Trade Working Capital Viewpoints

eCommerce: Merchant Finance

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Foreword

"Online marketplaces have fundamentally changed how goods are bought and sold; however, sellers' needs have changed as well. Sellers, of all sizes, need capital to finance growth, and we're excited to be a part of a solution to do just that."

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Synopsis

The emergence of eCommerce platforms has made it easier for small and medium sized sellers to access growth opportunities. As eCommerce merchants are frequently small-medium sized enterprises (SMEs), funding that growth can be a challenge. Characteristics of SME businesses including their potentially short track record, limited sales turnover and new and emerging business models may contribute to not qualifying for funding from certain financiers. This makes it challenging to access low-cost capital to support continued growth. New capabilities are being developed, in some cases combined with traditional financing, that may make accessing capital easier for online merchants and marketplace operators. Some considerations include:

- **Access to capital is an essential component to scaling a business:** Access to capital can play a pivotal role in seizing growth opportunities, including expanding product offerings.
- **Paths to capital continue to evolve, led by new innovations:** A core benefit of the volumes of data available today is its ability to inform business decisions, including new ways in which lenders can extend credit.
- **Enabling competitive advantages for marketplaces:** Marketplaces which offer embedded financing solutions to their valued merchants allow them to generate incremental throughput, decrease merchant attrition and foster growth in an increasingly competitive landscape.

The Challenging Path to Scale for *eCommerce Merchants*

Online marketplaces, like their in-person retail store predecessors, provide the essential infrastructure needed by sellers of all sizes to sell their wares to consumers. An estimated 35% of all online purchases occur in two-sided marketplaces, where the selling merchant is not the marketplace operator, 20% more than any other eCommerce segment such as supermarkets and grocers (15%), direct-to-consumer brands (14%) or retailer sites (13%).[1]

The exponential growth in digital marketplaces, which was originally the domain of big box retailers, has quickly expanded into virtually every business-to-consumer (B2C) or business-to-business (B2B) flow, from pharmaceuticals and wind turbines to cloud services and technology hardware as well as a myriad of other specialty retailers. The eCommerce business model allows more traditional corporates to enable a new revenue stream with related third-party products and services that enhance the customer experience and brand loyalty.

A profound difference in the eCommerce marketplaces of today is the role of the platform or marketplace provider, which provides the payment forum or service between the buyer and seller, whether it is B2C or B2B. These platforms play a truly pivotal role, making the dynamics of navigating eCommerce ecosystems different than their offline counterparts.

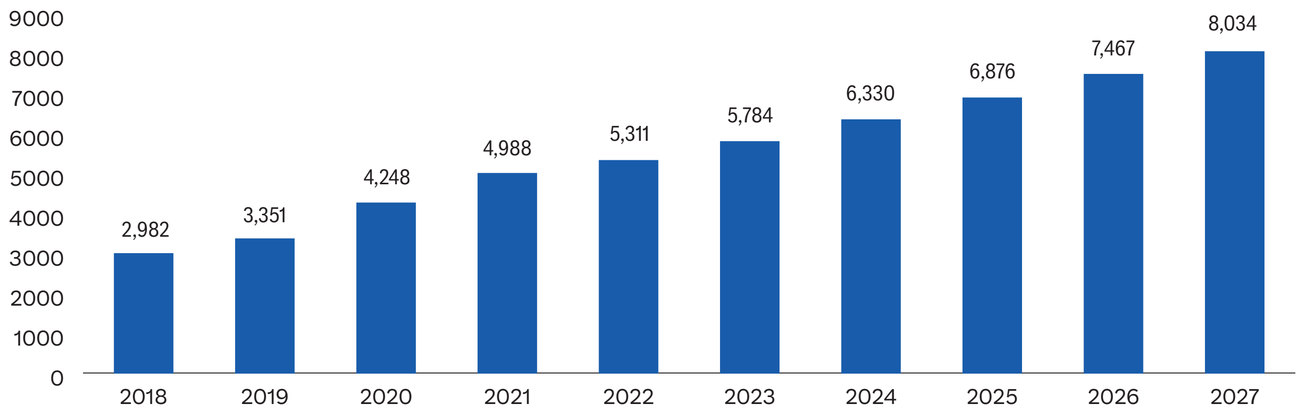
Online marketplaces also function 365 days a year, 24 hours a day. They link counterparties all over the world, theoretically minimizing the impact of geography and borders and in doing so reshaping the tools these marketplaces require to function at their full potential.

