channelengine

How to Guide

How to create a profit-first marketplace strategy

Selling on marketplaces has become crucial for brands and retailers, ensuring visibility of your products to consumers. Marketplaces have overtaken brand websites and search engines like Google as the go-to destination for product discovery.

With consumers shopping across numerous marketplaces, brands and retailers must adopt a multichannel strategy to stay competitive—or risk falling behind. The shift to marketplaces presents both opportunities and challenges. While expanding across multiple marketplaces can drive growth, it also adds complexity—making profitability a key focus.

In this guide, we give a clear overview of all the factors you need to consider and how you can ensure profitable marketplace selling. By focusing on the details and data, you can determine which selling models and tactics align best with your brand and its retail partners.

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1. Marketplace strategies for brands

To make your business more profitable, your marketplace strategy should address three key areas simultaneously: **visibility, profit, and volume**.

Visibility

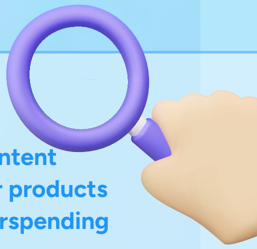
Being **'in the shop window'** is crucial to stay relevant to your customers. Without visibility, your products will underperform and you will not attain the volumes or profit margins you want. These are competitive environments; unless you take your share of marketplace visibility, your potential sales will be taken by competitors instead.

Building your brand presence doesn't always require you to adopt a D2C model yourself. You can work with selected retailers to conquer the marketplace domain - or partner with full-service partners who can take care of everything for you.

Content control is also important. Poor quality product content reduces your visibility if it doesn't meet marketplace standards. Aligning content with your brand identity is also key.

If you operate primarily as a wholesaler, then you don't need to focus on your own ROI. Instead, you can facilitate success for your retail partners by supporting them with top-quality content and advertising campaigns.

This kind of collaborative partnership can be very profitable, because instead of maximizing your own GMV on marketplaces, you can increase the throughput downstream – pulling more product out of warehouses and to fulfillment centers.



TIPs

Getting visibility on marketplaces isn't just about ad spend. High-quality, optimized content and the right fulfillment model can put your products in front of the right audience—without overspending on ads.

Profit

Of course, profitability is very important, and marketplaces must make a **net contribution to company profit**. There are a few ways to optimize profitability, as we'll address in more detail a little later in this guide.

GMV plays a role here as well. A high GMV with low margins may contribute less net profit. In some cases, **a lower GMV with a higher margin means that you generate more net profit** – and this is often seen with smaller-scale and niche marketplaces.

Volume

High volumes are generally a good thing, provided you've effectively maximized your profitability. It seems counter-intuitive, but even when margins are lower, higher volumes can end up being more profitable due to economies of scale and other synergies.

If you have your own fulfillment solution, for example, a high GMV can enable you to secure better contracts with carriers, volume-dependent price breaks with suppliers, and sales synergies.

In each case however, you should **carefully analyze whether a lower item price results in a significant enough gain in volumes to generate a beneficial net effect on profit.**

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2. How your marketplace costs affect profitability

Let's dive further into costs of your marketplace strategy. Some of these will be **fixed costs**, while others will **be variable or per-item.** There are also certain 'one-off' costs to consider; these come into play if you need to meet certain legal requirements or certifications to gain market access, for example.

Each marketplace will incur their own seller fees as well, and another key factor is to include a budget for advertising on certain channels. **These costs are frequently underestimated** but must be part of your equation. Depending on the size and focus of the marketplace, you will need a different approach – and this will affect the cost.

Generalist marketplaces

Marketplaces like Amazon and eBay are the **go-to destination** for many consumers, so these are often at the top of the list for brands that want visibility.

Generalist platforms like these are 'open' (meaning anyone can sell on them) and have a high number of sellers. The result: **high competition**.

