

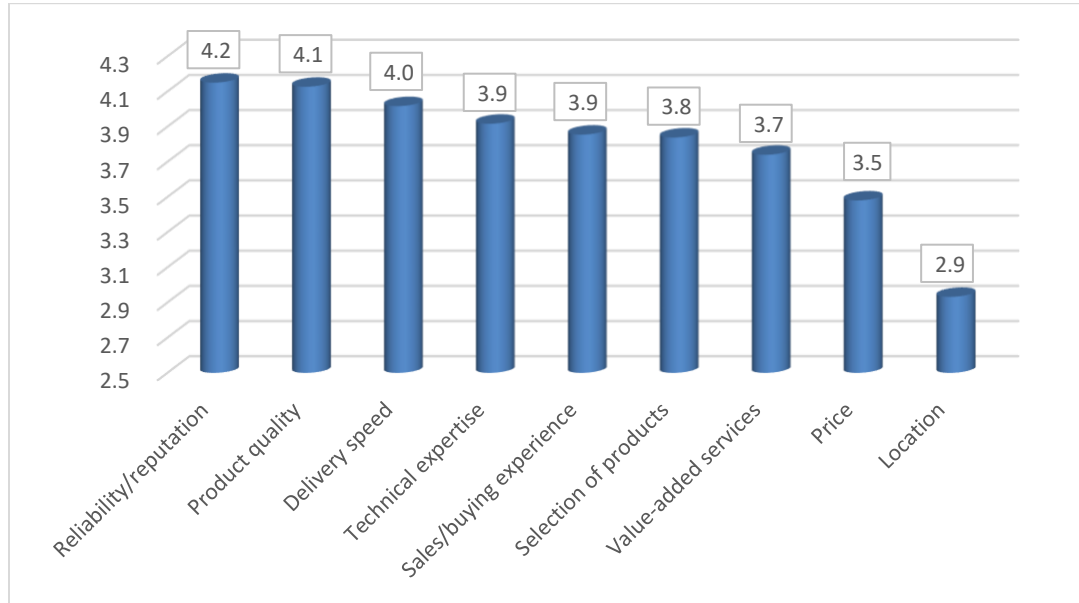
How Distributors are Managing Online vs. Offline Pricing Challenges

April, 2019





Table 1
“What motivates your customers to buy from you? Rate from 1 to 5 with 5 being the most important.” n=183



This question looked at customer motivations regardless of choice of online or offline strategies and sales channels. There was a relatively close grouping of the top choices with no single factor standing out. Price was rated near the bottom of the list indicating that, while important, price does not solely drive customer behavior.

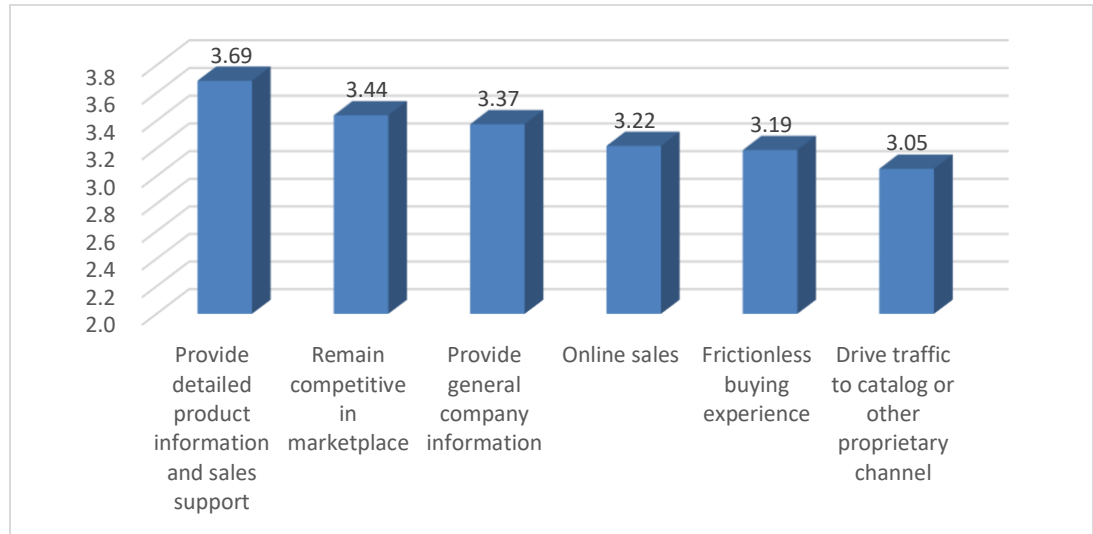
Respondents had the opportunity to comment regarding customer motivation. “Relationship,” was the single most common factor listed in comments. Other responses noted brand strength, trust and history. One very direct comment said that “inertia” was a driving motivation; i.e. clients find it easier to maintain the same behavior rather than changing.

