

2022 State of Distributor Sales:

Rewriting the Distributor Sales Playbook for a New Era

By Frank Hurtte



Economic storms like the Great Recession of 2008 are known to accelerate change. For example, and thinking more historically, following the recession of the late 1980s and 1990s, we saw a massive acceleration of the trend towards business restructuring, or to use the term of the day, reengineering or right-sizing. Now, because of COVID, there will be more changes in the next five years than in the past 30; inflation alone is higher now than at any time since 1982.

The global pandemic accelerated changes already in motion and created new cultural shifts, which unearthed a new set of obstacles. Like Alice and her magic mirror, many could argue that we have stepped into a new world. If distributors want to keep up with these changes, they can't just react to change; they must be proactive.

Our research examined the current state of distributor sales. As distributors boldly move forward taking the step from a period of reaction to COVID and the aftereffects of the pandemic and move into a new normal, there will be many changes to the way we do business. Consider this study a benchmark to compare your efforts with what others are doing and what will be required of distributors in the coming years.

In this report, we will explore:

- How customer interaction has changed
- The deployment of tools to increase sales efficiency
- The use of ecommerce in an omnichannel sales strategy
- How well distributors identify and engage new customers
- How fee-based services are being employed to offset margin erosion and escalating people costs

Current Sales Efforts

In 2021, we asked distributors how happy they were with their sales efforts, and fewer than half said they were satisfied. In 2022, the results didn't change much: Only 45% of distributors who responded to our survey were satisfied or very satisfied.

Distributor dissatisfaction may be tied to:

- Fundamental changes required to match customer shifts in behavior
- Issues linked to the supply chain where materials are nearly impossible to source
- Inflation driving up the cost of doing business
- Difficulty in finding good employees
- Rapid increases in the cost of employing qualified people
- Uncertainty tied to the economy in general

The distributor business model, while resilient, is changing; this isn't your parents' or grandparents' version of distribution. Nearly everything about the industry has changed. The study indicates more changes ahead.

Consider technology. Today, for example, you can see everything you have in stock at the click of a button, down to the number of bolts and screws. That's a far cry from the 50s and 60s when "skaters" would roller-skate around warehouses to check inventory levels for a customer standing by on the phone.

Distributors are also contending with the death of the "pure" distributor; most now sell more than one product category. For instance, instead of selling only plumbing supplies, a distributor may also sell HVAC, irrigation and electrical products. Crossing into other lines can be a successful business strategy. Distributors start to find themselves in trouble when they add more technical products to their offerings. The more technical the lines you add, the more your salespeople will need to learn. This entails both product and application expertise as well as the sales approach needed to convert customers. If sales reps have to continually undergo training to sell unfamiliar, complex products, they will be less effective.

*Only
45% of
distributors who
responded to our
survey were sat-
isfied or very
satisfied.*

And, of course, in 2022 distributors are dealing with the demands and pressures of a post-pandemic world – and all the uncertainties that come with that. Adapting their sales efforts has been successful for some, and not so successful for others.

How Distributors Are Responding to Change

Customers aren't as open to traditional sales visits as they used to be. Customers realized they could function fine during the pandemic without frequent in-person visits and they haven't invited salespeople back with the same level of hospitality.

That said, the more complex a product or service is the greater the need for a sales call. And the more open customers are to receiving a salesperson. One distributor told us: "Average salespeople struggle to get meetings, but our specialists and highly technical sellers don't face the same issues."

Traditional sales are expensive but remain the dominant distributor sales channel, with nearly 78% of distributors relying on field sales to go to market. Customer service comes in second at 70%, followed by reactive inside sales and technical/product specialists at 67% and 59%, respectively.

To that end, we found that between 2019 and 2022 (Chart 1), there was a marked decrease in the use of the traditional field sales call. Looking forward three years, distributors expect electronic and digital tools to come out ahead, with outbound sales calls and traditional sales visits continuing to decline in importance.

Chart 1 shows an existing dip in traditional sales calls today. Chart 2 demonstrates that this type of call will further decrease in the next three years.

