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Our Marketplace Discovery

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THERE ARE NIGHTS, as an entrepreneur, when you lie awake and worry that you've screwed up, that any chance you had to succeed is at risk, or even lost. That's normal. But it's far worse when morning comes and you still can't shake it. Something's wrong. It needs to be fixed. Is it even possible?

Fortunately for us, we have each other as business partners. We have different perspectives and temperaments, and that has helped us get through inevitable rough patches. Philippe is the serial software entrepreneur, a technologist, and an introvert, while Adrien, the business expert, likes to mingle, strategize, and sell. These differences have proven valuable to us, but they almost snuffed out our partnership before it began.

Our story starts in Paris in 2005. Philippe was selling his second company, a four-year-old fashion accessories startup called Maÿrev. He and his co-founder, Michael Ziegler, needed to come up with a business plan to help the buyer land financing. Michael suggested Adrien Nussenbaum. A product of France's elite business school, HEC, Adrien later worked as a banker in Hong Kong and as a tech entrepreneur. By the time Michael was urging Philippe to call him, Adrien was a consultant at Deloitte.

Philippe had crossed paths a couple of times with him. “We’re not a good fit,” he told Michael. But when Michael insisted, Philippe relented, agreeing to discuss the project with Adrien.

That’s how we began working together. The business plan we put together powered the sale of Maÿrev later that year. From there, we promptly moved onto the next project. It would be SplitGames, an online platform for video gamers.

If our concept worked as planned, our trading site would become not only a hub for a good portion of gaming humanity. It would also introduce powerful network effects into eCommerce, and disrupt it for the better.

The video-game industry seemed to be a promising testing ground for this new global platform. After all, hundreds of millions of gamers were online, and sooner or later most of them got tired of their games and wanted something new. By the second or third month, even *Grand Theft Auto* or *Doom 3* could grow tiresome. But that CD or game cartridge was still worth a lot to someone else. A platform on which they could do business with each other could grow exponentially.

Consumers, we believed, were ready for such a tool. By the early years of this century, when we were mapping out our course, trading online was already well established. Napster, while only active for two years, had quickly proven how the internet could transform an industry. While the site was up, music lovers ecstatically shared billions of songs, nearly sinking the music industry in the process. At the same time, consumers were buying and selling directly from each other on eBay, which was at the height of its glory. These platforms signaled the competitive need for companies to create and benefit from

network effects. At the same time, though, they needed to create new and legal business models.

Our company, as we saw it, would lay claim to one of the largest neighborhoods within the burgeoning digital economy. We saw tens of millions of gamers, even more, congregating on our site, and carrying out business with each other. We would collect commissions. We pitched this idea, landed venture funding, and then built and launched our site.

But before too long, we came to grips with the unwelcome truth that the business model for our video-game startup was fatally flawed. We'd poured inspired ideas into it and had raised millions in financing. But it became clearer to us with every passing day that all those charts we'd featured in our PowerPoint presentations, the ones predicting hockey-stick growth and rich profit, weren't quite right. In fact, a single defect in the model we'd conceived was pointing us to failure: users didn't like the site's currency.

This was a problem. Let's say you were ready to trade in a two-year-old *SuperMario* game cartridge. Chances are, the person who wanted it wasn't in a position to provide the exact game you were hoping to replace it with. Such neat fits would be rare. It is precisely that handicap, economists have long believed, that pushed barter economies toward currencies. And we, too, would need a currency so that customers could buy what they wanted from others. For this, we devised a system of points, or vouchers.

It soon became clear to us, however, that vouchers were a downer for shoppers because they had value in only one store. Vouchers demand more work and provide a lot less utility than cash. Looking at it from an efficiency standpoint, our IOUs

introduced friction. This put us into a headwind from the get-go. SplitGames's trading model was doomed.

This produced one of those entrepreneurial crises that many of you, no doubt, have experienced. Things look bad. Investors might take back their money. The fears are miserable, and yet ... The impending crunch of a crisis can lead to breakthrough ideas. That's what happened in our case.

