



MDM Special Report:  
**2014 State of E-Commerce  
in Distribution**



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### MODERN DISTRIBUTION MANAGEMENT

Founded in 1967  
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**Publisher**  
Thomas P. Gale  
tom@mdm.com

**Editor**  
Jenel Stelton-Holtmeier  
jenel@mdm.com

**Associate Publisher**  
Craig Riley  
craig@mdm.com

**Associate Editor**  
April Nowicki  
april@mdm.com

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### Contact Information

Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.  
2569 Park Lane, Suite 200, Lafayette, CO 80026  
Tel: 303-443-5060 Fax: 303-443-5059  
Website: <http://www.mdm.com>

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# The Maturing E-Commerce Channel

*Distributors have high expectations for e-commerce in 2014*

The third annual MDM distribution e-commerce survey conducted with Real Results Marketing revealed several key trends:

- E-commerce revenue as a percent of overall revenue is rising relative to last year's survey.
- The primary objectives among distributors for e-commerce remain acquiring new customers, growing wallet share with existing customers and improving website usability.
- Mobile deployments are growing rapidly with a 25 percent increase over last year, and many more are still in progress for the next 12 to 24 months.

This article examines the results of the 2014 State of E-Commerce in Distribution Survey and how the industry's e-commerce offerings are maturing.

**By Jonathan Bein, Ph.D.**

Companies are generally considered to have a mature e-commerce channel when 10 percent or more of their total revenue comes from e-commerce. From this perspective, e-commerce within distribution is still young with just above 20 percent of the companies in 2013 at the point of maturity, according to a joint MDM online survey with Real Results Marketing conducted in the first quarter of 2014.

Still, survey results indicate that distributors are beginning to reach maturity in their e-com-

merce programs.

The percentage of distributors with e-commerce initiatives contributing less than 10 percent of total revenue grew about 15 percent from 2012 to 2013 (see **Figure 1**). That growth is expected to continue this year. From 2013 to 2014, the percentage of emerging e-commerce programs with less than 5 percent total revenue is expected to shrink by one-third, while the portion of companies with 5 percent to 10 percent revenue from e-commerce is expected to grow by 25 percent.

The percentage of companies with e-commerce reaching 10 percent to 20 percent of their revenues is expected to more than double in 2014.

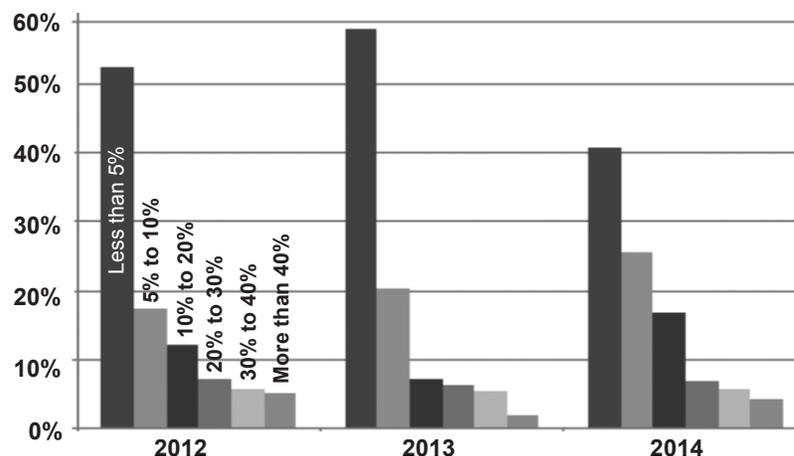
The portion of companies with more than 20 percent e-commerce revenue is projected to be fairly stable in 2014.

While nearly 70 percent of the respondents who have new e-commerce initiatives in 2014 expect e-commerce to represent less than 5 percent of their revenues, the rest expect to have 5 percent to as much as 30 percent of their revenues generated from e-commerce.

In general, it is difficult to achieve such rapid growth in the first year unless there has been exceptional planning, and they hit the ground running at the beginning of the year, or if the company is very small. **Table 1** shows fairly substantial movement from one level of maturity to the next.

**Figure 1: Percent of Total Revenue from E-Commerce**

As distributors' e-commerce platforms mature, so does the percentage of revenue from e-commerce. The percentage of companies with 10 percent to 20 percent of revenue from e-commerce is expected to double in 2014.