Chart 1: Changes in sales methods since COVID

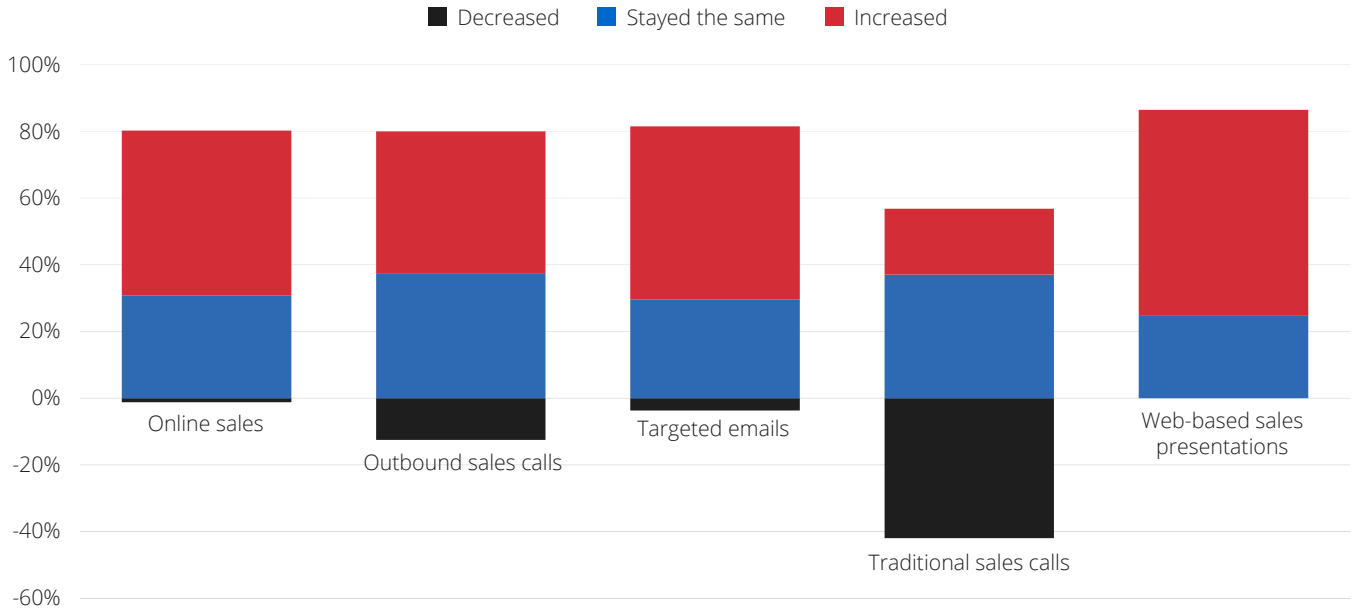
