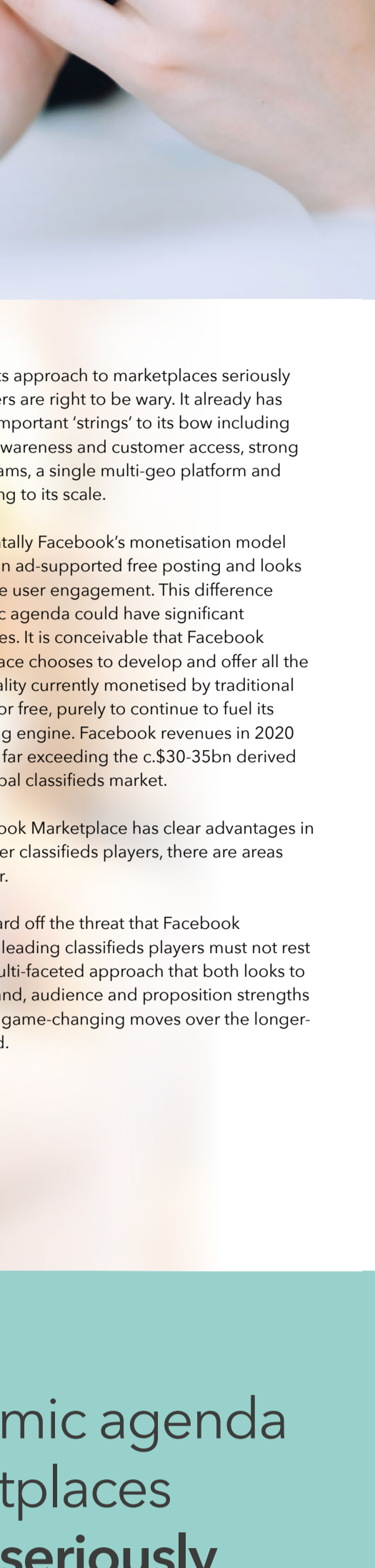


Facebook Marketplace

The threat to classifieds - and example defensive strategies

Facebook Marketplace represents one of the most widely publicised and credible threats to traditional classified business models to have emerged in recent years. It is the first real evidence of a global Tech giant making a concerted play in the classified space and given its scale and capabilities, it could represent an existential threat to the industry as we know it today.

The good news is that Facebook's success is by no means assured, and there are weaknesses leading "digital classifieds" players can exploit. A strong and proactive defensive strategy encompassing a range of tactics will be key to mitigating this threat. Not all classifieds players will be impacted to the same extent; and Facebook's success by geography and product has not been uniform so far.



The context

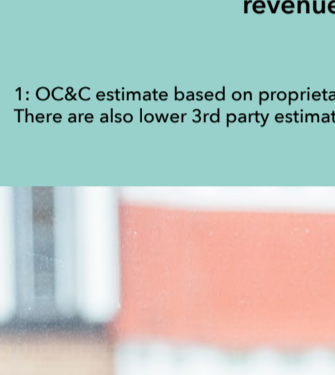
Facebook is taking its approach to marketplaces seriously and classifieds players are right to be wary. It already has many credible and important "strings" to its bow including far-reaching brand awareness and customer access, strong product and tech teams, a single multi-geo platform and deep pockets owing to its scale.

Today posting is generally free for C2C listers and cheap for professional listers (who list via partnership in some markets). Monetisation is primarily derived from Facebook ads inserted into the feed, pay-to-promote on posts and in-app payments (live in US, Europe roll-out expected 2021).

Various analysts have estimated that the potential value of Marketplace to Facebook could be \$10bn - but this could be even more should the model evolve.

Facebook's model means it remains focused on user engagement, rather than direct monetisation of classified listings, as is the case with most traditional classifieds players. It's advertising revenues grew by \$1.5bn in 2019 - 2020 alone. It's possible that Facebook will continue to develop and push its Marketplace only as a means to "drive growth of its core digital advertising revenues".

Facebook Marketplace (Launched October 2016)
Horizontal classifieds (with strengthening verticals)



- Feed-based list of products in locality, with ads inserted
- Primarily C2C car dealer and property listings in some geographies. Shop listings in the US
- 800m monthly users

Whilst Facebook Marketplace has clear advantages in many areas over classifieds players, there are areas where it is weaker.

