



MDM Special Report:

# 2018 State of E-Commerce in Distribution

*By Dean Mueller & Jonathan Bein, Ph.D.*



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# B2B E-Commerce Passes Tipping Point

E-commerce adoption by wholesale distribution companies hit a milestone mark in 2017

A remarkable tipping point took place in 2017— distributor e-commerce as a percentage of revenues shifted significantly, based on the seventh annual MDM distribution e-commerce survey conducted with Real Results Marketing.

## Key Trends

- The number of distributors in the top two phases (mature/leader or more than 10 percent of revenue through e-commerce channels) of their e-commerce journey increased from 34 percent in the prior year to 41 percent, continuing a three-year trend.
- At the same time, the number of distribution companies in the lowest e-commerce usage phase (less than 5 percent of total revenue) dropped 9 percentage points from the prior year.
- Top priorities for e-commerce include improving customer experience and increasing the frequency of website use and transactions, indicating a major

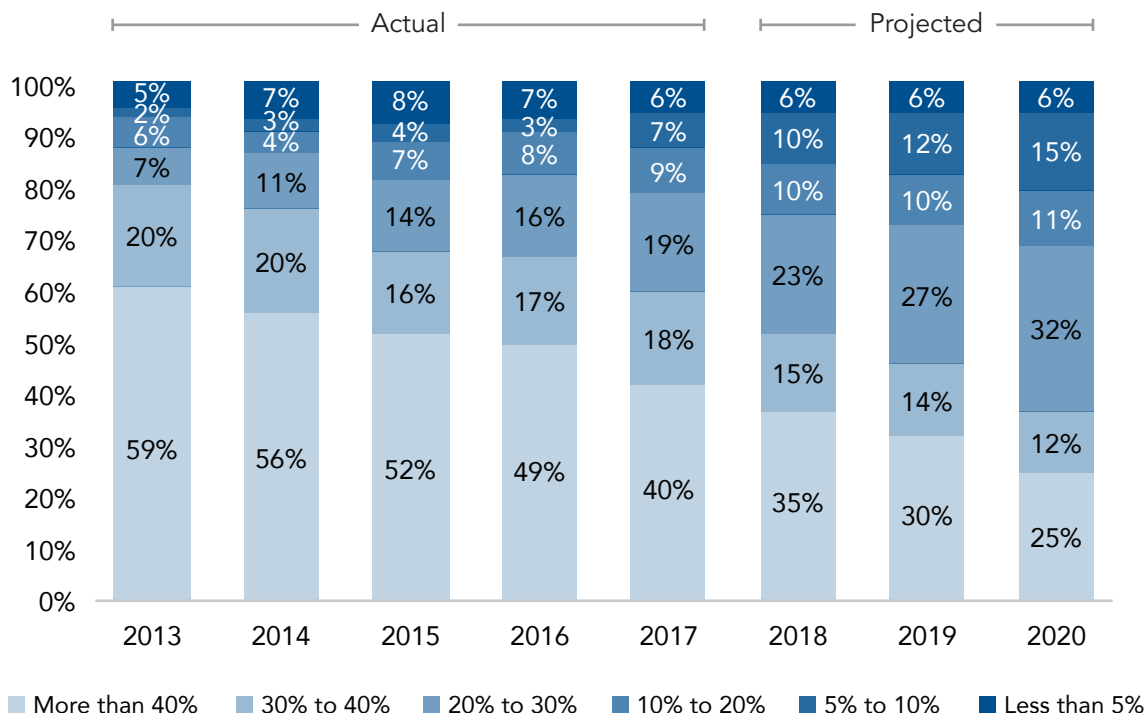
shift from just three years ago as distributors mature from information-oriented sites to transactional sites.

This article examines the initial results of the 2018 State of E-Commerce in Distribution Survey and how the industry's e-commerce offerings are maturing. Subsequent reporting will examine the changes and additional topics in more detail.

E-commerce adoption by wholesale distribution companies hit a milestone mark in 2017 – it's growing up. Following seven years of research indicating a sluggish overall level of e-commerce adoption at first, MDM's 2018 State of E-Commerce in Distribution survey indicates a much broader cross-section of wholesale distributors are well on their journey of transitioning to a higher percentage of sales through e-commerce channels.

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

Fig. 1: Forecast E-Commerce as Percentage of Total Revenue (2013-2020)



- Nascent = Less than 5% of e-commerce revenue
- Growth = 5% - 10% of e-commerce revenue
- Mature = 10% - 20% of e-commerce revenue

Leader = More than 20% of e-commerce revenue

The 2018 survey shows the percentage of respondents with a mature e-commerce offering (at least 10 percent of total revenue through the e-commerce channel) has grown significantly in each of the past three years (**Figure 1**). In 2015, the number of companies in the mature phase was 33 percent. In 2016, that rose to 34 percent; followed by a 7-point jump in 2017 to 41 percent, showing very significant movement to the mature stages of e-commerce. From another perspective, that means over the past three years, a large number of distributors in the survey moved into upper tiers of e-commerce usage. That's a meaningful move of the needle when gauging the level of investment and management attention to e-commerce as a competitive lever.

