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MDM Special Report:

2017 State of E-Commerce in Distribution

By Dean Mueller & Jonathan Bein, Ph.D.

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E-Commerce Inches Toward Maturity

Distributor priorities with e-commerce shift to focus on experience

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

- *The number of companies with at least 10 percent of their total revenue from e-commerce in 2016 fell slightly (2 percentage points) from 2015. However, there was a 2 percent increase in the 10 percent to 20 percent category in the same time period.*
- *The primary e-commerce objectives among respondents this year include acquiring new customers and increasing transactions, along with a strong emphasis on improving the overall customer experience.*
- *Distributor respondents lag manufacturer respondents in the maturity of their e-commerce journey.*

This article examines the results of the 2017 State of E-Commerce in Distribution Survey and how the industry's e-commerce offerings are maturing.

The percentage of respondents in the 2017 State of E-Commerce in Distribution survey with a mature e-commerce offering (at least 10 percent of total revenue through the e-commerce channel) decreased by 2 percentage points from 2015 to 2016. At the same time, the percentage of respondents with 5 percent to 10 percent of total revenue from e-commerce increased from 16 percent in 2015 to 19 percent in 2016. The number of respondents with 10 to 20 percent also increased 2 percentage points in the same period.

The pattern of growth highlights that adoption of e-commerce for distribution – among distributors and their customers – continues along the path to maturity. Half of this year's respondents still noted that less than 5 percent of their sales came through e-commerce channels, but that percentage continued its downward trend.

And reaching maturity requires time. While 42 percent of companies with e-commerce today started in 2011 or before, 65 percent of companies with 10 percent to 20 percent of sales from that channel began in 2011 or earlier.

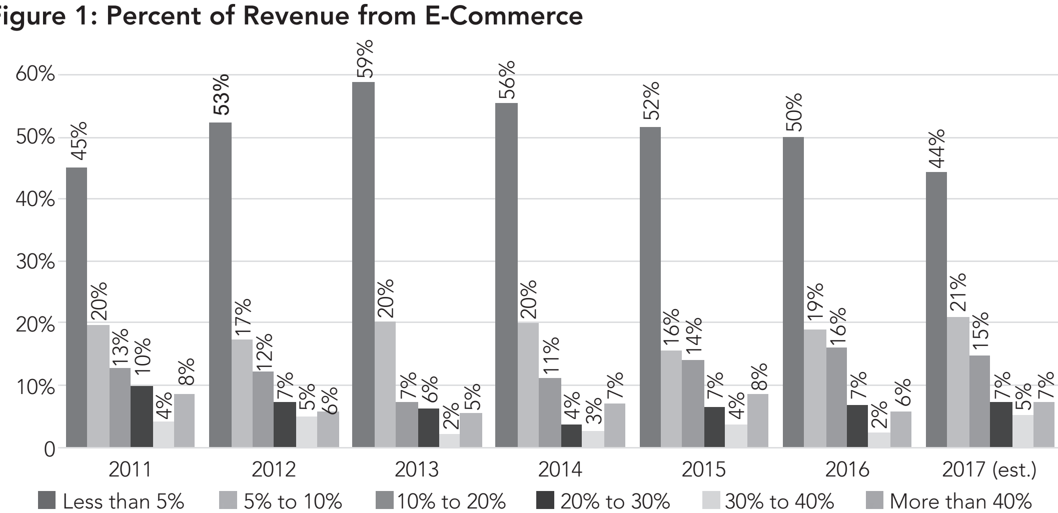
We classify the stages of the e-commerce journey in the following manner:

- Nascent = Less than 5 percent of e-commerce revenue
- Growth = 5 percent - 10 percent of e-commerce revenue
- Maturity = 10 percent - 20 percent of e-commerce revenue
- Leader = More than 20 percent of e-commerce revenue

Reality sinks in

The irrational exuberance seen in prior years seems to be rooted more in reality for the 2017 forecast. As in prior surveys, expected revenue

Figure 1: Percent of Revenue from E-Commerce



percentage for the current year shows aggressive growth compared to actual revenue percentage in the prior year. The estimated percentage of revenue in the nascent stage is forecast to reduce by 6 percentage points in 2017 versus 2016 with the move toward maturity. This forecast change appears to be much more in line with what actually may occur in 2017.

