
Ecommerce Brands: Digital Scale

It was November 2021, and Henry Hanley (Darden MBA '15) had just colauched Ecommerce Brands (ECB)—an aggregator of online retailers focusing on the auto parts space.¹ This was Hanley's second time cofounding a company in as many years. The company was new, but the faces were not. This was his second venture with a Houston serial entrepreneur and financier and his first with Mark Bickenbach, Hanley's former boss and mentor.

The three had identified and were about to close on five online retailing brands owned by a private equity firm in the aftermarket auto parts industry. With access to debt and equity capital, a commercial agreement inked with Cart.com (Cart), which was the first company Hanley had cofounded, and a strategic plan in place, the three cofounders were about to expand from 3 to 103 employees in a matter of days. As the COO, Hanley would quickly be pressed to convert the operations-intensive strategy into reality.

Origin Story

While earning his MBA in 2015, Hanley had spent his summer interning as an online strategist at The Home Depot (Home Depot). Bickenbach, the CFO of Home Depot's online business, had hired Hanley, recognizing his strategic insight and long-term career potential. Much as Hanley had hoped, the internship led to a full-time offer upon graduation. He worked his way up from an entry role supporting strategic projects to spending time with Blinds.com, a subsidiary that Home Depot had acquired because of its technology that could sell a complex product line. The unique technology was configurable for other hard-to-sell categories like doors, windows, and countertops, which Home Depot also offered. Working with the Blinds.com team, Hanley met Omair Tariq, the CFO and later COO of the subsidiary business unit. Bickenbach later rehired Hanley to lead online and marketing strategy for the group he had been a member of previously. Thanks to the multidimensional benefits of the Blinds.com acquisition and a clear strategic vision, Home Depot's online business grew by leaps and bounds. With annual revenue climbing from \$3 billion in 2015 to \$10 billion in 2018, Home Depot ranked among the top five internet retailers in the United States. In 2019, Hanley moved to Wayfair.ca, where he led the upholstery, mattresses, textiles, and decor verticals to help the fast-growing retailer expand its Canadian business.

Working out of Boston, Hanley enjoyed the challenges of growing Wayfair's presence in Canada, but in June of 2020, he received an unexpected call from Tariq, offering him an opportunity to build something even bigger. His former boss was planning his next move beyond Blinds.com and Home Depot: he was pulling together a team to launch a business that would combine capital and expertise to help brands scale in the online

¹ This is a partially disguised, field-based case. All information and quotations, unless otherwise noted, are derived from author interviews with company representatives. Data have been disguised.

world. Tariq also pulled in Remington Tonar, a Houston executive, and Chase Zieman, another former colleague from Home Depot, into the fold. As fate would have it, Hanley and Tariq found others who wanted to take big swings as well. An early conversation with a serial entrepreneur-turned-financier began to gel the thinking about the potential scope. That fateful meeting yielded a simple vision from the financier: “Look, I want to do something big at the scale of Amazon or Shopify. Remove capital as a constraint and come back to me with your ideas.” Hanley was hooked.

Hanley, Tariq, Tonar, and Zieman accepted the challenge and drew on their experiences scaling digital businesses. A few common themes emerged. The proliferation of e-commerce enablement companies—a broad suite of companies spanning services and tech that enabled online commerce—actually made it harder to achieve scale. A host of companies supported online shopping with technology such as consumer-friendly digital shopping carts and back-end security features like Secure Socket Layer (SSL) protocols to enhance security over insecure networks. As of 2018, there were over 5,000 providers within the marketing technology space alone. For many online brands, this “paradox of choice” overwhelmed digital entrepreneurs forced to navigate an alphabet soup of options, many of which were expensive, did not integrate seamlessly with one another, and inhibited visibility into the overall consumer experience. Large incumbents managed the complexity by building out their own end-to-end digital and physical infrastructure, requiring hundreds of millions of dollars. Everyone else had to make sacrifices and trade fixed costs for variable costs, which helped in the short run but limited the benefits of scale in the long run. To compete with, rather than rely on, Amazon required quick scaling to escape this trap. “We realized that we had to have the end-to-end infrastructure to even the playing field,” said Hanley. “Once you have the end-to-end infrastructure in place you can monetize it by building an e-commerce business around it—or you can sell this capability as a service to other businesses.”

For a short period, the team tried to do two things at once: create a service selling the infrastructure to other online retailers and build an online business using that infrastructure. “As an early-stage company, this was too much to execute, and we ultimately decided that the capabilities the team possessed predisposed us to building a better e-commerce enablement infrastructure business to help other brands scale,” Hanley said. The idea would become Cart, and the plan to run an e-commerce business was put on ice. While optimistic, the team members knew they wouldn’t be able to build everything from scratch, so instead they created a “build + buy” strategy. By the end of 2021, the team had completed nine acquisitions spanning storefront technology, marketing services, fulfillment, multichannel management, and data feed management. In under two years, Cart had raised over \$380 million in debt and equity and had grown to 1,500 employees.

Ecommerce Brands

Toward the end of 2021, Cart’s lead investor was looking to back his next start-up and thought it was time to pursue the alternate strategy—leveraging Cart’s back end as a customer to scale owned brands. EcommerceBrands.com was incorporated as an independent company, with Bickenbach tapped to become the CEO. After a short conversation, Hanley agreed to rejoin forces for the next adventure.