Perhaps the most notable finding this year is the change in the number of companies in the nascent stage, which is less than 5 percent e-commerce as a percent of total revenue. Based on prior years, we would have predicted the 2017 percentage to be in the 45 percent to 47 percent range. The remarkable

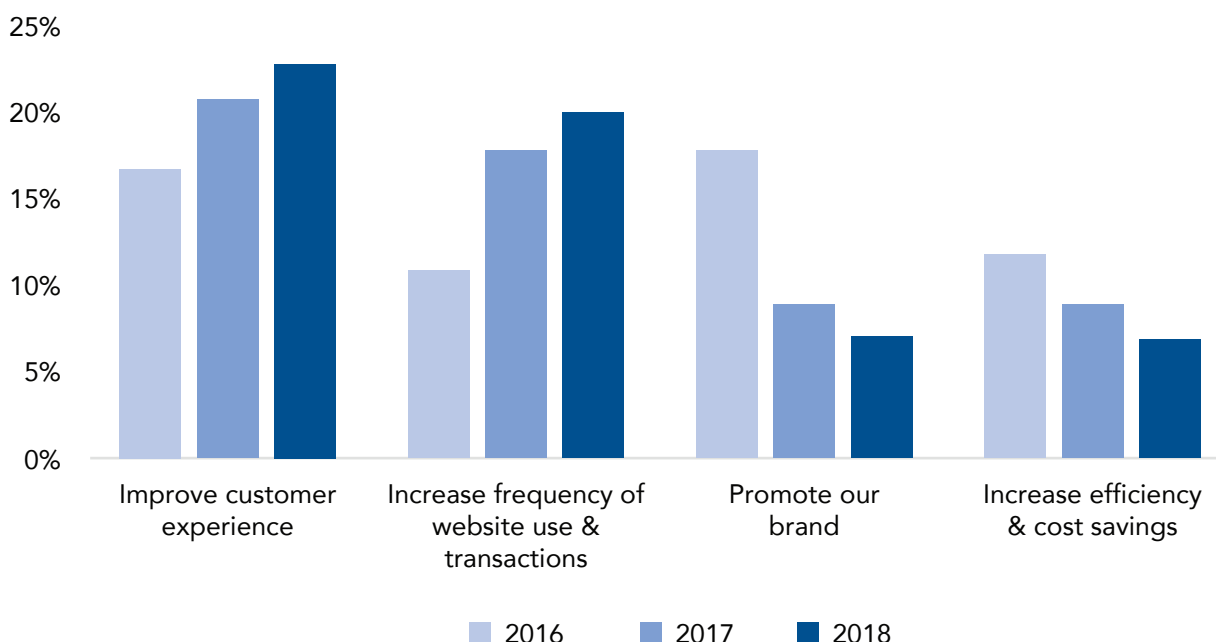
drop to 40 percent indicates the tipping point for B2B e-commerce maturity has arrived.

### B2B E-Commerce Forecast

Carrying the trend forward, the second part of **Figure 1** is a prediction of where the stages will be in 2020. With a fairly aggressive 5 percent drop in each of the next three years, the number of respondents in the nascent phase of e-commerce will be just 25 percent. Conversely, the number of respondents in mature stages are forecasted to be in the range of 64 percent, or about two-thirds of B2B companies responding to the survey. More than 30 percent of the respondents will have more than 20 percent e-commerce revenue.

Two factors are helping drive these changes. First, B2B e-commerce platform providers continue to up their game in terms of offering more capabilities at increasingly affordable prices. Second, product data is more available as buying groups and associations are providing or assisting collection of the data and making it available to significantly more distributors with reasonable costs. Manufacturers are increasingly getting better at providing product data to distributors. However, there continues to be room for improvement, especially with smaller manufacturers.

**Fig. 2: Top E-Commerce Priorities**



## E-Commerce Priorities

Also eye-opening is that objectives for e-commerce are shifting too, as many of those nascent stage sites have moved from information-oriented sites to full transactional sites.

The top two priorities for e-commerce, as shown in **Figure 2**, are:

- Improve the customer experience
- Increase frequency of website use and transactions

As B2B e-commerce adoption matures, the top priorities shift as well. It is no surprise that with increasingly greater adoption, the importance of both “customer experience” and “increasing frequency of website use and transactions” grew precipitously.