This confirms our experience within the distribution industry, as well as other research across multiple industries. A single customer interaction might be solely driven by a need for delivery speed or accuracy, or the need for technical information. However, when evaluated over multiple customer contacts, a variety of factors come into play to motivate a buying decision.



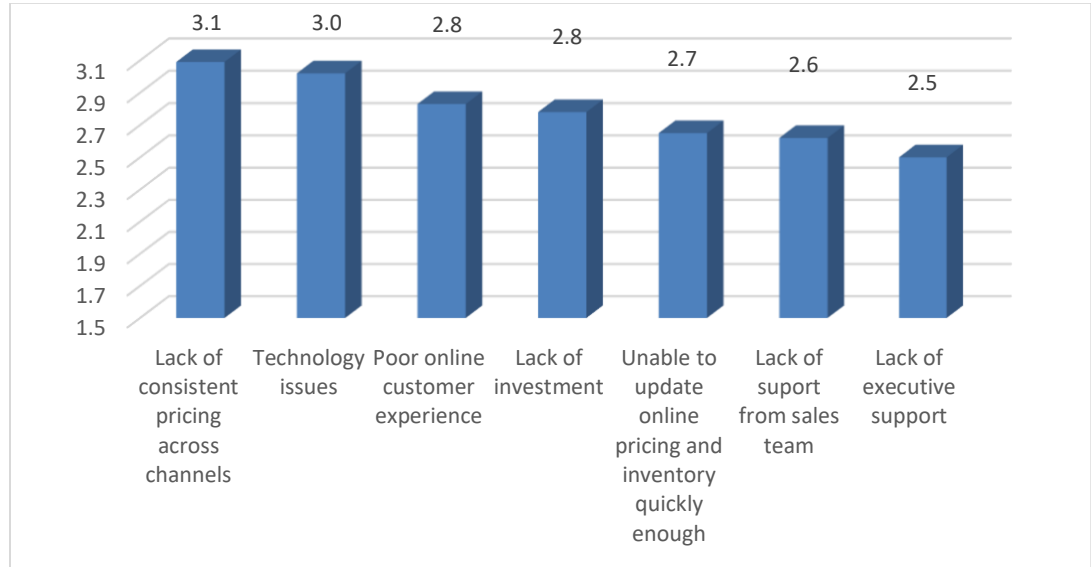
Online Strategy and Sales

Table 2
“What are the benefits of your current online presence? Rate from 1 to 5 with 5 being most important.” n=173



Virtually all companies involved with distribution have at least a basic online presence, even if that does not include a sales component. Survey results indicated that distribution industry firms view their online presence as providing multiple benefits. Online sales are rated in the middle of the responses with information goals slightly higher.

Table 3
“Please rate the difficulty you have experienced for the following challenges to implementing online strategy. (5 = most difficult)” n=164

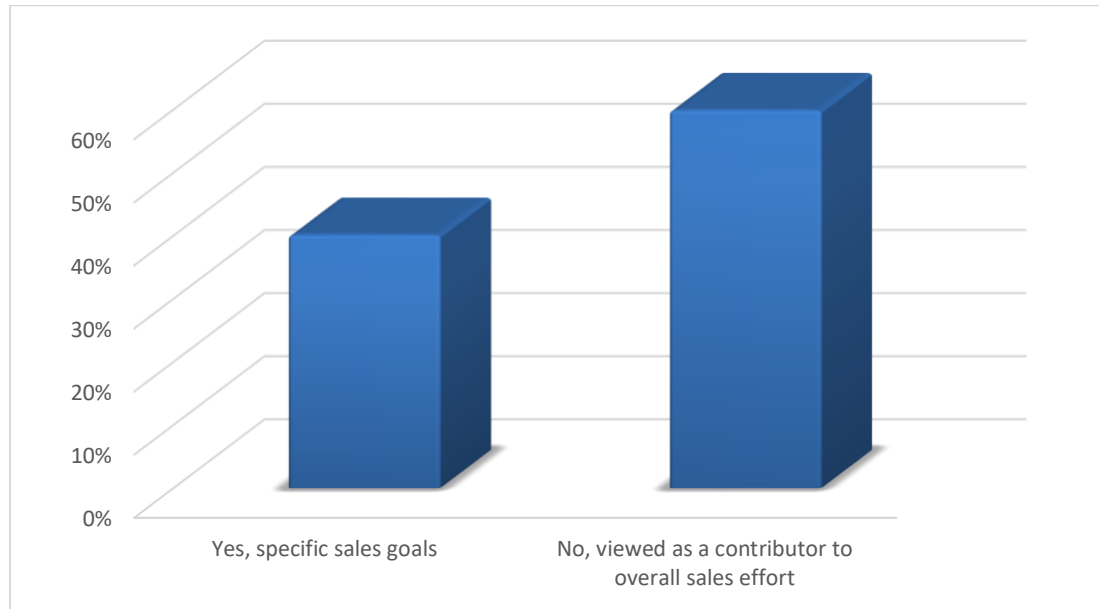


The survey revealed several challenges for online strategy. Those engaged in online sales clearly indicated pricing was a major issue. This includes pricing consistency across all sales channels, both traditional and online. Technology challenges were also cited, including competing for company investment dollars. Poor customer experiences, rated third highest, are likely the result of the pricing and technology issues.