### E-Commerce Priorities & Objectives

The e-commerce priorities for the distributors in this survey reflect a natural evolution toward maturity. The initial focus for most companies' e-commerce initiatives is growing revenue from existing and new customers while making the e-commerce site friendly and easy to use. Those goals are the top priorities for survey respondents (see **Figure 2**).

However, half of the respondents are finding that growing e-commerce revenue from new customers with search marketing – a key element of many e-commerce programs – is somewhat or very ineffective. It is well known in marketing that growing revenue from existing customers is easier than acquiring new customers. As such, we believe that there is too great an emphasis on new customer acquisition through e-commerce for most of the respondents in this survey given the maturity of their programs. Once they have been successful at selling to existing customers, the focus can shift to new customers.

The next priorities identified by distributors in the survey are primarily internal benefits including productivity and operational cost savings. Many of the respondents who selected either of these internal benefits as the top priority have more mature e-commerce programs.

The small percentage of respondents who are focused on increasing transaction size have very mature e-commerce programs where ROI metrics are well-defined.

### E-Commerce Capabilities

The survey asked distributors to rate their satisfaction with different capabilities on their companies' e-commerce sites. Respondents are most satisfied with table-stakes capabilities such as contact information and basic search. With slightly more complex capabilities, such as stock levels, technical information and social media, satisfaction is mixed. For more advanced capabilities, including quote, live chat and purchase suggestions, satisfaction is low.

We expect that as the programs mature, the more advanced capabilities will improve along with respondent satisfaction.

### The Mobile Trend

Support for mobile technology has grown nearly 25 percent from last year including smartphones, mobile device-optimized website (.mobi) implementations and mobile applications. In addition, more than 30 percent of respondents intend to implement new support for mobile technologies in the next year and beyond.

However, as **Figure 3** shows, most respondents have mixed satisfaction with their companies' support for smartphones and very low satisfaction for .mobi implementations and mobile apps so far. Respondents are generally satisfied with their companies' support for tablet computing.

### Moving Forward

Relative to last year, there has been a tremen-

**Table 1: E-Commerce as a Percentage of Total Revenue**

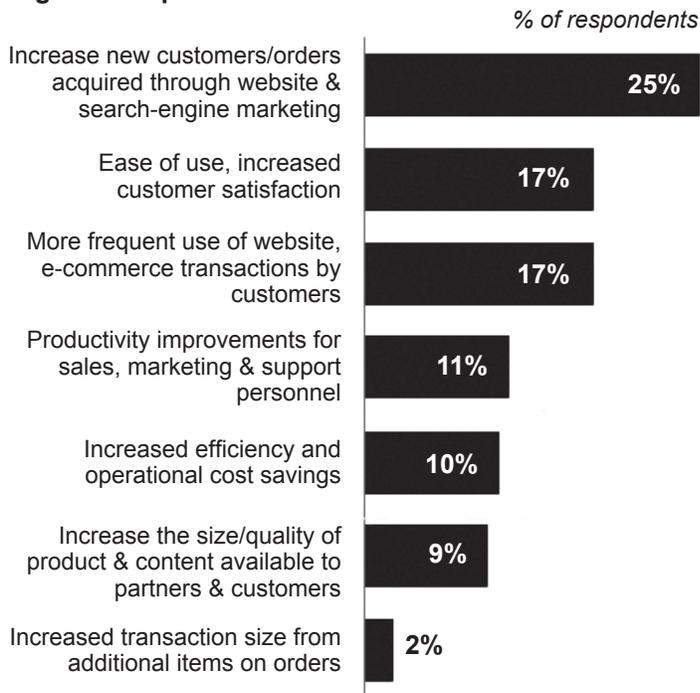
The table below shows distributors' expectations for growth in revenue from e-commerce channels in 2014, compared with current revenue from e-commerce. For example, 60 percent of companies that currently have between 5 percent and 10 percent of their revenues from e-commerce channels expect to have between 10 percent and 20 percent of revenue from e-commerce in 2014.

