

# The State of Digital Platforms in Distribution

*This MDM special report examines how distributors are adopting new platforms, ecosystems and tools to ensure they can fulfill demand across a variety of channels.*



## Executive Summary

As technology, buying behaviors and influence from the B2C market disrupt the distribution industry, models that worked for decades are no longer effective. Distributors are adopting new platforms, ecosystems and tools to ensure they can fulfill demand across a variety of channels and deliver the additional value commercial buyers demand.

## Introduction

Distribution is undergoing a period of rapid change, and go-to-market strategies have matured quickly in the face of pandemic-related challenges and competitive threats. Following the initial wave of e-commerce development in the past decade, the wholesale distribution industry is now in another phase of digital maturity that is far more complex.

It is now clear that the longstanding traditional distribution model of relying on outside sales can no longer compete in the digital era. Commercial buyers now expect many of the same omnichannel capabilities found in the consumer market. They want options, pricing transparency, customization and a superior customer experience. This comes at a time when marketplace platform disruptors like Amazon Business are gaining more headway in the B2B market.

As they move beyond e-commerce basics, distributors are investing further resources into digitizing their organizations. Many are looking to things like customer relationship management (CRM) platforms while using data analytics and back-office automation to increase operational efficiency. Others are leveraging AI to improve the customer experience and exploring alternative platform strategies to better compete with other e-seller channels.

Transitioning to new business models can be difficult for many, requiring new technologies, processes and talent. Yet those who embrace the challenge with the right strategy and investment will find new opportunities in the future of distribution.

## Omnichannel Capabilities a Growing Expectation in B2B

In the past decade, e-commerce has changed nearly every industry in the economy. From stores and restaurants to physicians' offices and banks, consumers now expect to interact with, buy and receive products and services across various digital and physical channels. While B2B has been slow to evolve, it dramatically increased the pace of adoption during the COVID-19 pandemic. A month into the pandemic, 90% of B2B companies shifted to a virtual sales model, with most believing it is "here to stay," according to McKinsey.<sup>1</sup>

"Customer expectations have evolved over the years, and distributors have adjusted, transformed, and pivoted accordingly to drive digital transformation across the enterprise to meet these expectations," said Klaus Werner, Chief Marketing & Digital Officer at industrial supplies distributor Global Industrial Company.

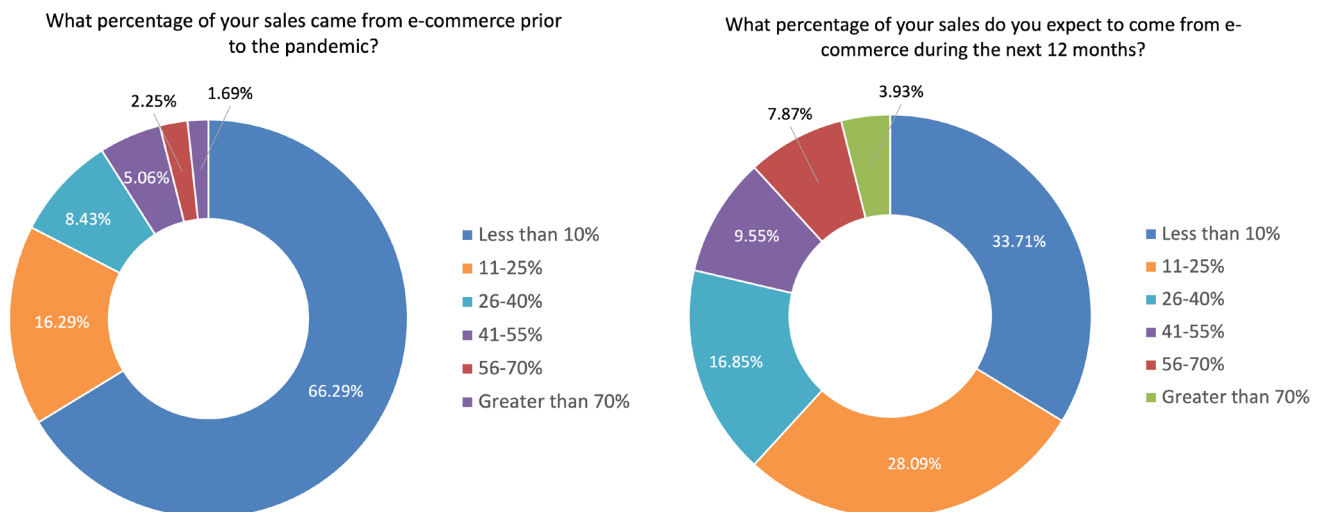
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## Moving Beyond the Basics

Basic operational e-commerce capabilities are no longer a competitive advantage in the distribution space. They are now table stakes. Distributors must move beyond basic e-commerce with various channels and platforms to meet their markets' evolving means of doing business.