Correspondingly, a top priority just three years ago of “promoting our brand” has dropped significantly as distributors move from more information-oriented web pages to sites that handle significant transaction and revenue volume. Additionally, the

category “increase efficiency and cost savings” has also decreased. As e-commerce maturity continues on the upward path, efficiencies and cost savings are being realized; therefore, distributors are shifting priorities to other areas, such as improving the customer experience.

## Moving Forward

The continued rapid e-commerce maturity is a very significant shift and will have dramatic implications for distributors on how to differentiate their offerings. Additionally, distributors must identify new objectives for each of the subsequent maturity stages with the goal of driving to higher levels of functionality in a shortened time frame.

The distributor imperative to get into, or increase, their e-commerce game is urgent. End-users are researching, finding and buying products and solutions online. If they are not using your website, they are using another distributor or manufacturer to get information and make purchases. Keeping end-users on your site for their needs is essential for a distributor’s short-term and long-term growth.

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# Key Drivers for E-commerce Demand

Distributor priorities for e-commerce investment continued to evolve in 2017

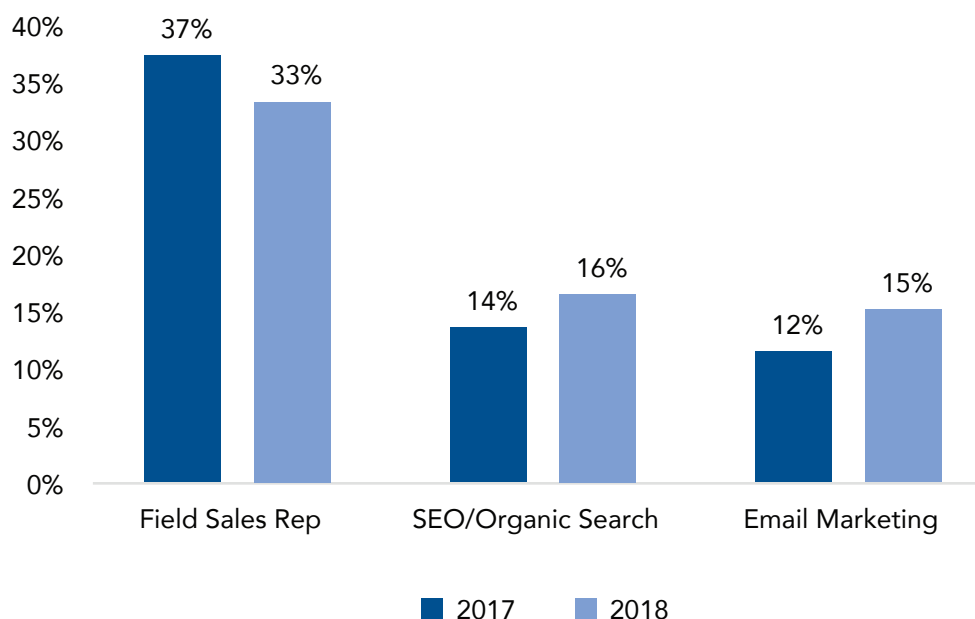
*In this article, we explore additional findings around the channels distributors use to drive e-commerce demand as well as their satisfaction with the returns on their e-commerce investments.*

*Distributor priorities for e-commerce investment continued to evolve in 2017. In our latest research, improving customer experience and increasing the frequency of website transactions and usage were noted as the top e-commerce priorities of respondents in our survey of 300 distributors and manufacturers. Another area gaining importance is distributor communication with customers; as we outline below, we feel this represents a greater awareness of the need to provide consistent and relevant updates to customers as a critical component of e-commerce success.*

## Stronger Marketing Effectiveness

Field sales isn’t what it used to be, but it’s still critical. Manufacturers and distributors are maturing in the way they leverage their sales and marketing functions to promote e-commerce. Our research captured effectiveness in driving demand to the e-commerce channel across 14 methods. The most effective method, by far, continues to be the field sales rep. Distributors with a mature e-commerce channel generally have field and inside sales teams that understand how these capabilities can be both good for their customers and a useful tool for them to strengthen relationships. While field sales reps continue to be seen as the best vehicle for promoting e-commerce, a notable change is emerging, as only 33 percent of respondents preferred this channel in 2018 vs. 37 percent in 2017.

**Fig. 1: Most Effective Marketing Vehicles to Drive Demand to E-Commerce Channel**



SEO (search engine optimization)/organic search was identified again this year as the second-most effective method to drive e-commerce demand. The third-most effective method was email marketing. Both SEO and email marketing increased in effectiveness in 2018 compared to 2017. Field sales, inside sales and customer service reps are still three of the top five most effective methods, so even with a decline in field sales effectiveness, people and relationships remain very important.

SEO and email marketing support the top priorities identified in the survey – improving customer experience and increasing website transactions and usage – by making it easier for web users to find the information they seek along with using email to communicate to customers.