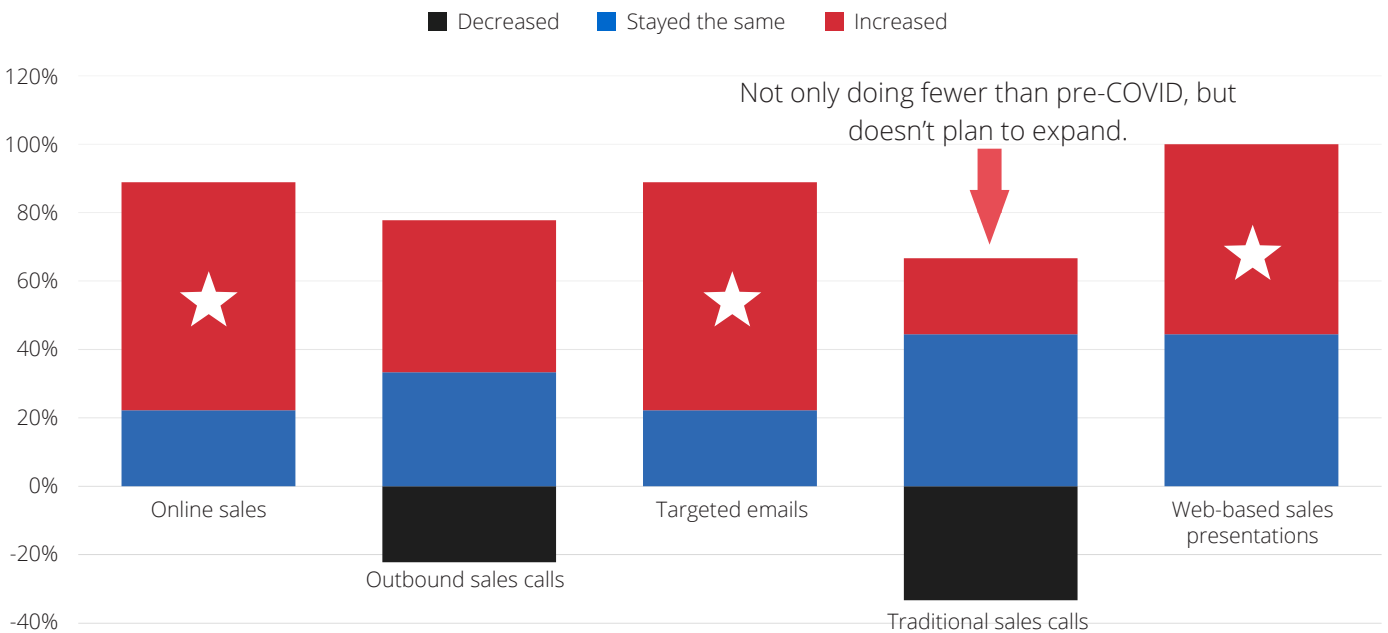
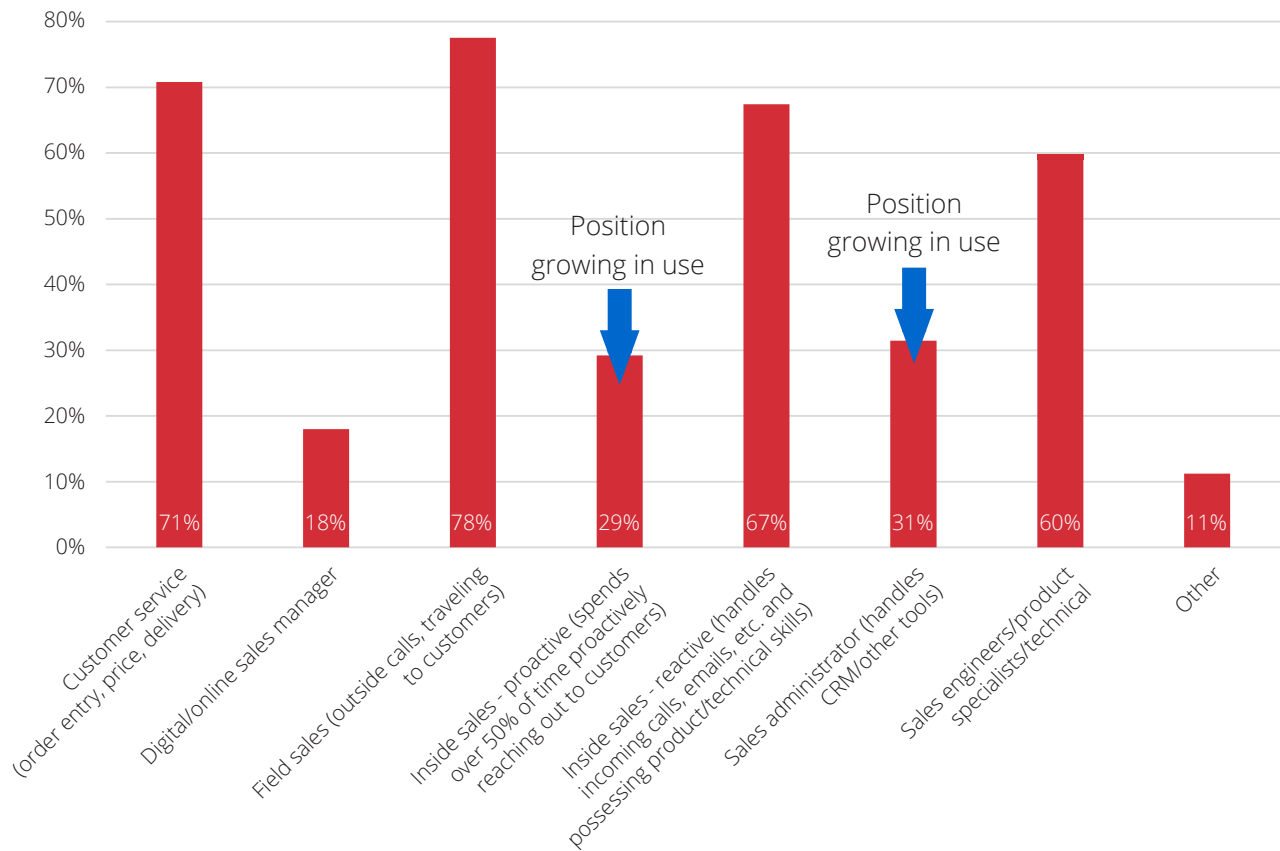