While the growing number of channels and expectations make distribution more complex, companies must grow their channels, as more channels lead to more opportunities. Three-quarters of top-performing sales organizations are now using a minimum of 7.5 sales and marketing channels, according to McKinsey. <sup>2</sup> McKinsey believes that to meet these new demands and optimize sales, B2B organizations will need to continually shift to a “hybrid, remote-first model” that focuses on digital but also preserves relationships.

Buying behavior habits accelerated by impacts of the COVID-19 pandemic were illustrated in a Spring 2021 survey by *Modern Distribution Management*. The survey — mostly of distributors — found that while two-thirds of respondents said e-commerce comprised less than 10% of their revenue prior to the pandemic, that percentage flips to 62% who expect e-commerce to comprise more than 10% of revenue in the next 12 months. Further, more than 38% of respondents expect e-commerce to comprise at least a quarter of their sales over the next 12 months, compared to only 17% who said that was the case prior to the pandemic.



As a result, distributors are rethinking how they manage their physical stores, salespeople and business models. While the first evolution of e-commerce mainly entailed replicating catalogs online, this next evolution requires far more integration. Distributors are now learning to integrate capabilities across all channels to serve their customers digitally for other buying occasions, said Mark Dancer, CEO of the Network for Business Innovation. “As more and more business is done in the virtual world, we need to consciously innovate how we do things in the real world,” said Dancer. “The physical world strategy has to be able to stand on its own but also integrated with the digital strategy.”

## Omnichannel 2.0

This next evolution of digital order, fulfillment and distribution is often referred to as “Omnichannel 2.0.” It requires organizations to bring the entire enterprise together to increase proficiency across all channels and continually improve the buying experience. While the COVID-19 pandemic rapidly pushed B2B buyers into digital channels, in-person interactions and relationships remain essential. As a result, distributors must continually remain aware of their individual customers’ preferred buying journeys.

As retail and B2C markets have experienced, growing competition from marketplace platforms is leading B2B distributors to innovate in new ways, says Nicholas Johnson, Managing Director

at Applico and co-author of *Modern Monopolies*. These marketplaces, such as Amazon Business, are changing traditional distribution models with greater pricing transparency, greater assortment, fast fulfillment and flexible financing. Relationships may still play a critical role in some areas of B2B distribution, but things like consumer empowerment, transparency, choice and information are becoming increasingly important.

Traditional distributors who have typically earned margin solely from handshakes and a lack of pricing transparency stand the most to lose in the future of digital distribution. “That has partly gone away in the digital environment,” Johnson says. “So distributors need to consider how to earn margin and keep and add value as a distributor, rather than just stockpiling, buying and selling goods.”

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The world of subscription models, digital natives and direct-to-consumer businesses require distributors to rethink how they operate and what value they can provide, say analysts at Forrester in a 2021 report. Moving from traditional linear sales models to non-linear ecosystems requires them to specialize and deliver value differently and more visibly than they have in the past. To remain relevant, distributors must become platforms for distribution, Forrester says. Their critical assets of domain expertise and ability to connect vendors and users need to be codified for internet scale. <sup>3</sup>

Distributors like Global Industrial have doubled down on e-commerce, content and brand to “ensure we are an indispensable business partner for product, content and other critical information for our customers,” says Werner.

## A Foundation for the Future of Digital Distribution

While distributors have often been technology laggards, many are now looking to new platforms, tools and ecosystems to optimize their operations. A decade ago, only large distributors had the capital and means to invest in these technologies. Yet, falling prices and cloud delivery have made them accessible to even independent distributors.

McKinsey believes there are several main ways to supercharge hybrid sales in this new environment. First is cultivating the agility to support remote sales where customers prefer it without completely abandoning in-person sales. Also, B2B sales organizations need to harness end-to-end selling insights and upgrade technology to optimize a remote-first environment. Finally, distributors must cultivate next-gen sales capabilities to attract diverse talent and prioritize ongoing learning.

