

2016 State of E-Commerce in Distribution

An MDM Webcast summary and transcript, featuring:

- Thomas P. Gale, Publisher, *Modern Distribution Management*
- Jonathan Bein, Senior Partner, Real Results Marketing
- Don Polletta, Vice President of Marketing, Torrco
- Joe Bennett, Senior Vice President, Sales, Unilog

2016 State of E-Commerce in Distribution

Executive Summary

- The number of companies with at least 10 percent of their total revenue from e-commerce grew 8 percentage points from 2014.
 - The top priorities for e-commerce are: increase new customers and orders; promote company brand; and improve the customer experience. As the distributor e-commerce channel continues to mature, priorities get more focused on gaining new customers and orders. But distributors are also putting more emphasis on improving the user experience, a natural and continual evolution as the e-commerce channel grows.
 - Significant differences exist between what distributors' customers want and need with an e-commerce platform. While some distributors are planning to spend nearly 10 times more than is needed, others are not spending enough to get the right platform to meet customer needs.
 - Most distributors require a customer to log in to see pricing and purchase products.
 - The most common method for a distributor to receive electronic orders is via email. Nearly a quarter of respondents indicated they receive more than 50 percent of electronic orders via email.
 - There are numerous challenges to be overcome when implementing an e-commerce channel. In most instances, a distributor must modify online product acquisition and fulfillment processes.
 - Distributors that address the unique challenges – and opportunities – of the e-commerce channel are more often rewarded with a compressed time period in the nascent stage as they move into the growth and maturity phases.
 - Expected revenue percentage for the current year shows aggressive growth compared to actual revenue percentage in the prior year. The number of distributors expecting their percentage of revenue to be in the nascent stage fell 18 percentage points.
 - E-commerce is a journey, not a one-time event. It requires care and feeding.
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This is the full transcript of the MDM Webcast “2016 State of E-Commerce in Distribution” from March 2016.

The Webcast presentation slides are included at the end of this transcript.

Tom Gale: I’m excited to bring you our annual update and research findings of e-commerce trends and wholesale distribution today.

Our program begins with a review of our annual research and partnership with Real Results Marketing that measures the adoption and growth of e-commerce as a channel for wholesale distribution and the key shifts that are taking place this year. They’ve been benchmarking this now for five years, through an annual survey of our audience and community of more than 15,000 wholesale distribution executives.

As Jonathan Bein, senior partner of Real Results Marketing, will outline shortly, one of the key trends from the latest research is how e-commerce continues to grow its percentage of distributor revenues. He has some other great insights on the ways e-commerce is maturing in our industry as well. Then we’ll hear the story of how plumbing and HVAC distributor Torrcoco has navigated their journey to build out their e-commerce capabilities across several dimensions.

In the final part of our program, we’ll have a broader panel discussion to explore current best practices, as well as challenges for e-commerce development and take your questions for the panel members as well. We’ll do our best to touch on the key issues today, including content promotion, pricing, search, taxonomy and B2B versus B2C.

Let’s get started. I’m delighted to introduce our speakers today. Jonathan Bein is senior partner of Real Results Marketing, a Boulder, CO-based marketing strategy and execution firm founded in 2003. It’s focused exclusively on the distribution industry. Jonathan and his team have been a valuable research partners and contributors to MDM for many years now.

Joe Bennett spearheads sales strategy for Unilog, particularly at CIMM2 B2B e-commerce platform. Joe has spent his whole career in distribution software. He joined Eclipse in 1991, where he served as an executive, principal and board member of Eclipse until its sale to Intuit in 2002. He continued long after as an Eclipse evangelist. He also has other very diversified experience in distribution. I’ve known Joe for

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many years, as well.

Don Polletta brings more than 25 years of experience in the area of direct response marketing and sales to his role as vice president of marketing at plumbing and heating distributor Torrco. Don joined Torrco in 2013 and is responsible for the marketing, communication and business development efforts. Prior to joining Torrco, Don worked as a consultant helping small- to mid-sized business owners develop their online marketing strategies and spent more than 15 years in the mortgage business where he implemented direct response lead generation campaigns using search engine optimization, email marketing and paid to search.

Welcome everyone. Jonathan, why don't you kick it off with the results from our latest joint survey.

Jonathan Bein: Thank you, Tom. We've got a paper coming out in the next issue of MDM that's going to go into a little more detail. I wanted to give you a highlight of what we're seeing in the trends. As Tom mentioned, this is the fifth year that we've done this survey, and there are some pretty clear trends of moving towards maturity. However, we'll see that we're not quite there yet.

Let's start with the first piece of data that we have from our survey. We asked distributors what their focus is on with e-commerce, what are they trying to achieve? I think one of the really big things that's happened over the years is that we've seen the focus go from slowly increasing the frequency of use of those transactions to really now more of a maturing set of priorities where there's a focus on the customer experience. We look at a lot of e-commerce sites in distribution, and there has been an evolution in terms of making those sites more usable. That's reflected here in these priorities.

The second piece that represents movement towards maturity is the emphasis on promoting the brand. Distributors are increasingly understanding that the web presence is a huge portion of the brand and the brand understanding. That's reflected in that priority.

Then finally, as shown at the top here, the increasing new customers focus has definitely moved towards a more mature focus because, when you roll out your e-commerce, you typically are going to focus first on existing customers. Once you've gotten operations and everything worked out, only then do you focus on taking on new customers. This is reflected in that data there.

The next piece that we look at is the trend of how much revenue is coming through the e-commerce channel. You can see that in 2011 there were not as many people involved in terms of having a mature channel. As we move up here we look at a burst of activity in 2013, where you see almost 68 percent are respondents having less than 5 percent of their revenue from e-commerce, and that number comes down, and then the other numbers come up over these three years here.

Now, the 2016 number is a predicted number. We ask the respondents to predict what their revenue is going to be in the upcoming year. When we look at it from a standpoint of maturity, we think less than 5 percent revenue being a nascent stage of e-commerce, 5-10 percent would be at development stage, and then 10 percent or more would be mature stage or perhaps even a market leadership stage if you get beyond 20 percent in certain markets.

The broad trend is that there are more people that are moving towards maturity. However, until we get to the point where let's say 50 percent of the respondents are saying we have 10 percent or more, there's still a big opportunity for distributors to grow and to mature in this channel. One of the things that we typically see in the prediction about the future year is a form of irrational exuberance.

We see distributors who say, "I'm going to go from a cold start, no revenue to 15 or 20 percent revenue." Unless you are a pure play e-commerce house or direct marketing house, you're not going to go that quickly from 0 to 20 percent. The journey typically takes a couple years, and anything you can do to compress that journey is a big win. Getting through that initial nascent stage is a big win for a lot of distributors.

One of the things that's driving the involvement of more and more distributors in e-commerce is the presence of affordable platforms. It used to be the case that you had to spend a half a million or a million dollars or more to bring the e-commerce solution to market. Today that price is coming down significantly. What it's done is, it's opened up e-commerce to a much broader swath of distributors.

At the same time, there are a number of distributors that are getting stuck below that 5 percent level of e-commerce, or in that nascent stage, so there's a lot more competition. The bar is higher, it's no longer enough to just have an e-commerce solution or an e-commerce offering. It's got to be good enough. This data is from B2B distributors. I'm actually going to show some data from the customers of distributors

later on, but right now we're focusing on data from distributors.

Another thing that's made it easier for mid-market and smaller players to get involved in distribution e-commerce is that there are more and more efforts to aggregate data perhaps through a buying group, association or co-op. Data is one of the hardest things in getting a good offering to market. The efforts to get data have been made easier.

Let's look at how people perceive demand and how they can best drive demand to the e-commerce channel. What's shown here is 13 different ways that one can drive demand. The blue number is considered to be the most effective. Again, these are B2B distributors who are responding. What you'll notice is at the top there's the sales rep and the customer service rep. We first started asking this question in last year's survey, and this year's survey is showing the same directional trend, which is that the salespeople, or more broadly your customer-facing people, can make or break your entire e-commerce experience for your customers. If the salespeople and the CSRs are onboard, and they're not threatened by it, and perhaps they're compensated appropriately you can turn them into evangelists, and that's a big opportunity. Conversely, if they are threatened or suspicious or mistrustful in some way they can throw your e-commerce initiative very very quickly.

If you notice, the sales rep percentage here of most effective is bigger than all of the rest combined. Well, nearly as big. Really important to keep those people involved. A second piece that we should note in this year's data is that now, with the ascendance of digital marketing techniques, SEO and organic search has overtaken print catalog for being the fourth most effective way as considered by your peer distributors driving that.

That being said, print is still very relevant. It's fifth out of 13, and depending on the sector you're in, you may still find a lot of your customers who are shopping first in a print catalog and then coming online to buy, because that's how they're used to doing things.

This question about pricing is new this year. We've had a number of stimulating discussions at conferences and with our customers and just in the market in general about what should one do with pricing. I don't want to share too much here because we're going to address it more in the panel. Essentially there's five pieces here that we're looking at. The first would be so-called B2C type of pricing, where you can go to an e-commerce site, put it in a credit card and check out without having an account.

The next level in the hierarchy is pricing is available on the website, but to get your customer-specific pricing you have to log in. A next level would be only verified customers can purchase, and this might be where, for example, a distributor is trying to restrict it to maintain their channel integrity. They might want to prevent end users or consumers from buying. Then we have log in to see pricing of purchase. Then log in required to view product information and pricing. That's the most restrictive, but pure B2B, if you will, is that last example. You can see that only a portion of people have the B2C functionality. There's a much heavier emphasis on the B2B functionality here. When it comes to the B2C, almost half have no plans to support it or plan to support it after 12 months.

