

Modern digital businesses should explore the strategic shift toward third-party marketplaces. These elevated environments for commerce have evolved to highlight the benefits of diversification, collaboration, robust data analytics, and effective ecosystem management for sustainable ecommerce growth.

# Evolution of Online Commerce: The Opportunity with 3P Marketplaces

October 2024

Written by: Heather Hershey, Research Director, Worldwide Digital Commerce

## The Evolving Paradigm of Online Commerce

The realm of retail innovation has long hailed ecommerce as the frontier, offering boundless opportunities for market expansion and customer reach. The digital storefront was supposed to level the playing field, allowing small and large businesses to tap into global markets without the overhead of physical stores. Promises of increased efficiency, broader consumer bases, and enhanced scalability fueled the migration from brick-and-mortar to online platforms.

However, ecommerce reality often falls short of these expectations. Navigating the turbulent waters of online commerce has never been more challenging. Margins in ecommerce are typically much lower than in physical retail, primarily due to high shipping costs, extensive digital marketing, and the expenses associated with website maintenance and technology upgrades. These margins often hover around 5–20%, with the average closer to 10%. In addition, payment processing fees, costs from returned merchandise, and customer service expenses directly impact these margins, reducing overall profitability. With each passing day, the pressure on margins intensifies, prompting businesses to rethink their strategies. The journey from attracting online traffic to converting sales is fraught with financial hurdles, making the quest for profitability a formidable challenge for today's digital businesses.

Amidst these challenges, the significance of ecommerce continues to grow. Recent data from the U.S. Department of Commerce illustrates this point starkly. In the first quarter of 2024, U.S. retail ecommerce sales reached approximately \$289.2 billion, a notable 8.6% increase year over year, representing 15.9% of total retail sales. This underscores the escalating role of online sales channels within the retail sector, highlighting the necessity for a scalable and efficient business model to capture this growing market.

Retailers and brands are finding that traditional digital commerce models, heavily reliant on first-party (1P) sales strategies, are increasingly insufficient to meet the diverse needs of today's consumers or sustain long-term growth. The operational costs of managing online platforms, logistics, and customer acquisition, especially in a highly competitive market, continuously erode margins. Sharing data, generating actionable insights, providing better customer experiences, collaborating on sustainability initiatives, preventing fraud, and working together to future proof businesses are all bigger priorities than selling.

## AT A GLANCE

### WHAT'S IMPORTANT

- » Retailers and brands are finding that traditional digital commerce models, heavily reliant on first-party sales strategies, are increasingly insufficient to meet the diverse needs of today's consumers or sustain long-term growth.
- » Third-party commerce models have emerged as essential pathways for growth and operational efficiency.

Collaborative commerce environments may be the key to doing these things via a single online environment.

As brands confront the challenges of diminishing margins and increasing competition, third-party (3P) commerce models have emerged as essential pathways for growth and operational efficiency. In 3P commerce, brands list products on established retail platforms like Amazon or Walmart Marketplace, maintaining ownership of inventory while leveraging the retailer's expansive reach and infrastructure. Drop shipping is a particularly popular method within this model, enabling brands to fulfill customer orders directly from manufacturers without the need for extensive inventory management or warehousing. This approach reduces overhead while allowing companies to scale more rapidly. In addition, marketplace models and fulfillment programs offer brands logistical support, further optimizing the customer experience while maintaining flexibility in their operations. By adopting these models, brands gain access to broader consumer bases, lower operational costs, and improved scalability — all of which are critical in a rapidly evolving ecommerce landscape.

