stripe

How do marketplaces compete? The view from Stripe Connect

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Online marketplaces, or multi-sided platforms that facilitate trade between buyers and sellers, are growing at nearly 300% year over year. Marketplace hypergrowth has not been limited to a few narrow industries; it has altered landscapes across the global economy. Consider the breadth of successful companies that are all marketplaces:

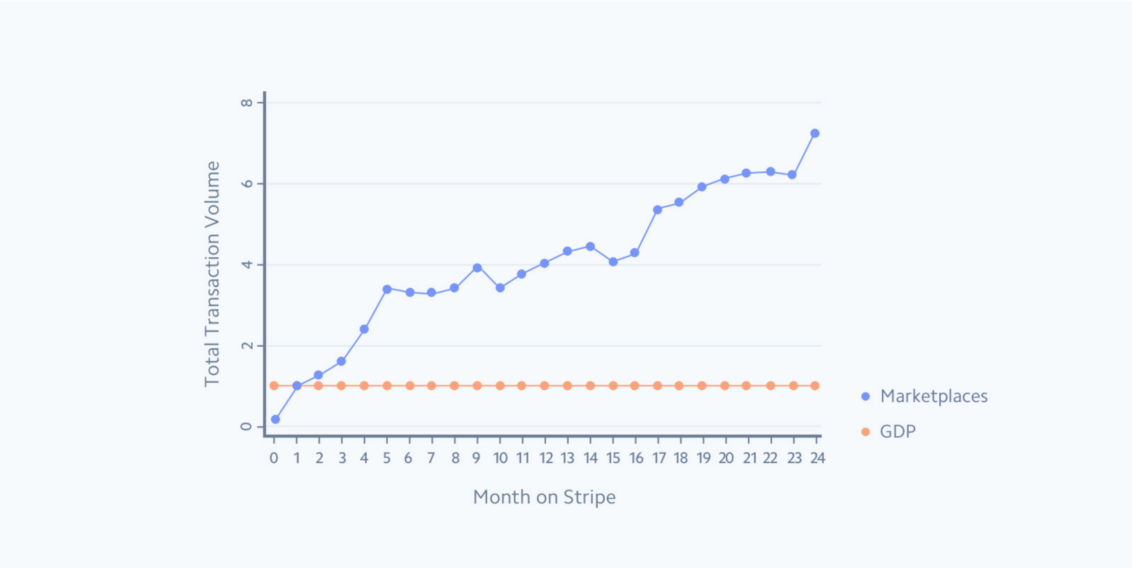
- on-demand and sharing economy companies like Lyft, Deliveroo, and Postmates
- crowdfunding platforms like Kickstarter, Indiegogo, and GoFundMe
- commerce platforms like Shopify and Squarespace
- and other platforms such as Cozy for apartment rentals and OpenTable for restaurant reservations

To understand the dynamics of these emerging business models and learn more about success factors, we studied hundreds of marketplaces running on Stripe over a two-year period. While our sample spanned a wide range of ages, sizes, and industries, a few clear trends emerged that hold important lessons for new and established marketplaces.

Marketplaces are skyrocketing

Marketplaces of all sizes grow nearly 300% year over year

Figure 1. Total marketplace revenue over time



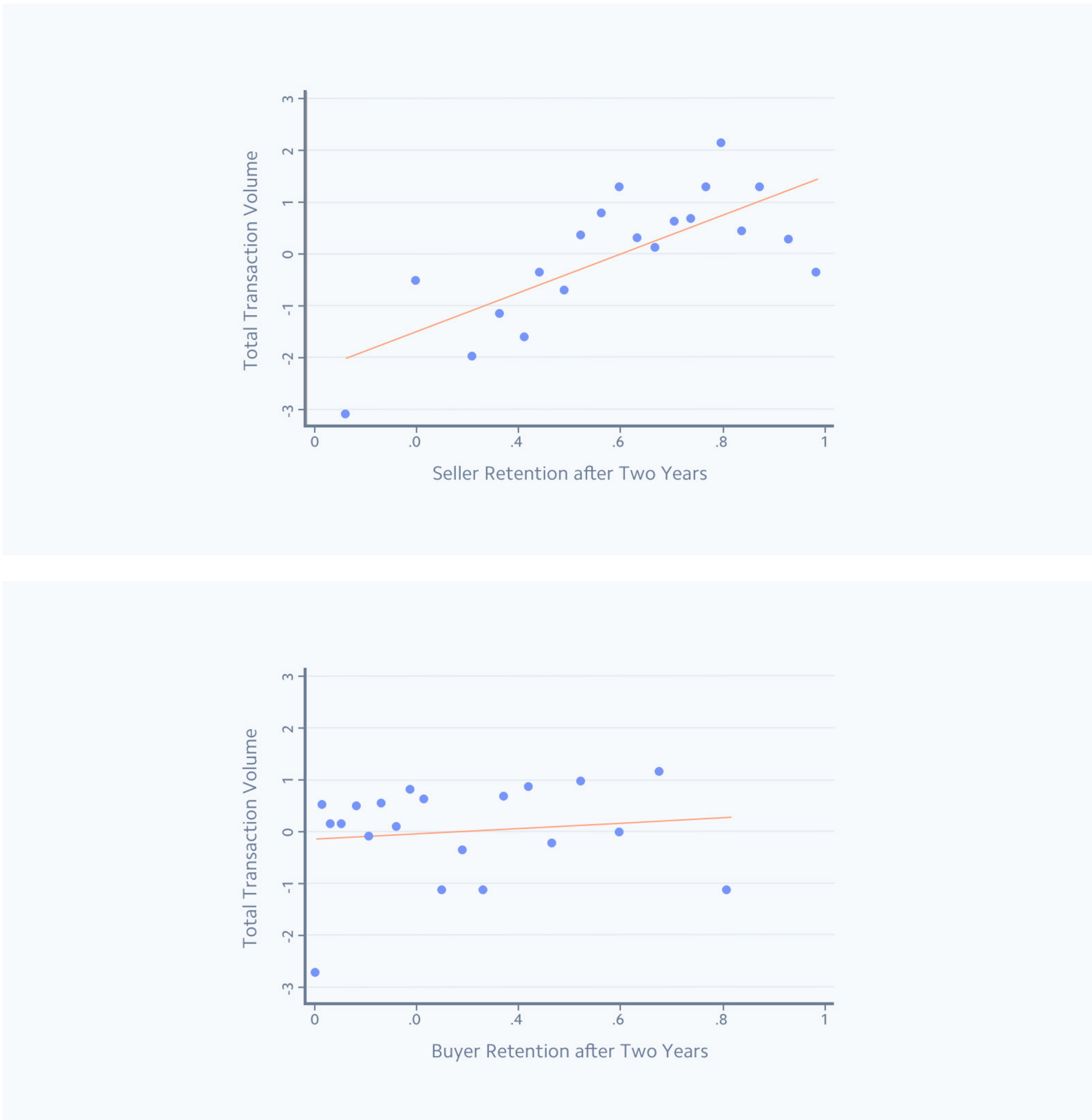
Source: Stripe data. Figure presents aggregate transaction volume over first 24 months of marketplace activity on Stripe in a broad sample of marketplaces, as a multiple of aggregate transaction volume in these marketplaces' first full month on Stripe. See Stripe technical report "How do Marketplaces Compete? The View from Stripe Connect" for details on sample construction.