In terms of engagement, how do we get people to come back, how do we get them to buy? We've actually done an end-user study with about 3,500 customers of distributors; I'll be sharing portions of that data, and there will be a forthcoming report to MDM. One of the things we asked is, why do you leave an e-commerce site? It was an open-ended question, but the answers were very easy to classify.

The reasons people leave your website without buying are 1) the content is not good, 2) they can't find what they need, 3) the system is unusable, it's hard to navigate, 4) the product is not in stock. And then there were a couple things related to pricing; pricing is not shown or it's too high. These were very stark in terms of when we looked at the data it was very easy to see that directional pattern.

I think what this shows here from the distributor perspective is that yes product data content is the key engagement driver and provides a basis from which you can do more meaningful as you go. You have to be able to provide good technical information, and then there needs to be a good product selection on the site, and possibly with configuration guides. I think the good news in all of this, in terms of the six or seven reasons people leave, is that there is a corresponding technical solution to address each of those issues.

Now I'm shifting to showing data from customers of distributors. We had 10 distributors participate in this shopping and buying trend survey, and it is very relevant to what we're showing here and very supportive. We wanted to separate shopping practices from buying practices. Shopping meaning, "I'm finding, I'm selecting, I'm evaluating," separate from buying, which is purchasing, transacting and order-

ing. I'm just going to show a couple from that here. We looked at 10 different shopping methods. I think three electronic, four people, and three different print shopping methods. We wanted to see how customers perceive what's happening with shopping. In some sense, this is probably telling you what you know, which is we're moving towards electronic. There's a lot happening electronically. Again, people may be transacting differently. Print is waning, however the current preferences and the expected change do depend on the sector.

We had one distributor from Silicon Valley in here. All of their customers pretty much wanted to shop electronically. We had another customer from the Gulf Coast, a much more traditional customer base, they were very significantly attached to shopping with people, talking to CSR or going into a branch or having a sales rep come to them.

I want to drill down on the electronic methods. The report we're coming out with is going to look at the shopping by print and shopping by people, as well. We looked at three different shopping methods. Again, this is customers of distributors. We see here the three different methods. Search engine, going to a manufacturer website and then going to a distributor website.

Search engine is the winner here. Thirty-eight percent of the respondents very frequently use a search engine to shop versus about 30 percent for the other two electronic methods, but people in print methods were quite a bit below that. The shift over the next couple years is towards search and distributor websites. On the one hand, by the way, if you're sitting here looking at this data you're saying great I'm a distributor, I'm third out of 10.

But on the other hand, you're looking at this data and saying if I'm a distributor what if they go to the manufacturer website, or what if they search? There's no guarantee they're going to come to me. The distributors who are able to make their websites and e-commerce sites a destination are going to be able leap frog the manufacturer and the search, and then be able to pick up more of those orders.

A couple of key subtrends demographically. Small customers prefer to shop with electronic means more than larger customers. Larger customers are going to get attention from field sales. It makes sense. Second piece we saw was actually to qualify how much the millennial crowd actually prefers search over other mechanisms for shopping. It's not a surprise about the under-25 demographic. What this is showing is that they are a third more likely than the average. What that's means is if you want to be selling to the under-25 demographic you got to get very good at search. If you can do that, you're going to have a competitive advantage over most of the players in your market.

I'm shifting back to data from distributors now. We're going to look at electronic ordering, and then I'm show the end user perspective as well. If you look at this there are a couple of key pieces. One is that email is really really huge. Twenty-four percent, let's say a quarter of the respondents get more than half of their orders via email. Another eight get 30-50 percent of their orders via email.

It's a very simple idea. If I'm shopping on your website and then I want to go to transact, if I'm entering something on your website to purchase via e-commerce, I'm actually doing order entry. By contrast, if I send you an email that's got a PDF in it, you're doing order entry. This trend is a very notable trend, and it was very very strong among the under 25 crowd.

Second piece is the relatively slow increase of ordering by tablet and smartphone. Again, our experience is that more shopping is done via tablet and smartphone. It is on the rise, and part of it is that you can actually stimulate demand here by creating the right apps, the right content, etc., in your mobile apps. You can actually drive that order. We have one client that we worked with and they drove 25 percent compounded growth for seven or eight quarters of ordering via mobile.

Now I'm shifting back to customers of distributors and looking at the buying methods. There were 10 buying methods here and that includes fax, and it includes EDI and punch out, and this, that, and the other, but the data here was really stark. The top three buying methods were way above the other seven. Even email ordering is above website ordering. It may be the case that you create a great e-commerce solution, and they do great shopping on your site, but then they still want to send the order via email.

There's a lot of different ways that that can play out. The movement over the next two years is towards web and email. It's easier to deploy that further down market than it use to be years ago. That concludes my presentation. Back to you, Tom.

Gale: Thanks, Jonathan. There are a lot of new pieces here this year. The whole piece around email is really interesting. I guess the one question I have, I know we're going to talk more about this I think when

we get into the panel discussion, but is the email piece is a surprise. Is it really unique to the types of B2B relationships the distributors have built out, that email has become a stronger channel essentially?

Bein: It's really for the customers who are too small to warrant getting EDI attention from the distributor or who are too small to have a procurement system or an ERP system that facilitates doing EDI. I think of it as a poor man's EDI.

Gale: Great, thank you. That's helpful context. At this point let's shift gears a little bit. Before we go into a panel discussion, I'd like to introduce Don Polletta. Don, I'd like to ask you just to spend a few minutes now if you could, and give us a quickly little background both about Torcco, but in particular the e-commerce journey that you have been on and some of your top-line learning's about it. I think that's going to give us a great point to start our discussion, at which point we'll bring in Joe Bennett as well, of Unilog, and go from there. With that, Don, welcome.

Don Polletta: Thank you. We started our e-commerce journey back in 2013. If there was one message that I could get across to everybody on the call today, it's that patience and persistence is the key message if you're stepping in to developing an e-commerce platform. The CEO of our company, Joel Becker, brought me in to look at this back in 2013. Basically what we saw, two things. No. 1, we knew we had to get into the game, because this is where the future was going to go for our customers.

Then secondarily, the fact that many of our internal counter people were using competitor sites that had developed their sites already, because it's like a supply house to reference their product information. It didn't sit well with us. We knew that we didn't want to have our guys doing that. We needed to get in the game, get up a site where not only our customers would have a reference point for product information, but that also our sales force could have a reference point.

We started the journey trying to do it ourselves. It was interesting. I just recently went out to the ASA conference in Phoenix, I can't tell you how many of us distributors there have shared the same story, no matter where they were in the journey. I'll reference it as a journey. We started with trying to do this ourselves. We found the ERP integration, creating a taxonomy in the search. We had a number of fits and starts to get the site up and running that just didn't work well for us. It's tough enough to be an expert in this field without having to develop an e-commerce platform.

By chance, one day Joel had an email – and we laugh about it now – but the platform that we're up on right now, CIMM2, was one click away from being in the delete box, but there was something in the message that we had that we said, let's just take a look at if we were going to go out and have somebody support us in this project what it would look like.

In January of 2014 we engaged with Unilog to work with us on developing our e-commerce site. I've got to tell you, the moment that we had signed the agreement and got started, I thought that we would be up, running and have a world class site in three months. That was just my expectation. I couldn't be farther off on that. Hopefully I'll come around to tell you that the timing that it took us to get where we're at today, and the work that's still left to be done, because I still consider us to be in that nascent stage, it's a journey.

Anyways, we started in January of 2014 and we got to work with Unilog on our content enrichment. Working on all the wiring of the e-commerce. Figuring out what would be the best ways for our customers to interact with the site, how would it all go. We went through that process and we went live somewhere in September or October of 2014. It took us about nine months roughly to get the site up and live.

At that particular point, my expectation there was that we had crossed the finish line. We got a live site, we're ready to go. Another false thought I had there. What I can equate our go-live date back in that September of 2014, it's like you're having a baby that's just born. Now what you get to do is you make this thing live to your customers, it's like changing diapers, you get to figure out what you did wrong, what wiring was crossed. Ultimately the go-live date is where the journey begins.

We continually work to increase the user functionality with our customers today. Let me tell you, when we did go live in September 2014, the first challenge was not only getting our customers to log onto the site and use it, but to get the internal adoption and have our salespeople understand and use the site, and work with us too. The fact that something is broken or not working the way you would want it to work in the process was an important part. That was the good news. Getting that adoption internally

early on was a little tough, but we worked through it.

Today our sales force is out there promoting the site and the app. Our initial goal was just to get our customers to go to the site, login and take a look. Then get them to search, and then the focus became to get our users to actually use the site. We've developed an outside force where we've got some adoption out there in the field now.

Ultimately our idea was that, when you're talking about your customer you want to make sure that if they want to go on the website and order or research a product that you have that. If they need a mobile app, and they prefer to do it that way, you have that. We wanted to go down the channel of ultimately what was presented in Jonathan's presentation, of making sure that whatever our customers required in the way of making things easy for them to do, that we could offer it to them.

Where we sit today is we continue to develop and increase the user functionality of the website, we continue to enrich and improve our product content, and we continue to go out into the field and engage utilizing our sales force to engage with our customers, to get the message out and support them, and train them in this particular platform, our e-commerce site to go ahead and use that if they choose to and if that's the way that they want to transact.

The key message is to make sure that we had all that stuff available, and that it's truly a journey. The big lesson learned for me, is that the go-live date is really just the beginning of the process of developing a world class e-commerce platform, and making sure that you learn from your customers on what it is that you need to do to have it work for their business. That's where we sit today, and we continue to work through it.