The business model that became ECB entailed acquiring and operating direct-to-consumer sites and replatforming everything from a technology standpoint. The expectation was that with a common platform and functionalized services, these businesses would reach new levels of revenue and profitability. ECB would look to *roll up*² e-commerce brands that had a lot of operating inefficiencies and revenue growth opportunities. Instead of focusing on Amazon eMarketplace sellers, where many private equity firms were investing, ECB would seek to roll up independents in the aftermarket parts space—a \$440 billion total addressable market. The ECB team identified common pain points encountered by e-commerce brands trying to scale and suggested ways in which ECB’s platform and services could provide solutions (see **Exhibit 1**). ECB looked for value

² “Rolling up” referred to investors acquiring multiple companies (usually small) in the same industry and combining them into a larger one.

creation (cost savings and revenue upsides) along six dimensions that included channel expansion, call center sales and support, e-commerce enablement replatforming, supply chain optimization, marketing, and assortment expansion (see **Exhibit 2**). Cart provided the base front- and back-end platform, while enabling ECB's developers to customize where needed to suit their needs. In contrast to the Shopify model, which had limits on variants and attribute combinations, Cart would build out common infrastructure that could scale across a multistore format.

The team members leveraged their personal networks, including relationships with venture capitalists, investment bankers, and brokers, to identify potential acquisition targets. To ensure manageable integration, they sought EBITDA-positive companies with \$1 million to \$75 million, or more, in sales.

The aftermarket parts space

An opportunity quickly presented itself to acquire five brands in the aftermarket parts industry from a private equity firm that saw the potential of the large but poorly served market. The five brands had been acquired but not integrated, and they were individually leveraging a combination of Shopify, BigCommerce, and Magento. The private equity company had prioritized acquiring new brands, but it experienced significant fragmentation deeper into the tech stack. "When presented with this type of complexity in a resource-constrained world," Hanley said, "the team running the five brands had to optimize for task completion as opposed to maximizing long-term impact." Not surprisingly, the private equity fund had found it challenging to navigate the COVID-related supply chain crunch and a complex automotive aftermarket business, so it sought a sale of the business to a capable external team with the necessary expertise. The five brands were all in the vehicle aftermarket parts industry, a large and growing segment of the online retail marketplace (see **Exhibit 3**). Each of the five brands needed serious improvements to deliver. As one industry insider noted about roll ups: "operational skills matter a lot more than M&A experience."³

This segment included all vehicle post-purchase products and services, from oil filters and brake pads to winches and toolboxes. A key indicator of demand in the sector was the number of light vehicles in use.⁴ (See **Exhibit 4** for that and other key indicators.) The COVID pandemic that impacted e-commerce sales overall also played a significant role in the aftermarket parts industry. In response to a global shortage of microchips (see **Exhibit 5**), US manufacturers stopped producing numerous vehicles.⁵ With a lower supply of available new vehicles for purchase,⁶ prices went up, and the age of the fleet of vehicles in operation increased. "Increased reliance on personal transportation coupled with shifts in consumer purchase and maintenance behavior primes the aftermarket for continued growth," one industry insider said. "Consumers will continue to hold on to their older vehicles which creates further opportunity for the aftermarket."⁷ Indeed, there was an uptick in used vehicle sales.⁸

Although the aftermarket parts industry included multiple national retail chains, none had a significant share of the highly fragmented online market. O'Reilly Automotive had the largest share, at 5.7%, followed by Advance Auto Parts (4.9%) and AutoZone (3.3%).⁹ The remainder of the e-commerce auto parts aftermarket

³ Juozas Kaziukėnas, "Amazon Seller Valuations Have Doubled," Marketplace Pulse, November 30, 2021, <https://www.marketplacepulse.com/articles/amazon-seller-valuations-have-doubled> (accessed Nov. 4, 2022).

⁴ "Automotive Aftermarket: North America," Freedonia Focus Reports, November 2017, <https://www.freedoniagroup.com/freedonia-focus/automotive-aftermarket-north-america-FE85010.htm> (accessed Nov. 4, 2022).

⁵ Niall McCarthy, "The U.S. Car Models Most Impacted by the Microchip Shortage," Statista, June 1, 2021, <https://www.statista.com/chart/24969/vehicles-taken-out-of-production-due-to-microchip-shortages/> (accessed Nov. 4, 2022).

⁶ <https://www.statista.com/chart/24969/vehicles-taken-out-of-production-due-to-microchip-shortages/>.

⁷ "Total U.S. Aftermarket Sales Forecasted to Increase 11.2% in 2021," Auto Care Association press release, CISION PR Newswire, June 8, 2021, <https://www.prnewswire.com/news-releases/total-us-automotive-aftermarket-sales-forecasted-to-increase-11-2-in-2021--301307730.html> (accessed Nov. 4, 2022).

⁸ Mathilde Carlier, "New and Used Light Vehicle Sales in the United States from 2010 to 2021," Statista, July 22, 2022, <https://www.statista.com/statistics/183713/value-of-us-passenger-car-sales-and-leases-since-1990/> (accessed Nov. 4, 2022).

⁹ Matthew Pigott, "Online Automotive Parts & Accessories Sales," IBISWorld, June 2022, <https://www.ibisworld.com/> (accessed Nov. 4, 2022), 29.