E-Commerce Percentage of Revenue in 2013	E-Commerce Projected Percentage of Revenue in 2014					More than 40%
	Less than 5%	5% to 10%	10% to 20%	20% to 30%	30% to 40%	
None	68%	21%	5%	5%		
Less than 5%	64%	31%	5%			
5% to 10%	2%	35%	60%	4%		
10% to 20%		5%	43%	52%		
20% to 30%		6%		39%	56%	
30% to 40%					64%	36%
More than 40%						100%

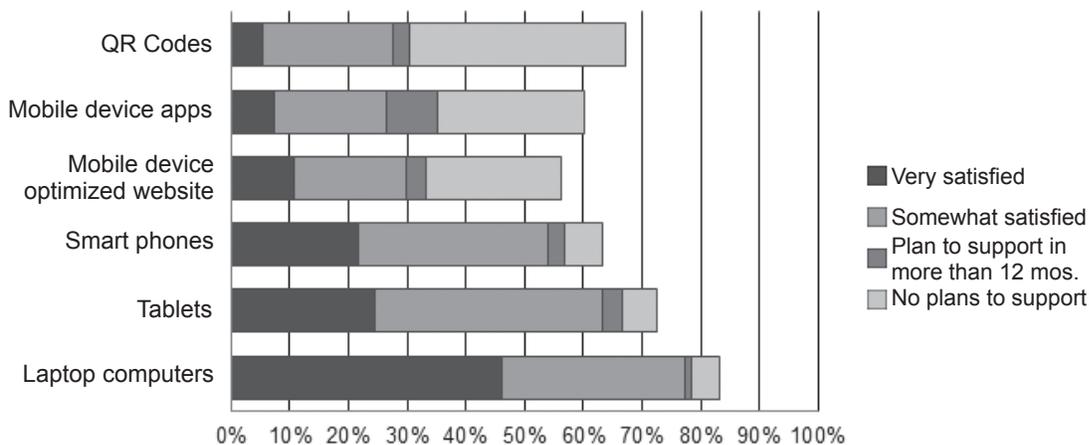
dous amount of energy put into e-commerce. The year-over-year growth in each of the areas addressed in this article, including revenue, priorities, capabilities and mobile technologies, shows that e-commerce as a sales and marketing channel in distribution is certainly maturing even though it currently remains relatively immature.

Many companies recognize that e-commerce is now a must-have rather than nice-to-have channel. Without it, they will lose market share and customers. As a result, many are planning to continue to invest in building the channel over the next two years.

**Figure 2: Top E-Commerce Priorities**



**Figure 3: Satisfaction with Support for Mobile Technologies**



# E-Commerce: The Multichannel Factor

*Best practices for improving the effectiveness of multichannel marketing*

The third annual MDM distribution e-commerce survey found that distributors' e-commerce revenue as a percent of overall revenue is rising. But while distributors are increasingly using multiple vehicles to drive demand online, they have not yet effectively integrated tools such as marketing automation and paid search into their efforts. This article looks at how distributors approach demand generation online and ways they can improve the weakest links, as revealed by the survey.

**By Jonathan Bein**

E-commerce demand generation is in transition. According to results from the third annual MDM Distribution E-Commerce Survey, while most distributors are increasing e-commerce revenue from email marketing, catalog and organic search, they remain less effective with paid search and marketing automation. Furthermore, most of the demand generation approaches distributors are taking are not integrated.

## Marketing Vehicle Effectiveness and Spend

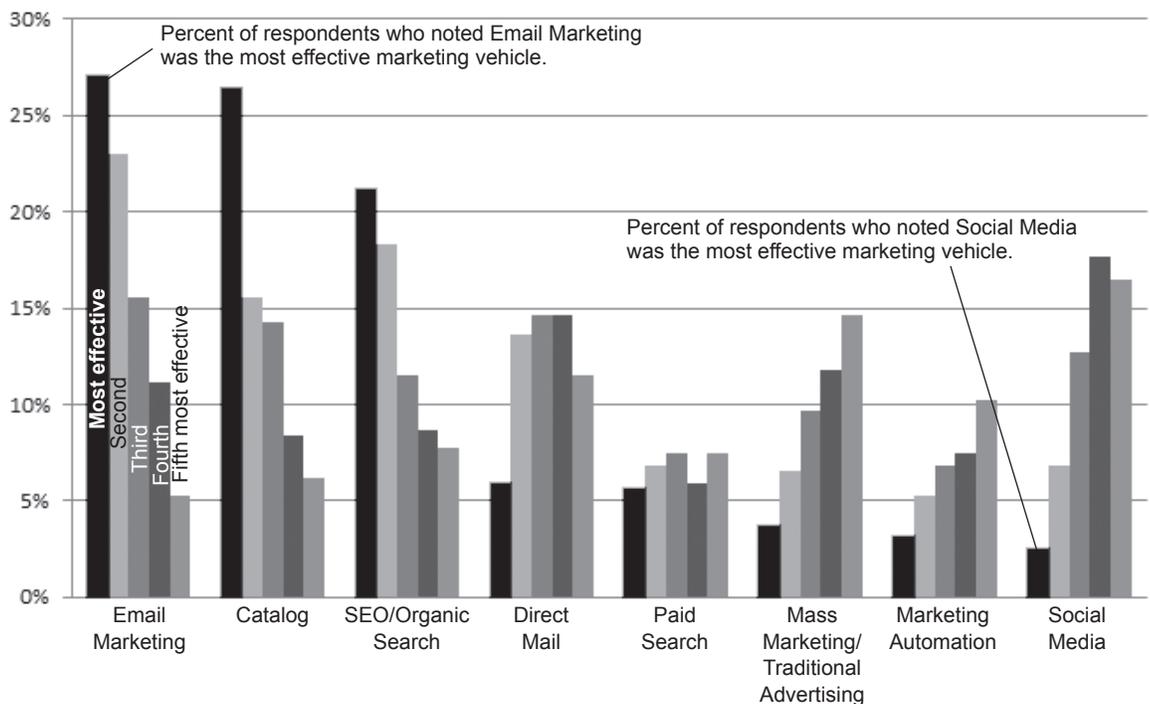
We asked survey respondents to rate the effectiveness of various marketing vehicles for driving e-commerce demand. As shown below in **Figure 1**, more respondents consider email marketing, catalog and organic search to be the most and second most effective vehicles to drive demand online.