Two factors contributed to this – continued migration from the nascent phase to the growth and maturity phases; and company personnel becoming more familiar with the actual time and effort required to implement an e-commerce platform.

Manufacturer respondents are further along in their e-commerce journey than distributors. In 2015, 57 percent of manufacturers reported e-commerce as less than 10 percent of total revenue; In 2016, only 41 percent were in the under 10 percent category, a drop of 17 percent. The aggressive shift also saw a 15 percent increase in the 10 percent to 30 percent categories and a 3 percent increase in the more than 40 percent category.

Distributor respondents, on the other hand, saw a 7 percent drop in the nascent stage, with a 7 percent corresponding gain in the 5 percent to 20 percent categories. Distributors are shifting their journey from nascent to more mature stages but are doing so at a slower pace than manufacturers.

Risk of not pursuing e-commerce

The differences in manufacturer and distributor respondents point to a need for bold action from distributors. Manufacturers clearly see the benefits of e-commerce and are advancing toward growth and maturity. This e-commerce offensive by manufacturers could disrupt distribution. Distributors that are not aggressively embracing e-commerce must get on board quickly or risk manufacturers going around them.

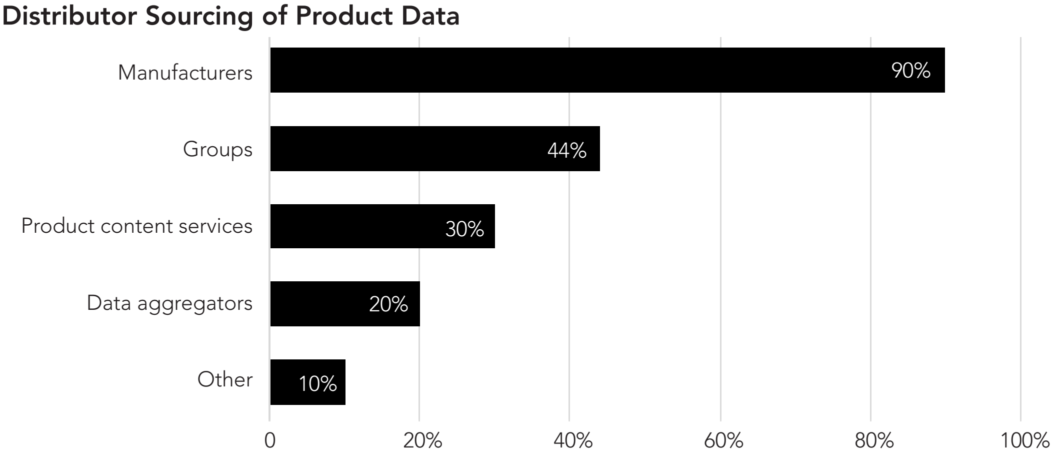
Manufacturers indicated that a key factor when adding a new distributor is evaluating the robustness of its e-commerce channel. Manufacturers understand the path to sales growth includes offering products in multiple channels, with e-commerce at the forefront.

In follow-up interviews to this survey, manufacturers clarified that they don't have time to nurture distributors without solid e-commerce options and will more aggressively secure and support those that offer a strong e-commerce channel. One manufacturer described in detail how a new distributor was regularly adding short videos to showcase the benefits of its products. Not only was the distributor driving traffic to its e-commerce channel, but it allowed the manufacturer to support the process with script writing and other assistance to more quickly add relevant product content.

Amazon as example, not threat

Manufacturers and distributors often identify Amazon as the standard in terms of user experience, especially in order and fulfillment. But some distributors also identify Amazon Business as a significant threat. At Real Results Marketing, while we see Amazon as a great example of how a general user experience can be, there is plenty of room for distributors to succeed in the e-commerce channel and be the preferred supplier.