Gale: Don, thank you for that overview. That's really useful, and it gives us a great point to dive in on a number of different elements that you covered there. What I'd like to do as we bring in both Joe and Jonathan in the conversation now, is I'd like to start with taxonomy. That seems like such a critical foundation part to all of this. Don, can you talk a little bit about some of the specific things you did in terms of data quality and structure that you felt were really important to get you going on this?

Polletta: I'll tell you that's the biggest challenge, especially in the plumbing industry. That's the major reason why we decided to engage with Unilog. The taxonomy and the product data, being able to enrich that. Getting from where a transactional piece of information is something that speaks a little bit to the sale side for a customer was a huge part. We dipped our toe in initially and put 12,000 products up. Unilog worked with us on that.

The taxonomy – getting the search and the product data in the right places – that's probably one of the bigger challenges we had in that initial implementation state, and we keep working through it today. Probably Joe, could speak to the inner workings of the taxonomy and what they've worked us through in that process, better than I can.

Gale: Joe, welcome. Can you share some best practices around taxonomy with us, Joe?

Joe Bennett: Certainly. Thank you very much. To me, Tom and team, having a taxonomy that's right for your customer is just as important as site search. Now, when you look at best practices revolving around taxonomy, the first thing I would say is make sure that the taxonomy does not have too many levels. I often joke that the fifth click, or the fourth click would be to another site. You need to have that master level of your taxonomy, and then a sublevel, and then a sub-sublevel. When you start going four or five or six levels deep, it's probably not right.

Another thing is how you name your categories in the taxonomy and what's there. Putting a brand name in a taxonomy doesn't make sense to us because you normally have searching by brand already somewhere else in your website. Also, putting filterable attributes, such as size, in the note of a taxonomy doesn't make sense because you already have that as part of your faceted navigation.

To be honest with you, Tom, here, one of the things that people struggle, and I struggled with coming from an ERP background for nearly 25 years, is we didn't use the word taxonomy. We used the word categorization of products, and we use to categorize products for a specific reason in a very single level. For example, a line, and that would be the line of products, or a sell group, a buy group, a price line, a buy line, a commission coded SIC code, a general ledger code. All of this type of classification from our

background for many decades was single level.

The first thing that we have to recognize is we're building a multi level taxonomy that's right for your customer. To create that correctly, a) don't make it too deep, b) don't put brands in your taxonomy naming nomenclature and c) don't put filterable attributes. Those would be three simple best practices. And I would add one last thing, Tom, one taxonomy is not possibly right for all of your customers. You may need to have a platform that can have multiple taxonomies, so when a Jonathan Bein logs into your site they would get a different taxonomy than when a Don Polletta logs into your site.

Hopefully I cleared up some of the questions revolving around best practices on taxonomy.

Gale: Yeah. There's another piece there, Joe, if I could just ask you to talk a little bit about it because, PIM's a big acronym that people talk about. Can you give us a 60-second overview of what's PIM all about, and why is it important?

Bennett: Certainly. PIM is an acronym for product information management system. I want you all to think of it as your product file on your ERP on steroids. Your ERP system was engineered to do the blocking and tackling of moving product in and out of your warehouse, and I would argue does it very well. However, it wasn't built to create merchandising. Think about all of the detailed attributes associated with the product. All of the digital assets, the images, the videos, all of the marketing information and descriptions. All of that information needs to reside, in my opinion, in a single source, a single place which is commonly referred to as your PIM.

There are certainly people who are software providers that are PIM providers. In other words, the only thing they build is a PIM. Tom, what is a PIM? It's your product file on steroids, it's the single source of the truth for your product information, it is a production information management system.

Gale: Great, thank you Joe. Let me shift gears a little bit because, I've gotten a few questions specifically around where suppliers fit into this equation. Don, let me start with you on this. What are distributors looking for from manufacturers in order to support them? There's product data and assets to load the products, but what else? Then I guess part of that is really about, how did you get supplier data and normalize it for consistency across the product?

Polletta: I can tell you one of the great surprises being a marketing guy that I got from having our e-commerce site I'll talk about that in a second, but now what we do is as we bring the lines on No. 1, depending on how many we have we'll go and have that outsourced directly through Unilog, or we'll do it internally.

Really what we consider ourselves, not only from a content enrichment standpoint for our site, but also from a marketing standpoint on our e-commerce, and I think Jonathan mentioned it out there, that we can support our suppliers in magnifying their brand equity in our system. One of the great surprises as our suppliers come in and we start to talk to them about our e-commerce platform, we look at our website as a piece of real estate where our suppliers can come onto and grow their brand equity within their distribution system.

Sometimes they don't have their stuff all together in the best way. What we've become is linchpin for them to be able to work with them to magnify their presence digitally, whether we outsource the enrichment or we do it internally ourselves. Then to be able to market to our customer base via email, and then drive them back to, whether it's a product or a promotion. Specifically a product that we've enriched on our website, has been a big win for us.

We're growing our email list, we're able to promote out things that we've enriched, and support our customers, and having the specifications, the installation instructions. Everything that they would need to interact with their customers with. Quite often I'll see our customers sending information to one of their customers via our website. Like, check out this product on the Torrco website. This is what you're looking for. Now all of a sudden we're tapped into not only our customer, but our customer's customer, and seeing what is working for them, and understanding our customer's business process is in the way of digital that can support them out in the field. As far as our suppliers go, being able to develop campaigns that now include our e-commerce platform and our ability to enrich has been absolutely terrific.

Gale: When it comes to content promotion, are you using other channels in them, and they're using social email?. Can you talk a little bit about what you're doing?

Polletta: Yeah. What we call it is our vendor funnel. We use them all. We go down the line and when we go and we present to a vendor we're using direct mail still, we're using email, we will use the social channels on our showroom side of the business. Somebody asked me the other day, what do you think about social for your trade customer base? The only thing I could think there is that it may not be quite there yet, but certainly when I look at the younger customers, at some point these guys coming into the game, we're going to need to have a presence in social as well.

Social, direct mail, e-blast that are specific to products. We're currently working on building product-specific landing pages for our customers, blogging, lead capture as far as one of the marketing. On pure registration, Unilog has developed the API to capture the email address, which is then great for us in building that email capability. Then to share back with our vendors when we do a promotion via email, you give them some hard metrics on here's the customers that opened up that email, what they clicked, and all of these things that are measurable and trackable to our suppliers.

We want to make sure that, as I had mentioned earlier, whatever the channel is for our digital marketing strategy, we want to make sure that we're on the channel, that we can deliver to our customers that no matter where they are. There are the trades guys that are still out there, 60 to 65 years old, and might not have gotten away from his flip phone yet. We want to be able to cater to that, but we also know that the future is going to be more mobile, more digital online search. All of our campaigns are structured with everybody in mind.

Gale: That might be a good tie-in to talk a little bit about search and B2B versus B2C. We talked about this a little bit the other day, Don. Can you talk a little bit about from search standpoint, and the B2B versus B2C platforms that you've built out? That might actually lead us into the discussion around pricing that we want to get to, and pricing visibility.

Polletta: I don't know how deep I would get into that one, but I would say that the B2B search is the challenge. Getting that to work with our customers. Coming off of the Eclipse ERP, customers had a certain way of searching. That is a little different with regard to our e-commerce site now, and it's just a matter of them adjusting to that, and making sure – Joe spoke about earlier – that through the taxonomy that we get the customers three clicks in to where they want to get.

That has been one of our challenges along the way and something that we continue to work on to make sure that our customers, our trade customers, are going to be able to put in if we have custom part numbers for them or custom kits. That we can adapt the site on the B2B side to meet those requirements which we have done. Joe, I don't know if you want to talk a little bit more on the B2C side of search, or B2C differences, but as far as what I've experienced is that on the B2B side we've had some real custom part numbers and kits for our customers on the trade side that we've had to build out. Once you understand how the PIM works, that's part of your search process.

Bennett: I will chime in since you mentioned my name. When I hear the word search, I always try to ask the person are you referring to internet search, meaning driving traffic to your site, or site search I'm now on your site and I want to find stuff. At the simplest level, B2B or B2C, you need great site search. I'm B2B, I'm on your site, I want to find something to buy. I would either navigate through a taxonomy that is hopefully built correctly, or I would engage in search.

Of course if you're B2C, you really want to be found, so therefore you want to expose as much content to the search engine so you're found. The journey that you said, and, Don, one thing that you said that I would to reiterate, you said the journey requires patience and persistence, and then you said the journey begins upon login. You gave a great analogy of the birthing of a child it's not over.

I often give a similar analogy, not quite as extreme, where if you lose weight, you hit your target the day you hit that weight, it doesn't mean you just go back to your old life style. It's not a set it and forget it. Search, the way I would power phrase what you're saying, site search is a thirst that is never quenched. We will constantly be in this journey of manipulating, massaging and tweaking the search engine. At the same time, massaging, manipulating and tweaking the content that is being searched.

Both of them have to have happen. They're both journeys they happen consistently. Tom, I did notice one question that I'll just reiterate. Someone said, what were the three things? These aren't three absolute, but I think the depth of the taxonomy matters, how many levels deep. You don't want it to be too deep. I wouldn't put the brand in the taxonomy, so if you sell Toto toilets or Kohler toilets it wouldn't be toilets and then a brand. I wouldn't put other attributes that would be filterable or part of your faceted navigation. Those were the three takeaways from before for whoever typed that into the chat box.

Gale: Thank you, Joe. Just to clarify, when we talk about the differentials between B2B and B2C, that we're talking about two distinct platforms in sites, aren't we? In terms of what the customers in those particular channels are seeing. Can you clarify that?