Legacy attitudes seem to be declining as a barrier to online success. In past years, resistance from management and sales teams arose due to unfamiliarity with technology, investment costs and perceived conflict with established sales channels. Both areas, while still viewed as material challenges are now at the lower end of the spectrum.



Table 4
“Do you have targeted financial goals for online sales?” n=167

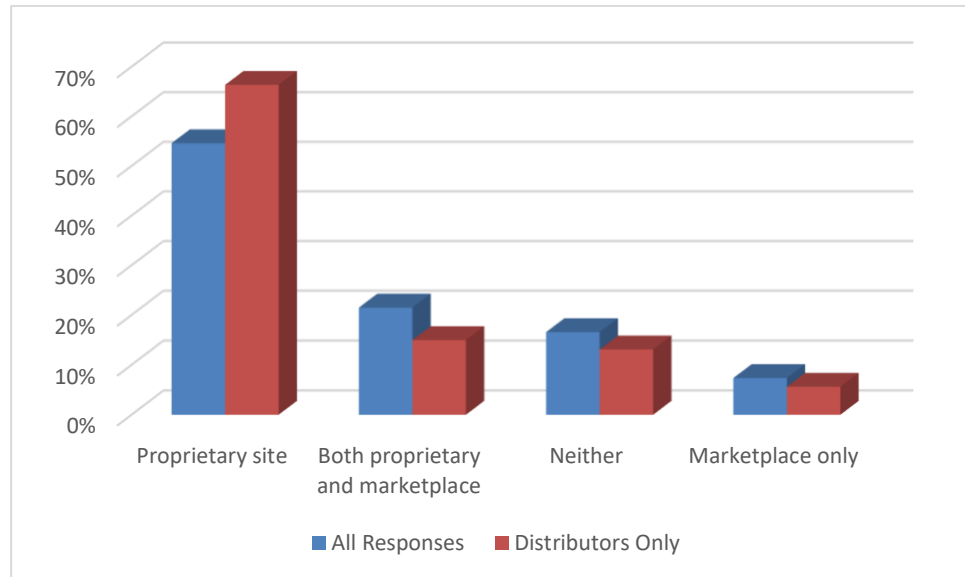


Of companies that conduct online sales, only 40% set specific online sales goals. The remainder do not measure these sales against a specific target but rather consider online sales supporting existing sales channels. For those companies that do set a goal for online revenues, the average is a significant 29% of total company sales.

The results shown in Table 4 are surprising. Our research shows that firms that enjoy the most success from online sales strive to make such sales a key component of the overall revenue effort. Some companies accomplish this by making online sales a dedicated channel, but almost all proactive firms assign specific goals to help achieve results. This gives better data for evaluating the online effort which can guide resource decisions.



Table 5
“Do you sell your products through a proprietary site, or through an online marketplace?” n=163



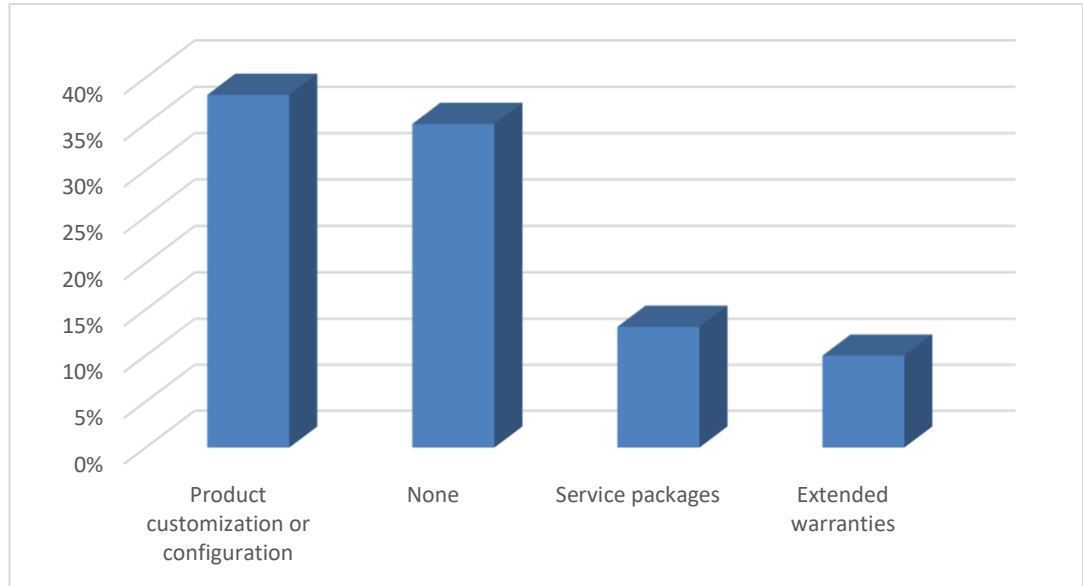
A significant majority of companies in distribution utilize a proprietary site (i.e. one unique to the company) for online sales rather than utilize a third-party marketplace. Less than 30% of respondents utilize a marketplace either solely or in conjunction with their branded site.