Our key takeaway: Marketing automation is likely an underutilized tool, with just 3 percent of respondents noting it is most effective in driving e-commerce demand. Our perspective is that the capabilities of marketing automation to improve customers' experience begins where email's effectiveness tapers off. Used properly, marketing automation can help provide highly relevant and behaviorally-based communication to specific customer personas such as buyers, engineers, etc.

### Spending Rank by Marketing Vehicle

Now that the effectiveness of marketing vehicles has been outlined, the next question is: Where are distributors spending their marketing dollars to drive e-commerce? Respondents ranked eight different variables. While email took over the top spending rank, it remained the same percentage as last year. Print catalogs continue to decline each year, but print remains a strong driver of e-commerce demand if done well.

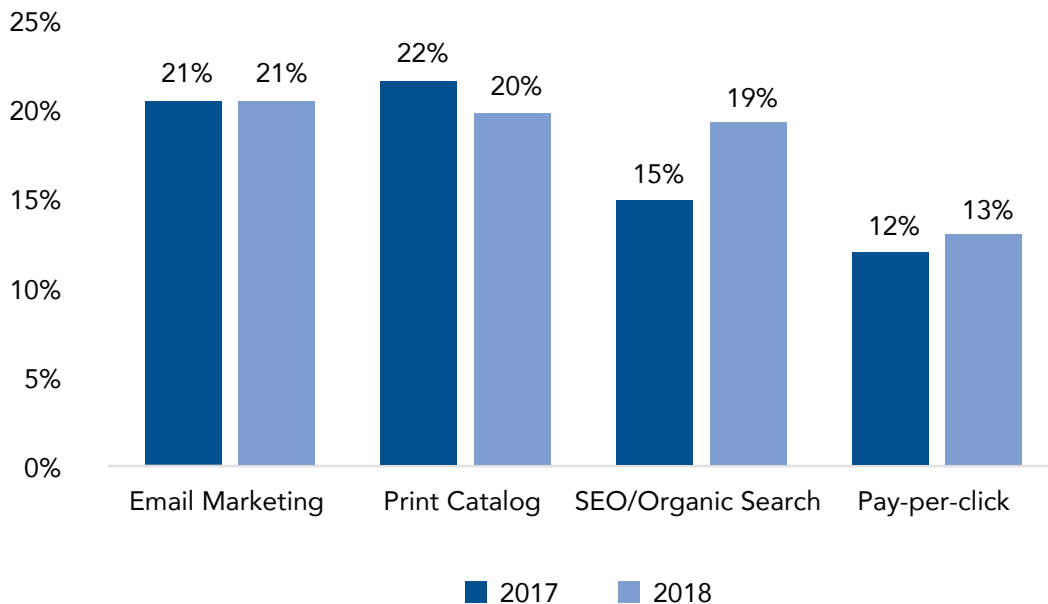
Notable is the strength of SEO and PPC (pay-per-click).

*Editor's note: Here's a cheat sheet to SEO and PPC from a resource we respect: SEO - <https://moz.com/learn/seo/what-is-seo> and PPC - <https://moz.com/blog/how-to-choose-a-ppc-agency>.*

Adding these two methods together as a "search" category for 2018, the spend is a significant 32 percent. We forecast both SEO and PPC will increase in both effectiveness and spend in the coming years to continue to make it easier for customers and prospects to find the information and products they need. Distributors that have branches will be well served to place attention on local SEO activities



**Fig. 2: Spending by Channel to Drive E-Commerce**



(<https://moz.com/learn/seo/local>). Search results on Google are different based on many factors, including the type of device the search was initiated on and the searcher’s physical location. Local SEO is just one important way a distributor can differentiate itself from other brick-and-mortar and pure online sellers.

Many distributors have not yet embraced the power of SEO and/or search marketing. SEO in particular should be considered an essential element for e-commerce. Just as a branch location has construction, maintenance and utility expenses, SEO should be considered essential and resourced appropriately. Our view: SEO is not optional for successful distributors.

