Seven E-Commerce Startups to Watch

By Malique Morris

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As online shopping booms, venture investment in the e-commerce sector has taken off. That has put a spotlight on the small software companies that power online shopping, from enabling product subscriptions to making merchants' websites run faster. These include firms such as Fabric, Nacelle, Shogun and ReCharge.

In the first quarter of this year, VC firms invested $11.6 billion in the e-commerce sector, which includes emerging software platforms, up four times from the same period last year, according to CB Insights. Helping drive the interest is the wide variety of possible customers. It's not just e-commerce retailers they're targeting but companies that make clothing, shoes and other consumer items.

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>
> We profile seven software startups that provide services to merchants selling online, from enabling product subscriptions to making merchants' websites run faster. Among them: Smartrr, Fabric, Nacelle and ReCharge.

Those brands, which traditionally relied on merchants to sell their wares, are increasingly looking to sell directly to their customers online, said Jeff Richards, a partner at GGV Capital annual revenue from $1 million to over $100 million.

“When Nike sells me a pair of shoes on the website for $200, guess what—that is way more profitable [for Nike] than it is shipping a pair of shoes to Foot Locker and having Foot Locker sell me a pair of shoes,” said Richards. Not only is selling directly a “better way to build and build your relationship with customers, but it’s a hell of a lot more profitable.”

Below we profile seven of these rising software companies. Some, such as Fabric, are stand-alone e-commerce platforms that merchants can hook up to, while others, such as ReCharge, offer specific features that plug into existing platforms like Shopify.

Gabriella Yitzhaek. Photo: Smartrr

Smartrr

Founders: Gabriella Yitzhaek, Rob Hoffmann and Roger Beaman

Money raised: $3.5 million

Investors: Expa, Nyca Partners, Centre Street Partners and Jon Oringer

Why it made the list: Smartrr wants to improve the process of subscribing to products for both brands and their customers.

Last August, in the midst of the global pandemic, Gabriella Yitzhaek, Rob Hoffmann and

After talking with over 100 founders of e-commerce startups to get inspiration, they found that many of the business owners had one central problem: inability to offer product subscriptions. After spending months creating the software, the trio launched Smartrr on Shopify's app store in March.

New York–based Smartrr lets Shopify merchants charge customers for products on a recurring basis. For example, if a customer wants a particular face mask shipped from their favorite skin care brand each month, Smartrr adds an option to the brand's checkout page that lets customers commit to rebuying the same item at the same time each month. For a monthly fee that starts at $49, merchants can download Smartrr on Shopify's app store and plug the subscription- enabling software into their existing websites. To date, over 100 merchants have started using Smartrr, Yitzhaek said in an interview.

Smartrr also gives both customers and merchants access to a subscription management portal. With this tool, customers can perform functions like add new items to their subscriptions, and retailers can keep track of whether customers are keeping or cancelling their memberships. Yitzhaek said this feature sets Smartrr apart from other companies that offer a similar service. "The goal of Smartrr is not just to enable subscriptions," she said.

In the last quarter of 2020, Smartrr raised a $3.5 million seed round led by Expa and Nyca Partners. Centre Street Partners and Shutterstock's founder and CEO, Jon Oringer, also participated in the round. In addition to the monthly fees Smartrr charges merchants, the company also collects a fee from all transactions that are processed using its software. Smartrr declined to comment on how much revenue it has generated.

Abie Cohen, an investor at Centre Street Partners, said the mindset of Smartrr's founders drew him to the company. They are customers of the merchants who use the app. "That just seems like a very organic approach to starting and building a business. They know the problem and they can actually build a solution for it," Cohen said.

Faisal Masud. Photo: Fabric

Fabric

Founders: Ryan Bartley and Shiv Agarwal

Money raised: $53 million

Investors: Sierra Ventures, Norwest Venture Partners, Ascend Venture Capital, Expa, Redpoint Ventures, Forerunner Ventures and B Capital Group.

Why it made the list: Fabric, a software company launched by former Staples execs, wants to challenge Shopify and the old guard of sales management companies such as Oracle and Salesforce.