Only 20 distributors reported selling on marketplaces, listing Amazon.com, Amazon Business, Walmart.com and eBay as the sites utilized. Nineteen out of 56 manufacturers (34%) responding to this question sell on their own sites.

Marketplaces offer an opportunity for greater sales, larger territory and expanded market presence, typically with less investment than traditional channels. However, there is a clear concern about losing corporate identity and pricing control by using a marketplace. Through a marketplace, the varied customer motivations shown in Table 1 are often reduced solely to pricing, speed and selection. The customer is free to choose among several providers to find one that matches this limited criteria. Brand name and reputation play almost no role in marketplace sales.



Table 6
“Do you offer any value-added services with online sales?” n=160



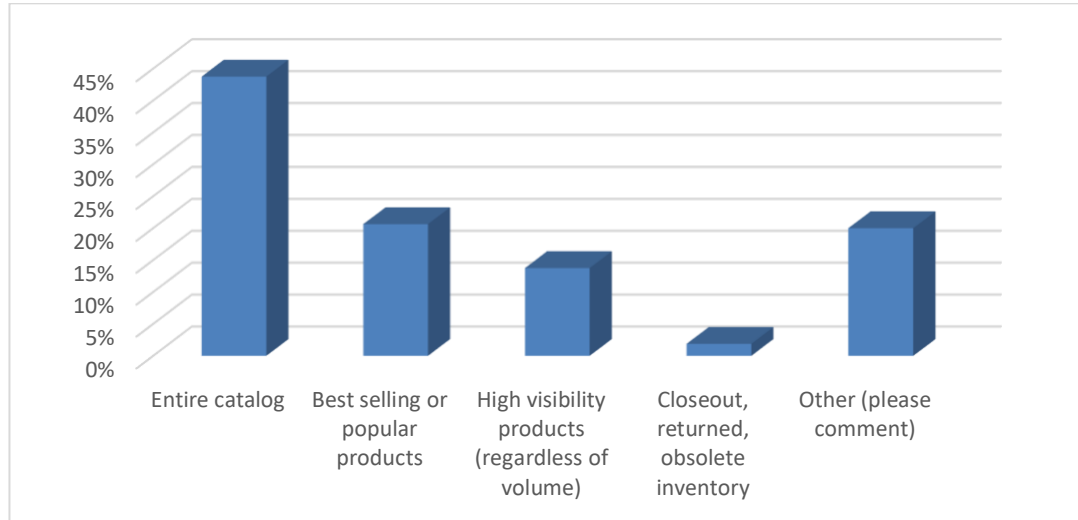
Long a key part of the value proposition for distributors, value-added services have proven difficult to sell and price online. Less than 40% of those surveyed offer limited product customization or configuration options. A similar amount, 35%, do not offer any such services. The remainder cited such add-on features as service packages, extended warranties, free delivery and credit options.

Through our work with the industry, distributors tell us they struggle to charge for services online. The customized nature of these offerings makes them a harder fit for “point-and-click” online sales. While it is customary to bundle services in traditional sales channels, this is difficult online.

This result is service selling online is a significant challenge which may impact the perceived value of products online. Simply repurposing ERP pricing (which may include bundling of services) makes online pricing non-competitive. This core differentiator for distributors versus digital disruptors is not available online with current tools.