To successfully ward off the threat that Facebook Marketplace poses, leading classifieds players must not rest on their laurels. A multi-faceted approach that both looks to build on existing brand, audience and proposition strengths and considers more game-changing moves over the longer-term will be required.

Instagram Shopping (Launched March 2019)
eCommerce - primarily apparel and accessories



- Brands label products in posts and stories
- Checkout in-app or go through to store website
- 130m users per month globally (vs 1bn global Instagram users)

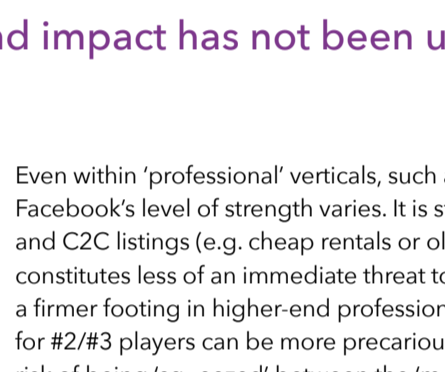
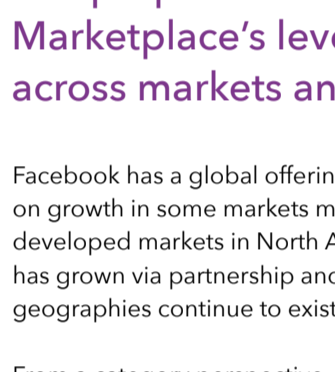
The scale, intent and economic agenda of Facebook to grow marketplaces means it needs to be taken seriously

Facebook global revenues were in excess of 2.5x the total global value of the classifieds market in 2020 - and continue to grow.

"Facebook Marketplace could be a \$10bn opportunity"

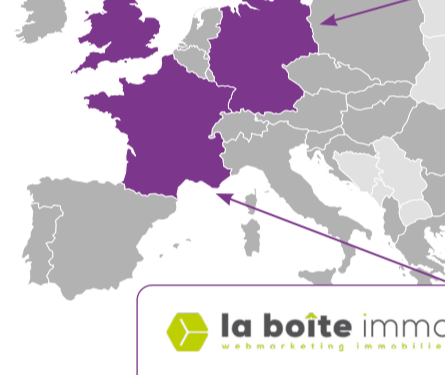
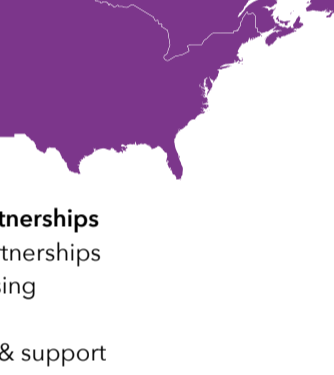
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Facebook Pay (Launched November 2019) Payments



- Payment solution integrated throughout Facebook properties
- Pay or send money with one click
- Uses existing credit / debit cards like PayPal / Apple Pay / Gpay
- Online store fronts for shops to display and sell within Facebook apps
- Shared platform across Facebook and Instagram
- Aimed at small businesses
- Builds on Facebook Pages