We came up with a plan. A *solution*. We were extremely excited about it, but also nervous. After all, we still had to break the bad news to our investors that the business model they'd backed wasn't working. Then we had to sell them on our new idea. Otherwise, we stood to lose a large chunk of our financing. Needless to say, it was a tense time.

The meeting was in the 14th arrondissement, in southern Paris, near the sprawling Montparnasse railroad station. The neighborhood, long a magnet for writers and artists, is a bit grittier than the chic quarters in the city center. Still, Montparnasse has its share of architectural jewels, and we would prep for our meetings at one of them, the legendary Cafe de la Rotonde. The office, next door to the cafe, was newer and charmless. We made our way upstairs and into an immense boardroom, where the whole investment team was waiting to hear our pitch.

To become the global *entrepot* for gamers, we explained, we needed far more than a trading site. When online customers wanted something, they expected it immediately. They were an extremely demanding crowd, and their expectations climbed relentlessly. To reach them, and sell to them, we would build an entire marketplace featuring hundreds of sellers. This was the only way to ensure that customers could find

anything they wanted, and buy it right away. What's more, a huge marketplace promised to lower prices because sellers would be competing against each other. Needless to say, the entire marketplace, unlike our original concept, would operate with real money. This was the only way to give customers the selection, service, and convenience they wanted.

Making good on this vision wasn't going to be easy. Our marketplace had to be at least as good as Amazon's in terms of selection and service, and superior within our video-gaming domain. If we didn't match the quality and choice of the market-leading site, customers wouldn't bother with us. We acknowledged that this was a lofty goal, but it was the only way we saw to reach and satisfy millions of exacting customers. It had the potential to be great. In our vision, this new business model, the marketplace, would rise inexorably and dominate much of commerce. It would eat the world. This was relatively early in Amazon's rise to enormity, and before Uber or Airbnb even existed. But our vision of the rising marketplace economy turned out to be true.

While it's clear now, that conclusion seemed extreme in 2006. After we delivered our impassioned presentation, there was an uncomfortable silence in the meeting room.

Then the distinguished lead partner of the firm, an *eminence grise* of the industry, declared his verdict. He noted that the two leading sites in France at the time, eBay and PriceMinister, dominated the space. And he predicted, with grave confidence, that there would be no room for other marketplaces. That niche was occupied. With that, he encouraged us to return the investment funds, pull the plug on SplitGames, and take off on our next adventure.

We were disappointed, but not terribly surprised. It was of little use to clarify that our vision was not to build a peer-to-peer site, but instead to bring together merchants. After all, if the banker was worried about eBay, Amazon was an even more formidable competitor. The reigning lord of eCommerce was growing exponentially. It employed armies of the most brilliant programmers. It led the world with state-of-the-art logistics and was a global pioneer in the next great thing, cloud computing. Amazon was nothing less than a phenomenon. What gave us the crazy idea that we could compete?

What we attempted to convey to marketplace skeptics, in that boardroom and to countless others in the years that followed, was that the framing of this critique was faulty. It depicted the online economy as an ecosystem, like a forest or a sea, that was dominated by a handful of fierce and powerful predators. Like Siberian tigers or great white sharks, they crushed interlopers, often consuming them. So the rational move, the safe one, was to stay clear of the ecosystems they controlled. Swimming in shark-infested waters was suicidal.

That vision, still common, is the wrong way to look at it. These companies didn't grow big simply by terrorizing competitors, and eating them. Their march to dominance was built upon their superior business model. It draws immense power from networked technology. It works better. Customers love it. They demand it. And so, increasingly, do investors. Their new marketplaces represent a paradigm advance in global commerce. It's the way the world is headed. From an internet economy to a marketplace economy.

Not everyone accepted that view in 2007. But we saw an unmistakable trend. You could divide the history of commerce into three stages, we argued.