Bennett: Yes. In many instances they are two sites. I have many many customers who have two physical arms of their brick and mortar business, as well. In fact, Don being one of them. He sells to people that are plumbers and mechanical contractors. They physically look different. When they walk in at 7 a.m., then his decorative showroom that may be branded with a nicer name and may actually be physically in a different neighborhood or a different section of that city.

A homeowner, or a designer would be going to his decorative showroom. I understand many people listening here, Tom, don't have that decorative arm, but for them like their brick and mortar has two distinct flavors, they would in turn have two distinct sites. There is a possibility that some of those B2B guys have one site, and they would still allow a credit card checkout, so that site becomes both B2C and B2B in one. Normally I would agree with you. You're looking at two separate branded URLs, two separate sites.

Gale: Great, thanks. We do have several questions here. I will be following up to as many as I can here as we get close to the end of the hour. I'd like to shift gears because, there are a couple other points I'd really like to touch on. One hot button is really around pricing, and pricing visibility in particular. Joe, I'd like to ask you to kick off best practice and the parameters around that that you're seeing in the industry. Then from there, Don, maybe you can share your thoughts about what you've done in particular around that, and why you thought it was a good idea.

Bennett: My feeling is information is available, and it's a good practice to expose it. I want to equate this to the conversation, by the way, that you would have when you were setting up your ERP. Everyone listening to this, Tom, can understand and relate to the fact that they have multiple costs on their product. They have a last received cost, a moving average cost, a last landed cost, a moving average landed cost, a true end to stock cost, a market cost, a standard cost.

Now you have a dilemma within your existing ecosystem, your coworkers. Who gets to see what costs? And you've wrestled with that. It is the exact same conversation now revolving around selling price to your customer. Now to me, my best practice is obviously after somebody has credentially identified themselves to me, and I know who they are, they have passed through my login, and they have identified themselves to be tied to a customer, I should be making real-time API calls and expose their real price.

To me, that's a no-brainer, a best practice. The dilemma, the debate is prior to credential login – what do you show? Do you show a retail price? Do you show a trade level one price? Do you call a pseudo-trade customer? Do you show list price? That one, Tom, I actually listen to the banter, the debate and figure out what is culturally right for that company. Personally, I prefer to expose some value as opposed to call for pricing availability that you see on some sites, but I understand the banter and the debate prior to credential login.

Polletta: What I could tell you with regard to that is we've adopted the philosophy that we show a price. We will allow the outsider to come in and login and buy. That is not our focus. Our focus is our trade side, and they login and get what their pricing is. Right now we have not found any push back from our customers, our trade customers, for having our site setup that way. Again, in the early stages of the game we've have not found that to be a problem.

Gale: Jonathan, any thoughts around pricing visibility?

Bein: I think it depends on the sector that you're in. If you're in a sector where they're, for example, contractors, and you have to keep a very strong discipline of selling to contractors only. Well then you pretty much need to have that login site or require that they show identity before they have access. We're increasingly seeing companies that are starting to relax the requirements around selling to different levels of the channels. In fact, we're engaged in helping distributors, manufacturers, two-step distributors in looking at how they can go beyond their traditional channels.

There's what's happening today, and there's where is it going. If you are definitely moving to point where the channels are eventually going to break down in some way, shape or form, the question is how and when you want to start to interact with your customer base in different parts of the channel that way.

Gale: Can you talk about how your PIM or product data file can be maintained over time? Joe, I'm going to ask you to take that please.

Bennett: I would say there are three ways. One is to be part of an organization or an institution, a trade association, a buying group, that maintains content for you, or to offshore it. In other words, have somebody else. A second is for you to do it yourself, which once again is brute force. A third is to engage some sort of scraping technology which will go out and scrape content from elsewhere and bring it into your PIM.

At the end of the day, this is the journey that never ends, this is staying in shape, this is going on the treadmill every morning at 6 a.m., and you unfortunately have to maintain that content in your PIM for tens of thousands, hundreds of thousands, potentially millions of products. The journey, once again, would be using scraping technologies, doing it yourself with brute force, or outsourcing to an industry association, a buy in group association, or to say India or Vietnam. I advise probably a combination of all three.

Gale: Thank you, Joe, because the analogy, the picture of a treadmill is somehow more appealing than dirty diapers when I think about some of the processes involved in here. I appreciate that part of it. Jonathan, do customers begin with the website for shopping, and then maybe something in the checkout process that makes them choose email? Do you have any sense about the multichannel or some of the flow that takes place there?

Bein: I hate to give the consultants answer but, I think it really, really depends. It depends on the nature of your customer base. I mentioned in the end-customer survey we did, one of the distributors is based in Silicon Valley and their customers were just what you expect. Then we have the other customer or distributor that was based along the Gulf Coast, and not so much technology in their customer base, very traditional. I think the bottom line is it really matters what's happening in your customer base. I don't think that there's an aggregated trend or one-size-fits-all that's going to tell you what are the best combinations.

I think another piece that a lot of distributors make a mistake with is saying, it's a digital buying channel, therefore I need to stimulate it with digital shopping or digital media to get people there. What we've seen again, and again, and again is that offline can stimulate online, and online can stimulate offline. It's all multi. Finding the mix that works for your customer base is key.

If you're in electronics, print is probably not going to be very helpful, but if you're in a lot of parts of industrial distribution you can use print to drive mouse clicks, you can use print to drive the phone ringing, you can use print to drive branch traffic. Expanding beyond that idea that because it's digital it has to stimulate digitally, I think is a move for a lot of distributors.

Gale: Jonathan, thank you.

With that we're at the top of the hour. I'd like to thank all of you very much. This is a discussion we could obviously have for hours and hours, so much at play. Thank you to Unilog as well for sponsoring our program today. Thank you for joining us today. This concludes our program.

2016 State of E-Commerce in Distribution

Featuring:

Jonathan Bein, Real Results Marketing

Don Polletta, Torrco

Joe Bennett, Unilog

Tom Gale, Modern Distribution Management

Sponsored by:



March 31, 2016

Agenda

- Introduction
- 2016 State of E-Commerce Survey Results
- Panel discussion
- Q&A