Figure 2: Distributor Sourcing of Product Data



In our research covering nearly 20 distributors, one key takeaway is that each distributor is unique. Specifically knowing how customers want to shop (search for) versus buy will provide the foundation for an e-commerce strategy.

One client was ready to spend nearly $1 million on an e-commerce platform before discovering its customers largely purchased offline, negating a major technology investment. Conversely, some distributors thought their customers wanted to buy from salespeople, but contradicting research sparked the distributor to invest in and drive the e-commerce channel based on customer needs.

Know your customer's niches

Knowing the specific niches customers participate in often points to changes in how product data and content is written and shown. A one-size-fits-all approach to product data and product content can be short-sighted.

Distributors retrieve product data from many sources (see **Figure 2**), including:

- Groups, such as co-ops, buying groups or industry associations
- Product content services, such as Unilog, Codifyd or trade services
- Data aggregators, such as IDEA or ThomasNet
- Other, such as internal sources from the distributor

Product data is also critical for being found by search engines. If dozens of distributors have the exact same product descriptions, who shows up higher on a Google search engine results page?

Numerous factors go into that answer, which is beyond the scope of this article. However, it is essential to understand how customers search for products to develop product descriptions that more closely match the needs of your customers' searches.

Many distributors view that as a daunting task, so it never gets done. But product data and content is a continuous journey, not a one-time event. Distributors that budget product data acquisition as an ongoing cost will soon excel with it. Begin by tweaking the descriptions of your top SKUs and continually work down the list.

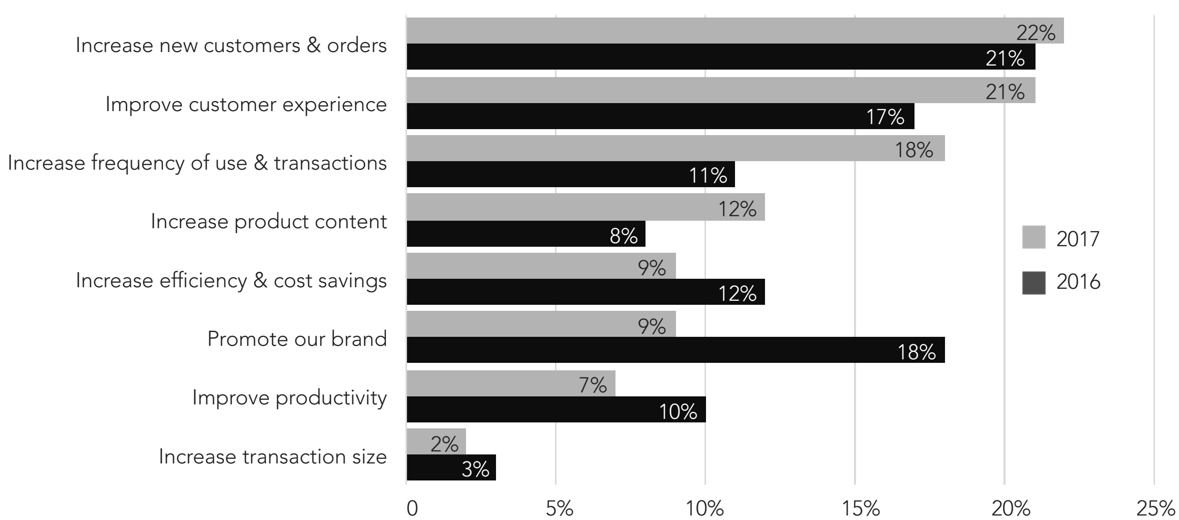
E-commerce priorities

The top priorities for e-commerce, as shown in **Figure 3**, are:

- Increase new customers and orders
- Improve the customer experience
- Increase frequency of use and transactions

A notable difference is the decrease of the mention "to promote our brand" – from 18 percent in 2016 to just 9 percent in 2017. As the journey to maturity marches on, priorities are shifting to the revenue aspects of the e-commerce channel. Specifically, the categories that combine gaining new customers and increasing frequency of use increased to 40 percent in 2017 versus 32 percent in 2016.