Online marketplaces showcase the power of the internet to make commerce more convenient, more efficient, and more affordable. From shopping to travel to charitable donations, economies worldwide stand to benefit from internet-enabled growth. In a broad sample of marketplaces on Stripe, we found that the revenue of a typical online marketplace increased by nearly 300% year over year. At this rate, even a small share of online marketplaces is capable of nudging global economic growth meaningfully upward.

Sellers make or break a platform’s revenue

Seller retention predicts 10x more revenue gains than buyer retention

Figure 2. Total marketplace revenue by seller vs. buyer retention



Source: Stripe data. Figures present average total transaction volume as deviations from overall mean to protect data confidentiality. Marketplaces binned into 20 equal-sized groups based on seller and buyer retention, respectively. See Stripe technical report “How do Marketplaces Compete? The View from Stripe Connect” for details.

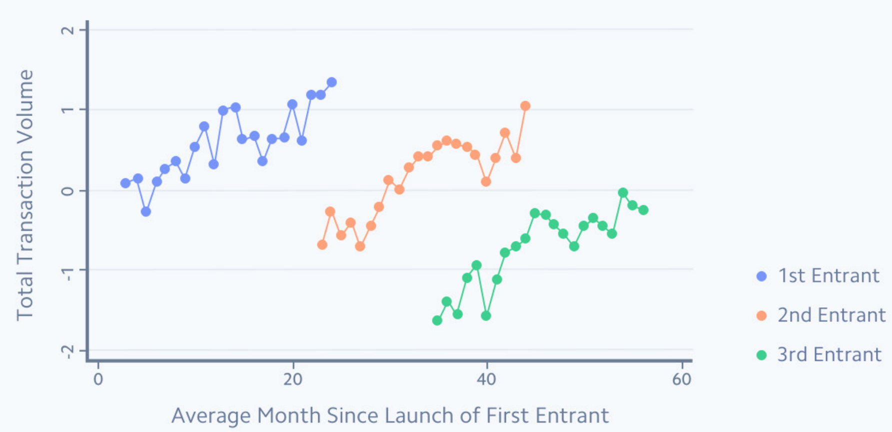
Not all marketplaces grow at the same pace. Marketplaces with higher seller retention rates generate much greater revenue than others. In contrast, higher buyer retention is not associated with significant revenue increases. In fact, increasing seller retention by 1 percentage point predicts 10 times more revenue than the same 1 percentage point increase in buyer retention. This reflects the higher-stakes relationship between sellers and marketplaces, and their mutual reliance on complex platform functionality.

Stripe data suggests successful marketplaces keep sellers coming back by offering superior revenue-generating opportunities alongside other valued platform services like fast and reliable payouts, responsive support, deeper security, tax management, and bookkeeping.

Latecomers grow as fast as first-movers

Early entrants get a head start but face sustained competition

Figure 3. First-mover advantage in narrow industry groups



Source: Stripe data. FIgure presents average total transaction volume over the first 24 months on Stripe for first entrants into an industry, second entrants into an industry, and third entrants into an industry. Each line averages across the same set of industries containing at least three entrants in the sample. Averages are deviations from overall means to protect data confidentiality. See Stripe technical report “How do Marketplaces Compete? The View from Stripe Connect” for details.

An older conventional wisdom held that early winners would capture the entire market by locking up both buyer and seller networks. In this view, network effects imply that growth begets growth so powerfully that competitors can’t overtake early winners.

This older conventional wisdom is wrong. Our research shows early entrants experience similar growth rates, precluding “winner take all” dynamics (even in niche industries). First-movers might capture initial market share, but they don't maintain their leads or pull away from rivals over time without many further investments.

Why don't network effects shield marketplaces from competition? Marketplaces are rarely exclusive—they permit buyers and sellers to use multiple, competing platforms. In fact, other Stripe research finds that 70% of sellers use more than one platform to sell similar goods. When buyers and sellers can easily try out alternatives, marketplaces face pressure to compete by focusing on their core business: providing excellent products, continually improving services, and providing support for buyers and sellers on their platforms. This is generally good news for consumers, who benefit from heightened competition and lower prices.