When merchants sign up to use a platform like Shopify, they often use the software firm for all of their online store's needs, including customer checkout and the ability to keep track of goods available for sale. But the convenience of plugging in software that's already in the Shopify ecosystem discourages merchants from looking for other options, according to Faisal Masud, CEO of startup Fabric. He wants to offer them more of a choice.

Masud says more-advanced options can be useful for merchants as they grow. For example, as online retailers mature, many of them offer a wider range of products. To make it easier for customers to shop by product category, merchants might want to group items of a similar type on their search menu, so when customers click on the word "pants," for instance, they see options for pages dedicated to jeans or dress slacks. That's where Fabric comes in.

Stripe for payment processing—Fabric develops everything from inventory management to payment checkout systems in-house. Fabric's software allows merchants to perform complicated tech functions such as grouping specific products together in a bundle, which streamlines the search experience on their sites, according to Jeanette Pranin, a software engineer at Fabric. Pranin previously worked as a developer for Package Free, a Shopify merchant.

Some of Fabric's offerings overlap with those of its larger rival. A spokesperson for Shopify says the company's software also groups products to make it easier for customers to search on its merchants' online stores. Nonetheless, Masud and his backers think Fabric has found a sweet spot—merchants with annual revenue of $10 million or more that may be ready to look beyond Shopify.

"We find a lot of merchants who hit the limits with Shopify Plus [the company's subscription tier catering to higher-earning merchants]....Usually that leads to a conversation around, 'What if we took part of that business and moved it onto a module of Fabric that doesn't have any limitations?'" said Scott Beechuk, a partner at Norwest Venture Partners. Norwest led the company's $43 million Series A fundraising round in February, which valued the firm at $193 million, according to PitchBook.

Fabric's management team includes several veterans from eBay and Amazon, such as Umer Sadiq, the company's chief technology officer, who was hired in March and previously spent over 11 years as a software development manager at Amazon.

"They're all deep technologists, but they also come from this market, this industry, and they appreciate the pain of adopting new technology," said Tim Guleri, a partner at Sierra Ventures, which participated in the company's seed round last August.

Fabric, which provides its services for a monthly fee, didn't disclose what its revenue was last year, but Guleri said revenue for the first quarter of the year grew seven times year over year. "They are off like a rocket," Guleri said.

Brian Anderson. Photo: Nacelle

Nacelle

Founders: Brian Anderson

Money raised: $22.8 million

Investors: High Alpha, Inovia Capital, Lerer Hippeau Ventures, Silas Capital, Accomplice VC and Index Ventures

Why it made the list: Nacelle helps brands increase sales by making their websites run faster for a generation of shoppers used to high-speed mobile browsing.

Nacelle seeks to solve a common conundrum that is costing merchants money: online stores that run too slowly. Customers today are likely to leave websites that take longer than one to three seconds to load, causing potentially missed sales, said Kelsey Burnes, Nacelle's vice president of marketing. Shoppers, who are increasingly using their phones to make purchases, expect the same speed on an online store as when they are browsing on a social media app. "People are used to being on their phones," Burnes said.

The startup promises to make a merchant's website run as fast on a web browser like Google Chrome as an app like Instagram runs on a mobile device. To pull that off, Nacelle's software acts as a conduit between the part of a website that consumers interact with, like the product pages one clicks on to see purchasable items, and a site's back-end applications, like order checkout and inventory management. By linking the data that controls the visual elements experience a faster one for customers.

The company, based near Los Angeles, currently works with just a little over 20 merchants. According to Burnes, merchants sign annual contracts that pay Nacelle at least $60,000 a year.

The two-year-old startup has raised $22.8 million to date, which has gone toward attracting new talent to support the aggressive product building it has been undertaking, Burnes said. The company's team has grown from nine employees last May to 50 this year, and Nacelle plans to reach 100 employees by the end of the year.

Finbarr Taylor. Photo: Shogun

Shogun

Founders: Finbarr Taylor, Damien Kan and Nicholas Raushenbush

Money raised: $45 million

Investors: Accel, FundersClub, Pioneer Fund, Initialized Capital Management, VMG Partners and Y Combinator

Why it made the list: Investors say Shogun, a vendor on the Shopify app store, has the potential to become a billion-dollar public company on its own.

on to launch the service, Page Builder, on Shopify's app store in October that same year. But the business made them no money, so Taylor, Kan and Raushenbush found paying jobs while continuing to operate the page as a part-time gig.

