

Distributor Ecommerce Lessons: *Barriers & Best Practices*



Ecommerce as a Competitive Advantage

While a growing number of wholesale distributors have made the leap to transactional websites, many are still struggling to build an effective online presence and point to legacy architecture issues, cost and lack of expertise as the top barriers. That represents a significant competitive opportunity for distributors who invest in stronger ecommerce capability to drive growth and better retain existing customers.

In a September 2018 survey of U.S. industrial and electrical products distributors with average annual revenue of more than \$50 million by the market research firm Modern Distribution Management (mdm.com)*, nearly three-quarters of respondents indicated they do not have transaction-capable websites that meet their expectations. In a highly fragmented marketplace for largely commoditized products, the research indicates an increasingly polarized competitive landscape.

This research identified three stages of ecommerce adoption: Starter, Struggler and Star. These stages are defined by essential components – knowledge, technology and leadership – that every distributor must navigate to drive ecommerce success. The intent of this white paper is to inform distribution executives, no matter the stage of ecommerce development, on the critical barriers and best-practice tools – as identified by peers – for becoming fully ecommerce capable.

**See Methodology section at the end of this paper for more details on the study.*

The Ecommerce Battleground Is Shifting

While a good degree of progress has been made, there is still a long way to go to broad industry adoption of feature-rich, transaction-enabled online solutions. An MDM survey at the beginning of 2018 indicated that ecommerce adoption by wholesale distribution companies reached a milestone in 2017; the number of distributors with more than 10 percent of revenue through ecommerce channels increased year-to-year from 34 percent in 2016 to 41 percent in 2017, a significant increase over prior-year tracking.* For an industry long dominated by outside sales models, this acceleration represents a significant shift towards a more omnichannel orientation across wholesale distribution sectors.



In the same research, distributors reported that their top priorities for ecommerce at the beginning of 2018 were improving customer experience and increasing the frequency of website use and transactions. This suggests at least a recognition of the need to progress from historically information-oriented sites to transactional sites.

Our latest research, conducted in September 2018, sought to build on this research to measure the current state of transaction-enabled website adoption. The key takeaway? There are significant gaps in the marketplace. A minority (28 percent) of distributors has developed websites that provide friction-free purchasing for customers. These early adopters include the usual suspects: large

traditional competitors with the resources to invest in technology ahead of smaller competitors. But the power of digital to bring transparency to markets has introduced a new element: Non-traditional competitors from adjacent sectors as well as pure digital sellers, such as Amazon Business.

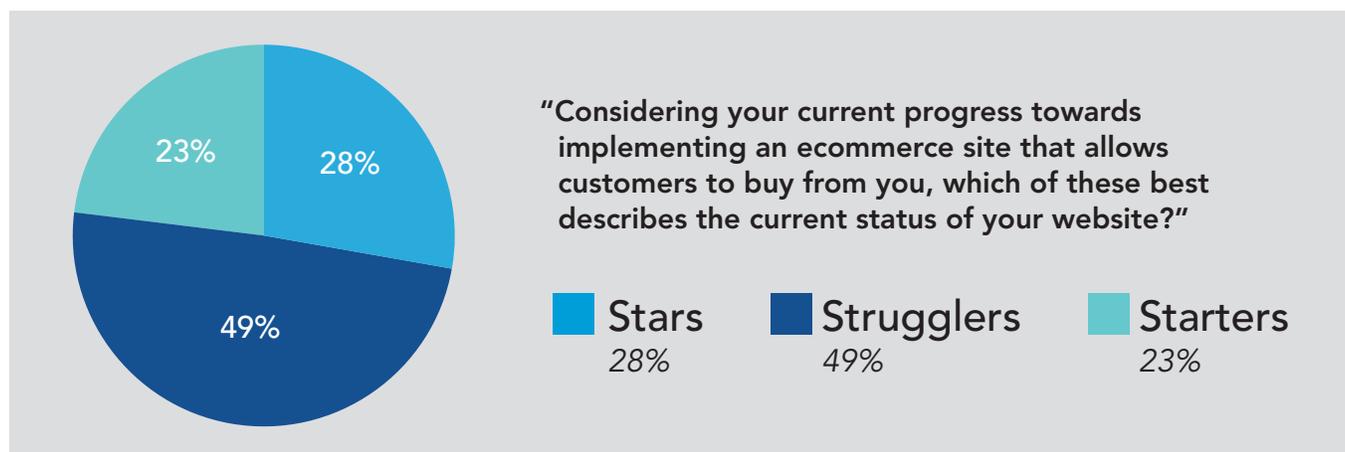
For the vast majority (72 percent), there is still a lack of clarity as to functionality, platform and architecture options, vendors, and the type of expertise needed to operate and maintain transactional ecommerce sites. These are fundamental knowledge barriers that are currently being exploited by digitally advanced competitors. Clearly, the next few years will be critical for distributors to develop competitive answers to protect and grow market share.