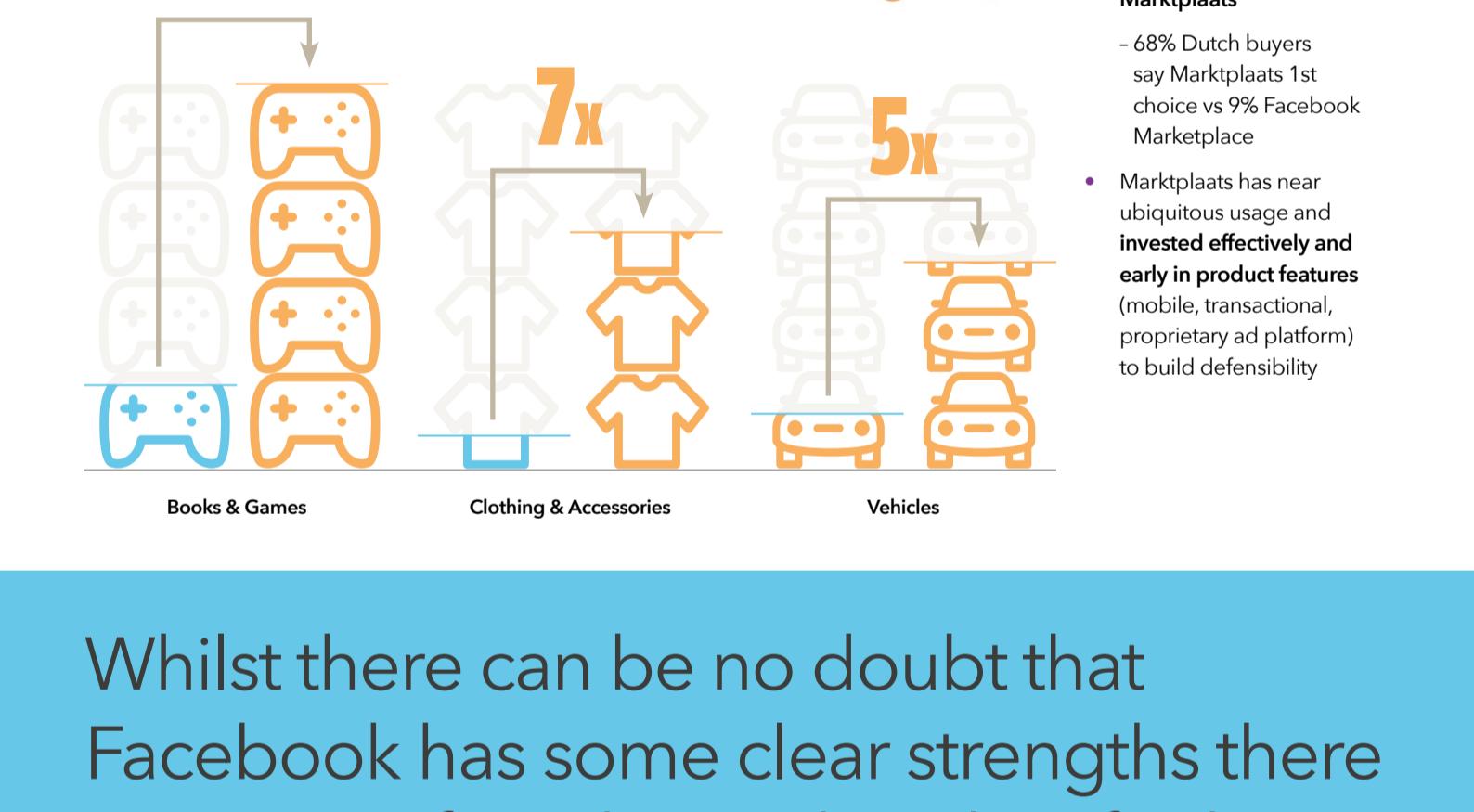
Source: Facebook, Technunch

GLOBAL REVENUE 2020 (\$BN)
c. \$30-35bn¹ Global online classifieds revenue



\$86bn Facebook revenue

¹ OC&C estimate based on proprietary market sizing for Europe and USA which is then scaled up for rest-of-world based on GDP based assumptions. There are also lower 3rd party estimates that estimate a market size of c.\$20-25bn



Scare stories

The proposition is broad and 'scare stories' exist - but Facebook Marketplace's level of development and impact has not been uniform across markets and categories so far.

Facebook has a global offering but so far has focused on growth in some markets more than others. In its most developed markets in North America and Western Europe, it has grown via partnership and with professional support. Other geographies continue to exist exclusively as C2C marketplaces.

