



Executive Insights

Using Marketplaces To Cement Online Success in Furniture and Homeware

Marketplaces are a large and increasingly important channel for furniture and homeware brands and manufacturers. Online sales currently account for approximately 20% of all furniture and homeware sales — totaling some \$53 billion in 2020, a number that is forecast to rise to more than \$61 billion by 2025¹ — and ecommerce marketplaces are powering the majority of those sales.

Millennial buying power will drive the shift toward online for the foreseeable future as that generation buys homes and starts families. And right behind them is Gen Z, who will be even more inclined to shop online. Add to that the step-change in consumer behavior toward more online shopping as a result of COVID-19, and it becomes clear that furniture and homeware brands and manufacturers need to find ways to succeed online in addition to their traditional retail channels. And going forward, the marketplace environment will be key to their online success.

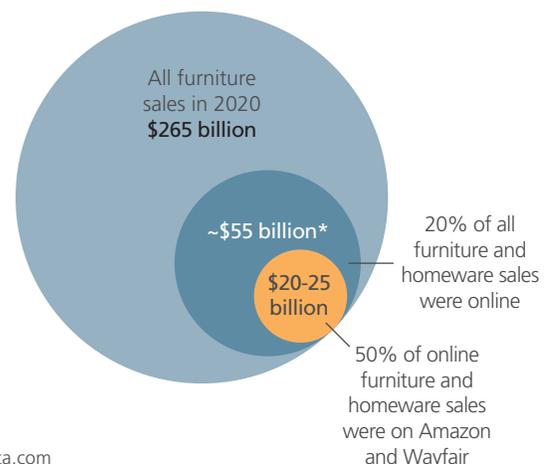
Surveying the marketplace landscape

The marketplace landscape for furniture and homeware can be intimidating. There are the two biggest players, Amazon and Wayfair, to which the lion's share of sales have gone; together

they account for upward of 50% of online sales in the category. Indeed, they offer almost impossibly large selections that cannot be replicated by traditional furniture stores online, let alone in their physical storefronts (see Figure 1).

In the meantime, the growing online share of mass merchants such as Walmart, Target and Costco — each with its own endless aisle marketplaces — further reinforces just how important the marketplace channel is for brands and manufacturers of furniture and homeware products. Even before the COVID-19 pandemic,

Figure 1
Marketplace overview: Furniture and homeware



*Statista.com

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which drove an unprecedented number of consumers online, Walmart.com and Costco.com in 2019 recorded roughly 12% and 19% year-over-year growth of furniture sales, respectively, while Target.com saw year-over-year growth of around 5%.

Many furniture and homeware brands and manufacturers don't have the brand equity that enables them to rely solely on their direct-to-consumer (DTC) ecommerce platforms to fully participate in the online channel. Marketplaces give them access to millions of consumers and the opportunity to compete. And for those that do have a strong DTC presence, marketplaces can provide an instrumental way to grow their brands and access customers where they shop.

To leverage the opportunity that marketplaces present, furniture and houseware brands and manufacturers need to understand, and account for, the strategic, executional and marketplace-specific keys to succeeding in that environment. And they need to adjust to the ways selling on an online marketplace differ from selling on a named site.

Finding the right keys to marketplace success

Succeeding in a marketplace environment requires doing things a bit differently than on a DTC site, whether in terms of

strategy and execution more generally or in ways specific to the marketplace itself.

Strategy

There are several strategic steps that furniture and homeware brands and manufacturers can take to support successful selling on marketplaces, including Amazon and Wayfair (see Figure 2 and Figure 3).

- **Manage the brand:** Protect the brand when relevant and determine the right products to sell by way of marketplaces vs. DTC
- **Build product development capabilities:** Mine insights on key products in order to get ahead of trends and drive sales
- **Manage the product life cycle:** Monitor metrics such as review ratings/volume as well as product velocity, as they have a significant impact on search results and consumer decision-making in the marketplace environment
- **Deploy the right fulfillment model:** Ensure that fulfillment is appropriate to the manufacturer's scale and capabilities, including considering options for outsourcing fulfillment to the marketplaces or other third-party providers

Figure 2
Selling on Amazon? Some things to consider



 Large and midsize suppliers with DTC fulfillment capabilities Directly list and fill orders via drop-shipping to customer	 Fulfillment by Amazon (FBA) Pay-as-you-go logistics service includes warehousing, picking, packing, shipping, returns and customer service
 Midsize and small brands Working with third parties eliminates need to meet individual platform scale requirements	 Seller-Fulfilled Prime (SFP) Vendors handle fulfillment and shipping via approved carriers or a 3PL; requires performance metrics monitoring — best option for suppliers with robust DTC fulfillment capabilities
 Large suppliers that sell product to Amazon Marketplace takes inventory of, lists and distributes product through invitation-only Vendor Central program	 Vendor Central Suppliers sell wholesale to Amazon; invitation-only and available only to the most established brands and manufacturers