**Satisfaction with E-Commerce Investments**

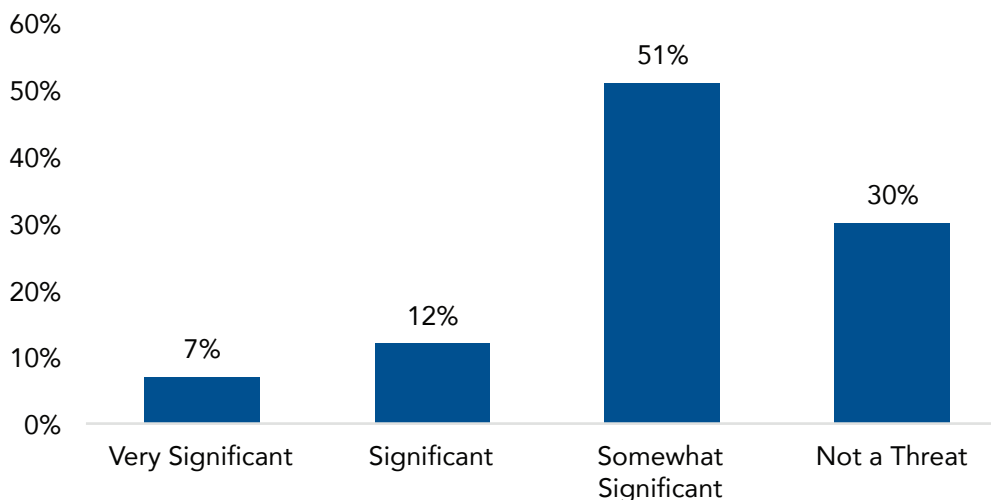
Survey respondents were also asked this year to rate their satisfaction with their returns on their e-commerce investments. The chart below shows that 21 percent indicated they were either extremely or very satisfied with their e-commerce initiatives. Slightly more than a third said they were moderately satisfied.

A quarter of respondents were only slightly satisfied

with their e-commerce and 18 percent were not at all satisfied. From this poll, 42 percent of respondents are in what we classify as needing improvement. Here’s why. From a broader research study we’ve conducted, customer experience requirements continue to increase, making it critical for distributors to a) clearly understand customers’ e-commerce needs and b) use that insight to build a system that can grow with each customer’s changing needs.

Real Results Marketing has separately conducted extensive research about what customers expect when they shop/research/find/select products versus buy/transact. We find a great deal of variation in various distributors’ customer bases: Discrete customer segments have very different needs that many distributors aren’t factoring into their e-commerce development. Clearly understanding the voice of your customers regarding e-commerce is not just a good thing, it is a critical necessity to any distributor’s e-commerce success.

Our research further shows distributors with subpar e-commerce sites are not only losing transactions, they are losing customers that migrate to more robust and easier-to-use competitors’ sites. By our estimates, failing to gather insight specific to your customer base and use it to make changes could

**Fig. 3: Satisfaction with E-Commerce**

easily trigger a 1-percent to 4-percent attrition rate per year for the next several years.

### Moving Forward

Small changes to business processes can produce big results. As noted in part one of this research report, the rapid shift to e-commerce maturity has a variety of significant implications for distributors. Gaining solid support internally, especially with the field sales team, is imperative to effectively drive demand to the e-commerce channel. Both SEO and PPC continue to gain in importance. Distributors placing dedicated resources to their search initiatives – both SEO and PPC – are well positioned to leverage their e-commerce

initiatives and compress the time from the nascent stage to maturity. Marketing automation is a very underutilized tool in the effort to help distributors improve their overall customer experience.

Just 21 percent of distributors report that they are relatively satisfied with their e-commerce initiatives. Another 42 percent are in the category of potentially needing an e-commerce overhaul. Understanding your customers' expectations is a critical requirement to building and implementing an e-commerce site that addresses their needs. Effectively communicating a distributor's unique value proposition based on customer requirements can go a long way toward accelerating your progress from nascent stage to maturity.



# The Impact of Amazon Business on Distributors

How distributors use Amazon continues to evolve

*In this article, we explore survey findings on how distributors are using Amazon as a sales channel, types of products sold and ways in which Amazon may be a threat.*

Key takeaways include:

- More than two-thirds of distributors surveyed view Amazon as a threat.
- More than a quarter of distributors polled said they sell, or are willing to sell, all the products they carry on Amazon.
- Two-thirds of distributors in the survey selling on Amazon sell commodity-type products and 30 percent use the platform to sell excess and obsolete inventory.

*You must first understand customer expectations regarding how they want to shop and buy; then align your capabilities with those expectations.*

