



2019 State of E-Business in Distribution, Part 1

B2B E-Commerce: Maturity Slows, Adoption Soars

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B2B E-Commerce: Maturity Slows, Adoption Soars

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Distributors and manufacturers who do not have e-commerce capabilities or have yet to get traction with existing e-commerce implementation still have an opportunity to get in the game. While the adoption rate is growing fast — it increased by more than 50% for smaller companies (\$10 million - \$50 million) from 2018 to 2019 — nearly 87% in this sector still do not have e-commerce. Even the majority (55%) of the largest companies (greater than \$1 billion) still do not have e-commerce. These data, from the eighth-annual MDM distribution e-commerce survey conducted with Distribution Strategy Group, show there is still plenty of e-commerce runway left.

While a number of distributors and manufacturers have achieved e-commerce maturity (41.7%) — defined as 10% or more of total revenue derived through e-commerce — many companies still have significant opportunity for growth. A broad industry analysis by Distribution Strategy Group shows that larger companies that have e-commerce tend to be more mature. This makes sense given these large companies entered the e-commerce space early and have had time to refine their offering. Even so, gaining e-commerce traction is not a given.

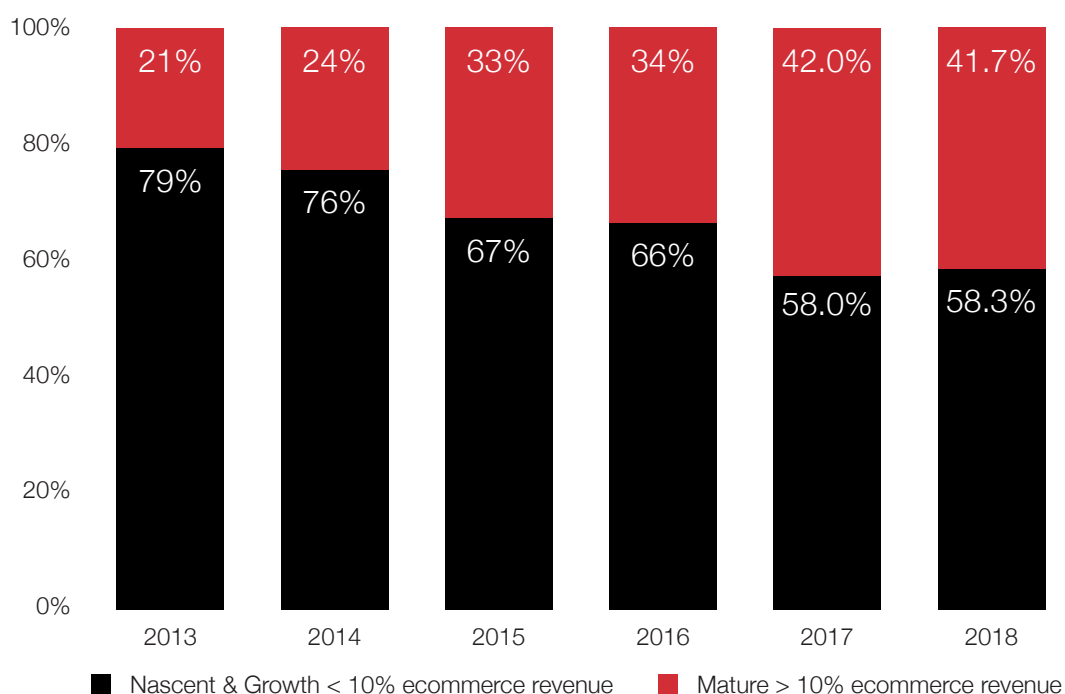
For example, distributors and manufacturers report that the concept of “build it and they will come” doesn’t always work. The imperative to get into, or increase, e-commerce continues to be urgent and is gaining in importance each year but many distributors and manufacturers still view e-commerce as a technology project. Once complete, they let customers decide where they want to conduct business.

While that view is good in theory, too often customers are unaware of the distributor or manufacturer’s e-commerce channel or are not aware of the benefits. Aggressively marketing the e-commerce channel by showing the customers the benefits, and aligning the internal team with that effort, is critical to gaining traction.

Maturity Rates Stay Flat

The percentage of respondents with a mature e-commerce offering remained flat in the survey compared with the prior year: 41.7% in 2018 versus 42% in 2017. Although there has been a jump in the last five years, the number of companies in the mature phase was just 21% in 2013; this year’s data show the e-commerce maturity race may have slowed (**see Figure 1**).