Staying visible often requires significant ad spending. Intense price competition keeps margins very tight, and time must be invested in optimizing listings as well. If you get it right, however, you gain high sales volumes and excellent market penetration.

Local heroes

With smaller 'niche' marketplaces, you often see a **greater focus on a regional market or a specific vertical**. Niche marketplaces actively maintain a profitable selling environment by encouraging quality over quantity. Very often, these are 'curated' so only selected brands have access, or seller standards must be consistently high to maintain access. Consumers who use these platforms are often very loyal, and less sensitive to price.

With less competition, these channels can be **highly profitable** – even with a higher commission on sales. Your GMV may be lower than a generalist marketplace like Amazon, but these marketplaces can still make a significant contribution to your marketplace portfolio.

It's worth noting that in some cases, a '**local hero**' is also very competitive. Bol is a good example of this, because it is regional but also very open. This means a competitive analysis and listing optimization is often crucial, which takes time and resources.

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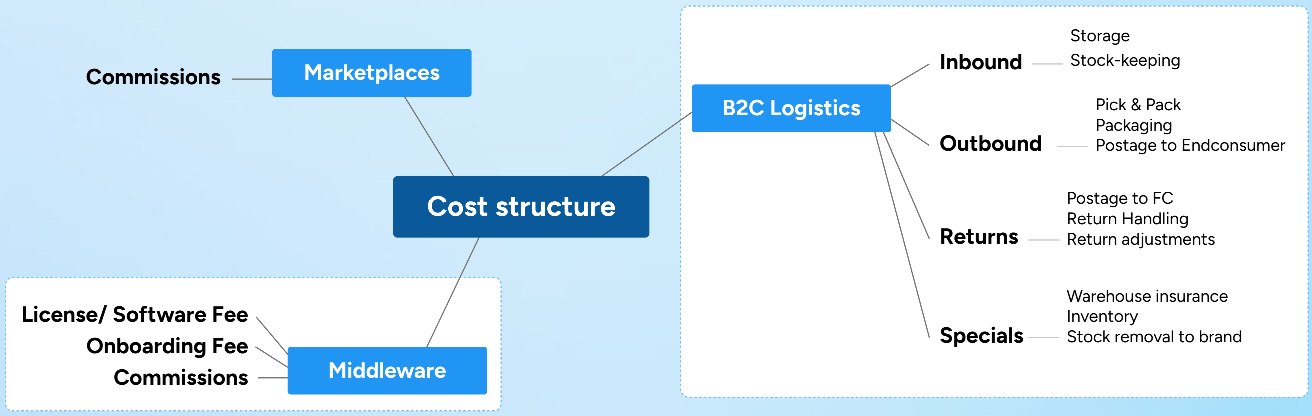
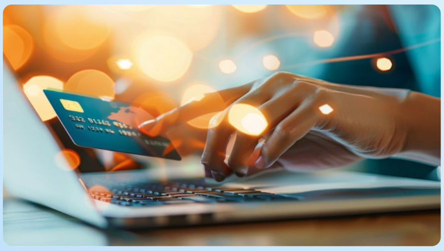
3. Overview: calculating assortment costs

A variety of costs play a role in your profitability calculations, so understanding these in detail is very important. Here's how you should do it:

Cost structure diagram





Marketplace fees can vary quite a lot but typically include a (fixed) monthly fee, plus variable fees like sales commission. You may also need to consider a payment processing fee for certain platforms that use their own payment gateway.

Middleware fees are also unavoidable if you want to achieve high sales volumes and optimized margins. These can include a mix of one-off onboarding fees, regular fees like commission on GMV, monthly fees, or software licenses.

Fulfillment costs will apply regardless of whether you use your own fulfillment or a 3PL provider (but they're usually clearer with a third-party). These cover costs for inbound stock, costs associated with outbound items, and returns costs.

TIPs

Returns are a silent profit killer. Track return reasons and fix the root cause—whether it's product descriptions, sizing issues, or quality concerns.

