



Retail

FROM DEPARTMENT STORES TO MARKETPLACES

During the last week of August, Lord & Taylor decided everything must go. America's oldest department store, which filed for Chapter 11 bankruptcy on August 2, initially planned to keep 19 of its 38 locations open. Then it cut the number to 14 remaining stores. Finally, the department store decided to close all its locations and to liquidate everything, including in-store fixtures, furniture and equipment. While Lord & Taylor was America's first department store, it wasn't the first department store to declare bankruptcy this year, with the retailer joining J.C. Penney, Neiman Marcus and Stein Mart in that category. For years, department stores have, for the most part, unsuccessfully struggled with what we have called Retail's Great Restructuring. The declining appeal of department stores, and some other physical retailers, is coinciding with the rising appeal of online marketplaces. During that last week in August, when Lord & Taylor decided to call it quits, luxury online marketplace Fashionphile announced a new \$38.5 million funding round. Online marketplaces, digital iterations of traditional department stores, bring together a wide range of goods from numerous sellers, all on one site, but, **unlike most department stores, marketplaces are attuned to the needs and desires of the digitally trained consumer.** (*Retail Dive*, 8/17/20; *Fast Company*, 8/27/20; *Glossy*, 8/27/20; see **IF 3815**)

IMPLICATIONS

- More department stores reduce their physical footprints and even declare bankruptcy.
- Focused and niche online marketplaces gain traction.
- Virtual-fitting-room and augmented-reality (AR) technology providers benefit.
- Traditional media companies launch marketplaces, replacing affiliate links, as a way to increase revenue.
- Resale marketplaces continue to gain traction, cutting into brands' full-price offerings.
- Too many marketplace offerings eventually lead to consolidation.
- Manufacturers gain exposure to new customers.
- Specialty stores have more outlets for their goods.
- Consumer-to-consumer commerce expands via distributors.
- Livestreaming highlights marketplace products.

TAKEAWAYS

- As department stores and physical retailers face cyclical and secular challenges, online marketplaces continue to gain momentum.
- Online marketplaces appeal to the wants and needs of the digitally trained consumer.
- Online marketplaces will continue to proliferate because they provide a new revenue stream for individuals, retailers, influencers and online media sites.
- Local businesses and niche retailers, which are facing significant challenges because of the global pandemic, will increasingly turn to online marketplaces in order to expand their potential customer base.

The (Sad) State of Department Stores and Physical Retail

In the first half of 2020, retail bankruptcies, liquidations and store closings in the U.S. reached record numbers. In the first six months of the year, 18 retailers filed for Chapter 11 protection, with another 11 filing between July and mid-August. The aforementioned Lord & Taylor's bankruptcy filing came less than a year after the store was purchased by online clothing-rental start-up Le Tote for \$100 million. While many retailers were already struggling before the global pandemic, the forced shutdowns of physical locations and subsequent limit on the number of customers that can occupy a retail location at any one time have made things substantially worse, leading many retailers to permanently close. (*Wall Street Journal*, 9/29/20)

This summer, Valentino filed a lawsuit against its landlord, Savitt Partners, to exit its lease on New York City's Fifth Avenue, nine years before the luxury retailer is eligible to leave. If that lawsuit is successful, Valentino will join many other retailers leaving Manhattan locations.

- In the second quarter, the number of ground-floor leases available in Manhattan's 16 retail corridors hit a record 235, surpassing the previous high of 230 set in 2013.

- Also in the second quarter, rents in the upper Madison Avenue corridor, home to many luxury retailers, fell 15.3 percent from the same period a year before.

- The two largest malls in the United States, American Dream and the Mall of America, have both felt the strain of closures. Before it is even fully open, the American Dream mall, in suburban New Jersey, has already lost two of its anchor tenants, Lord & Taylor and Barneys New York, while Forever 21, Victoria's Secret and The Children's Place are all considering leaving the mall.