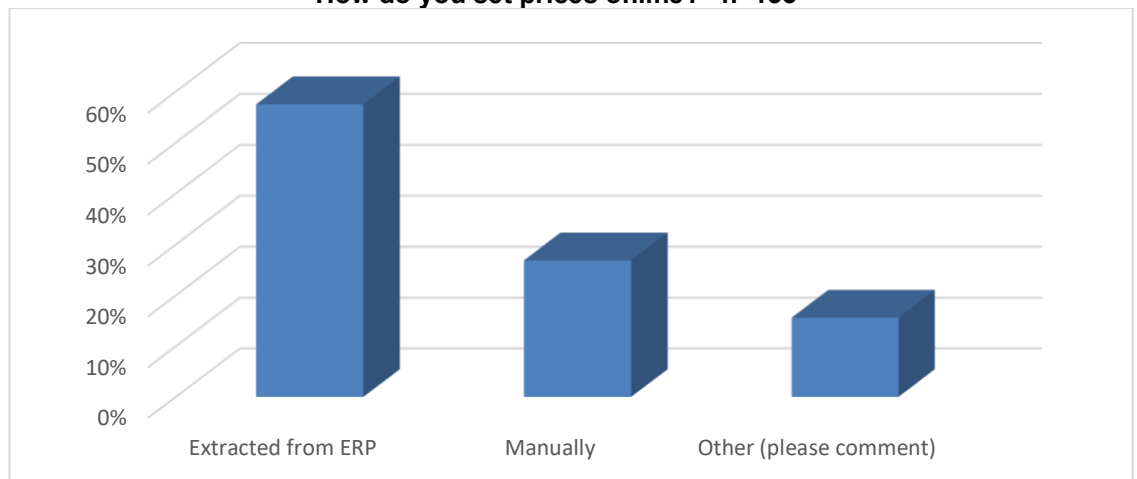
Table 7
“Which of your SKUs are available to purchase online?” [Multiple answers allowed]
n=160



For those distributors who sell online, results show that most list all of their SKUs for sale. Lesser numbers have a limited online strategy featuring fast selling, high profile products or other strategies. Interestingly, almost no one uses online sales of closeouts and obsolete inventory, illustrating that SKUs that are dogs in one channel are not likely to sell online either.

Online Pricing Strategy

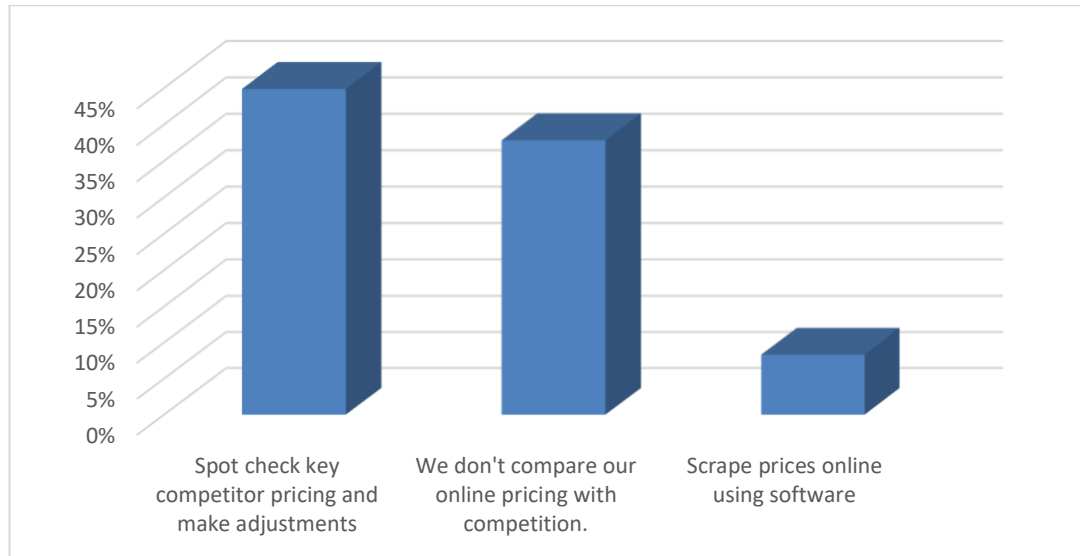
Table 8
“How do you set prices online?” n=135





A surprisingly large number, nearly 30%, accomplish this manually. The remainder use third-party software, list prices or some hybrid structure.