Figure 3: E-Commerce Priorities, 2017 vs. 2016



As more emphasis is placed on the transactional aspects of the e-commerce channel, improving the customer experience and product content changes to support transactions. These combined categories were at 33 percent in 2017, up from 25 percent in 2016.

Moving forward

Product data is the foundation of most distribution websites, and it should be thought of as needing daily exercise through continual updates. If multiple sites show the exact same product data, search engines will attempt to select which site is the "authoritative" version of that data. This makes search engine optimization a critical element of an e-commerce strategy.

This year's research shows transactions as a key priority. Supporting a transactional site means having product content that is most relevant to users. Another aspect of supporting a transactional site is the continuous monitoring and improvement of the customer experience. Clearly understanding customer needs and requirements is critical to compressing the time from the nascent stage to a mature e-commerce channel.

How Marketing Guides Performance

How high-performing companies drive e-commerce demand

The shift moving toward e-commerce maturity means the journey evolves as well. This article explores what is changing and how you can improve the returns on your e-commerce investment.

E-commerce initiatives are a journey. Continuous improvement is required to adapt to ever-changing customer expectations. Amazon, Grainger and other world-class e-commerce sites are constantly monitoring customer needs and making modifications that result in better conversion, customer stickiness or other operational improvements.

The user-experience (UX) bar is continuously being raised. It is not enough to have an e-commerce site; the user experience must, at a minimum, be good.

E-commerce performance

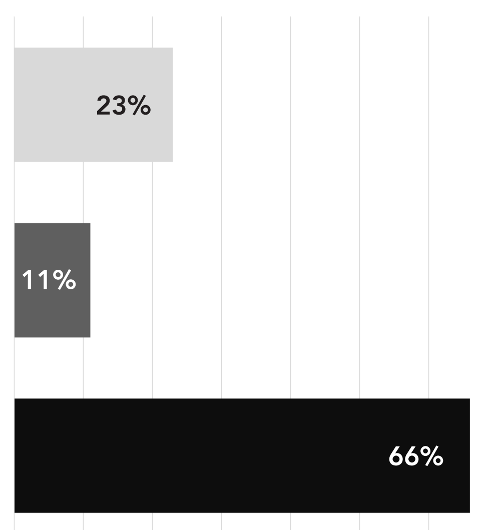
This year's survey revealed strong increases in the focus on "improving customer experience" and "increasing product content available." The two are closely related. The latter is one specific way to enhance the customer experience and make it easier to find relevant product informa-

Figure 1: Distributor E-Commerce Performance

High Performer: Moved to 10%-20% of e-commerce revenue within five years or has greater than 20% of revenue from e-commerce

Moderate Performer: Took more than five years to get to 10%-20% of total revenue from e-commerce

Underperformer: In the nascent (less than 5% of revenue) category for more than three years or in the 5%-10% category for more than five years.



tion. The better and more relevant the product information is, the greater the probability for conversions.

Real Results Marketing has conducted this research with distributors for six consecutive years. This year, we segmented distributors into three classifications based on e-commerce performance in terms of percent of total revenue.

As shown in **Figure 1**, 23 percent of distributor respondents fell into the High Performer category because they moved to 10 percent - 20 percent of e-commerce revenue within five years or they have greater than 20 percent of total revenue in the e-commerce channel. Eleven percent of respondents were Moderate Performers, meaning it took them more than five years to get to the 10 percent - 20 percent band. The Underperformer category represents two-thirds of respondents, either staying in the nascent band for more than three years or in the 5 percent - 10 percent band for more than five years.

Compressing the time from e-commerce launch to maturity is a goal for many distributors, but it does not just happen. Building and launching a site does not automatically translate into success. That's where strong and effective marketing comes in.