The first was the standard we'd known for centuries. Companies tried to figure out what their customers might want. For this, some carried out research. Others trusted their intuition. Then they built or acquired merchandise, and sold it to nearby customers for more than they'd paid. This scheme was familiar even to blacksmiths and wine merchants in medieval Paris and persists to this day. The second stage was eCommerce. It seemed radically different at first, but it wasn't. It simply moved much of the old model online. Most eCommerce sites were simply electronic versions of the catalog shopping that had been around for a century. Customers could shop from anywhere, but it was usually still the same store. Merchants were powerless to adjust their online offerings to customer demands. Indeed, it wasn't until the third stage, the online marketplaces of this century, that the old business model was turned on its head. It fundamentally shifted the focus of the market from what's available to what people want. This change from a supply-driven to a demand-driven market would reverberate not only through enterprises, but also entire economies. From now on, customers would be in charge.

This is not to say – importantly – that everyone who adopts this marketplace approach is sure to succeed, or even survive. Most will have struggles. Some will fail. But every single one that succeeds will have devised a strategy for navigating this new order. Some will move, as hundreds already have, to operate marketplaces. Others will come up with different ways to approach it, some as sellers; others targeting niches that, for one reason or another, appear protected from broader marketplaces. Regardless of the approach they settle on, everyone has to figure out where they fit in an economy dominated by customers who expect to immediately find whatever they want at the best price available.

Even as we made our first fruitless pitch in 2007, this new industry was breeding giants. Those pioneers and others that followed are now worth hundreds of billions – even trillions – of dollars. They’re disrupting vast industries. The question for all of us is whether the lion’s share of that growth will end up among the handful of household names we already know.

Unchallenged, these giants are poised to grow, to extend their dominance and spread into other industries. We’re already seeing it. As they grow, the network effects only make them stronger. As they grow, they harvest more and more data tracking our movements, preferences, friend networks, purchases, and appetites, and use them to increase their roles in our lives and communities. This could lead, as many have noted, to an Orwellian dystopia dominated by a small clique of platform behemoths.

The much healthier route, and the one we propose, is for the bounty of that revolution to be shared broadly, by enterprises large and small. Companies don’t have to be tech companies to compete with the digital giants in their arena. Most of those who resist it, and look the other way, are deluded if they believe they’re following a safe path. In markets where choices are nearly limitless and service always prompt, the combination of smaller and slower will rarely cut it. For growing ranks of enterprises, a marketplace is a necessity.

All those years ago, when we made our case to our original investors, this was a radical change, and we believed in it. They didn’t. So we parted ways, buying back the firm’s shares. We were free, and we still had enough funding to plow ahead with the marketplace concept. We and our team got to work on building the platform and everything related to it, from

marketing to editorial offerings and forums. A new marketplace economy was on the verge of taking shape.



News of our marketplace initiative was no secret among retailers and tech companies in France. We had made our pitch to numerous investors. And at least a few people in the industry could grasp the logic and see the impact of marketplaces, the whittling away of their business, quarter by quarter. Often their own families gave them a window into the changes afoot. Their kids were buying on marketplaces. So were *they*. More and more packages were landing on doorsteps. They were piled in apartment lobbies. Shopping online for just about everything was becoming ridiculously easy, and that spelled danger for legacy retailers.

If any company was in an ideal position to see the utter life-saving necessity of launching a retail marketplace, it was the legendary book, music, and photography icon Fnac. Its grand and stately stores had been nothing less than cultural temples for generations throughout France. Kids who liked books or music would set up their Christmas and bat mitzvah lists there. Fnac sold video games and cameras, a broad range of cultural goods, computers and accessories. Their stores featured galleries and photo exhibits.

Much of what Fnac sold was information, and this created vulnerability. Increasingly, information was coursing through networks as ones and zeros. Customers were used to finding the song or book they wanted with two or three clicks, and experiencing it – whether streaming or buying – as close to instantly as possible. They could also order practically any camera on earth with a click, and be shooting with it in a

matter of days. If customers could count on this caliber of service from one provider and not from another – no matter how beloved – the laggard would shrink, and eventually disappear. It was that simple.