Source: L.E.K. research and analysis

Figure 3
Selling on Wayfair? Some things to consider



Wayfair 1P fulfillment options:	To maximize listings:
 Large suppliers List on Wayfair; drop-ship directly to customers	 Integrate Combine online store with eSwap inventory management platform to upload bulk listings, automatically list inventory and manage orders
 Midsize and smaller suppliers Wholesale via resellers that market and list product	 Promote Participate in Wayfair's frequent promotions, which act as substantial traffic drivers
 Suppliers of all sizes Wholesale to Wayfair or its 3PL provider, CastleGate	 Merchandise List products on the right Wayfair marketplace — Wayfair.com, Joss & Main, AllModern, Perigold and/or Birch Lane

Source: L.E.K. research and analysis

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Execution

Ensuring that the merchandising and placement of your products on the site are optimized, aligned to both platform search algorithms and consumer purchase drivers (e.g., high search result rankings, appealing product portrayal, maximizing reviews), is critical for seamless execution. Take the following steps to ensure site-based optimization (see Figure 4).

- **Target your pricing:** Adjust price points to the target consumer while protecting the value of the DTC product offering, and only sell products on marketplaces where you can price to win
- **Provide compelling content:** Optimize listings with strong media (e.g., photography, video) and complete product info (e.g., descriptions, dimensions, instructions) along with SEO-friendly titles and descriptions
- **Build a rich assortment:** List a breadth of products to build awareness and, at the same time, drive conversion
- **Consider tactics for strengthening partnerships:** These could include giving marketplaces exclusivity on high-velocity products that build brand awareness
- **Participate in site promotions:** Market the right products during those limited windows to elevate the brand and be seen by new audiences

You'll also want to facilitate operational excellence, as a strong operational performance (e.g., high in-stocks, on-time delivery, high quality/low returns) influences search rankings, customer satisfaction and — by extension — customer reviews. Factors of operational excellence include:

- **Delivery:** Ensure it's both fast and on time
- **Inventory management:** Endeavor to keep in-stock rates high
- **Customer service:** Make service to both consumers and partners a top priority
- **Product quality:** Quickly resolve quality issues with effective customer service, but also work to improve defect and damage rates in production and distribution
- **Returns processing:** Manage reverse logistics as seamlessly as product delivery

High SKU performance is the final component of seamless execution. SKU velocity and review ratings directly influence search algorithms and results. And given the low brand awareness in consumer decision-making, higher search results fuel higher purchase conversion, which creates a virtuous cycle for the best performers. To facilitate high SKU performance:

- **Review ratings and volume:** Map new products to old products so you don't lose the power of the listing (i.e., innovate the product without losing the earned success of the listing)
- **Ensure product velocity:** High-velocity items will help the brand climb higher in search results, increasing its visibility

Figure 4
Tips for selling on any marketplace

For any online marketplace, be sure to have the right tools for:



Fulfillment and inventory management

A real-time view into inventory levels to avoid stockouts



Automated pricing

Actively manage price connected to stock levels and competitive listings



Advertising and promotions

Amazon ads, etc.

Other tips:



Avoid competing with customers and/or third-party resellers of your products (undercutting your own DTC offering)



Conform to marketplace guidelines (e.g., pricing, shipping)



Stay on top of customer service and mitigate poor product reviews

Source: L.E.K. research and analysis

1+1>2: DTC + marketplace

Marketplaces are important and are a critical building block for achieving "Total DTC."² That said, while it's important to win on marketplaces, it's just as critical not to rely on them but to find ways to have an active presence in both channels.

DTC offers brands an opportunity to express themselves in their purest and most direct forms and should be a high priority for most; however, a joint DTC-and-marketplace strategy can be synergistic in building awareness and driving sales growth. Some notable brands that have successfully navigated a meaningful DTC presence with complementary marketplace participation include:

- **Brooklinen:** The digitally native provider of bedding essentials sells a subset of its broader product offering on Amazon while keeping some product categories and lines exclusive to its DTC offering
- **Poly & Bark:** It's focused on shipping furniture with a high-end feel directly to consumers via its own DTC website but also maintains a highly curated storefront on Amazon³

The furniture and homeware consumer's shift to buying online will only accelerate as digitally native younger generations seek

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to furnish their own residences. And a quick look under the hood makes clear that online marketplaces are already powering those sales.

Like everything else online, the marketplace arena is rapidly evolving and presents another opportunity for brands and manufacturers to reach customers. But furniture and homeware brands, manufacturers, and investors need to approach marketplaces with the understanding that there are no one-size-fits-all solutions. Moreover, they need to view their presence on

marketplaces as a core component of their DTC strategy, one that complements and ultimately strengthens it.

Endnotes

¹Statista.com. "Furniture and Homeware E-commerce Revenue in the United States From 2017 to 2025." <https://www.statista.com/statistics/257524/us-furniture-and-home-furnishings-e-commerce-revenue/>

²LEK.com. "Total DTC: Building a Better Approach to Reach Your Consumers." <https://www.lek.com/insights/ei/total-dtc-study>

³Amazon.com. https://www.amazon.com/stores/POLY+%26+BARK/page/AD284D3D-2058-41C1-9E29-EA06FE116638?ref_=ast_bln

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