

How to Kickstart and Scale a Marketplace Business – Part 2: Cracking the Chicken-and-Egg Problem 🐣 - Supply vs. Demand

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7-9 minutes

“When we were starting out, we looked at the biggest marketplace companies – eBay, Craigslist, Amazon. There were two things in common: (1) They had all the supply, and (2) they had ugly products and brand. **The lesson we took away from this was that all that matters is supply.** So we decided to focus on that above all else. We postponed building brand and delightful product until we had liquidity. Dozens of other startups took another direction. Case after case, it proved a mistake. Creating scaled supply early on matters more than anything.”

— Sander Daniels, Thumbtack

(This is a special edition of my newsletter — the second in a series of posts sharing insights from interviews with founders and early employees at today’s most successful marketplace businesses. Our regularly scheduled weekly Q&A series will resume in a few weeks.)

The response to the first edition of this series has significantly more enthusiastic than I anticipated (who knew so many people are interested in marketplace growth 🤔), so I’m excited to jump right into part two. To be honest, **part one** may be the *least* interesting portion of the entire series — it only gets better from here. Enjoy!

Step 2: Decide which side of the marketplace to concentrate on 🤔

Once you’ve decided how to constrain your marketplace (geo or category), you then need to decide which side of the marketplace to put most of your resources behind — growing supply (e.g. dog walkers) or growing demand (e.g. dog owners). **My second major learning from this research is that the vast majority of successful marketplaces focused almost all of their resources on growing supply early-on** (80% of the companies I interviewed, 14 out of 17). In all of these cases, the companies found that their supply was either driving its own demand, or word-of-mouth was strong enough to take care of demand. In the three remaining cases (Rover, TaskRabbit, Zillow), there were clear signs that supply wasn’t an issue and thus resources quickly shifted to demand. And, in one illuminating case, one company realized they weren’t a marketplace at all 🤯.

Focused on supply	Focused on demand
Airbnb	Rover
AngelList	TaskRabbit
Breather	Zillow
Caviar	
DoorDash	
Etsy	
Eventbrite	
GrubHub	
Instacart	
Lyft	
OpenTable	
Patreon	
Thumbtack	
Uber	

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The vast majority of successful marketplaces concentrated most of their efforts in the early years on creating supply

Eventbrite:

“In the early days, we were only focused on driving supply. We found that supply drove demand. Specifically, event creators drove traffic to our site. Most event organizers had some built in demand that they brought with them. We also believed that the supply side would be the hardest to acquire, since event ticketing (in the US at least) is sold through a single platform, so we focused there first.”

— Tamara Mendelsohn

Lyft:

“No question, supply growth was the unlock for demand growth at Lyft”

— Benjamin Lauzier

DoorDash:

“When I started looking at the evolution of how marketplaces like ours grow, the playbook is the same: Get restaurants -> Get delivery people -> Get customers. The largest growth lever has always been the supply -- the restaurants. They bring the demand.”

— Micah Moreau

Etsy:

“In the early days there was a huge focus on sellers. The marketplace needed sellers and their listings to build enough supply to attract buyers. Also, the sellers were also the buyers early on. **Supply directly created demand.** They were literally all the same people.”

— Nickey Skarstad and Dan McKinley

Caviar:

“Restaurants, restaurants, restaurants. **In food, restaurants (our supply) drive demand** because they have their own brand that diners want to order from.”

— Gokul Rajaram

Instacart:

“We always onboarded **supply ahead of demand**”

— Max Mullen

GrubHub:

“To scale, **we always went supply side first**”

— Casey Winters

In a few (3 of 17) cases, however, supply growth took care of itself and demand quickly became the primary constraint. My hypothesis is that this happens when you can offer your “supply” super easy, super flexible, meaningful income. OR, in the case of Zillow, your supply is essentially publicly available data (i.e. county and tax assessor records) used in a new way.

Rover:

“For us, the scarce resource was demand. **I don’t think we were ever supply constrained. Supply was easy.** It was the dynamics of the market -- if you are someone who loves dogs, you work from home, you are in a situation where an extra \$50 is meaningful, why wouldn’t you sit on Rover? It’s a no-brainer. Demand was much harder because we had to change customer behavior. We had to convince someone to get over the hump of letting a stranger watch their dog -- similar to Airbnb.”

— David Rosenthal

TaskRabbit:

“**TaskRabbit was never supply constrained.** We had thousands of people on our waitlist to provide services, but the demand-side was more challenging. Over time we actually ended up charging new supply an application fee to reduce the volume of applications, and to increase the quality, while managing our costs to process background checks and other onboarding costs.”

— Brian Rothenberg

Zillow:

“Our case is a little strange because **we started the marketplace by getting supply that wasn’t really supply (we used public data)**. We used that to get demand, which we in turn used to get the real supply (listings). We would not have been able to get listings without demand.”

— Nate Moch

And finally, an important lesson from Patreon that sometimes you’re better off admitting you aren’t a marketplace after all

“A lot of people wrongly think of Patreon as a marketplace. I don't blame them - most of Patreon's team for a while thought of Patreon as a marketplace. Fortunately, we corrected our vision and our metrics in time to match the reality of our product market fit. **Realizing we weren't a marketplace was the best thing that happened to us.** It allowed us to take ‘Discovery’ (find a creator to pledge) off our roadmap, because we realized this would misalign us with creators as those creators got big. Similar to Etsy's ‘graduation problem.’ It allowed us to focus on building an apps and developer platform (analogous to Wordpress/Salesforce/Shopify/Segment etc.) instead. Something that YouTube and Facebook, with their competing products, could not do.”

— Tal Raviv

Assuming you still believe your business is a marketplace — you’ve now determined how to constrain your marketplace (geo or category), and picked a side to concentrate on (most likely supply). Now, you need to actually build your initial supply and demand. **In our next two posts, we’ll dive deep into how these marketplaces approached early supply and demand growth — including the 12 most common growth levers, the most effective tactics, and a bunch of great stories. Stay tuned!**

Phase 1: Crack the chicken-and-egg problem 🐔

- **Part 1: Constrain the marketplace** 🔬
- **Part 2: Decide which side of the marketplace to concentrate on** 🤔 (*this post*)
- **Part 3: Drive initial supply** 🐔
- **Part 4: Drive initial demand** 🙌

Quiz: Can you guess which growth lever was most commonly used to drive early supply for the majority of today’s marketplaces: SEO, Referrals, Single Player Mode, Direct Sales, Piggy Backing, or Performance Marketing? No need to tell me — just see if you can guess. And if you want to cheat, the previous post has the answer 👁️