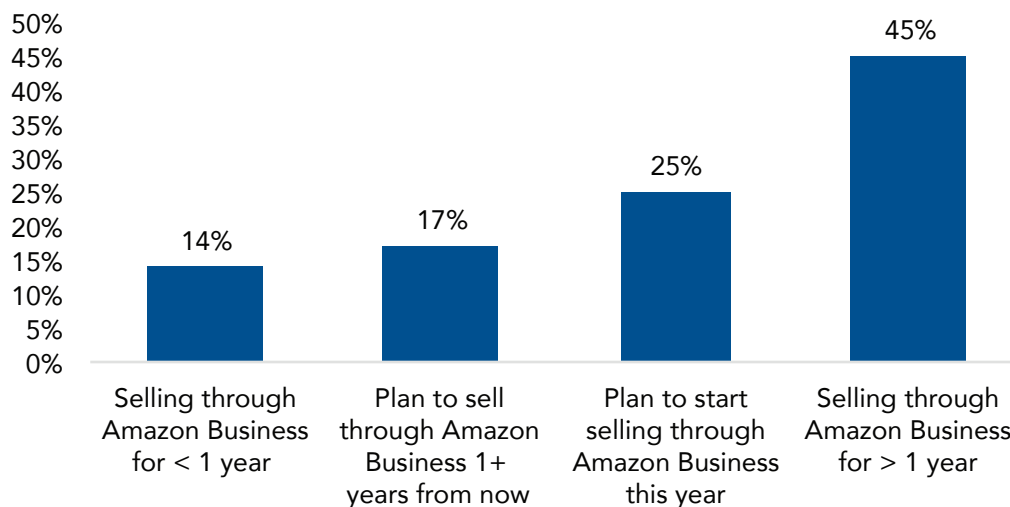
## Key Activities with Amazon

Amazon continues to build share into traditional distribution channels, according to our 2018 survey data. This is the first time we've included specific questions on usage of Amazon Business in our annual distribution e-commerce benchmarking series that we've conducted in partnership with *Modern Distribution Management* for the past seven years.

Respondents were asked to identify their involvement with Amazon Business. More than 70 percent indicated they had no plans to sell through Amazon Business, while more than a quarter of distributors in the survey said they sell, or are willing to sell, all the products they carry through Amazon. A larger percentage of distributors are willing to use Amazon Business selectively as an inventory management strategy. **Figure 1** indicates the status of distributors selling through Amazon Business.

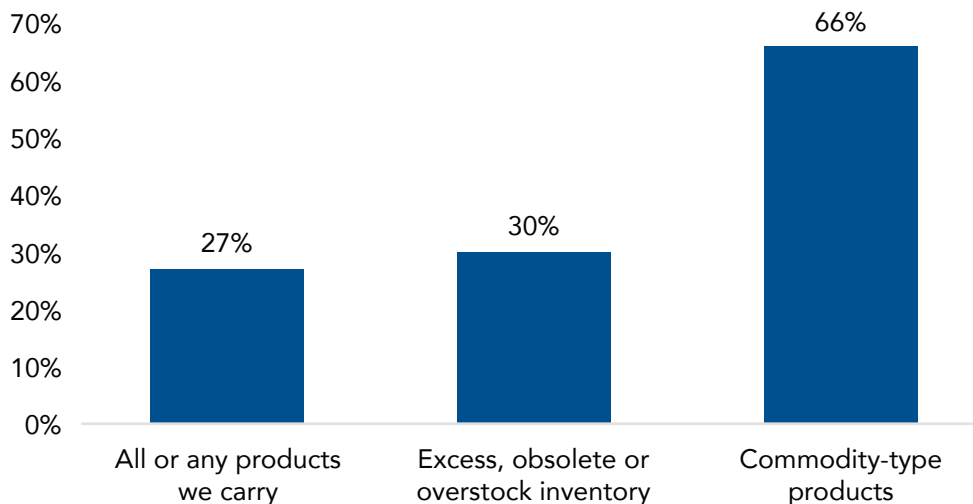
**Fig. 1: Status of Selling Products through Amazon Business**

(Excludes those not planning to sell through Amazon, numbers rounded to nearest decimal)



**Fig. 2: What Distributors Sell on Amazon**

(Multiple answers allowed, excludes those not selling on Amazon)



Among distributors selling or planning to sell on Amazon, 45 percent of respondents have been selling there for more than a year; 14 percent began selling through this channel less than a year ago; 25 percent indicated they are planning to sell through Amazon this year and another 17 percent said they are planning to sell through Amazon more than a year from now.

Distributors were asked to identify the types of products sold on Amazon (**Figure 2**). Two-thirds said they were selling commodity-type products that require little explanation or configuration. An example would be basic personal protection equipment such as safety goggles. These product types are ideally suited for an e-commerce site and do not require complex explanation or configuration.