Check out this article for more tips on minimizing ecommerce returns.

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4. Assortment calculation

There is no substitute for detailed calculations when determining the contribution margin. As well as looking at the big picture, these should be drilled down to the SKU level, and for each channel.

You can assume an average item cost (per specific channel), but this can be misleading as certain items and categories will be more costly to sell.

Step 1

You should start with the gross turnover based on the Recommended Retail Price (RRP) and then deduct variable costs from this. For example:

- **Marketplace commission** (typically 5% to 25% of gross turnover)
- **Middleware costs** (typically 0.5% to 1.6% of gross turnover)
- **Full service partner**, if relevant (typically 5% to 12% of gross turnover)

Step 2

Then look at your fixed costs, because these must be supported no matter how much (or little) you sell. These are typically broken down to per-item charges if using a fulfillment solution like ZFS or FBA, but if using your own fulfillment solution then you need to determine these yourself.

- **Pick and pack** (per item)
- **Packaging and shipping** (per item)
- **Return handling** (per item, based on returns rate for item/category)
- **Return postage** (per parcel, based on returns rates)

Gross RRP turnover

Variable costs
- Commission for marketplace in % of gross turnover
- Commission for middleware/full-service partner in % of gross turnover

- Marketplace commission 5 - 25%
- Middleware commission 0,5 - 1,6%
- or full-service commission 5 - 11,5%

Fixed costs on article level
- Fulfillment costs
  - Pick & Pack per article
  - Packaging & Shipping postage (outbound) per pacel
  - Return handling per article
  - Return postage per parcel

E.g. ZFS (Zalando fulfillment service)
- Fulfillment costs
  - +3,70€ DE (Pick & Pack, Packaging, Porto)
  - +3,98€ DE (Return, R-handling)

Fixed costs overall
- Monthly fee for middleware or full-service-partner
- Storage costs
- Inbounds costs

Fixed costs overall
- Monthly fee 400€ to +1,500€
- 0,013€ per piece per day (ZFS)
- 0,58€ per piece (ZFS)

Contribution margin

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5. Where is the profit?

Revenue

Depending on which selling model you use, **the revenue margins generated will have very different effects on your net profit**. For example, 3P sellers are selling directly to the consumer, so 100% of the revenue goes to the brand or seller.

Conversely, a 1P or vendor model will see 20% of their revenue go to the vendor, so you only make a profit on about 80% of your revenue. It might seem a lot, but it compares favorably to offline retail where a typical multi-brand retailer generates just a 60% share of revenue for the brand.

Gross margin

The gross margin is **what's left after deducting the COGS from your share of the revenue**. This is subject to a lot of variation. In a D2C or 3P model the gross margin will be much higher, but this comes with costs: shipping, fulfillment, marketplace fees, etc., These selling expenses make a significant difference.

"Many sellers focus too much on GMV but forget that a high GMV with low margins is unhealthy. The key is setting minimum price values per channel to ensure sustainable profits."

Twan Rutten
Strategic Business Growth Lead at ChannelEngine

Cost of goods sold (COGS)

This is **the cost of the product itself**, and is equal to the money spent on acquiring inventory. Regardless of which selling model you use, the cost of goods sold will be the same.

Selling expenses

These cover all the **fees and expenses** you need to cover with your selling model. 3P sellers will need to pay for last mile shipping, marketplace fees, and most of the other costs (as outlined in the assortment costs above), while 1P sellers will have many of these costs 'included' in their vendor agreement and commission.

Profit

Profit is calculated by deducting the selling expenses from the gross margin. You can see how all these factors line up to contribute to your net profit in this chart.

	3rd party - Amazon seller	1st party - Amazon vendor	Offline retail
Revenue	100	80	60
COGS	40	40	40
Gross margin	60 - 60%	38 - 42%	20 - 33%
Selling expenses	22	12	5
Profit	38 - 38%	26 - 30%	15 - 25%
	Last mile fulfillment & marketplace fee	Fee inclusive CS & Fulfillment	Bulk shipment

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6. Turn unprofitable products into cash cows

Unfortunately, many sellers find that low-price items can generate negative contribution margins or very low margins. But that doesn't mean that consumers don't want those items or that you should stop selling them.