Speakers



Jonathan Bein, Ph.D.
Senior Partner
Real Results Marketing



Don Polletta
Vice President, Marketing
Torrco



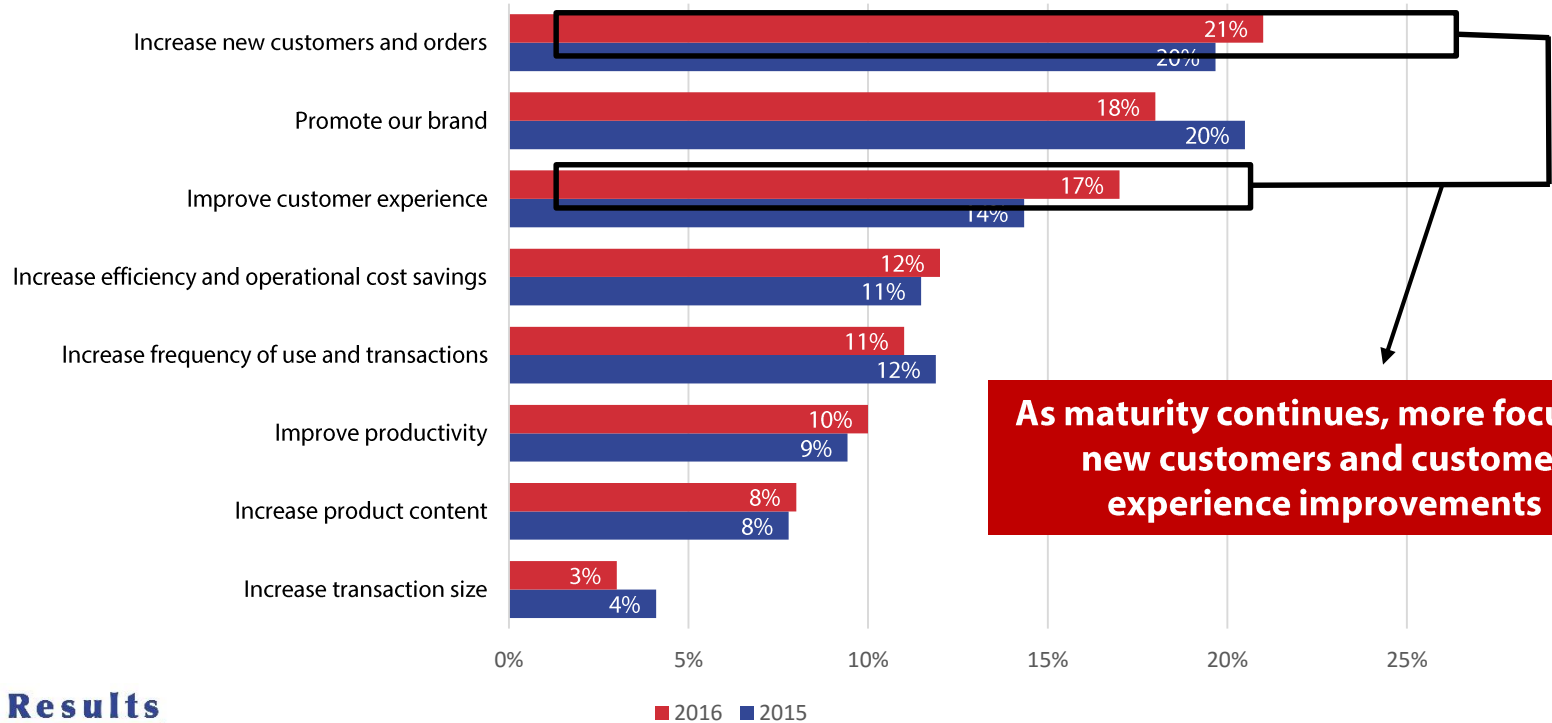
Joe Bennett
Senior Vice President, Sales
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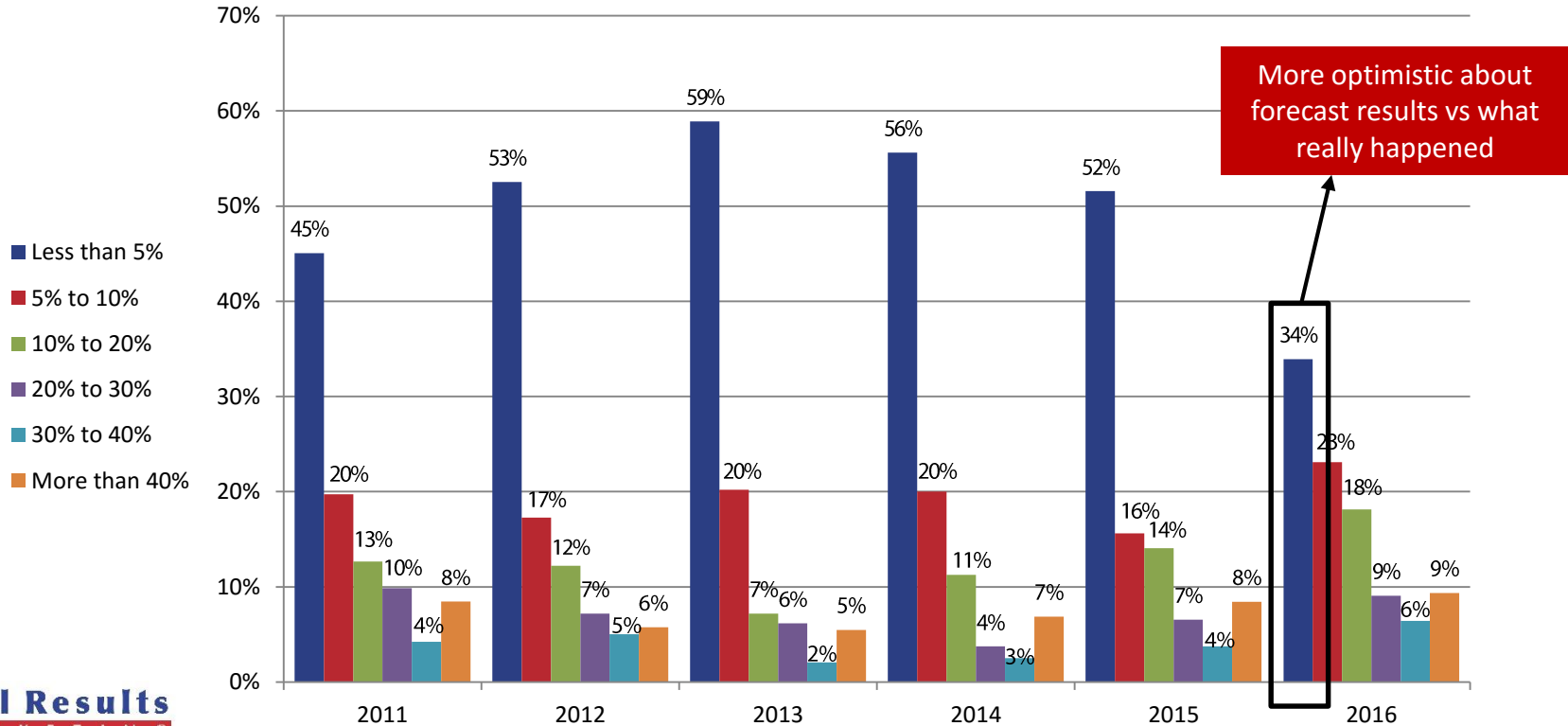
Tom Gale
Publisher
Modern Distribution Management