**Source: 2018 MDM State of Ecommerce in Distribution study (mdm.com)*

The Biggest Barriers to Transactional Websites

Three distinct level-of-adoption segments emerged in MDM's survey that asked respondents to comment on the current status of their websites.

- **Stars:** Just over a quarter (28 percent) said they have a transaction-enabled website and are happy with its performance
- **Strugglers:** About half (49 percent) reported that, while they have a transaction-enabled website, they are disappointed with the results so far
- **Starters:** Just under a quarter (23 percent) said that customers can't realistically use their website for regular purchases



Key takeaway: Almost three-quarters (72 percent) of respondents (Starters and Strugglers) either don't have a transaction-enabled website or have one that doesn't meet their expectations. This clearly paints a competitive advantage for the Stars (28 percent of respondents) who are leveraging their ecommerce capability.

For this research, we felt it critical to identify, by the three level-of-adoption segments, the detailed differences between what defines success and frustration. This can provide a blueprint for ecommerce teams to evaluate both best practice and worst nightmares.

Starters: Not Transaction-ready

The top three barriers to ecommerce website development for the Starters are:

- Current systems architecture
- High cost of technology
- Lack of technical expertise

To some degree these three factors may combine and compound each other. For example, if you don't have the architecture, you need outsourced technical expertise; but you're unlikely to hire technical experts if you can't calculate the return on this investment. This syndrome plays out often from the board room to the circuit board. Lack of personnel was frequently cited in survey comments that reflected not only a lack of depth in technical expertise, but also management and project management capability: "We recently abandoned a multi-year project to implement an ecommerce site due to lack of third-party expertise and integration with our ERP."

Omnichannel distributors – traditional outside-sales focused organizations currently strengthening digital capabilities – typically struggle to justify investment in website development due to the difficulty of parsing out where sales originate (field or inside sales, marketing, showroom displays or emails). Pure digital sellers have clearer metrics through an electronic trail to track every purchase origin.

Strugglers: Underperforming Expectations

For those distributors who have a transaction-enabled website but are unhappy with the results so far, the biggest challenges include:

- Their site doesn't have the **speed or ease-of-use** that customers require, which suggests that we're now in a world where customers expect ease of use. This is a major advantage for industry giants like Amazon Business, especially now that margins are compressing -- they make it almost effortless to place an order
- Their site lacks **adequate functionality**, including insufficient product information and inaccurate pricing. Distributors use tiered pricing and understandably don't want to expose their discount tiers. However, this results in sales friction at a time where pricing in the industry is becoming more transparent. This is an especially big challenge because it's not just a technical problem, it's a question of the industry responding to a new set of competitive pressures
- A lack of **marketing support**. Distributors tend to be better at selling than at marketing, but the upside here is that this is at least a problem with a clear solution

Interestingly, this represents nearly a mirror image of the issues cited by the Stars segment for their websites' success, as noted below. And comments by the Strugglers segment indicate an increased awareness of what's holding them back versus the Starter segment, but lacking a solution that the Stars segment found to reach their current state of ecommerce. "Our old ERP system and lack of modern PIM (product information management system) has made staying up-to-date almost impossible." Standard operating procedures from a pre-digital operating system are common challenges as well: "We have limitations with running specials on our -ecommerce site because our contract pricing overwrites everything...so annoying!"