Very often, these items can catalyze **cross selling and upselling opportunities** when the right tactics are used to achieve a high average order value.

Each parcel has a fixed cost, so it makes sense to distribute this cost across a higher revenue. A proven way to achieve this is with **multipacks and virtual bundles**. These group together multiples of an item, or selections of related items into a bigger order. The consumer often gets a better deal, and so do you.

The **contribution margin** is what remains when the commission and Pick, Pack, and Ship costs are deducted from the MSRP or list price. With a product bundle, the fixed 'per parcel' Pick, Pack, and Ship cost is divided over a much higher revenue.

So, just by selling a pack of 3 pairs of socks instead of individual pairs, you go from a contribution margin of €2.39 per pair to €5.28 per pair.

> ***"Ensure your order value is high enough so that commission, pick & pack, and shipping costs don't erode your contribution margin. Bundling and pricing strategies can help maintain profitability by increasing AOV and reducing shipping costs per item."***
>
> **Twan Rutten**
> Strategic Business Growth Lead at ChannelEngine

You don't need to specifically allocate stock for virtual bundles. These are created as virtual products by your middleware. An interesting feature of these is that user data can show which items are being put into baskets as a combination. This data can create insights for the AI-powered virtual bundles that ChannelEngine can generate.

Not all products are suitable for multipacks or virtual bundles, however. In these cases, it may be worth removing these SKUs from the assortment. It's also worth noting that some bundles will succeed on one marketplace, but not always on another - **so use your data effectively to optimize**.


	MSRP	Commission	Pick, Pack &Ship		Contribution Margin
One pair of socks	€ 9,00	€ 0,45	€ 6,16	=	€ 2,39
Multipack	€ 25,00	€ 1,25	€ 6,16	=	€ 17,59

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7. Minimum Price Value

Establishing **a minimum price per item is the most valuable tool** to safeguard profitability. Adjusting your prices is also an important tactic, provided you use your minimum price as a ‘floor’.

There are many options for price adjustments, and you can fully automate it using **smart pricing rules and reprice engines**. This can be incredibly valuable for certain products, and during special events or promotions.

Minimum price calculation

To calculate your minimum price, you need to determine your **target revenue** (ideally per SKU), and then calculate the **net revenue** by deducting VAT. Your **Profit and Loss (P&L)** will set the starting point for this target.

Remember to cover all your costs – so **the profit generated must be equal to or more than your P&L.** First, start with your revenue. Then you need to deduct the commission, to identify your target profit. There is also VAT on fees and commission to consider, as this varies by jurisdiction of the entity. Even if you are able to reclaim the VAT paid, it’s worth including it in your minimum price because it will still affect your cash flow.

	bol.	amazon.nl
Revenue	€100.00	€100.00
VAT	21% €17.36	21% €17.36
Net revenue	€82.64	€82.64
Commission	15% €15.00	15% €15.00
VAT on commission	21% €2.60	0% €0.00
Net profit after commission	€67.38	€67.64

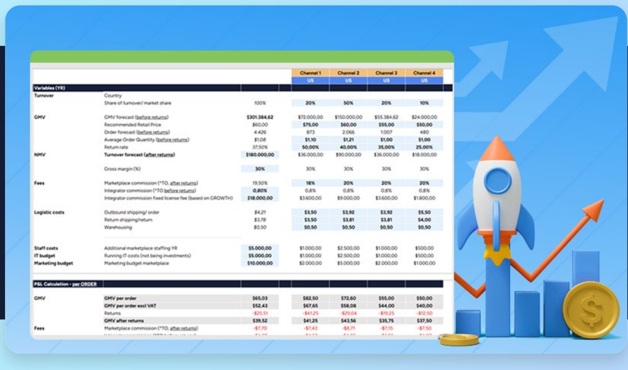
As you can see from our examples, the **net profit** varies a lot for each marketplace, so you need to set minimum prices for each channel to meet the same target. Using the profit target as a floor, you can then use your forecasting and returns rates to create clear minimum pricing for each SKU and channel.