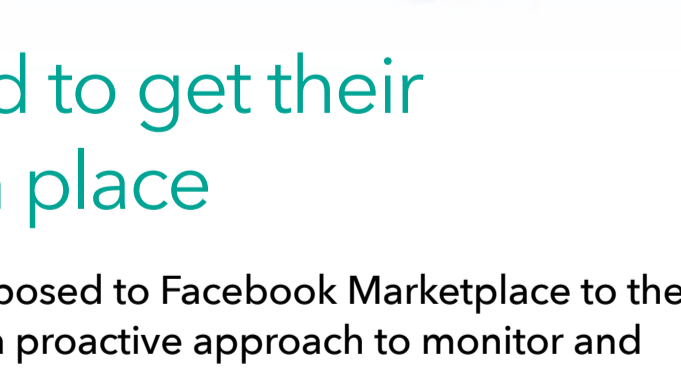
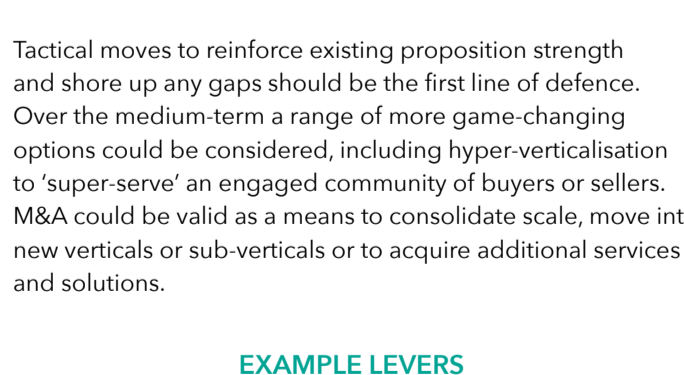
From a category perspective, Facebook Marketplace's current model is best suited to serving categories that have both high audience potential and a high presence of C2C sellers with unsophisticated seller needs. Facebook performs better in categories where social and local dimensions are important aspects to the sale - where the ability to know the seller and collect locally are valued. Accordingly, it is strong in general goods, but its presence in property and auto is more mixed and negligible in jobs (albeit there are rumors of a Facebook gig economy offering in the pipe).

Facebook Marketplace LAUNCHES AND PARTNERS As of June 2020

Major market with professional support C2C Marketplace launch only

North America Europe

US and Canada Partnerships 50+ Automotive Partnerships 9 Rental/Housing Professional listings & support eCommerce listings On-platform transactions

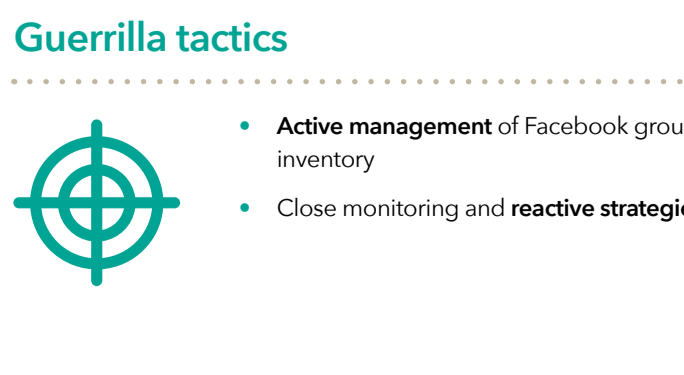


"The focus is on big geographies that make a difference globally, those launches spill-over into smaller markets... but even where Facebook does not aim to dominate, it inevitably disrupts the local competitors and changes the ranking" - Former Facebook Marketplace Product Marketing Lead

FACEBOOK MARKETPLACE EFFECT ON INCUMBENTS

craigslist

Monthly visits, mobile and desktop (m)



Peak and rapid decline of Craigslist traffic after Facebook Marketplace launch

Exacerbated by famously bad interface and mobile offer of Craigslist

Related mobile app launch from Craigslist has made little difference

kijiji (Leading horizontal marketplace in Canada)

Relative inventory depth April 2020



Facebook Marketplace's inventory has grown to a scale that exceeds Kijiji in Canada in many cities and categories, with Kijiji falling behind due to limited evolution of its proposition

Facebook's inventory in Canada is also of good quality, driven by a mix of professional businesses (particularly in auto and real estate)

Marktplaats (Leading horizontal marketplace in Netherlands)

Relative inventory depth April 2020

Facebook Marketplace launched in Netherlands in August 2017. Facebook Marketplace has matched #2 generalist player BoL in awareness, usage and inventory depth but remains far behind Marktplaats

68% Dutch buyers say Marktplaats 1st choice vs 7% Facebook Marketplace

Marktplaats has near ubiquitous usage and invested effectively and early in product features (mobile, transactional, proprietary ad platform) to build defensibility

Whilst there can be no doubt that Facebook has some clear strengths there are areas of weakness that classifieds players can exploit...

In terms of strengths, Facebook Marketplace's user base is significant (800m MAU) and the overall functionality of the site typically rates very well. Pricing to post is typically free for consumers and lower than classifieds sites for professionals, often making it much cheaper than traditional players.