Strugglers also cited deeper qualitative barriers, including lack of customer interest and sales force support: “The sales force is not feeling threatened... Positioning non-product solutions requires a different competency set than technical knowledge or relationship management, which have been dominant hiring profiles for decades.”

Stars: Happy with Results

The 28-percent segment with well-performing, transaction-enabled websites cited the following, in order, as the most important factors driving their success:

- Their **customers like to order online**. This may be partially due to the concentration of survey respondents across industrial product sectors, generally skewing towards commodity products well-suited for online transactions.
- Their ecommerce system provides **strong functionality**. In other words, their websites work and they work well.
- They are using the **right system for their requirements**. Related to the point above, many distributors have not developed the internal expertise to define requirements for their websites and typically need an outside expert to help them evaluate precise needs. They also have found adequate solutions to manage both product and customer data beyond their traditional ERP architecture.
- Their **sales force has embraced the website** and helped customers learn to buy from it, which suggests that management has addressed the impacts ecommerce can have on sales compensation incentives. Some distributors do not pay commission to sales reps for online orders, which understandably leads to salespeople viewing the website as the enemy. The bigger picture has to be included in any ecommerce development effort.

Defining Success in Ecommerce Capability

Overall, our respondents across all segments cited a range of benefits resulting from their ecommerce implementations:

- **Lower costs**. The top two responses involved lower costs: first, customer-service payroll expenses were reduced because customers gained self-service access to information on the website; and second, sales team productivity increased. The second factor likely reflects the fact that a transaction-enabled website allows sales reps to operate less as order-takers and more as growth-makers, spending more time on business development and demand creation.
- **Sales growth**. The next three responses involved sales growth through winning more customers and reaching new markets. Respondents are using their websites for marketing and customer acquisition.
- **Working capital**. The final response involved working capital improvement via more efficient inventory management.

Let's Talk: Managing Product & Customer Data

Website Platforms

One area of concern is that more than half of respondents are currently storing product data in their enterprise resource planning (ERP) system. Best practice for optimized ecommerce sites is the use of a product information management (PIM) system.

Historically, an ERP's focus has been to store product data to execute transactions; these attributes are typically minimal compared to the rich product data needed to sell online. A PIM's architecture is oriented around managing a more complex set of attributes required for optimal user experience and transaction capability. Another option is an out-of-the-box Commerce as a Service (CaaS) solution that combines content management and delivery, user experience, and SEO.

Customer Relationship Management (CRM)

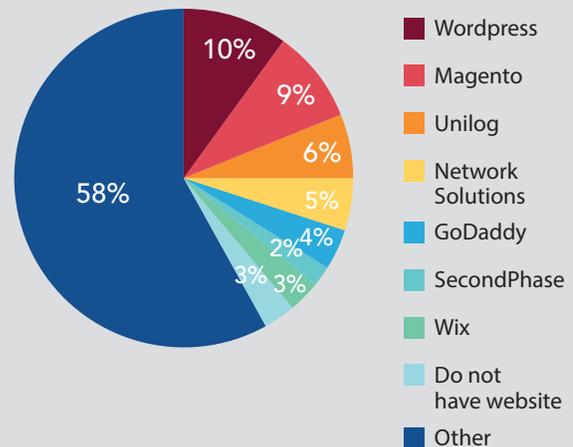
Distributors are doing better when it comes to customer data. Other than the use of Microsoft Outlook (9%), there is a highly fragmented ecosystem of customer relationship management (CRM) systems in use to manage customer data: Salesforce, Microsoft Dynamics, HubSpot, Pipedrive, and distribution-centric offerings by providers such as Epicor, Infor and NetSuite.

These all offer salesforce automation functionality in some form, and while in some cases don't match a fully-loaded marketing automation platform, they're still good options for many distribution companies.

While some CRMs are not ideal for use in directly populating customer data online, it can be a good start to close the gap of what you need to build a transaction-enabled website. For most distributors, finding the right solution to manage product data is a higher priority.