### *The Evolution Toward Multivendor eCommerce Models*

As ecommerce evolves, the distinctions between 1P and 3P marketplaces become crucial in understanding the competitive landscape and operational dynamics:

- » **First-party marketplaces:** In a 1P marketplace, the retailer or brand owns the inventory and sells directly to consumers through its platform. A 1P marketplace will often look and function like a large traditional ecommerce website. In 1P commerce, the retailer typically purchases and holds the inventory.
- » **Third-party marketplaces:** 3P marketplaces represent a platform where multiple external vendors sell their products or services directly to consumers under the umbrella of a single marketplace. This model reduces the burden on any single vendor for inventory and logistics, spreading the operational risks and allowing for a wider product assortment. Vendors can leverage the established infrastructure and consumer trust of the platform. At the same time, marketplace operators benefit from a broader catalog and potential revenue from listing fees, commissions, and other monetization strategies. Drop shipping is more commonly associated with 3P commerce. In a 3P model, the retailer (or marketplace) does not own the inventory. Instead, brands or third-party sellers list products on the platform, and the seller (rather than the marketplace or retailer) handles fulfillment, often using a drop shipping method where the product is shipped directly from the manufacturer or wholesaler to the consumer.

### *The Future of eCommerce Is 3P*

The strength of 3P marketplaces lies in their operational flexibility and inclusive and expansive nature. This model democratizes the marketplace, allowing businesses of all sizes, from start-ups to established brands, to participate. Third-party marketplaces facilitate a community-driven ecosystem where consumer feedback and competition drive innovation and improvements in service quality. The shift toward a 3P cooperative marketplace model addresses many challenges in the current ecommerce landscape. By distributing the operational stress across multiple 3P sellers, businesses can reduce the capital in inventory and focus more on customer acquisition and retention. This model enhances scalability without corresponding increases in operational complexity for the marketplace operator.

Third-party commerce occurs when the inventory owner differs from the channel owner. This model, including drop shipping and online marketplaces, allows brands to reach consumers directly through another retailer's storefront. It offers significant scalability to sellers, allowing them to expand their market reach without the associated risks of inventory management. Retailers benefit from this arrangement by mitigating inventory risk and enhancing product assortments, which can lead to increased consumer satisfaction due to a broader selection of products.

The value proposition of 3P marketplaces extends to consumers who benefit from competitive pricing, increased choice, and the convenience of a one-stop shopping experience. This model cultivates a robust network effect for the marketplace operator, enhancing the platform's value as more sellers and buyers participate, leading to increased traffic and higher transaction volumes.

Third-party commerce unlocks the full potential of ecommerce promises, including efficiency, scalability, reach, experimentation with product offerings without substantial up-front investments, responsiveness to consumer trends, and sustainable growth.

## Considerations

Challenges and important factors to consider when deciding to launch a 3P marketplace include:

- » **Data security in a 3P marketplace:** Protecting sensitive information, including customer data, payment details, and proprietary seller information, is crucial to maintaining trust and compliance with regulatory standards. Robust security measures, such as encryption, secure access controls, and regular vulnerability assessments, are essential to safeguard against data breaches and cyberthreats.
- » **Risk management in a 3P marketplace:** Proactively managing risks, such as supplier reliability, fulfillment delays, and regulatory compliance, is critical to maintaining marketplace integrity and customer satisfaction. Implementing contingency plans, diversifying the seller base, and regularly monitoring for potential disruptions ensure smoother operations and help mitigate financial and reputational risks.
- » **Implementation considerations:** Effective marketplace management involves developing robust governance policies, streamlined processes, and efficient dispute resolution mechanisms. Careful planning in these areas can enhance operational efficiency and seller satisfaction and maintain a positive reputation.
- » **Robust unified data analytics:** Robust unified data analytics are essential for the success of a 3P marketplace. Integrating data from multiple third-party sellers provides valuable insights into customer behavior, sales trends, and inventory management.
- » **Excellent tooling for management of the 3P ecosystem:** Efficient dispute resolution mechanisms, streamlined onboarding processes, and comprehensive seller support tools contribute to a positive seller experience and foster trust within the marketplace.

The aforementioned challenges should not impede the launch of a 3P marketplace, as adopting this connected and multifaceted commerce model can potentially solve many complex challenges within a business.