- As of July, Triple Five Group, which owns both properties, owed nearly \$28 million in missed payments and interest on the Minneapolis-based Mall of America. (*Pymnts*, 7/24/20; *NPR* 8/2/20; *CNBC*, 8/2/20; *Retail Dive*, 8/17/20)

The Marketplace Model

The two characteristics that define a marketplace are that there are many sellers and buyers trading through the same website (or app) and that buyers are able to purchase all of the products without leaving the site. Marketplaces don't buy and hold inventory, but rather facilitate access.

In 1878, a *New York Times* headline announced "The Great Sixth-Avenue Bazaar; Opening Day at Macy & Co.'s – A Place Where Almost Anything May Be Bought." The special attraction, the article noted, was the "universality of the stock, almost every article of dress and household furniture being for sale there, and at the most reasonable prices." That "universality of stock" was quite a bit more limited 142 years ago, and it is now online

marketplaces, with their almost unlimited capacity, that can make similar claims. (*Departmentstorehistory.net*)

Because of what we have called the New Industrial Revolution, it has never been easier for more producers to get more products to market. In just the ten-year period from 2007 to 2017, the global manufacturing industry's output increased 75 percent, and department stores, with their confined floor space and the need to hold inventory, haven't been able to keep up. Marketplaces are appealing to many consumers because these online entities do not have those constraints, which means marketplaces can showcase thousands of products, which in some instances will be shipped

directly from the manufacturer or third-party seller to the consumer, eliminating the need for "floor space" or even warehousing.

The wide range of offerings also facilitates the digitally trained consumers' desire for novelty. Luxury marketplace Farfetch has more than two million customers in 190 countries and highlights 3,500 luxury brands, including offerings from 500 major luxury fashion houses, as well nearly 3,000 small independent designers. During that same second quarter that saw the highest number of New York City retail vacancies in the last seven years,



In the year 2030.

Farfetch attracted a record number of new customers (more than a half a million), while gross merchandise sales value and digital-platform-growth rates increased by 48 percent and 34 percent year-over-year, respectively. (*Forbes*, 5/16/20; *Pymnts*, 8/14/20)

Online marketplaces are not new. Ebay, started in 1995, was one of the most popular Internet sites of the original dot-com era and is still one of the most trafficked sites today. In 2000, Amazon launched Marketplace, which as of 2019, had more than 2.5 million active sellers. The growing appeal of marketplaces is that they can align with and facilitate the digitally trained consumers' desire for novelty, convenience and ease. There is also appeal for vendors and brands, as selling directly on a marketplace can enable small businesses and niche products to potentially reach a much wider audience (**IF 3815**).

The Moment for Marketplaces

For more than a century, department stores were valued for their quantity of stock, their service and often their quality as well. For both vendors and customers, department stores were curators, bringing the "right" items from established brands into their stores, while also discovering and highlighting new brands for its customers. Over the last year, by contrast, numerous new marketplaces were not only created by those in traditional retail but were started by media companies as well as influencers, and brands as well as retailers, which are also looking to offer their customers curated offerings, while creating a new source of revenue. At the end of 2019, the magazine *Complex* launched a marketplace, which the magazine claims has boosted website traffic, with click-through rates for products on its marketplace pages being eight to 10 times higher than so-called affiliate links, (which send users to another site to buy) and which

it formerly used. Commission rates were nearly 100 times higher as well. Other companies and individuals have noticed. Bonsai, which sets up marketplaces for media companies, claims that the number of such companies expressing interest in setting up a marketplace is "five to seven times higher than pre-Covid." (*Glossy*, 7/31/20)

- In late July, BuzzFeed launched a marketplace, starting with beauty brands, with plans to expand to other categories.

- In August, Kroger announced it will launch an online marketplace, known as Kroger Ship. Kroger has partnered with French e-commerce firm Mirakl to boost its Kroger Ship inventory by 50,000 third-party products across categories like international food, specialty items, housewares and toys.

- Over the summer, TikTok influencer Niso and Instagram influencer Patrick Janelle each launched marketplaces.

- In July, direct-to-consumer (DTC) brand Something Navy launched a marketplace featuring curated items from other companies.