While we expected that email marketing and organic search would be considered highly effective, two surprises arose from the results:

1. Catalog is a significant driver of e-commerce revenue. However, the effectiveness of most distributor catalog programs is not measured well. Yet it is considered as effective as email marketing and organic search, which are both easy to measure.
2. Companies that have core competency in paid search typically see high effectiveness. This supports the finding in the first article that e-commerce capabilities in distribution

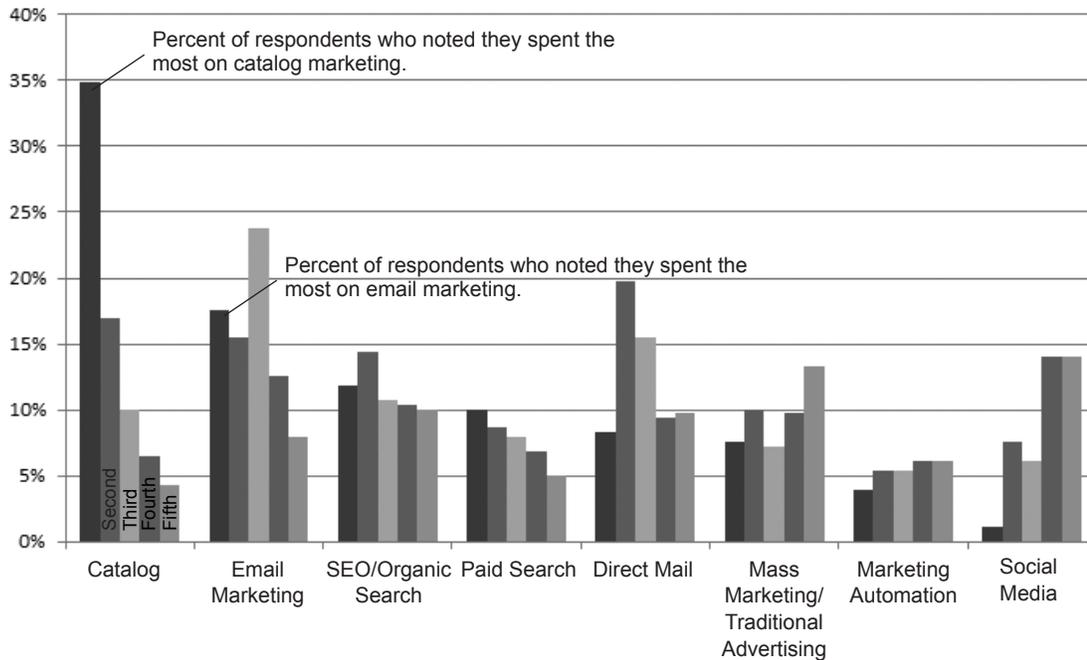
**Figure 1: Effectiveness of Marketing Vehicles Driving E-Commerce Revenue**

Distributors were asked to rank their most-effective marketing vehicles out of the eight listed in the chart below. This chart illustrates, for example, what percentage selected email marketing as the most effective, second most effective, and so on for each vehicle. In general, email was seen as an effective tool by most respondents, and vehicles such as marketing automation, social media and paid search were chosen by the fewest as effective.