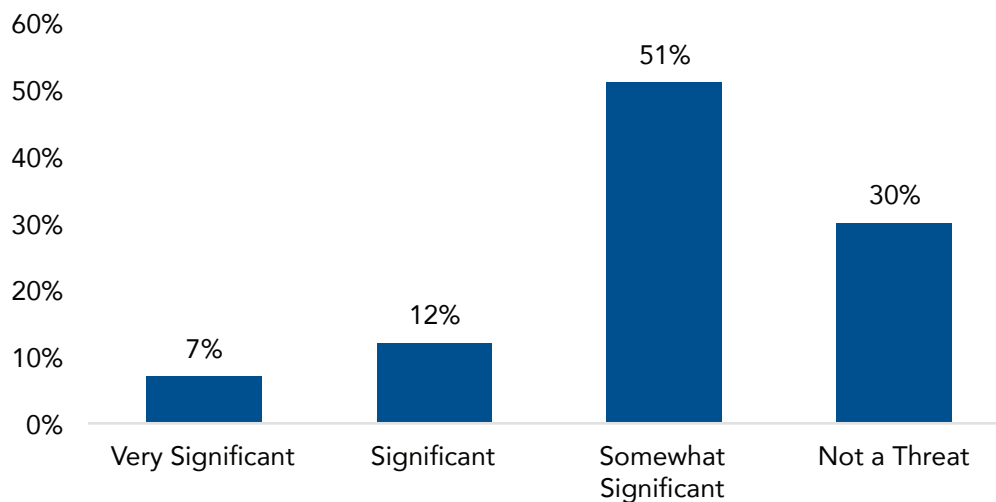
There continues to be a significant discussion on how to manage the impact that Amazon has on distribution channels. This report examines the survey responses of nearly 300 distributors and manufacturers to gain a baseline understanding of how suppliers are using and thinking about Amazon (see end of article for survey details). Based on these data points, we identify recommendations on how to move forward.

Just under a third of distributors using Amazon said they sold their excess, obsolete, or overstock (E&O) items on the market place. Obsolete items often have the advantage of no longer having a minimum advertised price (MAP) requirement, allowing the distributor to price these items lower than list price for a quick sell.

The other advantage with using Amazon to sell E&O products is that the potential market is much larger than a distributor's traditional channels. One distributor commented, "It's a great way to get rid of dead inventory for a much higher price and with less effort than selling to contractors."

Slightly fewer distributors (27 percent) said they sell, or are willing to sell, all the products they carry on Amazon. Distributors in this category have told us they want to jump start their e-commerce initiative; placing products on the Amazon platform reaches eyeballs they simply couldn't get through other methods.

One thing to note is that companies do not always list products to sell on Amazon under their company brand. In some cases, a separate entity is created to minimize potential customer/channel conflict. In other situations, a third-party company

**Fig. 3: How Much of a Threat Does Amazon Business Pose?**


either buys E&O product, or the products are sold in a consignment-type arrangement. Some distributors find they do not have the time or personnel to address or adhere to Amazon's fairly stringent guidelines. A third-party organization that specializes in these transactions could be a good choice in those situations.

*Editor's note: In 2018, there are an increasing number of consulting firms - often ex-Amazon employees - providing strategic advice, guidance and resale services for optimizing sales results through Amazon Business.*

### Pros & Cons of an Amazon Relationship

As with any channel and market opportunity, there are pros and cons. While some distributors see Amazon as a threat, others see it as a way to increase sales by expanding into markets and reaching customers they would normally not have access to. Distributors in our survey pointed out challenges of working with Amazon as a channel partner. One distributor summarized a common theme with this comment: "Expensive fees and a heavy-handed returns policy deter us from putting much volume through this channel." There were also many comments around the process of getting

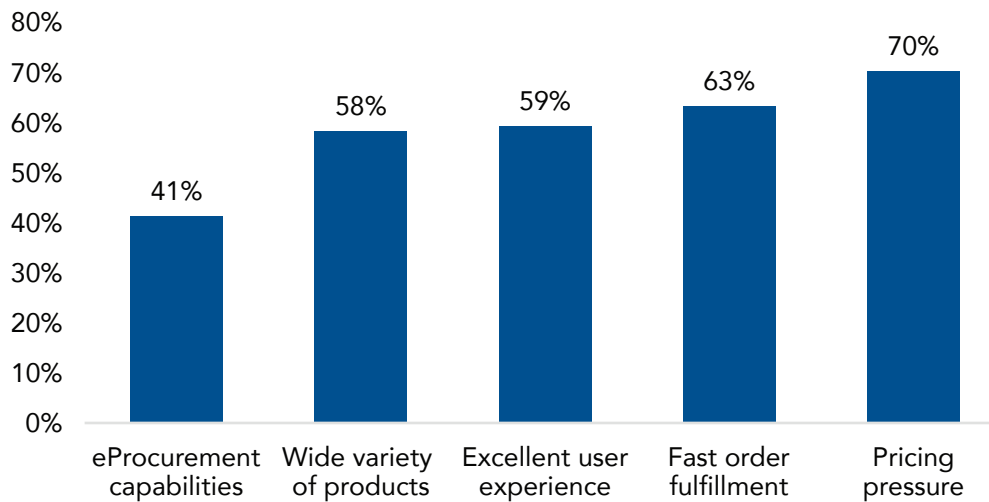
products listed and following through with Amazon being time-consuming and rigid. The flip side is that the rigid process results in a more consistent customer experience.

Some distributors noted that selling through Amazon opens up a huge market and exposes them to customers they wouldn't normally reach. One distributor commented: "Amazon Business increased our overall sales significantly." As identified above, using this channel to move E&O products can be effective.