But this was not yet clear to Fnac. In early 2008, Adrien was trying to reach out to the retailer with a partnership idea, one linking our marketplace platform and its brand. It's extremely hard, of course, to get the attention of even mid-level executives, especially for a bold idea. They have lots of things on their plate, and are usually reluctant to block out time to listen to a pitch from someone they don't know about transforming their company.

This was going nowhere. But a young investment banker who was advising us on fundraising worked feverishly to get us into Fnac. Without his help, Mirakl would not exist today. He landed us a meeting with the CEO of the Fnac Group's online business, Xavier Flamand.

He understood our pitch and our platform, and was so interested that he proposed buying us. At that time, we had other potential acquirers within the video-game industry. But we had a lifelong attachment to Fnac, and were intrigued by the challenges it faced, so we took the plunge, selling SplitGames to Fnac and going to work there. Our job was no longer to build out our video-game platform, but instead to create a retail marketplace, one that would keep Fnac alive and vibrant for generations to come.

Fnac was making the momentous decision to disrupt itself. Its reigning status quo had a fully evolved structure – of expectations, identities, traditions, and jobs. It had evolved over decades, and now faced tumultuous change.

Its buyers, for example, had developed a keen sense for the right books to stock, the right headphones to promote. They understood the customers. That was their *métier*. And now, the organization was telling them, the marketplace would offer everything, including hundreds of thousands of items from a host of sellers. It would interpret and predict customer desires not from the insights of these experts, but instead from clicks on the site. What was the value of the buyers' expertise, and the future of their jobs?

These fears pop up in every disrupted business. Resistance is common. An entire organization is anchored in yesterday, and it faces a perilous and often uncomfortable trek to tomorrow. Many won't like it. Some won't make it.

At Fnac, the work amounted to an immense pilot project. It was a thorny process because it disrupted customs and procedures that had been working for decades. Yet the resistance quelled, as you might expect, as the marketplace took off. It turned out to be a great success. Fnac's marketplace grew to be one of the busiest eCommerce sites in France, and it put the company on solid footing for the future.

Two years of success at Fnac got us thinking: perhaps we had landed on our true business. The world was full of companies like Fnac, all of them in dire need of marketplaces. We could see it happening around us. One of Fnac's competitors, Cdiscount, the eCommerce arm of the retail powerhouse Casino Group, started to build a marketplace, attempting to copy everything we'd done – including our mistakes.

In February 2011, we were eating mushroom omelets at Sancerre, a restaurant and wine bar just a short stroll from the

Eiffel Tower, when we came to a life-changing decision. We would start a platform company.



Often, when launching a business, you look around and see a product or service that customers are buying. It's an established market. And your bet is that you and your team can deliver it better – whether cheaper, faster, or more beautifully.

But this new venture of ours was different. Online marketplaces were both a product and a service that virtually no one was asking for. Few even understood that the possibility existed for anyone but the name-brand digital natives. To succeed, we would have to convince organizations around the world not only that they were in greater danger than they suspected, but also that they should adopt a business model that seemed foreign to them. It promised to be a tough sell.

At the same time, established brands had tremendous value. Over the course of decades, they had worked their ways into the everyday life of millions, into their rituals, even into their dreams. They had a lot going for them – if they could master the transition to the next stage of commerce. The potential demand for new marketplaces was immense. And we saw that it could stretch well beyond retail. All sorts of industries would be demanding the immediacy and selection of marketplaces.

We left Fnac and launched Mirakl in 2012. Early on, we registered some successes in France. Companies in our home market were seeing the success of the Fnac marketplace, and it made sense for them that a French company like Mirakl would guide them through a transformation. We spoke their language, in more ways than one.