**Figure 2: Spend by Marketing Vehicle**

Distributors were asked to rank their spend by marketing vehicle out of the eight listed in the chart below. This chart illustrates, for example, what percentage allocated the highest spend to catalog marketing, as well as how many allocated the second-biggest spend to that category, and so on for each vehicle. In general, catalog received the biggest spend by most respondents, and marketing automation and social media had the lowest.



have room to mature.

Social media is not considered by most respondents to be very effective at driving e-commerce revenue. From a demand generation perspective, it is more of a complement to other primary and secondary approaches. Because of its complementary nature, distributors should continue efforts with social media.

As shown in **Figure 2**, total spend on marketing vehicles for e-commerce corresponds well with effectiveness with a couple of exceptions:

- Catalog is considered the second most effective overall, yet it is the highest overall spend.
- Paid search has much lower effectiveness than direct mail, but is the biggest spend for a greater portion of the respondents than direct mail.

Search marketing, catalog marketing and marketing automation can each be effective for driving e-commerce demand if approached in the right way.

Here are some best practices in each.

### Search Marketing

Search marketing includes organic search (also

known as search engine optimization or SEO) and paid search. Search marketing can be a cost-effective way to grow revenue.

Real Results Marketing has seen this with several of our distributor customers for whom e-commerce is the primary, or sometimes the only, channel. For these companies, search marketing is a core competency that has been the basis for their success and has propelled significant growth.

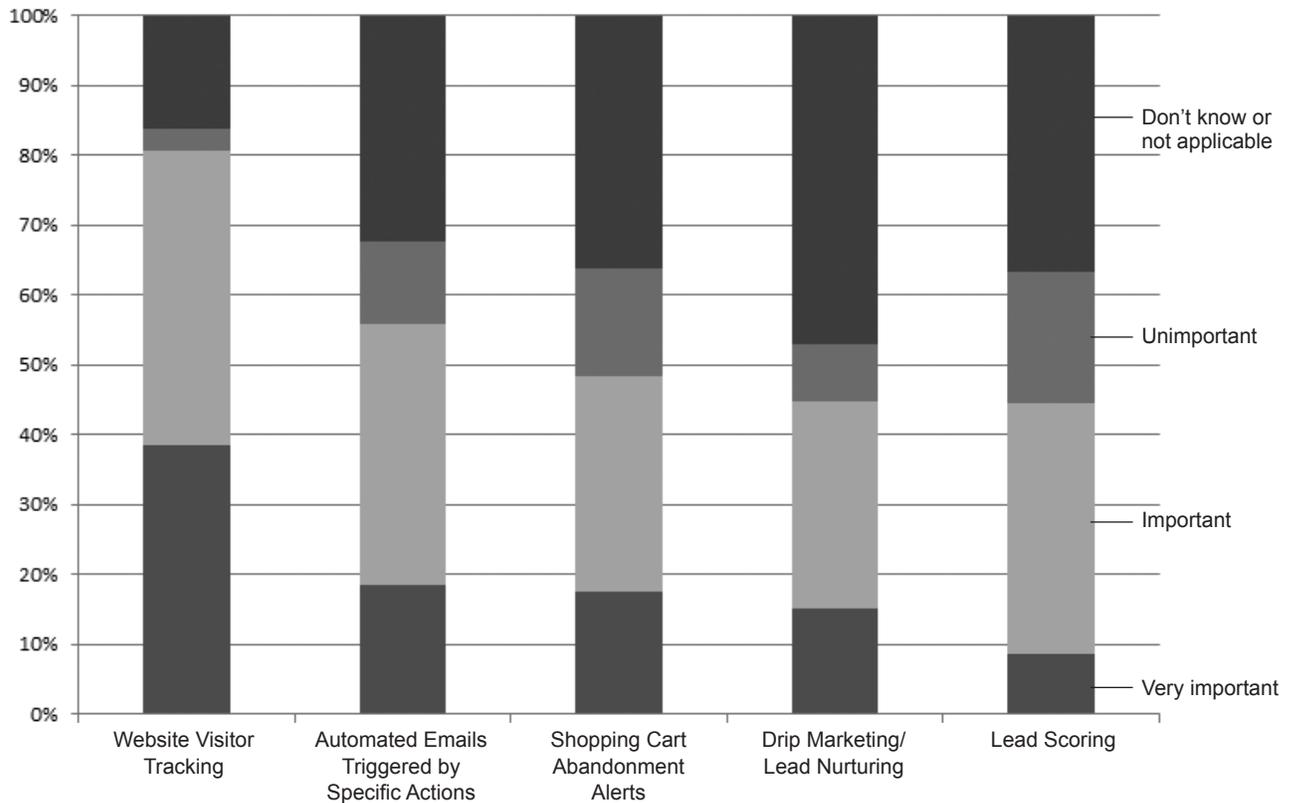
However, just under half of the respondents believe that search marketing is effective or very effective for acquiring new customers, and paid search is not considered very effective by the respondents. But many distributors launch their e-commerce initiatives with search marketing as the primary or only means to drive traffic and generate demand.