Figure 1 - E-Commerce Percent of Total Revenue



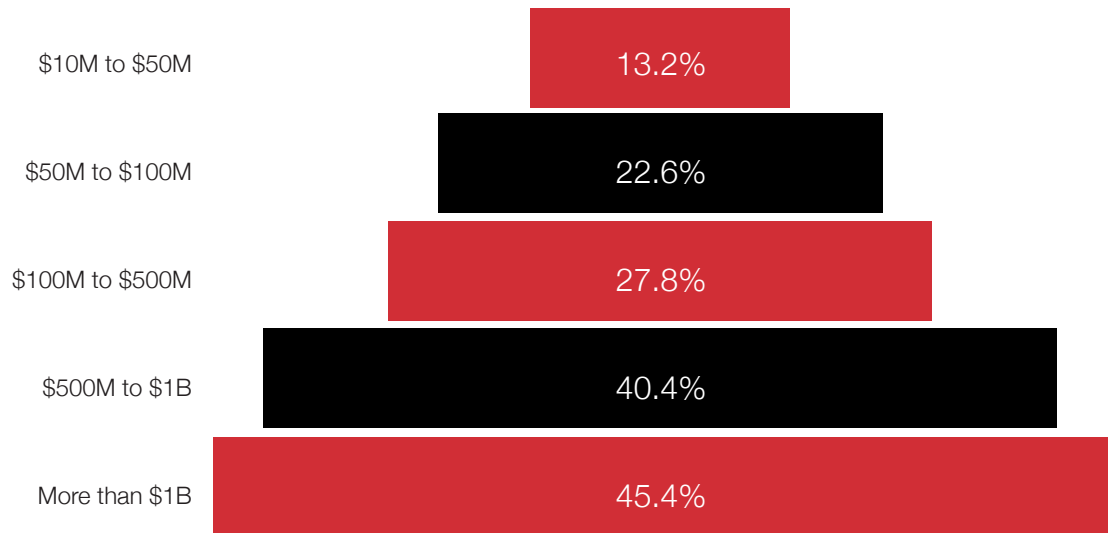
There could be many reasons for this. For example, several comments from this year's survey respondents indicated distributors or manufacturers that entered the e-commerce space have been stymied in their efforts. "Fundamentally, we lack an e-commerce strategy," said one. "We need a better onboarding process," reported another.

The other factor complicating today's market is that as adoption increases among distributors and manufacturers — the rate of e-commerce adoption has soared with a weighted 17.8% increase from 2018 to 2019, according to the survey — more competition exists, slowing maturity rates. That's raising the stakes for distributors and manufacturers who have not yet made strides in adopting e-commerce as part of a broader omnichannel strategy.

B2B E-Commerce Trends

To get a broader picture of who is offering e-commerce functionality across sectors, Distribution Strategy Group analyzed more than 3,600 B2B websites (**see Figure 2**). The resulting data show the percentage of companies that offer e-commerce but do not show how mature their e-commerce is. Smaller companies (\$10 million to \$50 million) are 3.4 times less likely to offer e-commerce than the largest companies with revenue in excess of \$1 billion. Not surprisingly, the larger a company, the more likely it is to offer e-commerce in some form.

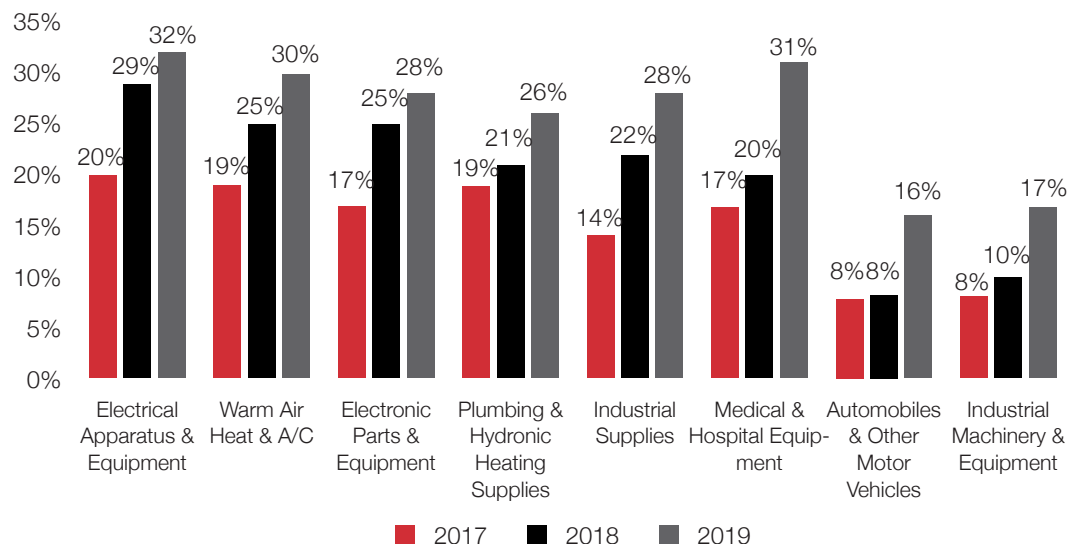
Figure 2 - Percent of B2B Companies that have E-Commerce



An analysis of the percentage of distributors by sector offering e-commerce from 2017-2019 revealed steady increases in the number of companies that offer e-commerce. Specifically, electrical apparatus and equipment has the largest percentage of distributors with e-commerce (32%), with medical and hospital equipment (31%) and heating and air conditioning (30%) close behind (**see Figure 3**). For all sectors, the rate of increase from year to year is strong, indicating that any distributor or manufacturer that isn't already in e-commerce and/or aggressively growing that channel may be left behind.

