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Economic benefits of online marketplaces for U.S.-based small and medium-sized businesses

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SEPTEMBER 2020

Executive Summary

The rules of running a business online have been rewritten by data-driven strategies and increasingly sophisticated digital tools. With the explosion of available online retail tools and services, small and medium-sized businesses have been able to expand beyond their geographic regions and open digital storefronts. Such businesses can reach customers through aggregators like Google Shopping or through social media channels such as Instagram; leverage infrastructure services such as Shopify; sell products in online marketplaces hosted by Amazon, Walmart, Etsy, and eBay; and partner on deliveries to customers with services like Instacart. The growth of online marketplaces in particular have made it easier than ever to do business online.

Access to the digital technologies underpinning online sales channels is more important than ever during the current societal and business crisis being caused by the COVID-19 virus. Indeed, online sales have been a “safety net” of sorts for many small- and medium-sized businesses whose brick-and-mortar storefronts have been closed or undergoing customer restrictions. And companies who empower small business sellers - including Etsy, Shopify, Wayfair, eBay, and Alibaba - have fared well during COVID-19.

Despite marketplaces being as old as commerce itself, and the growing popularity of online marketplaces among contemporary buyers and sellers, however, the impact they have on the U.S. economy has not been well-measured. The goal of this report is to estimate the overall economic value that online marketplaces provide to small and medium-sized businesses. By conducting a systematic review of available data sets and literature, we were able to estimate the value of different ways in which online marketplaces drive revenue, increase productivity, and generate other benefits.

The key findings and conclusions of this report are:

- In 2018 alone, for which the most accurate numbers are available, U.S. SMBs gained \$145.1B in economic value from online marketplaces such as those offered by Amazon, eBay, Etsy, Target, and Walmart, which provide scalable support to grow and sell.*
- Roughly \$96.1B, or 66.2%, of the total economic value is derived from marketing-related benefits – specifically, reaching more shoppers and increasing brand exposure - that online marketplaces provide.*
- Relatively speaking, cost savings benefits to SMBs are limited, and while still significant, only account for \$29.7B, or 20.5%, of the total economic value added.*
- More high-quality data about aspects of online marketplaces would enable a more precise and comprehensive examination of their economic impact on SMBs.*

Introduction

Modern small businesses have sophisticated strategies which employ digital tools, services, and platforms to identify, engage, and sell to customers both online and offline. These include:

- Operating a brick-and-mortar store with an online presence (such as a website)
- Creating and operating a wholly owned online retail store
- Powering online sales using digital back-end tools (such as Shopify or Stripe)
- Targeting customers via digital services (from Google or Instagram, for example)
- Delivering to customers using digital-centric services (such as Instacart or Uber Eats)
- Entering relationships with traditional retailers for offline/online sales (Walmart, Target)

One powerful and versatile mechanism for small businesses to reach customers is the marketplace, a concept as old as commerce itself. The modern online marketplace subsegment of retail sales – digital storefronts that allow businesses to list their products and sell to consumers – is booming, with the 18 largest global marketplaces growing by 51.7% from 2014 to 2016.¹ About 96% of all shoppers used at least one online marketplace according to a 2018 study.² Despite the massive popularity of such online marketplaces, however, to our knowledge no comprehensive attempt has been made to estimate the economic benefits they deliver to small and medium-sized businesses (SMBs).

This report aims to do just that. Here, as an initial research project, we conducted a systematic review of existing data sets and literature to estimate the economic value of online marketplaces to SMBs in a single figure (in U.S. dollars). Ultimately, we sought to inform the following statement: Small and medium-sized businesses gain X in economic value from online marketplaces like Amazon, eBay, and Etsy, which provide scalable support to grow and sell.

The intention of this report is to serve as a “conversation starter” to inform a broader discussion about how online marketplaces impact millions of sellers who use them to conduct commerce.

Methodology

To estimate the economic value of online marketplaces, we conducted a systematic review of data sets and literature from government, marketplace businesses, research firms, academia, and high-quality media sources in order to consolidate and analyze available information. Such marketplaces can add value to SMBs in numerous ways; thus, we divided the overall value into six major components, as shown in Table 1 and described in more detail below.

Table 1. Unknown Annual Economic Value to U.S. SMBs from Online Marketplaces.

Component Description	Economic Value (USD)
Reaching more shoppers	\$
Increasing brand exposure	\$
Customer feedback	\$
Cost-effective online sales	\$
Reaching more sales regions	\$
Reducing expansion and start-up costs	\$
All components	\$

Value of reaching more shoppers

Because online marketplaces provide a way for SMBs to reach shoppers at their outlets, this facilitates the act of reaching a larger audience. This should reduce marketing costs and help SMBs compete against larger, better funded competitors, thus selling more goods to customers.

Value of increasing brand exposure

Online marketplaces provide a platform that SMBs can use to differentiate their brands in order to compete against both other SMBs and well-established national brands. Such marketplaces especially benefit new SMB entrants who are not well-known but gain exposure by competing well on quality and/or price. There may also be a level of trust inferred on SMBs by virtue of being part of a large, established online marketplace.

Value of customer feedback

Online marketplaces typically collect, analyze, and display customer reviews and ratings for products they sell. This provides value to SMBs in the form of rapid customer feedback at scale, which can help the business improve offerings, devise new offerings, and assess competitors.

Value of cost-effective online sales

Online marketplaces offer relatively inexpensive storefronts with internal management tools. For SMBs, this frees up critical time and resources for product innovation and other core activities, versus expending effort on managing their own physical or digital stores.

Value of reaching more sales regions

SMBs can leverage the scale of online marketplaces to sell goods well beyond their geographical headquarters. In effect, they accumulate cost savings by not needing to invest in physical or logistical infrastructure in those far-flung locations where their goods connect with customers. SMBs also gain value through online marketplaces in the form of various tools and services which help them navigate complex topics such as customs, international taxes, language barriers, and the like.