For example:

- » Increased customer expectations:
  - **Challenge:** Consumers expect a seamless shopping experience with fast shipping, easy checkout, and excellent customer service.
  - **3P marketplace solution:** By leveraging a network of sellers, 3P marketplaces can offer more fulfillment options and diverse customer service approaches, enhancing overall consumer satisfaction.
- » Insufficient customer engagement:
  - **Challenge:** Engaging customers effectively requires balancing informative content with direct communication.
  - **3P marketplace solution:** 3P platforms can provide varied content and products from multiple vendors, enhancing engagement through personalized and dynamic marketing strategies.
- » Low conversion rates:
  - **Challenge:** Boosting conversions often necessitates streamlining the checkout process and providing multiple payment options.
  - **3P marketplace solution:** Marketplaces simplify the checkout process by standardizing it across vendors, usually offering various payment methods to cater to broad consumer preferences.
- » Shopping cart abandonment:
  - **Challenge:** Complex navigation and unexpected costs often cause high abandonment rates.
  - **3P marketplace solution:** 3P marketplaces can reduce abandonment by offering transparent pricing and streamlined navigation with robust platform technology.
- » Lack of connected customer retention strategy:
  - **Challenge:** Retaining customers requires personalized engagement and tailored promotions.
  - **3P marketplace solution:** Through data aggregation, 3P marketplaces can offer sophisticated analytics to enable highly targeted marketing and loyalty programs across various sellers.
- » Limited scalability options:
  - **Challenge:** Scalability is essential but often hard to achieve due to technical and logistical limitations.

By adopting a 3P marketplace model, businesses can address these common challenges and enhance their store's performance and customer satisfaction, laying a solid foundation for growth and success in the competitive online market.

- **3P marketplace solution:** 3P marketplaces inherently support scalability by distributing inventory and fulfillment responsibilities across multiple vendors, minimizing bottlenecks.
- » Need of a reliable tech partner:
  - **Challenge:** Building an effective ecommerce platform necessitates finding a competent software development partner.
  - **3P marketplace solution:** Partnering with an established 3P marketplace platform alleviates the need for individual vendors to find tech partners, as the platform provides robust, tested, and continually updated ecommerce solutions.

## Conclusion

The primary advantages of adopting a 3P marketplace model include increased scalability, reduced operational burdens, and enhanced customer satisfaction for retailers and brands. To start or scale their 3P marketplace journey, businesses should invest in advanced technology, foster partnerships with reliable third-party vendors, and continuously innovate strategies to meet changing consumer demands and technological advancements.

## About the Analyst



### *Heather Hershey, Research Director, Worldwide Digital Commerce*

Heather Hershey is research director for IDC's Worldwide Digital Commerce practice. Ms. Hershey's core research coverage includes digital commerce applications targeting businesses of all sizes and industries (B2C, B2B, B2B2C); product information management (PIM) and syndication applications; commerce personalization, search, and merchandizing applications; CPQ and order management applications; digital marketplaces; headless digital commerce; enterprise partnership/integration strategies among digital commerce, supply chain, marketing, and content management vendors; commerce experience management across channels; digital shelf trends; and AI-enabled or intelligent commerce.

## MESSAGE FROM THE SPONSOR

**About Rithum**

Rithum (formerly CommerceHub and ChannelAdvisor) is one of the industry's most influential and trusted commerce networks, helping brands, retailers, and suppliers work together to deliver third-party (3P) commerce experiences. The Rithum platform helps brands and retailers accelerate growth, optimize operations across channels, scale product offerings and enhance margins. Using its commerce, marketing, delivery and discovery solutions, Rithum customers create optimized consumer shopping journeys from beginning to end. More than 40,000 global brands trust Rithum to grow their business across hundreds of channels, representing over \$50 billion in annual GMV. Rithum processes an average 2.4 billion transactions every day for retailers like Best Buy, Adidas, The Home Depot, and more.

Want to learn more about Rithum? [Request a demo.](#)



The content in this paper was adapted from existing IDC research published on [www.idc.com](http://www.idc.com).

This publication was produced by IDC Custom Solutions. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Custom Solutions makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2024 IDC. Reproduction without written permission is completely forbidden.

**IDC Research, Inc.**  
140 Kendrick Street  
Building B  
Needham, MA 02494, USA  
T 508.872.8200  
F 508.935.4015  
Twitter @IDC  
blogs.idc.com  
www.idc.com