Marketing vehicle effectiveness

While sales reps and customer service continue to be critical drivers of e-commerce demand, search engine optimization (SEO)/organic search has significantly grown in importance, shifting from the No. 4 position to the No. 2 position in terms of effectiveness. (See **Figure 2**.)

The usage/effectiveness of print catalogs, however, declined – from about 42 percent of respondents listing it as one of its top five channels last year to 30 percent this year. There can be significant conversion differences in print vehicles; those distributors that communicate a solid value proposition with promotional-type content have seen good revenue growth. Depending on industry sector, our clients still see good revenue lift opportunity with the usage of print catalogs and/or print flyers.

Knowing the e-commerce priority changes discussed in Part 1 and touched on here, improving the overall customer experience is crucial to drive up conversion rates and revenue. Email marketing is highly utilized and provides a good way to keep in touch with customers, but marketing automation could elevate those efforts.

Marketing automation begins where email

Figure 2: Effectiveness of Marketing Vehicle to Drive E-Commerce Demand

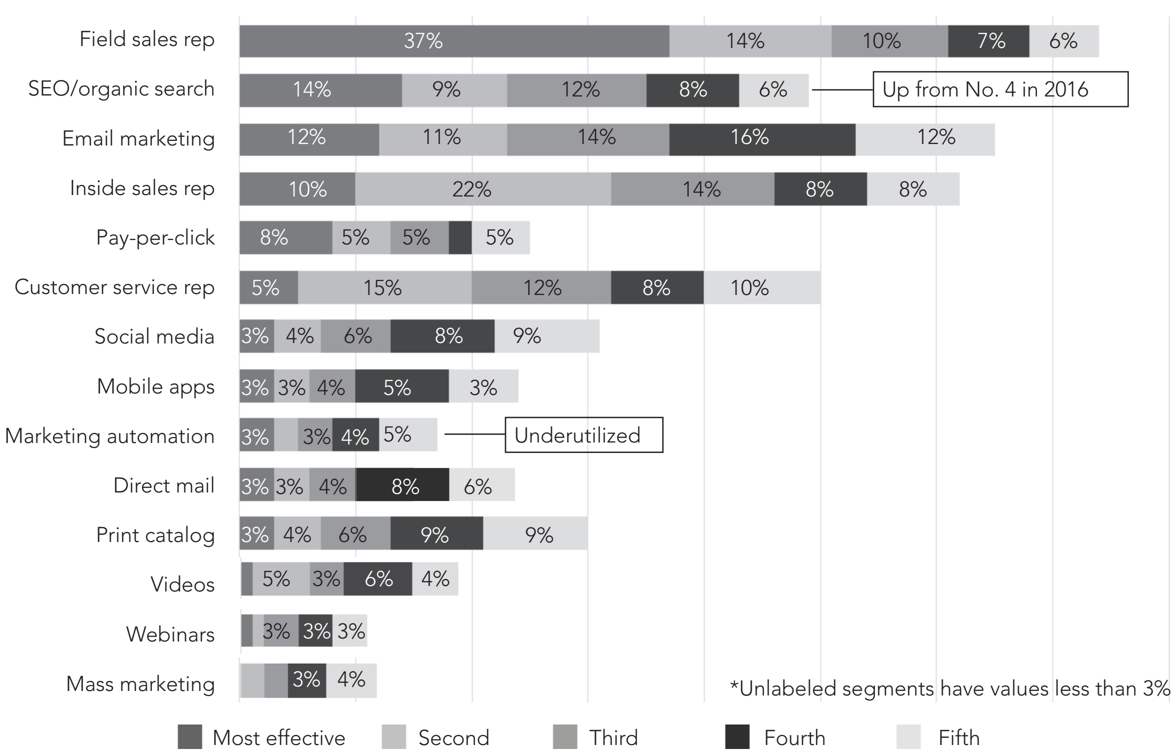
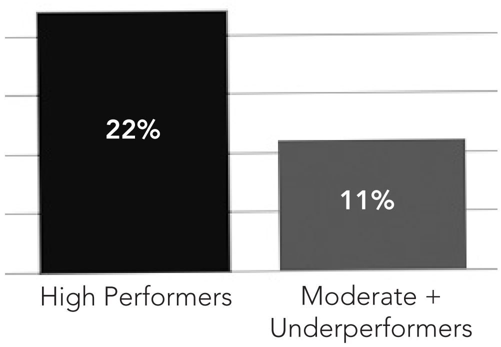