Value of reducing expansion and startup costs

Online marketplaces provide a low start-up cost option for SMBs. Clearly there are also cost savings from not needing to open a physical store as well, a far more expensive and complicated endeavor (renting physical space, stocking inventory, and so on). This in turn empowers SMBs to sell as many goods as they can obtain or create while starting up or expanding, without extra capital expenditures.

Estimating the economic value of major components

The major components described above were each broken down into a formula made up of subcomponents, each of which in turn could be found, derived, or estimated from existing data sets or literature. Where possible, estimates were corroborated from multiple sources. The total value of the formula was our estimate for each component. The sum of the value of each of the components comprised our total estimate of the annual value of online marketplaces for SMBs.

We note that the results presented in this report are primarily based on 2018 numbers, because this year represents the highest-quality, most complete data available about online marketplaces; where necessary, data from other recent years were used to fill gaps. For practical purposes, we limited this study to U.S.-based online marketplaces and SMBs. More complete methodological details are described in the Technical Appendix to this report.

Findings

We estimate that U.S. SMBs gain approximately \$145.1B in annual economic value from the use of online marketplaces (Table 2). There were a nearly 8-fold range of contributions to this figure from the six components, the highest being \$59B in value from the ability to access more customers, and the lowest being \$7.6B in savings related to start-up or expansion costs.

Table 2. Estimates of Annual Economic Value to U.S. SMBs from Online Marketplaces.

Component Description	Economic Value (USD)
Reaching more shoppers	\$59,007,463,996
Increasing brand exposure	\$37,114,836,524
Customer feedback	\$19,361,824,124
Cost-effective online sales	\$13,852,002,173
Reaching more sales regions	\$8,200,071,788
Reducing expansion and start-up costs	\$7,586,673,942
All components	\$145,122,872,547

Online marketplaces contributed \$145B of economic value to U.S. SMBs in 2018

Our analysis concludes that U.S.-based online marketplaces contributed approximately \$145.1B of economic value to U.S.-based SMB sellers in 2018. Objectively, this is a very large number: For example, at the time of writing, \$145.1B is roughly equal to the market cap of Eli Lilly (\$147.6B at the time of publication). In a different context, in 2018 consumers worldwide spent about \$1.86T on the top 100 ranked online marketplaces.³ Because our estimate of “value of access to customers” is largely a function of Gross Merchandise Value (the total value of merchandise sold to customer in such a marketplace during a given period of time), our estimate of \$59B of value for U.S. SMBs, sizable as it is, is only about 3% of the total going to all businesses from all marketplaces.

The majority of economic value driven to SMBs is tied to marketing and scale

Online marketplaces primarily benefit SMBs by driving awareness and traffic to their virtual storefronts. Access to customers and increased brand exposure (the first two components listed in Table 2) total approximately \$96.1B and are both directly tied to marketing. While not an unexpected result, this is a significant number by itself, driven by access to the massive networks of online marketplaces.

The cost savings benefits of online marketplaces are relatively limited

While it's clear that online marketplaces reduce costs for stores to operate and sell their goods, this is not where most of the economic value of marketplaces resides – for SMBs, anyhow. We estimate that the bottom three components in Table 2 directly tied to cost savings (Cost-effective online sales; Reaching more sales regions; Reducing expansion and start-up costs) account for \$29.7B in value, or 20.5% of the total. This isn't as surprising as it may initially seem – numerous business costs like shipping light packages or paying state sales taxes are relatively fixed even for large businesses.

Additional data about online marketplaces would further understanding of their economic impact

Despite their popularity, high-quality data sets or research reports about the economics of online marketplaces are relatively scarce. This is likely to be for at least two reasons. One, companies that operate marketplaces are frequently not required to disclose detailed marketplace data, and they generally opt to protect this business information. Two, government agencies and other organizations who collect data on businesses and commerce don't categorize data in a way useful for the kind of analysis described in this report. Even the U.S. Census and the U.S. Bureau of Economic Analysis, who have begun to measure the digital economy and e-commerce sales, still do not break out figures for online marketplaces in a comprehensive manner.

We note that some state governments have already passed “marketplace facilitator” laws to more easily track and collect state sales taxes. Generally, these laws stipulate that online marketplaces are responsible for collecting and handling sales tax for all their third-party sellers. While states will have different ways of capturing the data stemming from these new laws, access to it would likely be of value to researchers studying online marketplaces and their economic impact.⁴ It is worth pointing out that peer-reviewed academic studies on this topic are scarce.

Finally, we note that not all online marketplaces are alike. Each online marketplace has its own unique rules, practices, and dynamics, which in turn affect SMBs. This diversity of online marketplaces lends itself to further research on this complex terrain.

Acknowledgements

The author gratefully acknowledges and thanks Neesha Wadhwa for her contributions throughout the research process.

Endnotes

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²Crets, S. (April 18, 2018). Nearly all global online shoppers flock to online marketplaces. Retrieved from <https://www.digitalcommerce360.com/2018/04/18/nearly-all-global-online-shoppers-flock-to-online-marketplaces/>

³The State of the Amazon Marketplace 2019. (November 4, 2019). Retrieved from <https://feedvisor.com/resources/amazon-trends/the-state-of-the-amazon-marketplace-2019/>

⁴Maniace, C. (January 1, 2020). Marketplace facilitator laws take effect in Illinois and Hawaii. Retrieved from <https://www.digitalcommerce360.com/article/online-sales-tax/>

Technical Appendix

For additional details about the data and methodology underlying the results presented here, please refer to this accompanying [Technical Appendix](#).