Based on data provided by Citi Global Data Insights, the eCommerce and marketplace provider industry continues to grow, with global retail eCommerce sales expected to surpass USD$8 trillion in 2027 (Figure 1). To meet this growth eCommerce marketplaces and platforms need their online merchants to also grow, create new products, and fulfill demand. For merchants, particularly SMEs, building increased capacity to supply the demand and meet these expectations is critical, and financing the growth is a challenge. “Citi’s investment not only validates our vision but also strengthens our mission to empower online sellers worldwide with innovative financial solutions. Together, we will unlock new possibilities and drive unparalleled growth for eCommerce businesses, disrupting the way eCommerce merchants meet their needs of working capital and manage their finances,” Ricardo Pero, CEO, SellersFi.[2]

[1] Statista, Censuswide; Wunderman Thompson Commerce, 2023.

[2] Business Wire, SellersFi Announces Strategic Investment by Citi to Expand Financial Offerings for E-commerce Businesses, 2023.

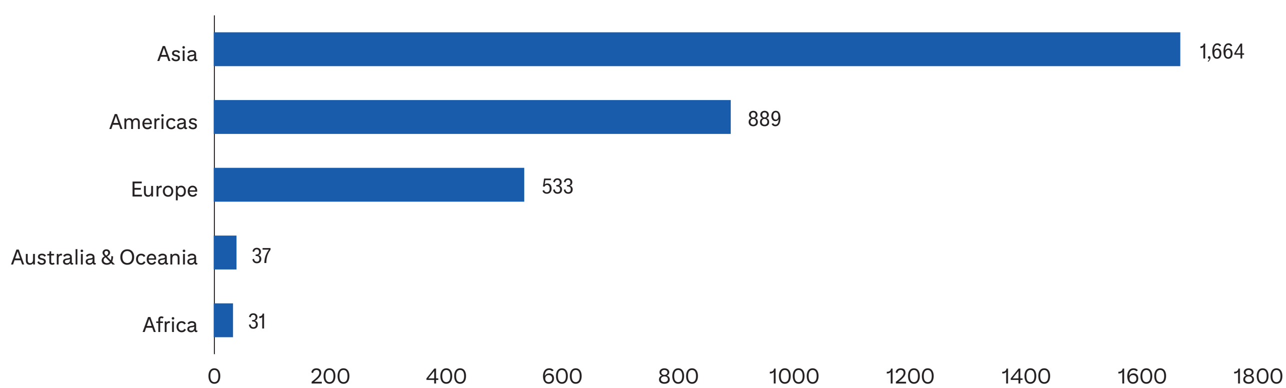
Figure 1. Retail eCommerce sales worldwide, in $USD billion



Note: 1) From June 2023 onwards, figures are forecasts, 2) Includes products or services ordered online via any device, regardless of the method of payment or fulfillment, 3) Excludes travel and event tickets, payments such as bill pay, taxes, or other money transfers, restaurant sales, food services and drinking place sales, gambling and other vice good sales, 4) Figure is for illustrative purposes only and subject to change.