“Teams that outperform invest in systemic changes to improve remote sellers’ ability to sense and respond to customer needs by focusing on agility, customer insights, capabilities and technology,” says McKinsey. <sup>4</sup>

### *Competing with and Capitalizing on Platforms*

While B2C platforms initially couldn’t accommodate the demands of the B2B market, many have now developed the necessary infrastructure and capabilities around e-commerce, product data and payments. Several major players have recently made significant headway in the B2B market. Amazon Business’ gross sales grew 50% annually between 2018 and 2021. They are forecast to reach \$59 billion and 2.4% of all U.S. B2B e-commerce site sales by 2025. <sup>5</sup> Additionally, sales at Zoro.com rose 11.7 in Q3 2021 <sup>6</sup> and Berkshire eSupply continues to build out its capabilities for independent distributors.



"You've got a number of these players doing multi-billion dollars of GMV in sales through their platforms...and it's likely going to be several multitudes of that over the next several years," Johnson says.

Distributors may find these platforms to be both competitors and partners in their growth. As they pursue opportunities on these platforms, they must build upon their core strengths, Dancer advises. Because the platform business is not a linear value chain, distributors need to identify what they want to enable on the platform, whether it's taking orders or adding value around products, delivery, or information. "If distributors want to make a play in platforms, they should think about what is the core value they want to enable, and not just go to platforms as a knee-jerk reaction," says Dancer.

Johnson believes that nearly every vertical of B2B will have some dominant platform business within the next five years. The question will be whether they are owned by an outside category generalist like Amazon or an inside industry group. Having a couple of leaders in each segment would create more competition for suppliers and be better for distributors. "I think there are opportunities for distributors to lean in and get ahead, if that happens to be owned or operated by at least in partnership with people in the industry," Johnson says.

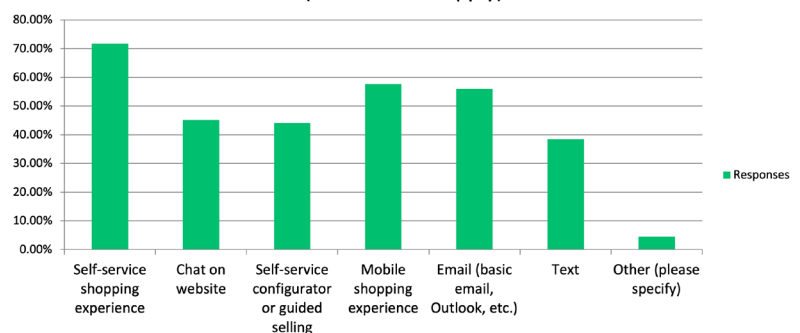
### Building on Ecosystems and Partnerships

Ecosystems will play a vital role in the future of digital distribution. Alongside their e-commerce operations, distributors are now building interlinked networks comprised of customer self-service features, websites with rich content and education and customer customization tools. This enables the distributor to form not just a storefront but an integrated network that can operate across all channels.

MDM's 2021 survey also asked respondents to identify which sales and customer service tools will be most important to your customers in the next 12 months. The top selection — by a wide margin — was "self-service shopping experience", picked by 71%, while "mobile shopping experience" was second at 57%. Both those tools are trademarks of modern marketplaces in B2B distribution, so it's no wonder why distributors have been seeking out those platforms. They aren't just an additional sales channel — they are a channel that prioritize letting customers buy the way they prefer to buy.

Such ecosystems, which are "clusters of value creation that surround a customer," are essential to moving to a platform model, Forrester says in its report. Distributors will need to orchestrate and enable ecosystems to enrich "as-a-service" offerings consumers will demand in the coming years. As these ecosystems are untethered from the traditional financial transaction and more focused on value creation, distributors will need to decouple their capabilities in marketing, industrial expertise, credit facilities and logistics to pursue innovation and agile business models. Forrester states that ecosystems are the most significant opportunity for distributors to add value in the coming decade. <sup>7</sup>

For these sales and customer service tools, which do you think will be important to your customers in the next 12 months? (select all that apply)



Many B2B marketplaces aren't building from scratch, but are using tech startups to offer features like payments and trade credit. Additionally, leading distributors will now go as far as to ask their customers what platforms and software they use, then integrate with the customers' business processes through APIs. This enables the distributor not only to provide products but to add value with scheduling or help with anything else they need, says Dancer.