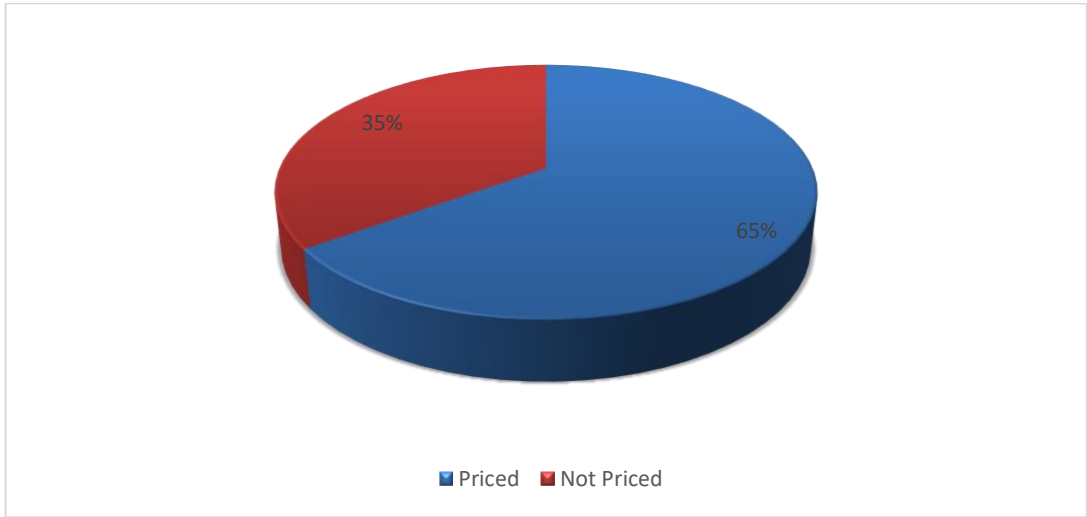
Table 9
“Do you compare your online pricing with competitive sellers?”



More than 35% of respondents do not perform any online price comparison. Nearly half (45%) will spot check competitor’s pricing and less than 10% utilize a software solution that automatically crawls competitors’ sites and extracts prices for comparison. This “price scraping” is very common in other sectors of the economy — airline ticket pricing is a good example.

This raises several issues. First, every existing or new competitor looking to disrupt the status quo is likely scraping/analyzing distributor websites for pricing intelligence. This reflects the gap in the technology race between incumbents and disruptors. Spot checking is an inefficient and inaccurate substitute for a technology-driven approach.

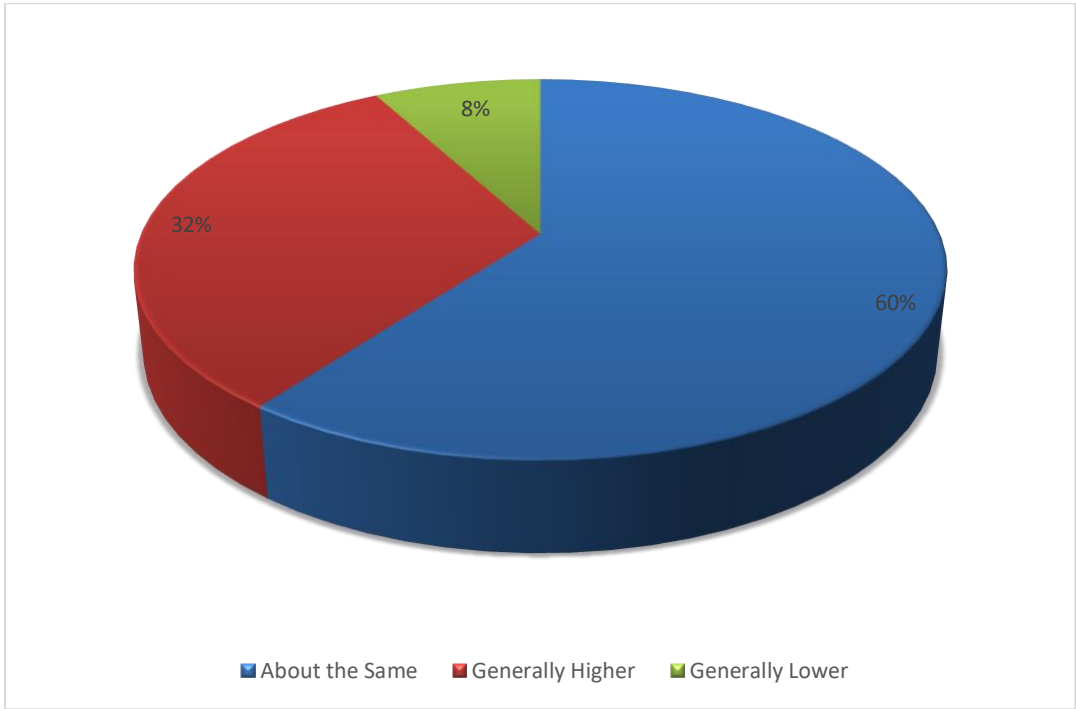
Table 10
“What percentage of your online items show pricing, rather than ‘call for pricing?’” n=145



Surprisingly, up to 35% of products listed for sale online by distributors and manufacturers do not show pricing. Any customer who tries shopping on a website and encounters a SKU that cannot be purchased is forced to contact the distributor either by phone, web-chat or other means. This eliminates the seamless buying experience that customers seek and potentially drives business to competitors. Research in the retail sector, and our experience in distribution, shows that customers encountering a pricing challenge with one item are highly likely to dump the entire shopping cart. It also means that customer encountering this problem are unlikely to try buying from the website again. Simply, non-priced SKUs kill online sales for all SKUs.