About twice as many distributors (70 percent) surveyed felt that Amazon posed some level of threat versus those not seeing a threat (30 percent). **Figure 3** breaks out how distributors characterized the threat levels.

Beyond that basic positioning, we also wanted to find out more specifically the areas where distributors felt concern about Amazon's industry presence. Pricing was the top pick (70 percent), with "fast order fulfillment" coming in second at 63 percent. Close behind were "excellent user experience" (59 percent) and "wide variety of products" (58 percent). (**Figure 4**)

Fig. 4: Key Reasons for Concern with Amazon Business (Multiple answers allowed)



This data highlights the importance of understanding your customer base. As our research has shown in our updated report, *What Customers Want - 2nd Edition: A Distributor's Guide to Customer Buying & Shopping Preferences*, there can be significant differences in how customers shop, or research/find products versus how they buy. (Learn more at <https://www.mdm.com/what-customers-want>).

The key reasons for concern distributors express here are actually good reasons to take a cue from Amazon. Our individual online expectations regarding overall customer experience have evolved over the years in large part due to Amazon's zeal to continually raise the bar. While the variables above are identified as threats to distributors, they should be viewed as opportunities. Customers expect fast order fulfillment, an excellent user experience, etc. Knowing what your customers expect provides a guide for how to invest in your e-commerce experience.

### Moving Forward

In MDM's ongoing analysis of Amazon Business, Ian Heller has advocated for distributors to "be like Amazon – not so much in terms of matching their capabilities, which no company can do – but in terms of matching their obsession with meeting customer needs."

There are other ways that a pure online seller such as Amazon can't match the capabilities of most distributors. Those distributors with branches, for example, provide a valuable way for customers to pick up product immediately. Distributors have other ways to differentiate, such as vending machines, emergency delivery, providing superb technical support and other value-added services. Our advice is to build a successful distributor multichannel strategy by first understanding customer expectations, then crafting a value proposition and your organization's capabilities to meet those needs.

Understanding your customer's experience is a critical foundation for improvement. Do you clearly understand what the shopping and buying process is like from a customer's perspective? Shop from your own company's branches and website; do mystery shopping if needed. Document the experience, including confirmation emails you receive. How does that process compare to your key competitors'? How can you improve and evolve if you really don't know what customers experience from their perspective?

E-procurement capability is increasingly critical for larger companies and digitally sophisticated mid-sized organizations. While the number of customers using e-procurement may not be high today, it will grow. If you do not have that capability, you miss out on revenue from that growing segment. Amazon promotes e-procurement with more than 70 different

purchasing systems (Ariba, Coupa, etc.). Amazon is developing a strong e-procurement platform for large companies to provide a very user-friendly experience that, once implemented, is difficult to displace.

Amazon has a history of transforming entire industries. For example, the book selling industry today is radically different than just a decade ago. Those transformations are made by understanding customers deeply and the gaps in the industry dynamics they can fill. The company's history is to invest to gain share by continuing to deepen its understanding of customer needs. They then make changes – sometimes radical – to keep making it incredibly easy to do business with Amazon.

What our research validates is that it's not the case on the other side of the table. Amazon's obsession with improving the customer experience raises the bar high for suppliers – distributors and manufacturers – whether you sell through them

or not. The same strict policy for sellers that the suppliers in our survey complained about is a function of Amazon's deep commitment for an unprecedented level of customer responsiveness in the areas they can engineer.

But that doesn't mean distributors can't win – we believe they can. In fact, as you craft a strategy to develop e-commerce capabilities, we believe Amazon's service levels are a critical benchmark not for replicating their value proposition, but rather identifying where you can clearly differentiate and orient your own unique successful strategy.

*Jonathan Bein is the co-author of What Customers Want, published by MDM, and is the managing partner of Real Results Marketing. Contact him at [jonathan@realresultsmarketing.com](mailto:jonathan@realresultsmarketing.com). Dean Mueller is a co-author of What Customers Want and a partner with Real Results Marketing. He can be reached at [dean@realresultsmarketing.com](mailto:dean@realresultsmarketing.com).*

## About This Research

This research was conducted by Real Results Marketing, Boulder, CO. The research included an online survey taken by 298 participants across a variety of sectors. Of those who provided identifying information, 67 percent are distributors and 33 percent are manufacturers.

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

About 44 percent of respondents are small distributors with less than \$50 million in revenue. About 31 percent are mid-market with \$50 million to \$500 million, and 15 percent are large with more than \$500 million revenue. The remaining 10 percent did not disclose their revenues.

About 22 percent are primarily focused on MRO, 12 percent are focused on OEM customers, 28 percent serve trades/contractors, 23 percent are an even blend of MRO and OEM, and 15 percent are in other categories.



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