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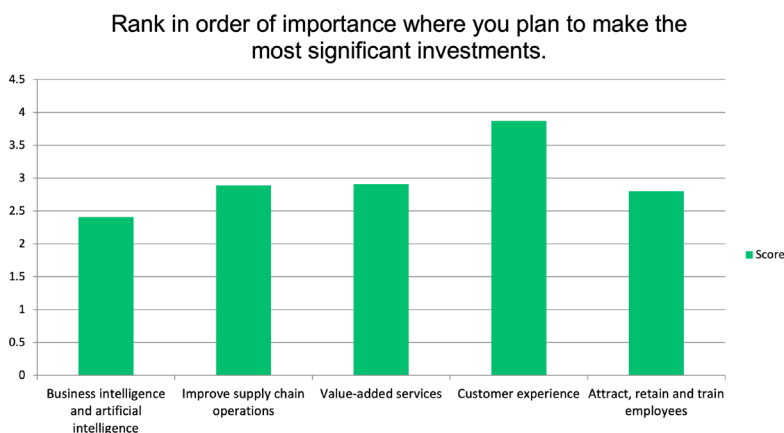
This new model of distribution is also disrupting business models in other ways. Instead of owning the stock and selling it to customers, the distributor's primary ownership is the connection in the marketplace model. While distributors have long operated in silos, these digital ecosystems span everything from sales and marketing to operations. "It's essential to reduce silos to ensure complete alignment between teams, particularly technology, merchandising, marketing and sales," says Werner.

Both fintech and platforms are modernizing traditional distributor financing to facilitate these end-to-end transactions, notes Johnson: "They're providing some value-added services to facilitate buyers and sellers, similar to what you see in B2C. But the transactions are more complicated, so they have to go deeper in terms of the capabilities they bring to the table."

### Piloting with New Tools and Technologies

To lead into the future of digital distribution, distributors are guiding more investment to tools like CRM platforms, ERP, applications, mobile apps and IoT. Such tools are essential to operating in the complex omnichannel environment that includes a variety of channels, platforms and devices. Commercial buyers are now using things like smartphone apps, remote salespeople, self-service features, chatbots and social media in their journey, Sinem Hostetter, partner with McKinsey & Company, told attendees during a session at Industrial Supply Association's ISA22 event. <sup>8</sup> "As buyers want physical channels, digital channels and a mix of both, distributors must embrace personalization to become a one-stop-shop integrated with the buyer," she said. While this may require new tools, it doesn't necessarily call for a state-of-the-art tech stack, Hostetter noted: "Pull in your field sales team and your customer service team to figure out the churn issue. Pick something small from your analytics and scale it. Start small, test and learn."

Customer experience was picked as the top priority by MDM's respondents when they were asked to rank where they plan to make the most significant investments. On a scale of 1 to 5, with 5 being the highest priority, customer experience averaged a 3.86, besting other key areas of improved supply chain operations (2.91), value-added services (2.91), attract/retain employees (2.80) and business intelligence/AI (2.40).



Distributors have always put customers first, but the data shows they are now prioritizing the technology to make that happen, and marketplaces are a key element of that.

Some distributors are also looking to AI tools to add value. McKinsey Global Institute estimates up to 70% of companies will have adopted some form of AI by 2030 and that it will grow the economy by more than \$13 trillion.<sup>9</sup> At Amazon, the recommendation platform — which uses buyer behavior, past purchases and browsing history — is responsible for more than 35% of sales.

AI can be extremely beneficial for distributors with hundreds of thousands or millions of SKUs across multiple channels. “Order automation, remote inventory tracking, instant data entry, product recommendations and operational insights can all be enhanced with this technology,” says Benjamin Cohen, Founder and CEO of Proton.ai.<sup>10</sup>

The greatest value of AI in B2B distribution will not be making salespeople or web stores more productive but making customers stronger, Dancer adds. While distributors don’t have to be revolutionary, they should be thinking about “game-changing” innovation: “Distributors have a culture of benchmarking against one another. They take best practices given to them, or they implement them from other industries. There isn’t a big marketplace of ideas.”

## Conclusion

Technology, buyer behaviors and new trends shape the future of distribution, leading B2B distributors to continually enhance their digital capabilities. While marketplace platforms may pave the way through both competition and opportunity, distributors must innovate with the strategies, tools and ecosystems to meet their market’s needs.

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