Figure 3: Marketing Automation Use by Performance Category



marketing capabilities peak. This underutilized tool, when used properly, can provide highly relevant and behavior-based communication and can increase conversions.

As shown in **Figure 3**, marketing automation is used twice as much by high-performing distributors. But there is still opportunity among the high performers to increase adoption of this tool.

Spending rank by marketing vehicle

While distributors say the effectiveness of the print catalog is declining, it is still where most of their marketing dollars are being spent. (See **Figure 4**.) High performers use print catalogs more than their counterparts in the moderate and underperforming categories. Nearly half of all high performers (48 percent) have print catalogs as part of their marketing strategy, while only one-third of moderate and underperformers combined do.

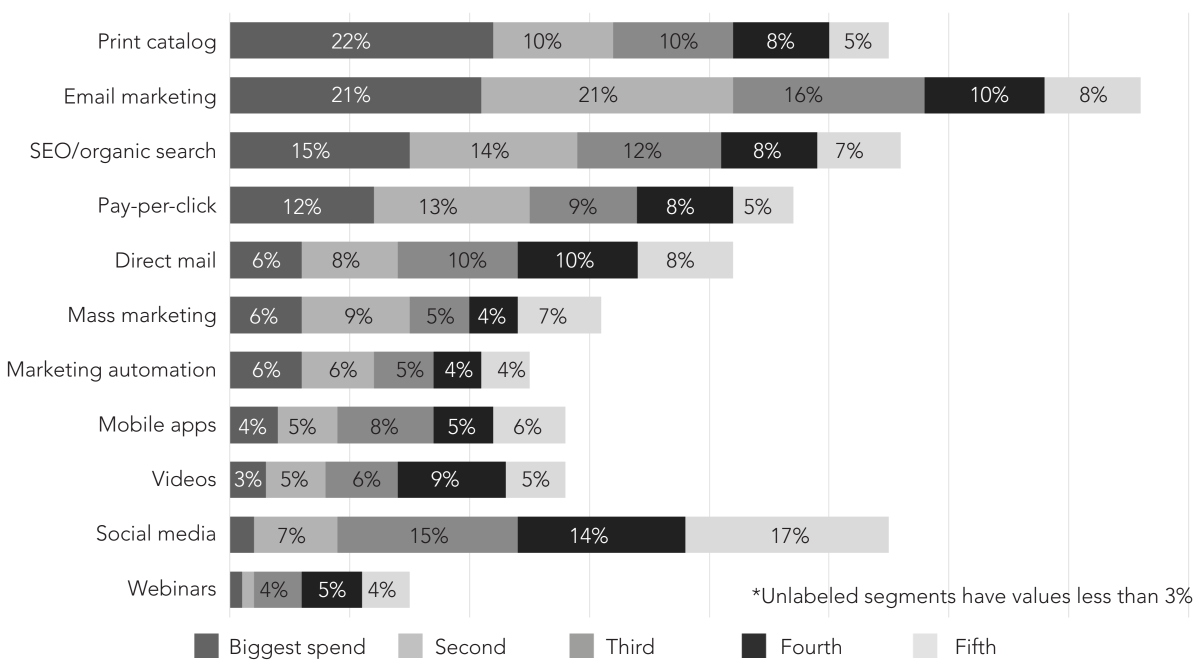
Email marketing is a close second for marketing vehicle with the greatest spend, with 21 percent of respondents. SEO and pay-per-click (PPC) are third and fourth, respectively, but combining them into one "search" category would move it into the highest spend position at 27 percent of respondents identifying them as the biggest spend.