It’s good to know **ChannelEngine will calculate the markup for commission for each channel**. This greatly simplifies things for ecommerce managers, because they just need to input the minimum price and then set a preferred margin above this.

Marketplace profitability P&L template

This easy-to-use template helps you optimize pricing and control costs—so you grow profitably.

Download the template



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Stay focused on the details

Profitability on marketplaces is very achievable, but it does require close attention to the gritty details and a regular review process. You need a clear understanding of **where your costs come from**, and **how much they will be for each item and marketplace**. As always, you need to 'know your data' and always let the numbers lead your decisions.

Key takeaways

- **Maximize profitability with price optimization/ adjustment per marketplace**
- **Exclude items if they erode margins or increase costs** (e.g. bulky, hard to handle items)
- **Be aware of the implications of different selling models and cost structures**
- **Reduce shipping costs where possible** (handling time, time-saving packaging, etc.,)
- **Decrease the cost of returns and analyze reasons**
- **Exclude items or add costs when high returns are inevitable**
- **Increase your AOV with virtual bundles and multipacks**
- **Increase GMV with a mix of channels**
- **Optimize or select channels, to focus on where you make the best margins**
- **Use automation, including for creating and publishing products**

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FAQs

1 How do I know if a product is unprofitable on a marketplace?

Analyze the contribution margin per SKU. If commission, fulfillment, and returns costs eat up your margin, consider bundling, adjusting pricing, or removing the SKU.

2 What's the best selling model for profitability—1P or 3P?

3P (direct-to-consumer) usually offers higher margins but comes with fulfillment and marketing costs. 1P (vendor) simplifies operations but has lower control over pricing and visibility.

3 How can I reduce marketplace advertising costs?

Improve organic rankings with high-quality product content, competitive pricing, and customer reviews. Also, focus ad spend on high-margin or high-LTV products.

4 How often should I adjust pricing on marketplaces?

At least weekly. Use automation tools to track competitor pricing and marketplace demand trends.

5 What's the biggest mistake sellers make when expanding to new marketplaces?

Not calculating the total cost per order, including marketplace fees, advertising, and returns. Many sellers underestimate how costs differ across marketplaces.

6 How do I handle high-return rates on marketplaces?

- Analyze return reasons and update product content accordingly.
- Offer size guides and better visuals to set expectations.
- Experiment with offering exchanges instead of refunds.

7 Should I prioritize high GMV or high-margin products?

High GMV only works if it's profitable. Focus on products with a healthy contribution margin, not just top-line sales volume.

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About ChannelEngine

The ChannelEngine platform gives ecommerce businesses the tools and insights needed to overcome the complex challenges of multichannel ecommerce, while **maximizing their profitability and efficiency**.

The platform provides a wide array of capabilities including automated translation, dynamic pricing, content management, order management, reporting, inventory management (incl. multi-warehouse), and much more. This is further strengthened by an extensive ecosystem of partners, who can cover every aspect of ecommerce expertise and operational capability.

"ChannelEngine's repricer has been a game-changer for us. Since implementing it, we've seen a significant improvement in our overall performance, including a 4.3% increase in margins, a 72% reduction in overpriced products, and hundreds of new products listed."

Matthijs van Lemel
Marketplace Specialist
at EQOM Group

Drive profit-first growth on marketplaces with ChannelEngine

Not sure if you're making the most of your marketplace strategy? Sign up for a Profitability Check-Up!

In our free consultation, we'll analyze your current setup and highlight opportunities to boost your margins.

Get me a free profitability check