- Facebook is launching what it is calling the Commerce Accelerator. It will work with 60 start-ups picked from applicants from Europe, the Middle East, Africa and Latin America. The initiative is aimed at helping to build Facebook's online marketplace.

- Mad Jack Outdoor launched an online marketplace with outdoor gear. The marketplace model enables new brands that have just raised money via Kickstarter or new to the outdoor market to reach customers outside traditional retail channels.

(*Glossy*, 7/31/20; *Pymnts*, 8/3/20; *Tame Bay*, 8/5/20; *Whio.com*, 8/11/20; *Fox Business*, 8/11/20)

Launching a marketplace allows media companies to drive new revenue while keeping their audience on their own site, where they can continue to show ads. A marketplace allows influencers to expand their clout with followers and illustrate their curation skills while also gaining a new revenue stream.



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Expanding the Market for Local Businesses and Niche Products

Local businesses and niche products haven't traditionally had access to department stores' wide audience, but they do have access to a global audience via marketplaces. According

to a recent study from Pymnts and Visa, 62 percent of businesses overall that use marketplaces do so to reach more customers, while 78 percent of individuals and microbusinesses use marketplaces for the same reason. During the COVID-19 pandemic, numerous groups have banded together to share resources and create new marketplaces in order to help generate business and expand reach amid the massive economic downturn. (*Pymnts*, 8/20)

In August, the new MassGrown Exchange platform was publicly launched, offering a wide range of options from Massachusetts-based farmers, fishermen, restaurants and anyone else linked to the Massachusetts food production industry. The marketplace's aim is to bring together and support both in-state producers and shoppers. Similarly, Bindle PDX is a local online marketplace for small and micro-businesses from Portland (OR). The marketplace, which features a range of products, from food and wellness items to home décor, brings producers in nearby locations together so they can consolidate drop-off and pick-up sites. For example, by teaming up, local Portland-based businesses Lovejoy's Tearoom, Bergerac, Full Belly Fare and Thrive Sauce Co. were able to turn 23 deliveries into just four, which saved the small businesses about 150 miles of travel. Marketplaces are launching internationally as well. The Highland Hiddle marketplace, which focuses exclusively on creatives in the Scottish Highlands and islands, will list jewelry, home furnishings, fine art and toiletries. (*Taunton Gazette*, 8/10/20; *KGW.com*, 8/13/20; *Tame Bay*, 8/10/20)

the resale market even more appealing and necessary. (*CNBC*, 5/27/20, *Glossy*, 7/13/20)

- Between April and July, resale marketplace Vestiaire Collective saw a 144 percent increase in year-over-year order volume.

- Since mid-March, Poshmark has seen a 40 percent increase in the number of buyers and sellers on its marketplace and a 50 percent increase in new sellers.

- At StockX, the 500 most sought-after sneakers on the platform increased in value by about six percent since March.

- Since April, luxury resale companies Rebag, Fashionphile, Vestiaire Collective and The Luxury Closet have attracted more than \$134 million in total investments. (*Glossy*, 7/13/20 and 8/27/20)



He's just realised that the stuff he bought on Ebay was the stuff he SOLD on Ebay!

CartoonStock.com

Resale Marketplaces

In May, Walmart announced that it is going to be adding to its marketplace some items from resale marketplace ThredUp. The partnership allows ThredUp vendors to sell on the Walmart Marketplace and allows Walmart's customers to receive free shipping as long as they spend \$25 or more. With the deal, Walmart is expanding its offerings and tapping into an area of increasingly popular customer demand: pre-owned clothing and accessories. In March, ThredUp saw a 50 percent increase in people selling on its platform. Resale marketplaces were already popular before the pandemic, thanks to consumers becoming more economically resourceful and more mindful of the waste created by consumerism. The economic challenges caused by the pandemic have made

Technology Upgrades Needed

Department stores were early innovators, introducing new technologies, such as elevators, escalators and air purification systems, as well as new systems of stock control that allowed the large retailers to track which stock-keeping units (SKUs) were selling well and which were slow moving. (*City Metric*, 8/20/18)