2016 State of E-Commerce Survey Results

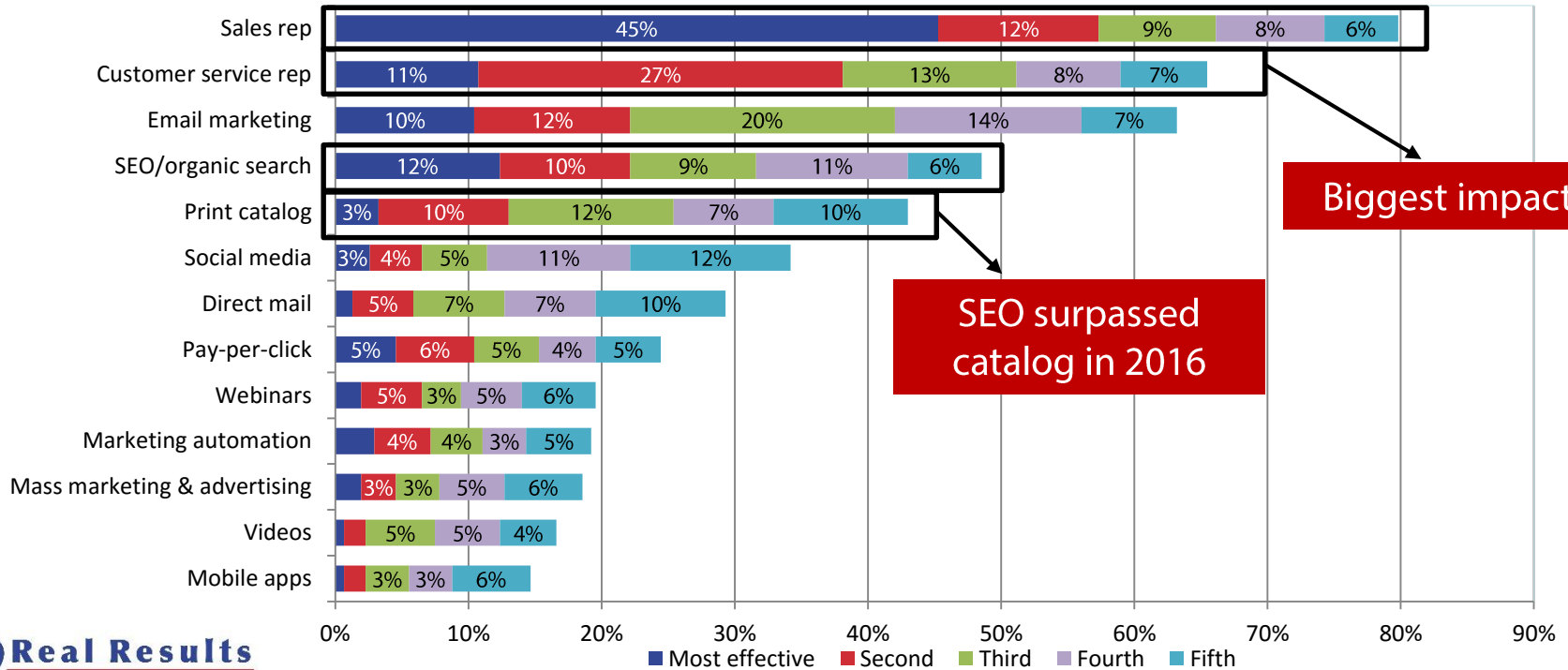
Top E-Commerce Priorities



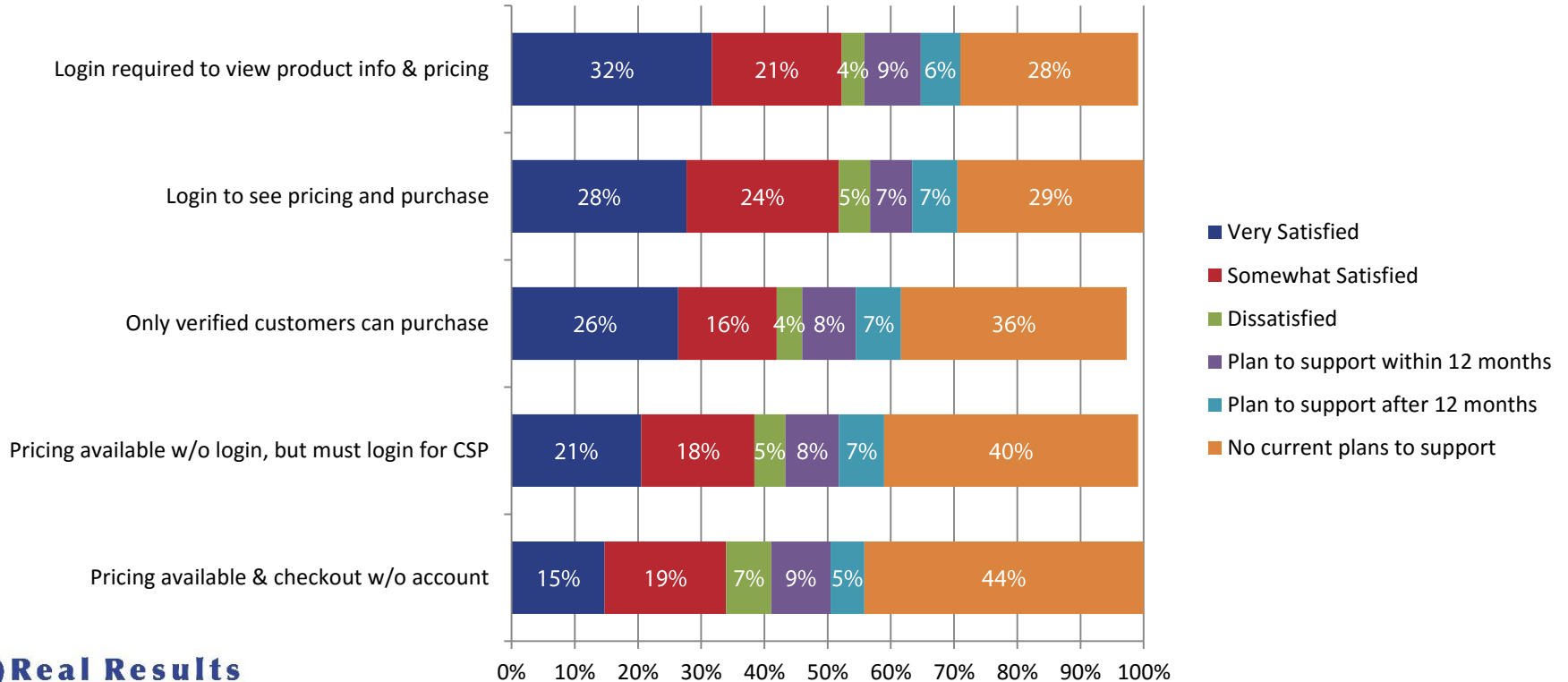
E-Commerce Percent of Total Revenue



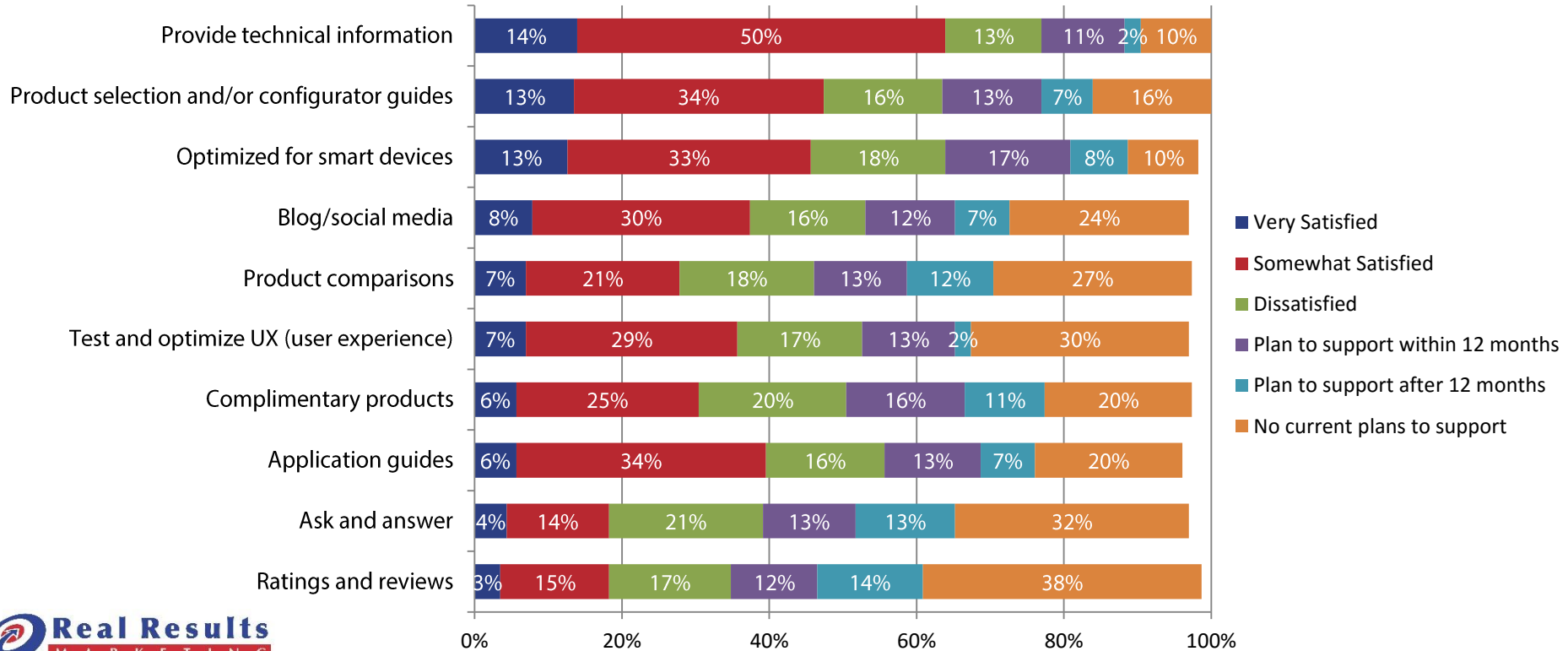
What is Most Effective to Drive Demand to Your E-Commerce Channel?



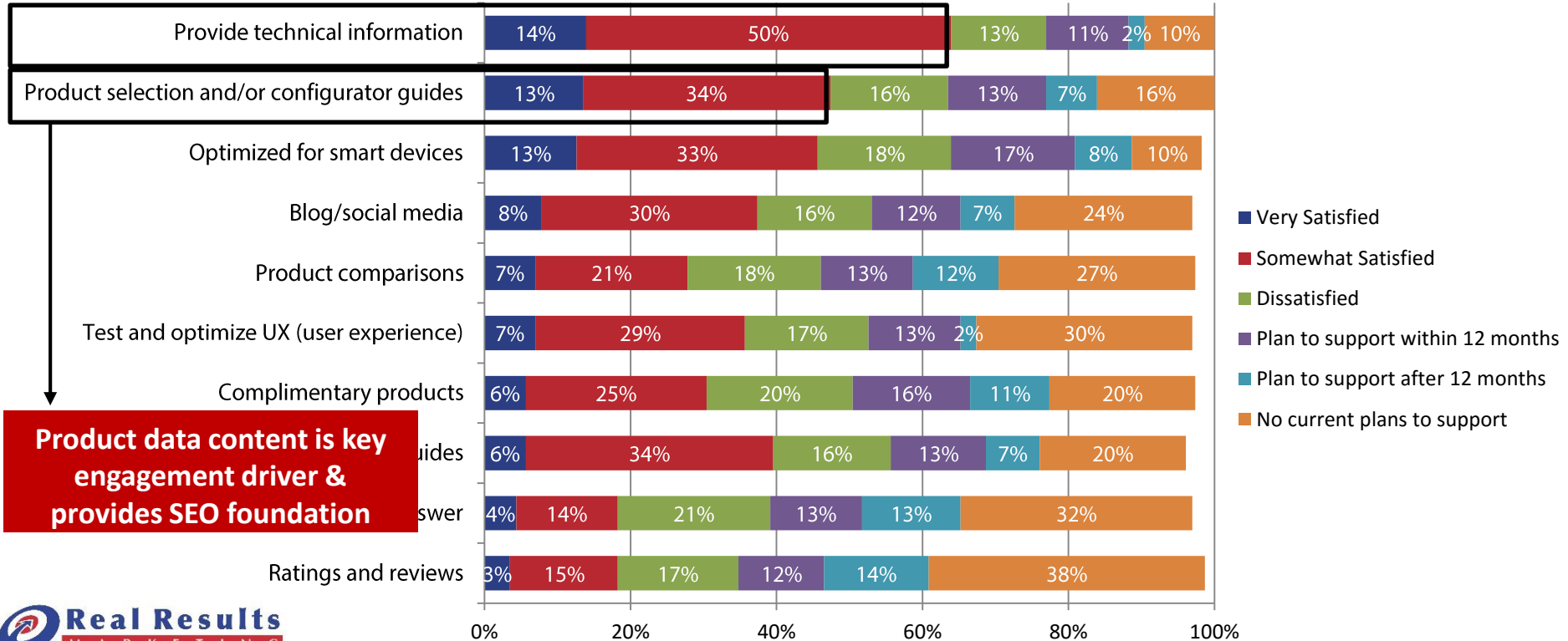
How Do You Handle Pricing on Your Website?



How Do You Keep Website Visitors Engaged?



How Do You Keep Website Visitors Engaged?

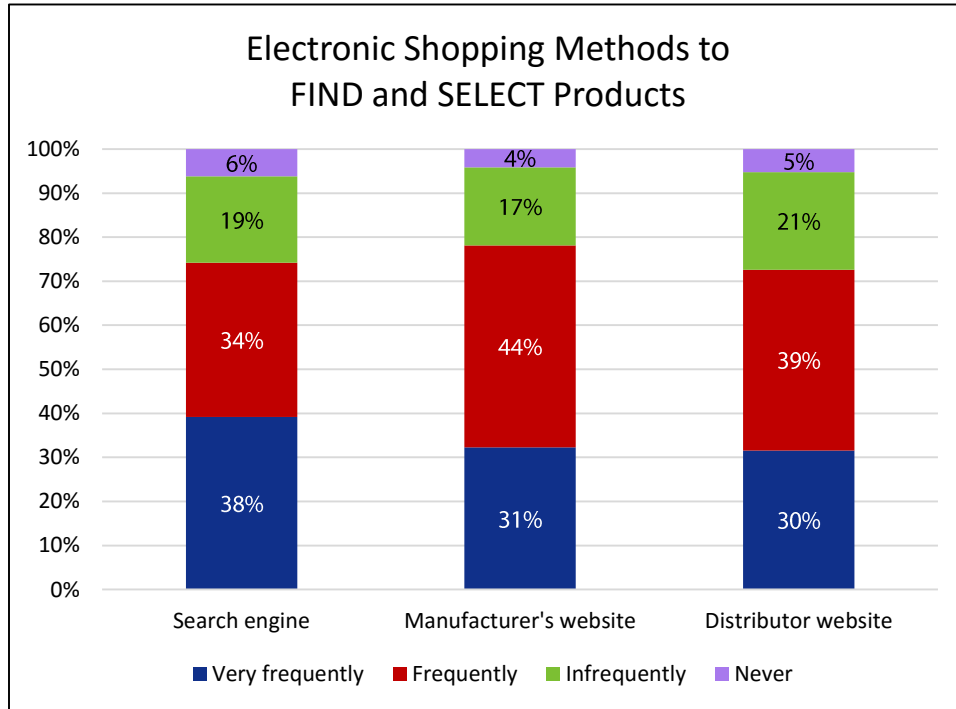


Shopping



- More than 70% frequently or very frequently use electronic methods for shopping.
- Only 37% frequently or very frequently use print methods for shopping.
- Current preferences and expected change depend on sector and customer base.
- Significant shift to electronic shopping away from people and print within two years.