Their patience paid off. By May 2017, Shogun's Page Builder service was generating monthly revenue of $20,000 from Shopify merchants, Taylor, Shogun's CEO, said in an interview. That allowed Taylor to quit his day job to run the fully remote Shogun full time. (Kan, who works at pharmatech startup Alto, is no longer actively involved).

Since then, Shogun has developed other services, including Frontend, which creates visual elements necessary for merchant websites running on platforms like Shopify and BigCommerce. While both Shopify and BigCommerce build websites for their merchants, Frontend, which Shogun launched last November, was developed specifically to create websites that load fast. Where Page Builder costs about $39 a month and targets a larger pool of businesses with revenue ranging from $10,000 to $100 million, Frontend is for merchants with more than $10 million a year and costs around $36,000 a year, Taylor said.

Last October, venture firm Accel led a $35 million Series B for Shogun after seeing other e-commerce services companies, including Wix, GoDaddy and Shopify, turn into $10 billion-plus companies. With Shogun, "there's a multibillion-dollar company here," said Ethan Choi, a partner at Accel. His choice to invest in Shogun over a similar software startup like Nacelle was based on the fact that Shogun's software is integrated into Shopify.

Since its last fundraising, Shogun has been on a hiring spree to fill out its executive team, Taylor said. This year, the company, which currently has almost 150 employees, hired a chief marketing officer, vice president of product and vice president of people, and it is looking to recruit a vice president of finance. Shogun did not disclose revenue figures for 2020. Taylor said the company is not profitable yet but is not far from it.

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Oisin O'Connor and Michael Flynn. Photo: ReCharge

ReCharge

Founders: Oisin O'Connor and Michael Flynn

Money raised: $277 million

Investors: Bain Capital Ventures, Iconiq Capital and Summit Partners

Why it made the list: The company is helping brands gain longtime customers by providing them with tools that enable them to offer subscriptions for their products.

ReCharge founder and CEO Oisin O'Connor is a big believer that a new generation of customers, who shop online more frequently than their predecessors, want to feel connected to their favorite brands beyond making one-time purchases. "Younger people, they want to belong to something," he said. With that in mind, ReCharge helps brands offer their customers a subscription to their product, which gives consumers a way to keep coming back to their favorite brand.

ReCharge creates a clickable option on the retailer's checkout page that allows a customer to opt into having a particular product, like coffee beans or a lipstick, delivered to them at set intervals for a time period of their choosing.

O'Connor, a former business analyst for Deloitte, co-founded ReCharge in 2014 with fellow tech entrepreneur Michael Flynn. The 7-year-old startup has about 15,000 paying customers where businesses can add features to their individual websites.

“More and more brands are recognizing the value of repeat billing,” said Merritt Hummer, a partner at Bain Capital Ventures, which invested in ReCharge in May. “ReCharge was in the right place at the right time. They were able to scale to a pretty meaningful level.”

After six years in business, ReCharge raised a $50 million Series A round from Boston-based investment firm Summit Partners last year. Last month, the company raised another $227 million from Bain Capital, Iconiq Capital and Summit Partners at a valuation of $2.1 billion. Annual revenue is in the tens of millions of dollars, according to Hummer. ReCharge declined to comment.

Joseph Ansanelli. Photo: Gladly

Gladly

Founders: Joseph Ansanelli, Dirk Kessler and Michael Wolfe

Money raised: $113 million

Investors: GGV Capital, Greylock Partners, NEA, Glynn Capital Management and Future Fund

Why it made the list: Gladly is helping brands grow revenue by digitizing the customer service experience.

popular consumer brands like Tory Burch, Ulta Beauty and Crate & Barrel and their customers. The San Francisco–based company supplies companies with customer support agents, called "heroes," who communicate with customers through voice calls, text and direct messaging on the brand's website or on social media platforms like Twitter or Instagram.