Table 11
"How does you online pricing compare with your other sales channels?"
Distributor responses only. n=88

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Only 8% of distributors report online pricing as “generally lower” compared with other sales channels. More than four times as many distributors report online prices as “generally higher” than “generally lower.” This means that for many distributors, the e-commerce channel is the most expensive method for customers to buy from them. This discrepancy is transparent to customers and is likely to retard the growth of online sales strategies.



Table 12
“In general, has pricing become more transparent to customers in your industry?”
n=151

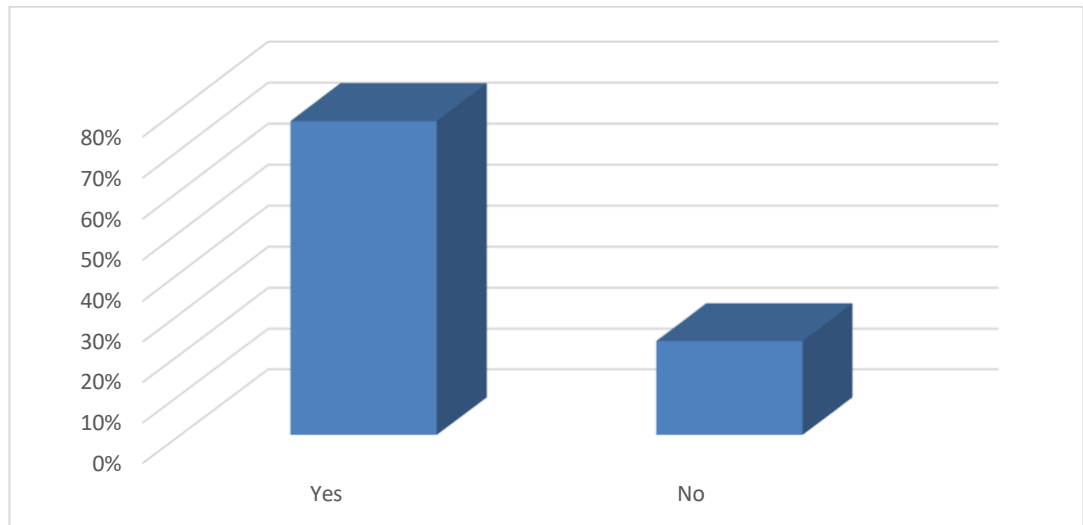
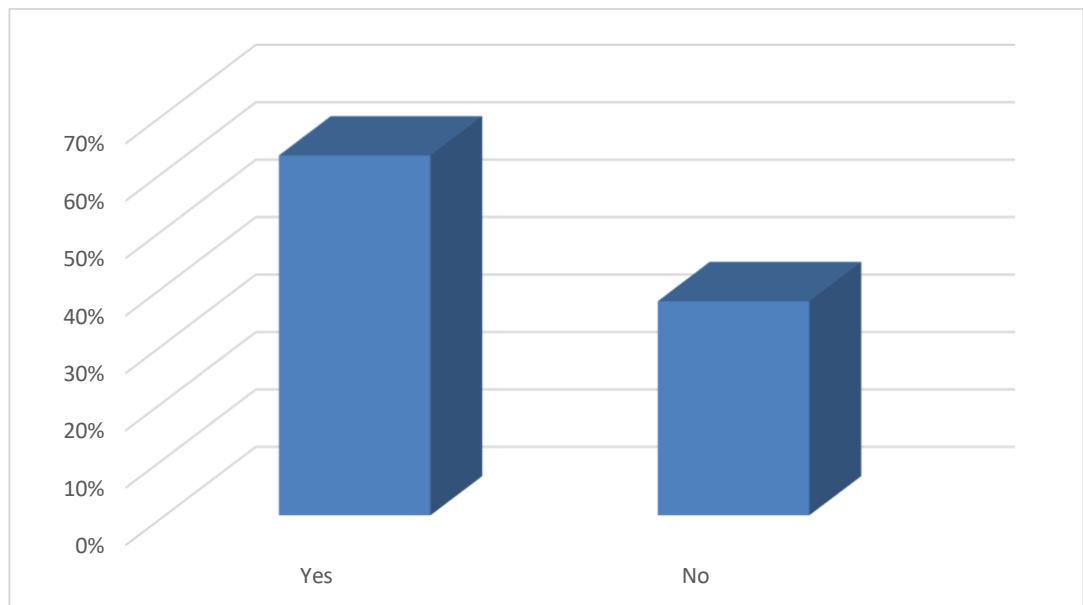