Electronic Shopping



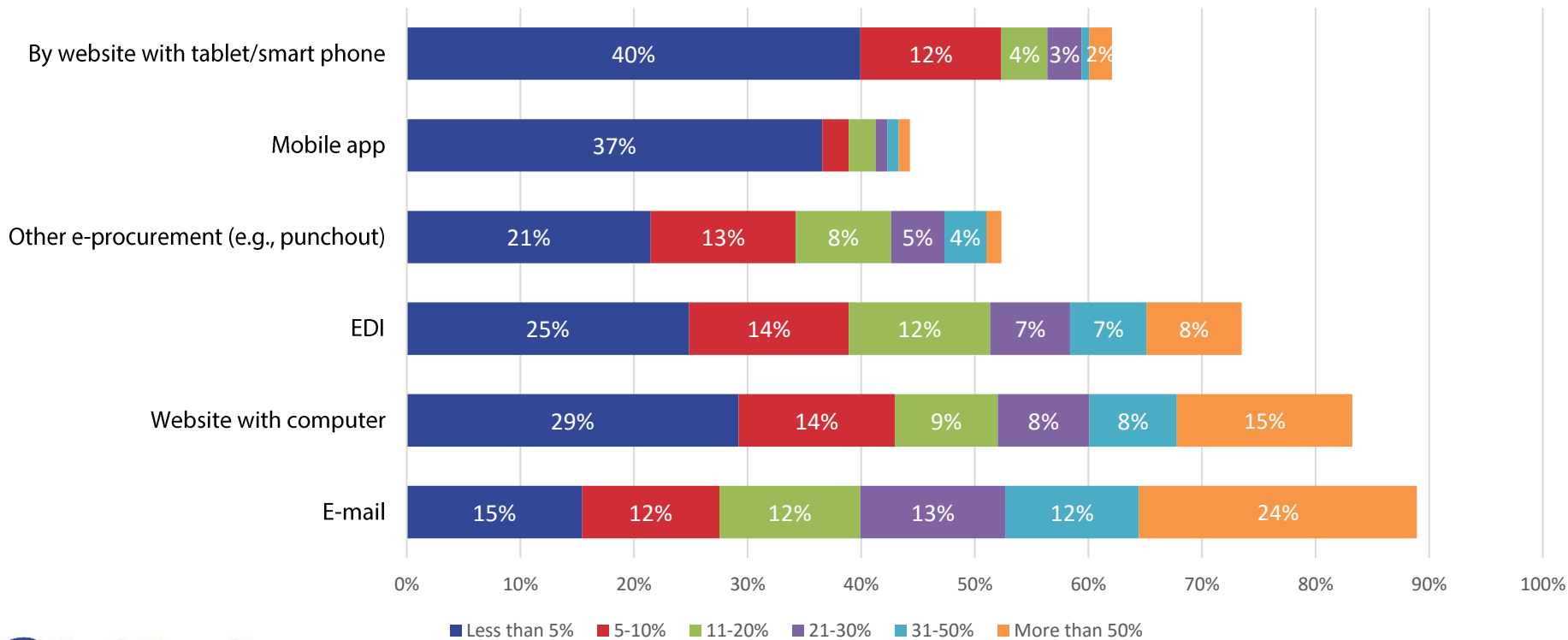
38% indicated they shop very frequently by search engine vs. about 30% for manufacturer or distributor website.

Shift toward search and distributor website over next two years.

Key demographic/firmographic trends:

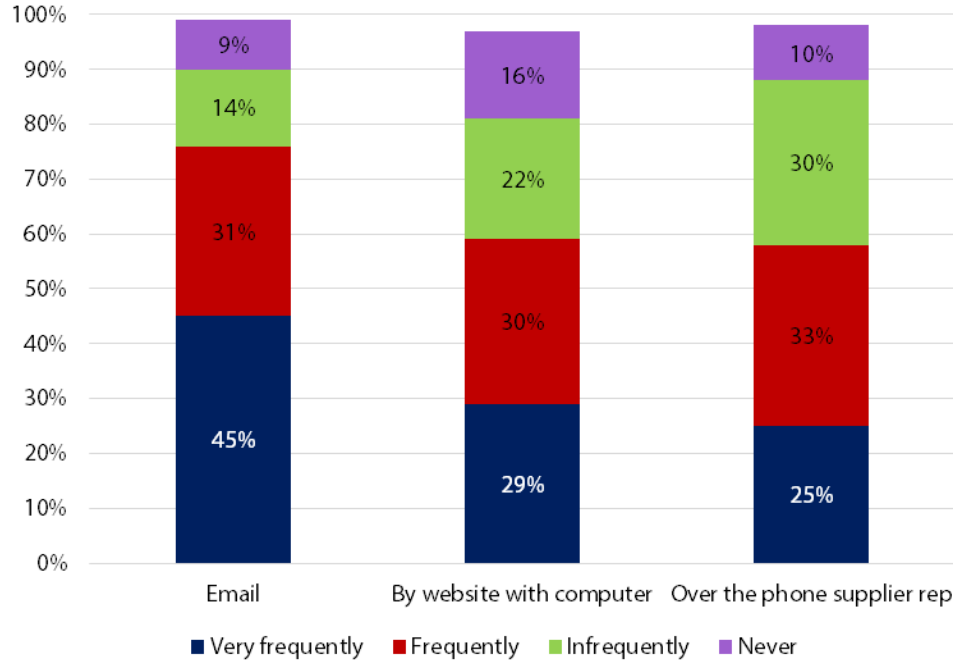
- Customers with less than \$1M revenue prefer electronic more than larger customers with more than \$100M revenue.
- Under-25 demographic 47% use search very frequently vs. 35% for over-55.

How are Electronic Orders Received?



Buying

Frequency of BUYING Methods



- Email, Web and phone are top preferences among 10 choices. Nothing else is even close.
- Movement over next two years toward Web and email.
- Tablet/mobile is not changing very rapidly .
- Fax usage is fading.
- E-procurement underutilized.

Panel



Jonathan Bein, Ph.D.
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Real Results Marketing



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Torrco



Joe Bennett
Senior Vice President, Sales
Unilog



Tom Gale
Publisher
Modern Distribution Management

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3 Aspects to Agile, Scalable, Enterprise Commerce

1 **The Fuel: Content Management, Taxonomy Build / Management**

2 **The Art: The Style Guide, Brand Manual, Website Wireframes**

Overall Branding / Presentation / “What are you solving for?” / Digital Marketing Strategy

3 **The Platform: E-commerce Platform**

PIM, CMS, Search, Cart (ERP Integrated Web store front), Mobile

Mobile is both a responsive web page AND a native mobile commerce application.

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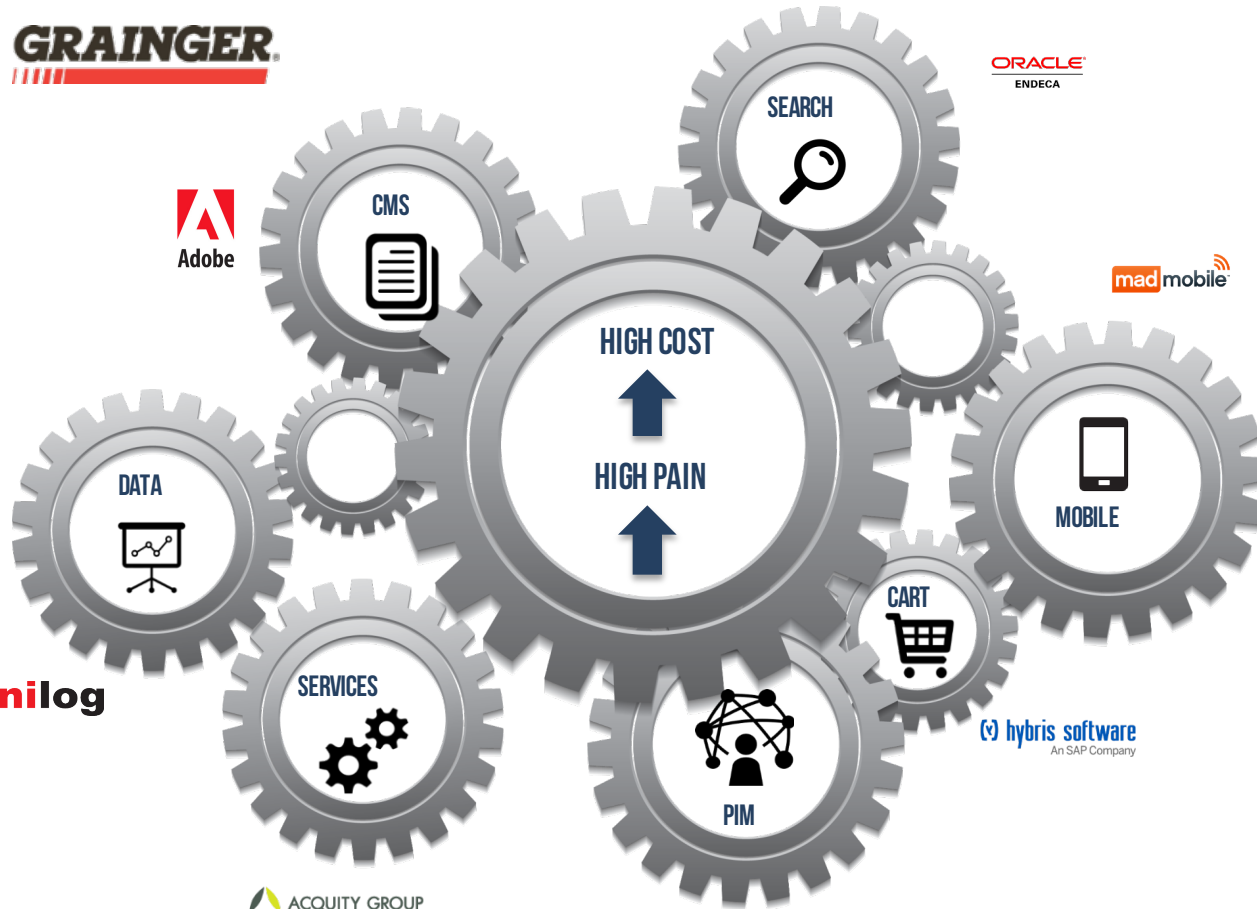
Adobe