Sources: Statista, eMarketer, Citi Global Data Insights

Figure 2. Retail eCommerce sales worldwide 2023, in $USD billion

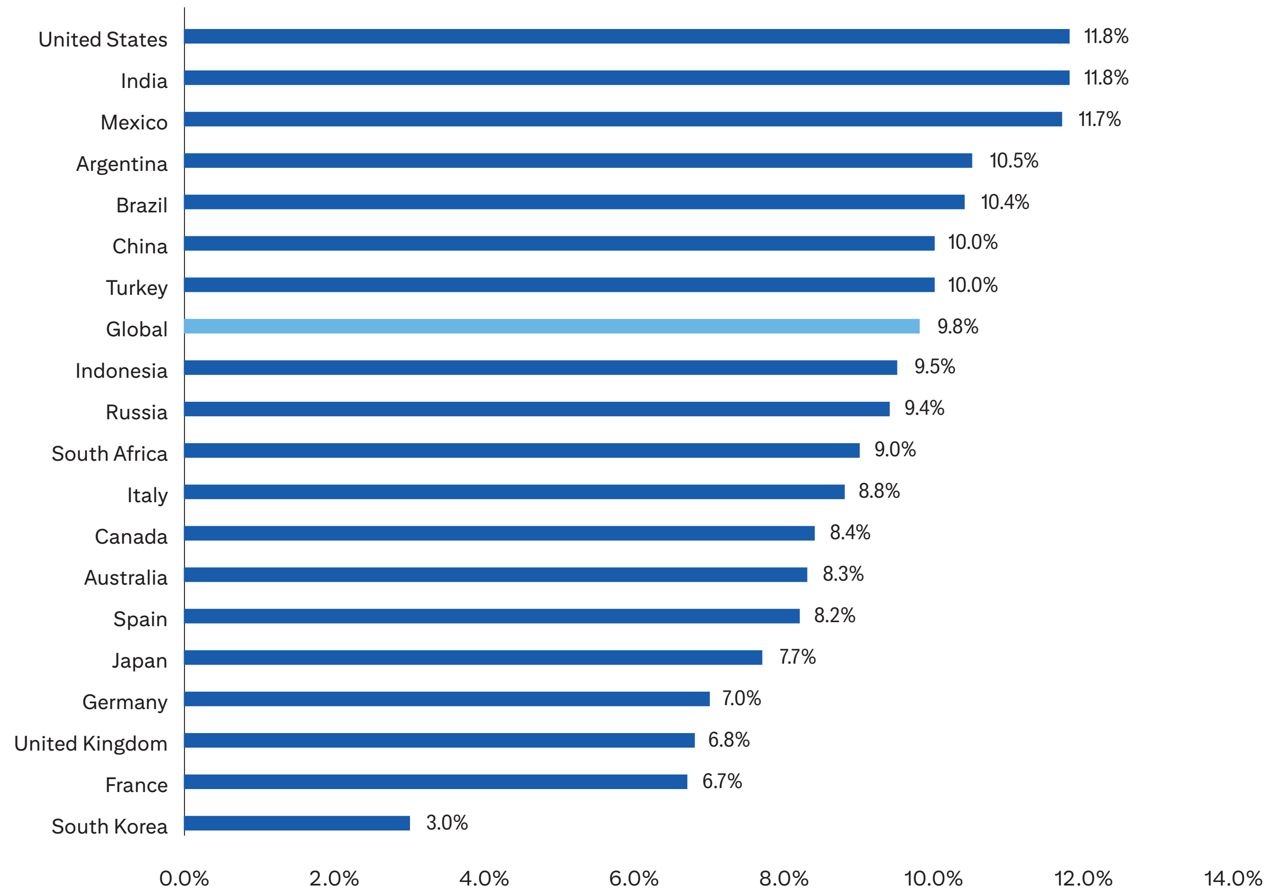


Sources: Statista; Statista Digital Market Insights, Citi Global Data Insights

Worldwide *eCommerce*

eCommerce continues to surge in popularity globally with an estimated compound annual growth rate (CAGR) of 9.8% from 2024 to 2028 (Figure 3). In emerging markets, eCommerce represents a particularly interesting opportunity, because it requires less infrastructure to serve a theoretically larger potential customer base. This allows some emerging market participants to "leapfrog" the constraints of more traditional commercial models, similar to some emerging markets adopting wireless communications infrastructure before building out landline communication. The formation of eCommerce businesses is particularly attractive for local entrepreneurs who can compete and gain market share by developing offerings better suited to their home markets.[3]

Figure 3. Retail eCommerce sales compound annual growth rate (CAGR) from 2024 to 2028, by country