Combining the e-commerce maturity data from the e-commerce survey with Distribution Strategy Group's observed industry trends for e-commerce implementations provides a broader view of e-commerce as a channel. The rate of adoption sped up in the past year for several sectors, notably medical and hospital equipment (11% increase), automobiles and other motor vehicles (8% increase) and industrial machinery and equipment (7% increase). Some of this can be attributed to initiatives from many buying groups and associations in these segments to acquire and enrich product data. That effort can dramatically increase adoption, especially with smaller regional companies.

Figure 3 - Percentage of E-Commerce by Sector

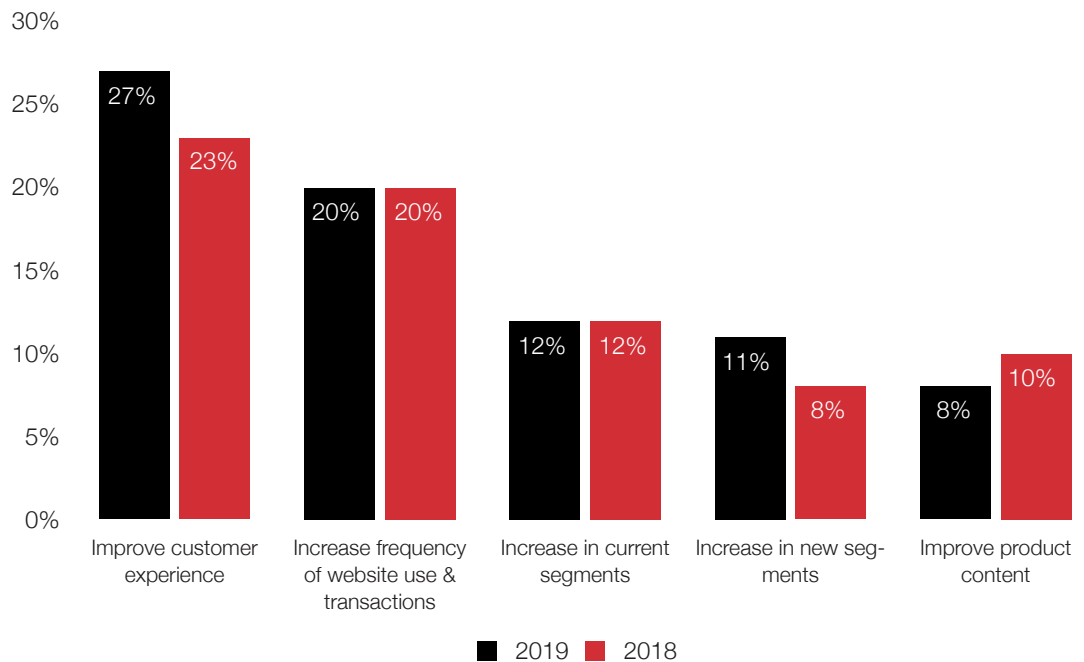


E-Commerce Priorities

Distributors' and manufacturers' top two priorities for e-commerce are to improve the customer experience (27%) and increase frequency of website use and transactions (20%), according to the survey (see Figure 4).

It is no surprise that with greater adoption of e-commerce, both customer experience and increasing frequency of website use and transactions remain top objectives. In fact, the priority of improving customer experience had the most significant jump from the previous year, growing 4%. In this vein, one distributor said, "We need to focus on making new users into return users." Another noted their focus now is "personalization and customer journey." These are examples of

Figure 4 - Top E-Commerce Priorities



how distributors are focusing on improving the customer experience, evolving from an initial online purchase into making the site into a destination.

Over time, top priorities have shifted in B2B e-commerce. For example, the top priority in 2016 for distributors was "promoting our brand." That option dropped to just 4% in 2019 as distributors move from more information-oriented sites to sites that handle significant transaction and revenue volume. B2B websites have changed quickly from essentially serving as a digital brochure to becoming a full-fledged channel, providing transactions, customer service and other capabilities that complement a customer's offline experience with the company.

Additionally, the objective to "increase efficiency and cost savings" through e-commerce decreased from 12% of respondents in 2016 to just 6% this year. Efficiencies and cost savings are being realized in e-commerce, so distributors are shifting their priorities to other areas.

Part 2 of the 2019 State of E-Commerce in Distribution report in the next issue looks at shifts in the market in more detail.

About the Research

Distribution Strategy Group and Modern Distribution Management conducted the research through an online survey taken by 251 participants across a variety of sectors. Of those identifying as either manufacturer or distributor, 69% were distributors and 31% manufacturers.

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

About 36% of respondents represent small companies with less than \$50 million revenue. About 41% are mid-market with \$50 million to \$500 million, 9% are large with more than \$500 million revenue. The remaining 13% did not disclose the revenue range.

About 25% of respondents are primarily focused on MRO, 11% are focused on OEM customers, 24% serve trades/contractors, 25% are an even blend of MRO and OEM, and 15% are in other categories.



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Distribution Strategy Group brings unparalleled distributor marketing expertise from our time as successful executives, advisors, and implementers with MRO and OEM distributors of all sizes in a variety of market segments. Based on real results that we have achieved in the distribution market, we strike the right blend of strategy, execution, and measurement to transform your marketing department into a profit center.