Two recommendations to improve ROI on search marketing are:

1. If it is not already a core competency, work with third-party experts in search marketing to get better results.
2. Use search marketing to acquire new customers rather than to grow wallet share with existing customers. Direct response methods

### Figure 3: Importance of Marketing Automation & Email Marketing for E-Commerce

Distributors were asked to note how important marketing automation and email marketing capabilities were to their e-commerce business. With the exception of visitor tracking, roughly half of respondents marked most capabilities as unimportant or don't know/not applicable.



are a much more cost-effective means for reaching customers that you already have.

#### Catalog Marketing

The use of print catalogs can be a significant boon to your e-commerce initiatives. A prior MDM survey revealed these synergies between catalog and e-commerce:

- 85 percent of companies with successful catalogs believe that e-commerce and catalogs are synergistic or that their catalogs help drive e-commerce sales.
- 73 percent of companies who have a mature e-commerce channel – defined as having 10 percent or more of total revenue coming from e-commerce channels – believe that e-commerce and catalog are synergistic or that their catalog helps drive e-commerce sales.
- The three distributors who were considered by their peers in that survey to have the best websites (Grainger, MSC Industrial Supply and McMaster-Carr) were also considered by their peers to have the best catalogs.

Catalogs drive e-commerce revenue because when a computer is not available, catalogs are, and customers needing a product solution reach for the companies with whom they feel most confident. The net result is that many times customers will shop in the catalog and buy on the website.

#### Marketing Automation & Email Marketing

Survey respondents rated email marketing as the most effective means of generating e-commerce revenue, and they rated marketing automation as the second least effective means of generating revenue. Yet many other industries have seen tremendous benefits from using marketing automation.

Email marketing is powerful because of the ability to use this tool to track customer behavior. When an email blast is sent to a list of customers or prospects, the sender can tell if the email is opened.

Marketing automation goes a few steps beyond email marketing. In addition to knowing whether the email was opened, the sender

can tell if someone clicked on a link that was in the email and which links were clicked on, for example a special offer that takes them to a dedicated landing page.

Based on the email recipient's behavior with openings, clicks and pages visited, it is possible to orchestrate "drip marketing" campaigns in which offers and other content are staged to be sent at different times. The recipient's behavior can be scored and when it reaches a threshold, the prospect can be handed off to sales.

There is limited awareness among distributors about marketing automation and how it differs from email marketing, as shown in **Figure 3**. Yet a 2012 study by Aberdeen Group shows that companies that deploy marketing automation see:

- 107 percent better lead conversion rates
- 40 percent greater average deal sizes
- 20 percent higher team attainment of quota
- 17 percent better forecast accuracy

Within distribution, the leading e-commerce programs all use marketing automation instead of email marketing. It is an area with significant opportunity for many nascent and maturing distributor e-commerce initiatives.

#### About This Research

This research was conducted by Real Results Marketing with Modern Distribution Management. The research included an online survey taken by 465 participants across a variety of distribution sectors. There was heavier participation from industrial, safety, electrical, electronics, building materials, janitorial, HVACR/plumbing and hardware. Other participating sectors include oil and gas products, pulp and paper, chemicals and plastics, grocery/foodservice and pharmaceutical.

Nearly 40 percent are small distributors with less than \$50 million revenue, over 30 percent are mid-market with \$50 million to \$500 million revenue, and 19 percent are large with more than \$500 million revenue. Others did not disclose the revenue range. About 40 percent are primarily focused on MRO, 19 percent are focused on OEM customers, 24 percent are an even blend of MRO and OEM, and 17 percent are in other categories.

NetSuite sponsored the 2014 survey.

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