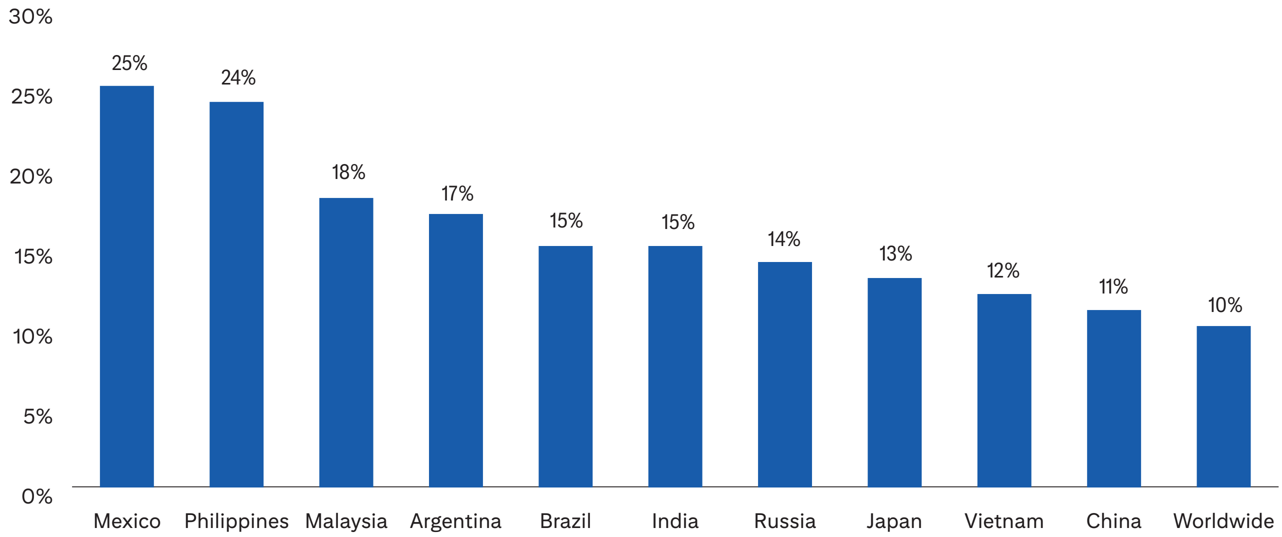


Note: Terms and conditions apply.

[3] Brookings, The emerging markets eCommerce opportunity, 2021.

One of the most exciting aspects of online marketplaces is that it provides sellers irrespective of size with a near limitless number of potential customers. For sellers, it is critical they can access financing that not only can help them get a seat at the table, but also help them scale to fully seize the opportunity at hand.

Figure 4. Leading countries based on retail eCommerce sales growth in 2023



Sources: Statista, eMarketer; Insider Intelligence; LinkedIn; matteoceurvels.com, Citi Global Data Insights

However, this seemingly easy pathway to achieve global commercial success creates new challenges for merchants, platforms and buyers. Cross-border transactions come with currency exchange complexities and risks due to currency exchange fluctuations. The risk of fraud and the chance of bad actors also increases as commerce spreads globally. Even something as simple as identifying the legal entities involved on both sides of the transactions becomes increasingly complex. Lastly, a cross-border transaction comes with requirements to adhere to multiple regulatory frameworks on each side of that transaction.

Supporting Merchants' *Financing Needs*

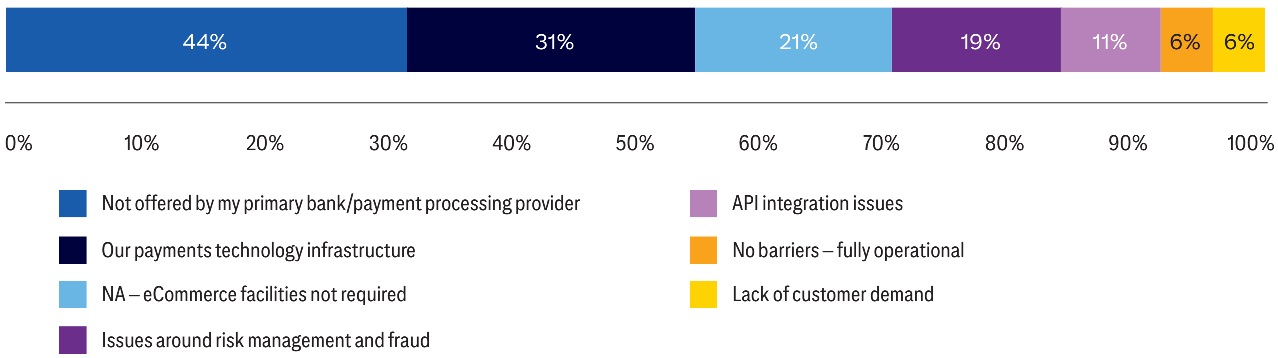
Just as participating in eCommerce requires new considerations and capabilities for merchants, so too does financing those merchants. Today's marketplaces generate not just staggering volumes of data, but they capture entirely new data points that either previously did not exist or were extremely difficult to capture. Large amounts of data scaled for program use have impacted credit underwriting models as lenders now have new forms of data they can consider when making underwriting decisions.

Of course, accessing this data is not easy. It requires lenders implement sophisticated, real-time integrations with these tech-native commerce environments and not just in one platform, but any acceptable platform where a merchant may be conducting business so that the lender can get a 360-view of their business.

Time sensitivity has also changed with respect to financing eCommerce flows. In a world where demand for a merchant's products can change dramatically with an opportunistic promotion, or a viral mention, online merchants are in need of real-time, or near real-time, credit decisioning.