One of Gladly's primary goals is to help companies earn more sales through their customer service operations, Ansanelli said. As part of this effort, Gladly's software allows retailers to process transactions through customer messaging on their websites. For example, if a customer is inquiring about a product through a chat with a customer service representative on a brand's site and decides to buy the item in question, the representative can take the customer's credit card information through the chat, a function that is not widely available.

"Brands are not going to be able to compete with Amazon delivering new stuff within hours," said Ansanelli. "The only way you're going to compete is on experience and relationships."

Gladly earns most of its revenue by charging clients $150 for each customer service representative they use monthly, a number that fluctuates with consumer demand. The company did not disclose exact figures, but Ansanelli said last year revenue tripled, and Gladly is aiming to double it this year.

Gladly's last fundraising was a $50 million Series D in 2018 led by Glynn Capital, with contributions from several firms including GGV Capital, which was also an early investor in publicly traded e-commerce companies like Poshmark and Peloton. After looking at a bevy of software firms, including ReCharge, GGV's Richards bet on Gladly based on the belief that as more online retailers look to sell directly to their customers, they will spend more on their customer service efforts.

"When you're B2B and you're shipping millions of pairs of sneakers to Foot Locker, you don't need to do a lot of customer care," Richards said. "But when suddenly 40% of your business

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Ashley Granata and Joseph Einhorn. Photo: The Archivist

The Archivist

Founders: Ashley Granata and Joseph Einhorn

Money raised: $2 million

Investors: Ashton Kutcher, Edward Norton and Sebastian Gunningham

Why it made the list: The Archivist aims to give designer brands the technological resources to sell used luxury goods directly.

As the market for used high-end goods has taken off, luxury designers are trying to get a piece of the action. In 2017, for example, Stella McCartney partnered with TheRealReal to encourage fans of her fashion to sell items from past collections on the resale site in exchange for a credit toward new items in McCartney's stores. Burberry and Gucci followed suit with similar partnerships with TheRealReal in 2019 and 2020, respectively.

Ashley Granata, a fashion tech entrepreneur, sees an opportunity to help luxury fashion companies get into that market themselves. Last year, Granata partnered with fellow fashion entrepreneur Joseph Einhorn, who founded social shopping app Fancy in 2009, to build the software company The Archivist. "Every luxury brand is going to take this on in the near future," Granata said in an interview.

The Brooklyn-based startup, which plans to launch its service in September, will power a only carry a single version of a used item as opposed to multiple new versions. The Archivist hopes to earn a commission for every transaction processed on the "shop the archive" page. For a monthly fee, the company will also give designers access to exclusive data that tracks which other companies, like TheRealReal, are selling a label's "archived" clothing.

The data will help brands understand how their vintage items are priced in the secondhand goods market, which can inform how they price used goods on their site, Einhorn said. The Archivist expects to have three fashion labels as customers by the end of the year, a person familiar with the matter said.

"When a princess is spending on your goods on sites like eBay...you don't have any insight on her or control over how she is experiencing your goods," Einhorn said.

Corrections & Clarifications: The story has been updated to clarify Accel partner Ethan Choi's expectations for Shogun.

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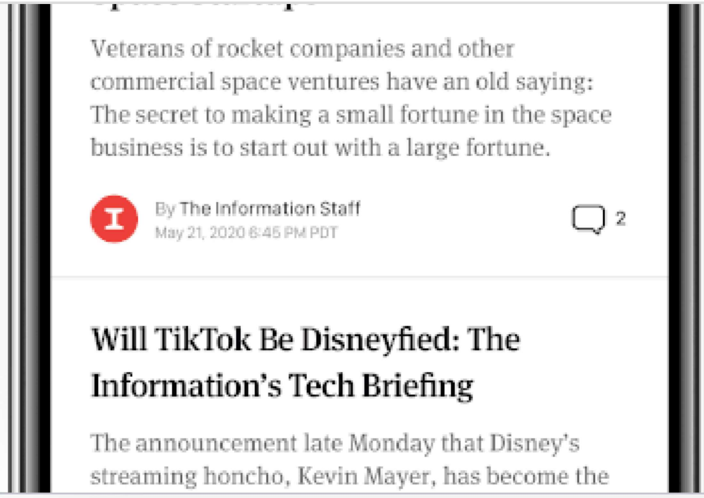

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