Our first customer was a pure digital player called Delamaison.fr, a home-furnishing retailer. Initially, the CEO had expressed interest in selling on other retailers' marketplaces. We convinced him to start his own, and the company signed on in June 2012. A couple of other deals followed, one for discounted household goods and electronics, another for kids' apparel and accessories. Late that year, we signed our first name-brand retailer, the iconic 120-year-old department chain Galeries Lafayette.

That initial bubbling of success, however, led to another challenge. This came when we launched operations in the United States. You cannot be a global technology company and remain foreign in the world's largest economy.

We split up for this. In August 2015, Adrien moved to Cambridge, Massachusetts, while Philippe stayed at headquarters in Paris. While business continued to expand in Europe, the American market remained maddeningly impenetrable. Adrien tracked down top executives from blue chip retailers, such as Macy's and Best Buy, at conferences. They listened politely and certainly understood the pitch. However, success at French companies didn't speak to them, at least not forcefully enough. Europe was a different market with different rules. They held off. (Several, in fact, even sent Adrien notes saying that they would "never" launch a marketplace. More than a few are customers today.)

Maybe our message was too scary, our proposal too disruptive. Perhaps on Amazon's native soil the idea of competing with the marketplace giant seemed even crazier than it did in Europe.

The trend at the time in the United States was known as “omnichannel.” The idea, comforting to many retailers, was that stores were a strength, and that digital efforts should be focused on making them stronger. Some of this investment was useful and improved the customer experience. But for many, the omnichannel strategy proved to be a constraint. Online operations were simply an extension of the physical stores, offering the very same limited choices and prices. Omnichannel turned out to be a strategic cul-de-sac.

Interestingly, while we struck out in the United States, we notched some success elsewhere in the Americas. Were foreign operations freer to race ahead than the home offices? We didn’t know. But the richest tech economy in the world seemed content, or perhaps resigned, to leave the entire marketplace revolution to the reigning digital giants.

However, as consumers’ expectations rose, and smartphones melded ever more with their minds, it became clearer that online marketplaces represented the only hope to retain most of them, and the only prayer for growth. Deals started to come around. Adrien was on a flight from Minnesota in March 2017 when three American deals came through at the same time (on the last day of the quarter): Urban Outfitters, Arrow Electronics, and Simon Property Group. The revolution had spread to the USA.

Growth since then has been explosive, and the pandemic boosted it even more. As we write this, the market for marketplaces is electric. In the years since our U.S. breakthrough, our global customer base has grown to more than 350 marketplace platforms. We have secured hundreds of millions of dollars of

venture capital, and we're on our way to 2,000 employees in over 15 countries.

When we sign a new customer, they aren't just buying our technology. Often, we co-develop the initial business case. We hold extensive meetings and training sessions with them. We detail the challenges they'll face, the headaches sure to come, the best ways to manage this transformation for success. It's a journey. In the coming chapters, we take you through it, with retailers, manufacturers, and distributors describing each step from their point of view.

These marketplace transformations can cause some sleepless nights. We've had them ourselves. But that's part of the journey. From the very beginning, we've had a vision of global commerce in which legions of players, large and small, can thrive. It requires a revolution, one that disrupts a status quo dominated by giants. To that end, we train and equip the rebels. It's an adventure, and often even fun.

Chapter Summary

The chapter tells Adrien and Philippe's story, the birth of their partnership, and the path that led them to found Mirakl. It started, like so many new ideas, with a crisis, this one in their video-game trading platform SplitGames. Their customers not only wanted good deals: they wanted (and expected) a wide selection of games, all of them available at a click. This led Adrien and Philippe to the marketplace model.

The iconic French retailer Fnac, which was battling digital natives for market share, hired them in 2008 to build an Fnac

marketplace. Building a commerce platform from scratch was arduous. But it was successful. And that led to a simple thought: if Fnac needs a marketplace to compete with companies like Amazon, how many other companies could benefit from the same model? They launched their own marketplace company, Mirakl, in 2012. After initial struggles, they landed marquee customers, first in Europe and later in America. The platform revolution was afoot.