Moreover, merchants have traditionally had limited channels for financing their businesses, and access to low-cost financing has become more challenging considering online eCommerce business models. This has required platforms and marketplaces to step up and try to fill that financing gap, leading to an increasing need for holistic, embedded financing solutions that can bring together sellers seeking financing with lenders, all within the construct of the marketplace in which they operate. The need for working capital finance solutions remains relevant for eCommerce buyers and sellers. In a survey of large corporates, when asked what their main barriers are to incorporating embedded finance into their eCommerce offering, 44% of respondents selected "Not offered by my primary bank/payment processing provider".

Figure 5. What are your main barriers to incorporating embedded finance into your eCommerce offering?



Notes: Responses sum to over 100% due to multiple responses being enabled. Charts are for illustrative purposes only and are subject to change.
Sources: Citi GPS: Supply Chain Financing, 2024, East & Partners Large Corporate Survey 2023, Citi Services

Because of the above reasons, the demand for eCommerce related finance has largely been serviced by Fintechs, leaving the industry fairly underserved by traditional banks and non-bank financial services. However, as the market has matured, platforms and marketplaces that are trying to solve the finance question on behalf of their merchants are requiring more bank-like characteristics. This includes rigorous adherence to risk and compliance, the ability to weather economic cycles and a reduced cost of capital. They are also looking for solutions that can satisfy the needs of their largest merchants and their smallest merchants at the same time.

That is why bank-fintech partnerships have become an important element of the eCommerce finance landscape. Marketplaces are increasingly looking to more traditional working capital providers, such as banks, with significant balance sheets to fuel the exponential demand for finance across the ecosystem. The congruence of the digital native eCommerce marketplace, the agility of fintechs and the financing bonafides of large financial institutions is resulting in more agile, embedded and scalable solutions for the merchant.

Citi is no exception. Citi has previously announced its investment with SellersFi under Citi's Strategic Investment Program. SellersFi is a global fintech focused on empowering eCommerce merchants through merchant financing. Platform and marketplace operators may benefit from integrating SellersFI credit-scoring models which utilize extensive data points, such as sales history, volume, demand changes, and average order speed. eCommerce merchants looking to grow may find value in the ability to quickly access working capital underwriting decisions and cash management solutions.

"Our investment in SellersFi reflects our commitment to supporting transformative businesses and deepening our capabilities in key growth sectors such as eCommerce marketplaces," said Christopher Cox, Head of Trade and Working Capital Solutions at Citi.

While the digital facade of these solutions has significantly improved the onboarding process for merchants and marketplaces, these eCommerce solutions are largely customizable. Marketplaces can work with companies like SellersFI and Citi to help structure a solution aimed to address the needs of the eCommerce business. Marketplaces can explore merchant financing transaction options that enable guarantee or first loss facilities with their offering, extending the reach of financing to further its merchants.

The need for marketplace financing is not just limited to supply side finance. As B2B eCommerce becomes increasingly "consumerized," buyers are expecting B2B solutions to look and feel more like the consumer applications they use in their personal lives. As a result, solutions already popular with consumers, such as buy now pay later (BNPL), continue to gain traction with B2B platforms that are looking to satisfy their customers' buying requirements. These buyers expect the same flexible, multi-choice payment options they've come to expect as consumers. Because of the demand for these solutions, marketplaces can elect to "eat" the financing costs associated with BNPL, viewing these fees instead as marketing or client acquisition costs, as they look to improve their sales conversion rates and further extend the buyer's purchasing power.

Supporting *Small Merchants*

A disproportionate number of merchants selling on online marketplaces are SMEs. In a survey conducted by Jungle Scout, a leading Amazon seller software provider, 70% of sellers generate $5,000 or less in monthly sales, $60,000 or less annually.[4] For context, the U.S. Small Business Administration (SBA) defines small businesses by industry; for all industries, the largest amount of annual receipts a business can receive while still being considered a small business is in excess of $2mm.[5,6]

Operating small businesses is not without challenges, as things like inflation and hiring talented individuals can pose greater disruption than larger corporates. Perhaps the most taxing challenge small businesses can face are cashflow issues. Creative eCommerce finance solutions are a win-win for merchants and marketplaces as both parties stand to benefit from increased scale. Merchants gain access to prompt financing that they can use to support and scale their businesses, while marketplaces benefit from fostering a more robust environment that merchants can thrive in.

Citi's Working Capital Advisory team can help marketplace operators assess how they can best support sellers on their platforms and help identify opportunities available to them to establish solutions conducive to a robust marketplace.

[4] Jungle Scout, How Much Money Do Amazon Sellers Make?, 2024.
[5] Small Business Administration, Table of Small Business Size Standards, 2023.
[6] SBA defines businesses by either total receipts or number of employees and varies by industries.

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