the customer. Thus, in the case of [Instacart](#), [EatStreet](#), [Cookunity](#) where there are two parts to what a customer receives: 1. food/grocery that was ordered 2. delivery of the ordered goods to his doorstep, we consider that the delivery provides more value addition to the client, classifying the marketplace as a physical service as opposed to physical goods. Because the delivery leg of these marketplaces monetizes mostly based on the distance travelled by deliveryman and the # of deliveries, we further drill it down to the spatial model.

# 3. STAKEHOLDERS INVOLVED IN A MARKETPLACE

Most marketplaces that you come across are two-sided and have 3 key stakeholders:



## Vendor

Manifests interest in selling a service to a customer. Interest in selling a service can be as concrete as offering a commoditised service for sale directly on the platform, but may also be more informal such as posting a vendor profile on the platform without any specific service offerings to benefit from SEO/lead generation



## Operator

Responsible for curating vendors, moderating exchanges, managing funds and refunds...



## Customer

Manifests interest in purchasing or booking a service from a vendor. Interest in purchasing a service can be as concrete as paying for a service on the platform, but may also be more informal such as engaging in a discussion with a vendor (and never concluding in a purchase)

## Multi Sided Marketplaces: how are they different?

Multi-sided marketplaces are the ones that have more than two user groups. Each of these user groups interact not only with the platform but also each other. The most common examples for these would be the likes of food delivery apps.

Let's take the example of EatStreet, one of the top ranking marketplaces in the Marketplace 100:2022 ranking. Here, the customers have access to an open-sided marketplace of restaurants but a blind-sided marketplace of delivery people.

## EatStreet is the Smartest Way to Order Food Online



### Sign Up Your Restaurant

Increase your business with an expanded customer base from EatStreet.

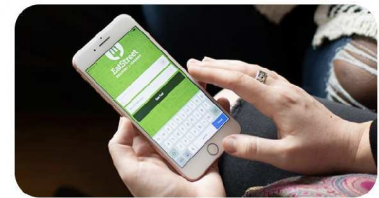
[Learn More >](#)



### Become An EatStreet Driver

As a W-2 employee, you can set your own hours, get paid daily, and always keep 100% of tips.

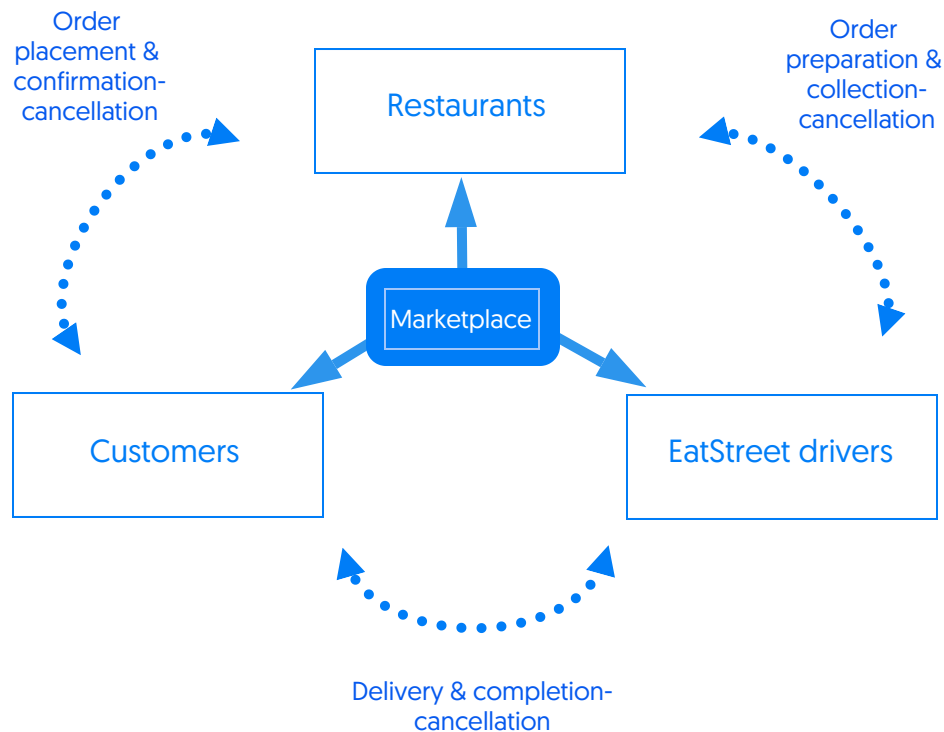
[Apply Now >](#)



### Download The App

Find your favorite local restaurants with a few taps of the app.

[Get The App >](#)



As we can see above, the success of this platform is critically dependent on not just the presence of each of them, but also effective communication among them.

## 4. WHY IS UNDERSTANDING HOW TO CLASSIFY MARKETPLACES A MUST?

Through this whitepaper we've seen that product marketplaces have fairly matured with enough people having experience in them. On the other hand, with 76% of top 100 marketplaces of 2022 catering to services, service marketplaces are in its growth phase with increasing participation. If you're wanting to enter the service marketplace industry, it is essential to understand either the booking model or the rendering type required for your offerings, as this would make building your marketplace much easier and a lot more structured. The booking models help you understand the user flow of the customer while making a purchase, while the rendering types help figure out how the platform should be developed. Zooming in on services, we've seen that time-based commoditised rendering type steals the show with a 52% majority, followed by spatial at 21%.

Find out which type of marketplace  
best fits your needs and start selling  
services online

**GET A FREE CONSULTANCY**

What is the next immediate question that would come to your mind if you're considering building a marketplace? Chances are, it'd be - how you can make money out of it? Mostly because it's crucial to know how the platform would sustain. To learn more about the different common revenue streams of marketplaces with real life examples, read [our whitepaper about Marketplace Business Models](#).





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[www.scnd.com](http://www.scnd.com)  
9 rue des Colonnes  
75002 Paris