Considering the evolution and shifting emphasis toward user experience, it is natural to dedicate significant resources to continued improvement of SEO and PPC to make it easier for users to find what they seek. Distributors with branches have a built-in benefit over online businesses, such as Amazon, in that they could optimize local SEO for branch locations (in addition to the myriad other value-added services).

With more mobile searches taking place, Google places strong emphasis on sites that are mobile-optimized and rewards those with good local SEO with higher organic rankings. Optimizing local SEO is often overlooked in a company's strategy for driving e-commerce demand.

Search isn't just about Google, however. Consider the user experience for searching on the e-commerce site. If a user wants a "hammer

Figure 4: Spending on Marketing Channel to Drive E-Commerce Demand



drill," entering that phrase into the onsite search and getting results for hammers, for example, will quickly frustrate a user who may go elsewhere for purchases.

Satisfaction with returns on investment

Survey respondents were asked to rate their satisfaction with their company's e-commerce as a return on their e-commerce investment. **Figure 5** depicts satisfaction by the distributor performance categories introduced previously.

Underperforming distributors generally are not satisfied. Those underperformers that are extremely satisfied or very satisfied may have either recently upgraded their e-commerce implementation or have a low success threshold.

High-performing distributors that are moderately or slightly satisfied may have higher expectations of success for their e-commerce initiative. Regardless of which category a distributor falls into, the key is continuous improvement. Customers' expectations are constantly evolving, and e-commerce sites must evolve to keep customers and gain new ones.

Along with continuous improvement of the user experience, distributors have a tremendous opportunity to compress the time in the nascent and growth revenue stages along the way to being in the mature e-commerce bands. Aggressive marketing is critical.

About this research

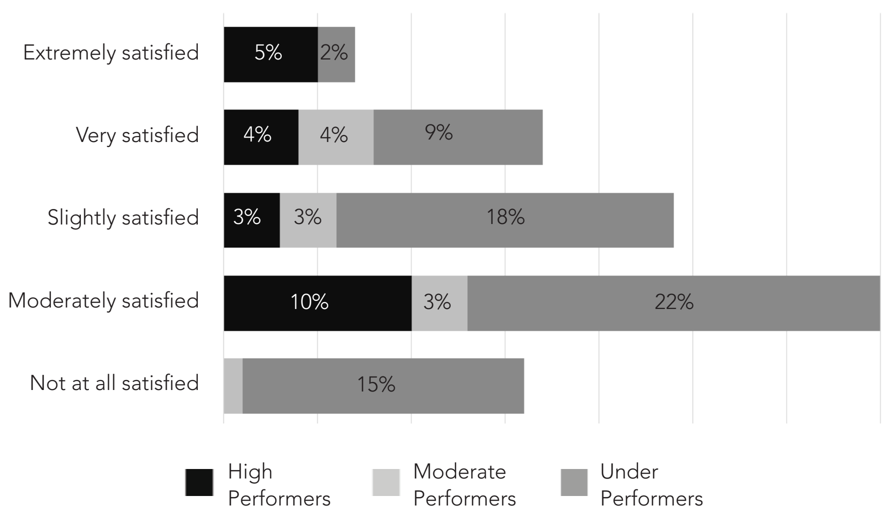
This research was conducted by Real Results Marketing with Modern Distribution Management. The research included an online survey taken by 532 participants across a variety of sectors. Of those identifying either manufacturer or distributor, 68 percent were distributors and 32 percent manufacturers.

There was heavier participation from industrial, safety, electrical, building materials, janitorial, oil and gas products, jan-san, HVACR/plumbing and hardware, power transmission/bearings. Other participating sectors include chemical and plastics, pulp and paper, chemicals and plastics, grocery/foodservice and pharmaceutical.