The shift to marketplaces is also requiring innovation and technological advancements. Similar to the department stores of old, marketplaces are figuring how to keep track of stock in order to help consumers find what they are looking for among thousands of products by creating technology-enabled product-classification

and recommendation systems. As one example, luxury marketplace Farfetch's product catalog has 3,500 brands plus innumerable styles and SKUs. Garments that arrive at Farfetch are described, photographed and editorialized manually. The product taxonomy needed for consumer search is then added automatically using a fashion graph created by the company's data scientists. (*Vogue Business*, 7/28/20)

Facebook unveiled GrokNet, a software tool that automatically identifies and describes items in pictures to help people sell them on its marketplace. Amazon is going a bit further, as its researchers have proposed artificial intelligence (AI) algorithms that would suggest products that go with items that have already been selected. Another algorithm would synthesize an image of a model wearing clothes from different product pages to demonstrate how items work together as an outfit. (*Venture Beat*, 6/5/20)

Once a consumer finds a desired item in a marketplace, another hurdle for sellers is helping their potential buyer decide how the product will look on them or in their home. Companies are experimenting with augmented reality (AR) technologies, 3D and virtual fitting rooms to help facilitate a purchase. Zeekit, which supplies AR technology to clothing brands, is preparing to launch in October the world's largest virtual fitting room, with hundreds of thousands of pants, tops and coats that shoppers can drag onto photos of themselves. Shoppers who use Zeekit's AI to virtually try on clothing are five times more likely to purchase the item than if the item is not available to try on virtually, according to the company. Customers also are more likely to keep what they buy as return rates for products purchased through this technology dropped from 38 percent to about two percent. By comparison, overall return rates for clothing and shoes bought online are about 40 percent, compared with less than 10 percent for in-store purchases. Other marketplaces, sellers and technology providers are working to help customers overcome this online-shopping hurdle. (*Washington Post*, 7/9/20)

- Etsy, the online craft marketplace, has a new AR feature on its app that shows customers how paintings, photographs and other decor would look on their walls.
- Perfect Corp., which provides AR technology to beauty brands including MAC, claims that virtual samplings have increased 32 percent since the pandemic took hold in the United States. The technology company claims its

data reveal that shoppers who try a product online with virtual samplings are nearly three times more likely to buy the item, spend 10 percent more and are less likely to return products.

- Vertebrae, which provides AR and 3D technology, shifted its marketing focus away from Hollywood studios toward e-commerce and retailers; it claims that demand has doubled in recent months. (*Pymnts*, 6/8/20; *Washington Post*, 7/9/20)

Department Stores Respond

As it has over the past decade, physical retail will have to adjust, and it is starting to do so. Alibaba-owned Lazada, the southeast Asian e-commerce site, is creating a virtual mall, called LazMall, with the aim of connecting shoppers to more than 18,000 international and local brands. Marina Square Shopping Mall in Singapore is the first physical shopping center in the country to partner with Lazada to put its physical retailers into the virtual mall. In Indonesia, more than 100 tenants of the three malls owned by developer Pakuwon Group are going live on Lazada, while also keeping their physical locations. Meanwhile, in the U.S., the Philadelphia Real Estate Investment Trust (PREIT) created a curated subscription box of goods from several of its mall properties called sMall Surprises. While not quite a marketplace, each surprise pack includes a selection of toys/games, accessories, sanitizing samples, activity cards, stickers and school supplies from among the PREIT's mall retailers. It may not have the "universality of the stock, almost every article of dress and household furniture being for sale there, and at the most reasonable prices," but it is a start. (*Pymnts*, 7/15/20 and 8/27/20)

Marketplaces appeal to many of the desires of the digitally trained consumer, as well as to companies, retail and otherwise, looking for new sources of revenue. Physical retail is not disappearing, and while department stores face significant secular and cyclical headwinds, many will continue to operate, adjusting as consumer demand and preferences change. It is also extremely likely that there will be fewer physical locations in which a wide range of companies may sell their goods and for consumers to shop. It is in this void that the marketplace model continues to expand.