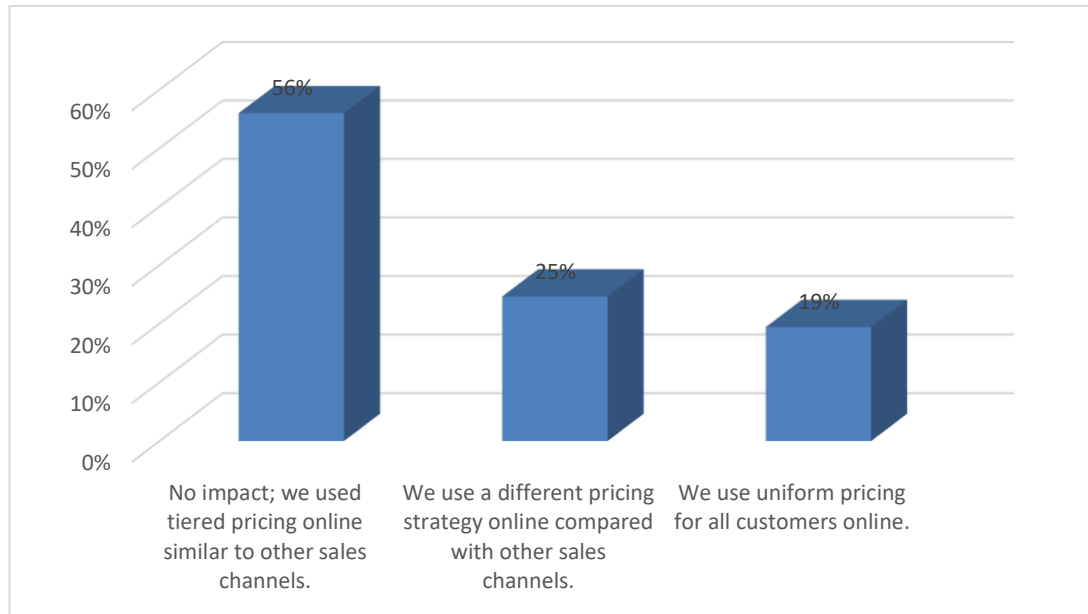
Table 13
“Do you believe showing pricing online improves your close rates for sales?” n=134



These two survey questions relate to customer knowledge. Not surprisingly, most customers are well aware of pricing in the distribution industry — nearly 80% of responses support this. Concurrently, this transparency and the display of online pricing is believed to facilitate closing rates for sales. Less price discovery and more informed customers imply a greater

likelihood for completing a transaction.

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Table 14
How have online sales affected tiered pricing structures?” n=134



The survey reveals a mixed message about online pricing. Distributors indicate a close relationship between customer knowledge and closing sales. However, responses indicate that customers are frequently shown higher prices online — either deliberately or by default due to historical tiered pricing structures.

Survey Conclusions

- Many distributors struggle to incorporate their online channel into their overall strategy.
- Few have online price tools and technologies in place.
- Many manual processes are competing with digital players’ automation-enabled tools.
- Traditional sales methods (e.g., large contracts, will-calls, phone orders) are hard to reconcile versus online sales opportunities.
- Some distributors have established online selling as its own channel while others try to force it into existing structure.
- Lack of an online sales goal likely reduces the willingness to invest in competitive capabilities.
- Implications of marketplaces are unclear at this point but are likely going to be a major factor affecting competition in the future.

- Proprietary sites are costlier to build and maintain but protect distributor data and avoid customer concentration.
- By either pricing non-competitively or showing SKUs without prices, distributors cannot achieve an acceptable return on their digital investments.

MDM Recommendations

- Setting goals for online sales is important to helping understand the impact of this technology on an overall sales strategy. Without goals, the online component will likely not have any internal champion and investment and focus may languish.
- Websites must be designed to compete with online players, requiring channel-specific pricing or even a separate P&L.
- Distributors must work to incorporate current technology into their online offerings. Updating an online system by relying on constant manual inputs is not sustainable.
- Either list all prices, or none, for online SKUs. Requiring customers to complete an additional step to purchase certain products risks losing multiple sales.
- Recognize that if you do not use the current technology in your online strategy, your competitor probably is. This includes new entrants who are seeking to disrupt the existing industry hierarchy.
- Just like other sales channels, online sales must be structured to compete with other online players; which means applying technology to measure and react to competitors.
- Some distributors need to build more robust online pricing practices, add clear price messaging and develop better conversion practices.
- Your customers and your competitors know your pricing, and most industry players recognize that this transparency improves closing percentages. Embrace this dynamic to increase sales.
- Continue to monitor competitors and new technology to help expand value-added services online. This preserves and reinforces one of distributions' key competitive advantages.



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