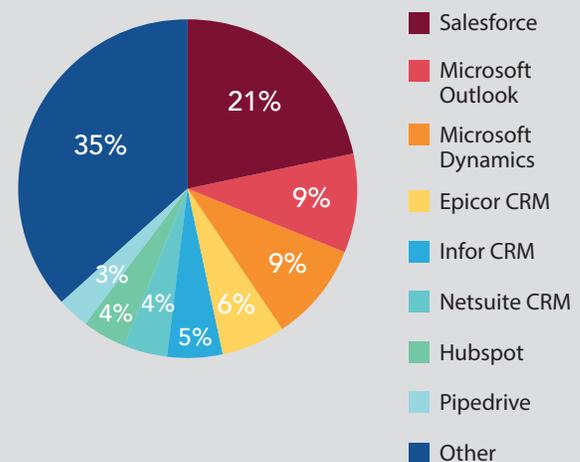
Website Platforms

Distributors are using a highly fragmented set of website platforms, most of which offer fairly basic ecommerce capabilities.



CRM/Customer Data Platforms

Customer data management tends to be driven by sales, so most distributors are farther ahead on this front than in product data management.



Building the Future: Ecommerce Priorities

If you are a Star, you are part of an early-adopter segment that is able to leverage your transactional ecommerce site to support growth and compete with traditional competitors and emerging non-traditional threats. But the early-adopter advantage is likely to evaporate quickly. More than half of respondents are considering replacing their ecommerce platform in the next two years. Regarding selection criteria for a new platform, distributors listed the following priorities, in order:

- **Range of functionality** for customers
- **Ease of use**
- **Ease of installation** and maintenance
- **Cost**, although this was significantly less of a concern
- **Integration** with Amazon Business and other online marketplaces. There are likely two reasons this is the lowest priority: a relatively low percentage of distributors are currently considering marketplace integration; second, almost any good platform will be able to integrate, whether with vendors, customers or marketplace.

The above attributes, blended across the three ecommerce level-of-adoption segments identified in this survey, are a useful set to structure conversations with your management team on next steps in ecommerce development. Perhaps more importantly, this research identified three essential components that drive ecommerce success and define the ability of distributors to move from Starter to Star status: Knowledge, technology and leadership.

Knowledge. Starters in ecommerce may or may not know what a successful ecommerce implementation looks like, as confirmed in this study's responses. But a strategy and plan is a prerequisite to any type of technology development.

Technology. Strugglers in ecommerce have applied their knowledge to build an ecommerce site, but are struggling with either technology issues or broader internal/external issues that prevent a successful implementation.

Leadership. Stars have leaders that support all aspects of the organizational change required to successfully implement an ecommerce solution. The key defining difference between successful ecommerce implementations and those still struggling is the level of internal expertise and commitment to manage complex technology projects, often with multiple vendors. But as many Strugglers expressed in this research, internal process changes also must be made in an omnichannel environment to ensure a successful outcome across the organization.

No matter the stage of ecommerce adoption, every company must evaluate current status and identify critical constraints preventing progress. The stages, elements and specific attributes identified in this research and organized in this report provide a framework to measure ecommerce performance relative to peers. The most important element remaining is for you to bring the conversation to the table.



Research Methodology

This white paper is based on a survey and complementary research conducted in partnership with BigCommerce during the third quarter of 2018. A webcast of the findings was produced by Modern Distribution Management on November 1, 2018 (mdm.com/webcasts).

The survey was performed by Modern Distribution Management during September and October 2018. A total of 158 responses were collected from wholesale distribution executives across a range of distribution sectors that comprise the MDM audience of more than 15,000 wholesale distribution executives. The largest grouping was in the Industrial/MRO, HVACR/Plumbing, and Electrical sectors, with a more fragmented representation across all other sectors. Company annual revenue averaged more than \$50 million, with 26 percent of respondent revenue between \$100-\$500 million, 13 percent between \$50-100 million, and 25 percent between \$10-50 million. Participants answered a series of multiple-choice questions and were also given the option of providing open-ended, qualitative comments. Participants were not compensated in any way and the survey was blind; no sponsor material was visible.





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6309 Monarch Park Place, Suite 203
Niwot, CO 80503, USA

Phone (303) 443-5060

Toll free (888) 742-5060

mdm.com