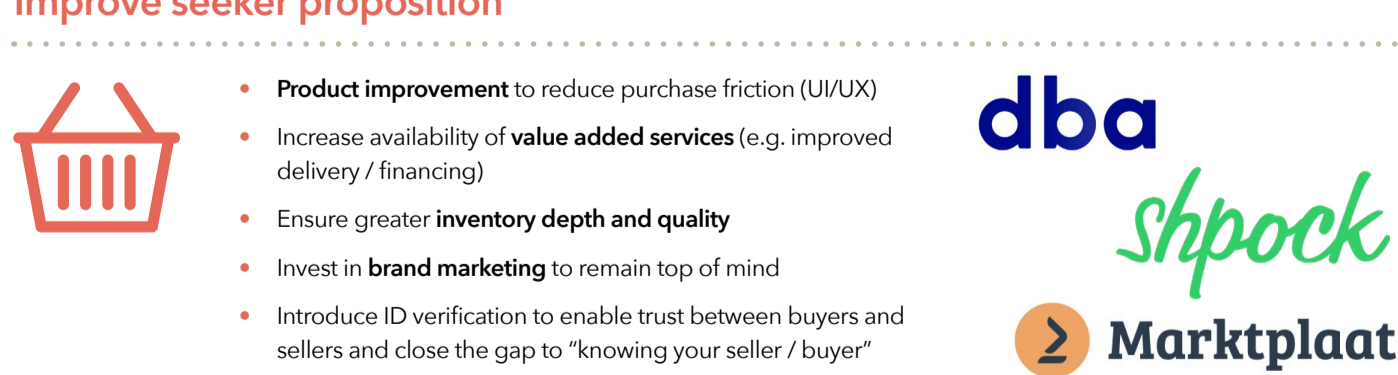
Facebook's inventory depth and quality, however, is not universally strong and both the suite of services available to sellers and the lead quality typically trail in respect to the leaders in professional categories such as property, auto and jobs. Although the Facebook brand is well known, it does always inspire trust with a higher level of cultural affinity towards the brand constituting a barrier to adoption in some markets (e.g. Germany).

FACEBOOK MARKETPLACE HAS SEVERAL COMPETITIVE ADVANTAGES VS TRADITIONAL CLASSIFIEDS PLAYERS, BUT THERE ARE AREAS WHERE IT IS WEAKER

Classifieds players Facebook Marketplace

Facebook Marketplace competitive advantage

Audience size "Know your seller" General functionality (e.g. mobile, filters, chat, transactional) Price Inventory depth and quality Seller services Lead quality Trust in Facebook brand



Leading players need to get their defensive strategy in place

Not all classifieds businesses will be exposed to Facebook Marketplace to the same extent in the medium term - but a proactive approach to monitor and ward against the threat should be devised by all major players regardless.

Tactical moves to reinforce existing proposition strength and shore up any gaps should be the first line of defence. Over the medium-term a range of more game-changing options could be considered, including hyper-verticalisation to 'super-serve' an engaged community of buyers or sellers. M&A could be valid as a means to consolidate scale, move into new verticals or sub-verticals or to acquire additional services and solutions.

EXAMPLE LEVERS EXAMPLE BRANDS

Improve seeker proposition

- Product improvement to reduce purchase friction (UI/UX)
- Increase availability of value added services (e.g. improved delivery / financing)
- Ensure greater inventory depth and quality
- Invest in brand marketing to remain top of mind
- Introduce ID verification to enable trust between buyers and sellers and close the gap to "knowing your seller / buyer"

Improve service for sellers

- Professionals: Customer service and account management, Software solutions to encourage lock in, Value added services (e.g. tenant references / financing)
- Private sellers: Boost response, Facilitating transaction, Broader services (e.g. shipping, etc.), Remove "free" advantage

Verticalise / hyper-verticalise

- Generalist move to vertical specialisms (e.g. Le Bon Coin)
- Buy / launch hyper-verticals
- Vertical focussed sub-brands / websites

Consolidate scale through acquisitions

- Double down on sector specialist areas and consolidate brands / inventory
- Acquire complimentary elements to the tech stack
- Vertical / geographical expansion

Guerrilla tactics

- Active management of Facebook groups / marketplace inventory
- Close monitoring and reactive strategies

If you would like to access the full report, or discuss these issues in more detail - or simply learn more about us and our work - please get in touch...

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uncommon sense

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