About one-third are small distributors with less than $50 million revenue. Nearly 40 percent are mid-market with $50 million to $500 million, and 17 percent are large with more than $500 million revenue. The remaining 10 percent did not disclose the revenue range.

About 32 percent are primarily focused on MRO, 11 percent are focused on OEM customers, 19 percent serve trades/contractors, 22 percent are an even blend of MRO and OEM, and 13 percent are in other categories.

Figure 5: Satisfaction with E-Commerce ROI by Performance Category



Amazon Business: Foe with Benefits?

Amazon outlines distribution strategy

By Thomas P. Gale

Amazon: friend or foe?

That was the question of the day at the NAW 2017 Executive Summit in Washington, DC, last week, where Rob Green, director and general manager of Amazon Business, tried to provide some answers in his presentation, "Amazon Business is Here, What Does That Mean for Distribution?," to an attentive group of 350+ distributors. But the audience conclusion was probably not what Amazon was hoping for.

Amazon is best viewed as a foe with benefits, according to Julia Klein, CEO of CH Briggs, a specialty hardware distributor that serves the East Coast. Her conclusion – at least the foe part – was shared by every distributor in the room. When NAW Chairman-Elect Joe Nettemeyer of Valin Corp. asked the audience if they considered Amazon to be a friend, not a single hand went up. He noted that there was apparently no need to ask the second part of his informal survey question.

The answer distributors are still waiting for is whether Amazon is a digital channel worth a shopping cart full of still-evolving and not-yet-defined potential threats to traditional channels of distribution. Until Amazon is able to communicate a clear win-win channel strategy to distributors, it will likely have a tough time gaining enthusiastic channel partners.

The presentation provided some history, how Amazon Business fits into Amazon's overall business plans and Green's take on the future of the unit. Right now, Amazon Business appears to be experiencing strong growth, according to Green, with sales increases of 20 percent month-over-month.

What it didn't provide was the buy-in Amazon was looking for from those in the room as both a channel partner and supplier.

This issue of friend or foe represents an ongoing issue that has been part of Amazon's bipolar courtship and competition with all sectors of distribution since it quietly launched AmazonSupply five years ago (something it had been building out for more than a decade). And the question was the first one raised in the Q&A session following Green's presentation: If a distributor participates as a seller on Amazon Business, will Amazon mine its transaction and customer data to improve its ability to sell and compete against me with the same products?

Green's answer first discussed a firewall between the two sides of Amazon – its marketplace where distributors have their own digital identity and manage pricing versus being a direct vendor to Amazon for its sales and pricing management – where data is not shared between the two sides of the business. But he then seemed to qualify that answer with a clarification about how data mining is a key way in which Amazon optimizes its selling process. He concluded by suggesting an offline conversation for more detail.

As to whether distributors should consider Amazon a friend or foe, he stressed the opportunities to leverage Amazon's reach in two different ways. As an Amazon Vendor, Amazon takes on the responsibility for pricing, shipping and customer service for your products; as an Amazon Business Seller (or marketplace participant), you manage the pricing but have a choice in who handles the shipping and customer service.

Based on comments by distributors throughout the rest of the NAW conference, the conclusion of many in the room was that Amazon has still not settled on an inclusive channel strategy. It's a question many distributors and manufacturers have had for 10 years after Amazon bought a small appliance parts online seller as a platform, then created AmazonSupply and transitioned that into Amazon Business in 2015.

In the meantime, many distributors will reluctantly maintain an arms-length relationship and potential exposure of their customer analytics, but not raise a hand until it looks like Amazon clearly has the same intention.

Green provided additional insight on the internal power structure at Amazon, citing a comment by Jeff Bezos in his letter to shareholders in 2015: "AWS, Marketplace and Prime are all examples of bold bets at Amazon that worked, and we're fortunate to have those three big pillars." Green's goal is to make Amazon Business the fourth pillar that Bezos wants to build the company on. But he acknowledged that the three current pillars still drive the company and its resources.