mad mobile

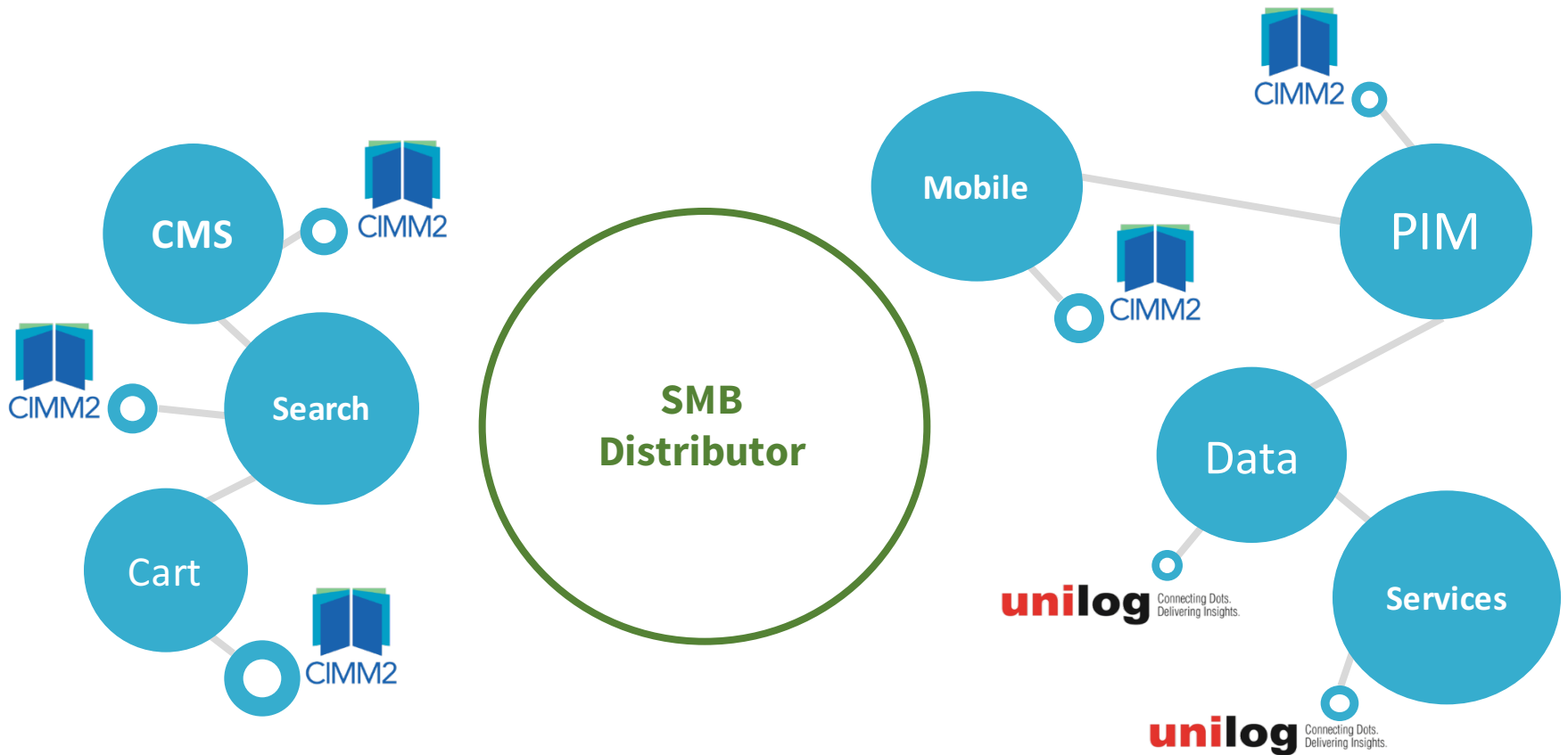
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System (CMS)

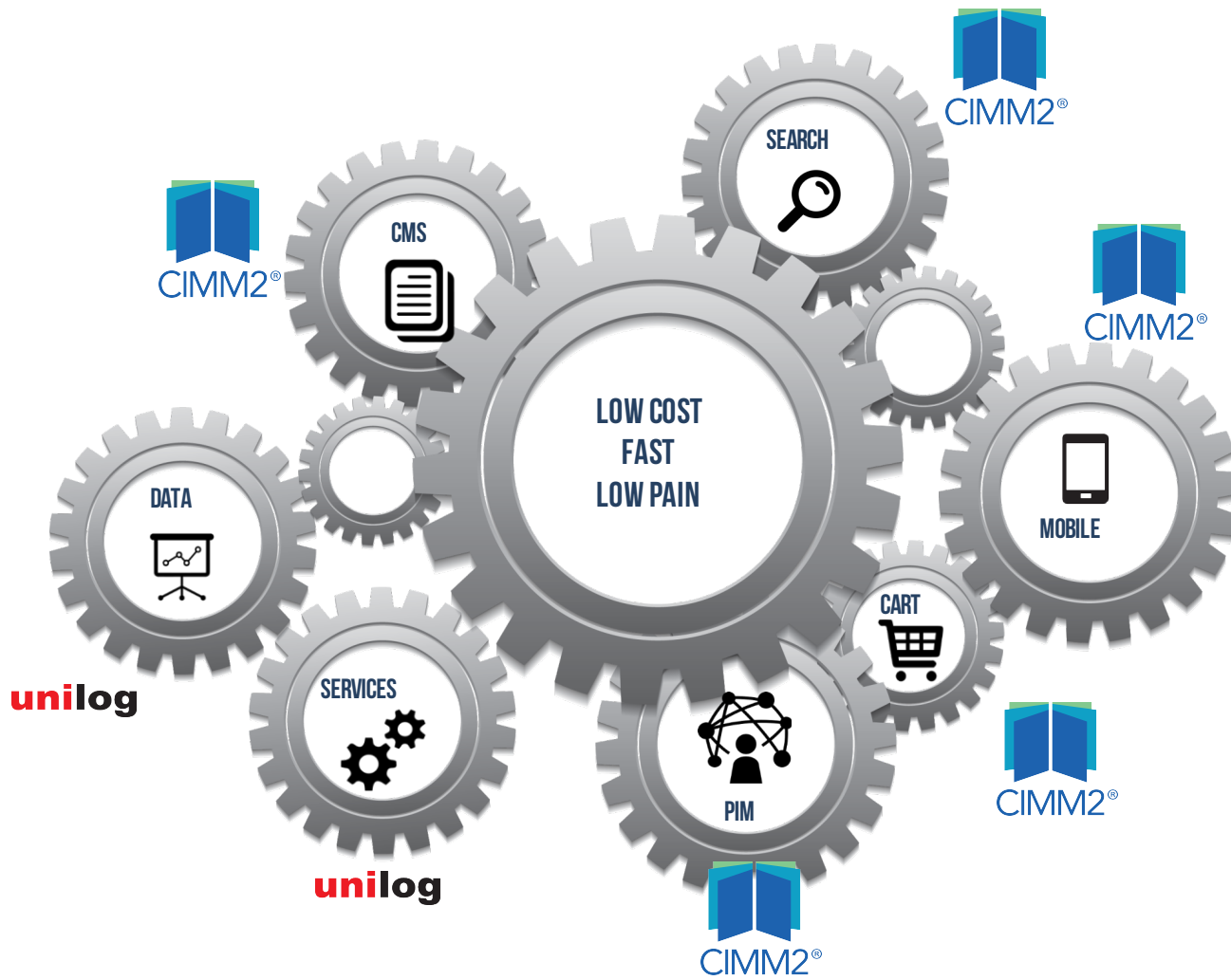


Seamless
ERP integration
for real-time
information



Dynamic
shopping cart





WHY UNILOG?



COMPANY MOMENTUM

65% YEAR OVER YEAR GROWTH

2013-2014 vs 2014-2015

50 FASTEST GROWING TECH COMPANIES

The Silicon Review, July 2015

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INTERNET RETAILER TOP 300 B2B E-COMMERCE COMPANIES 2015

Three early adopters of CIMM2 made the list, SupplyFORCE, Van Meter and Werner Electric.

NEW GARTNER RESEARCH POSITIONS UNILOG ON MQ

Unilog positioned on the Magic Quadrant for Digital Commerce in 2016 alongside major players in the space

Questions?

2016 State of E-Commerce in Distribution

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