Chart 2: Changes to sales process 3-year future



☆ Electronic and digital tools are the big winners

Chart 3: Functional sales positions used within organization

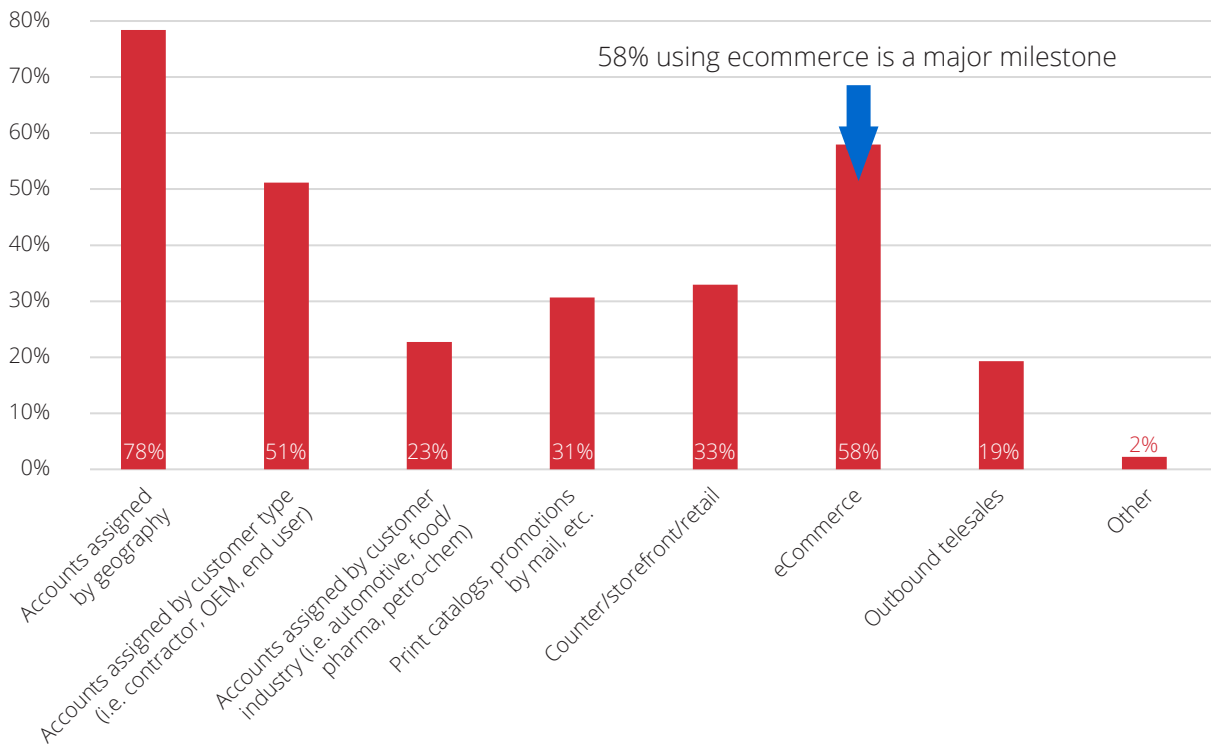
Having the flexibility of multiple channels – with a combination of in-person and video visits from field sales and outbound calls from inside sales – not only drives down costs associated with outside sales reps, but also enables sales reps to interact with more customers each day (Chart 3).

Many distributors are also adding **sales administrators** to their teams; they free outside sales reps from administrative burdens. We believe the growing use of sales administrators is a major development. The better trained on company processes the more likely they will be to positively impact the effectiveness of a very scarce and expensive resource. Forward-thinking distributors carefully analyze how sellers spend their time.

Downloading admin-related tasks to a less qualified and lower-paid employee frees the seller to devote more time to sales activities. Another interesting phenomenon is the growing use of **proactive inside-based resources**. One of the distributors who participated in a deep-dive interview described the position as a salesperson who drives a phone rather than a company car.

Another outlined how three outside salespeople were moved into the proactive position and had already demonstrated the ability to bring business into the company. They occasionally visited customers in person not to build relationships per se, but to troubleshoot issues which could not be handled over the phone. The net result is more customers touched in a meaningful way each day – and without the expense of travel.

Chart 4: Customer-facing methods used by distributors



Deployment of Tools to Increase Sales Efficiency

Seventy-four percent of the distributors we surveyed believe that the cost of sales will eventually rise by 5% or more, while 41% believe costs will increase by more than 10%. It's obvious we have a real problem on our hands. The cost of employment alone represents between 55%-65% of gross-margin dollars, according to profit benchmarking reports. These rises in cost along with the continued margin pressure are something the distributor business model can not easily absorb.

74% of distributors believe cost of sales will grow by 5% or more.

For distributors to remain profitable in today's environment, many believe they must invest in digital tools that increase sales productivity per person and automate some parts of their sales process.

To combat the growing cost of sales, distributors are reducing the number of unproductive calls and turning to technology for a smarter approach. The most popular tools distributors are investing in to drive sales productivity are:

- EDI (both with incoming orders from large customers and outgoing orders placed to suppliers)
- Email-to-order automation
- Automatic scheduling of appointments
- Customer relationship management (CRM) software
- Marketing automation
- Sales analytics tools
- "Notes" function in Microsoft Teams
- Full-blown web stores with over 50% of inventory available to purchase

We need to get better at using the technology we already have. Take CRM solutions, for example. Although these platforms are a great way to share information and find opportunities, a lot of

Chart 5: Value distributors see in digital tools

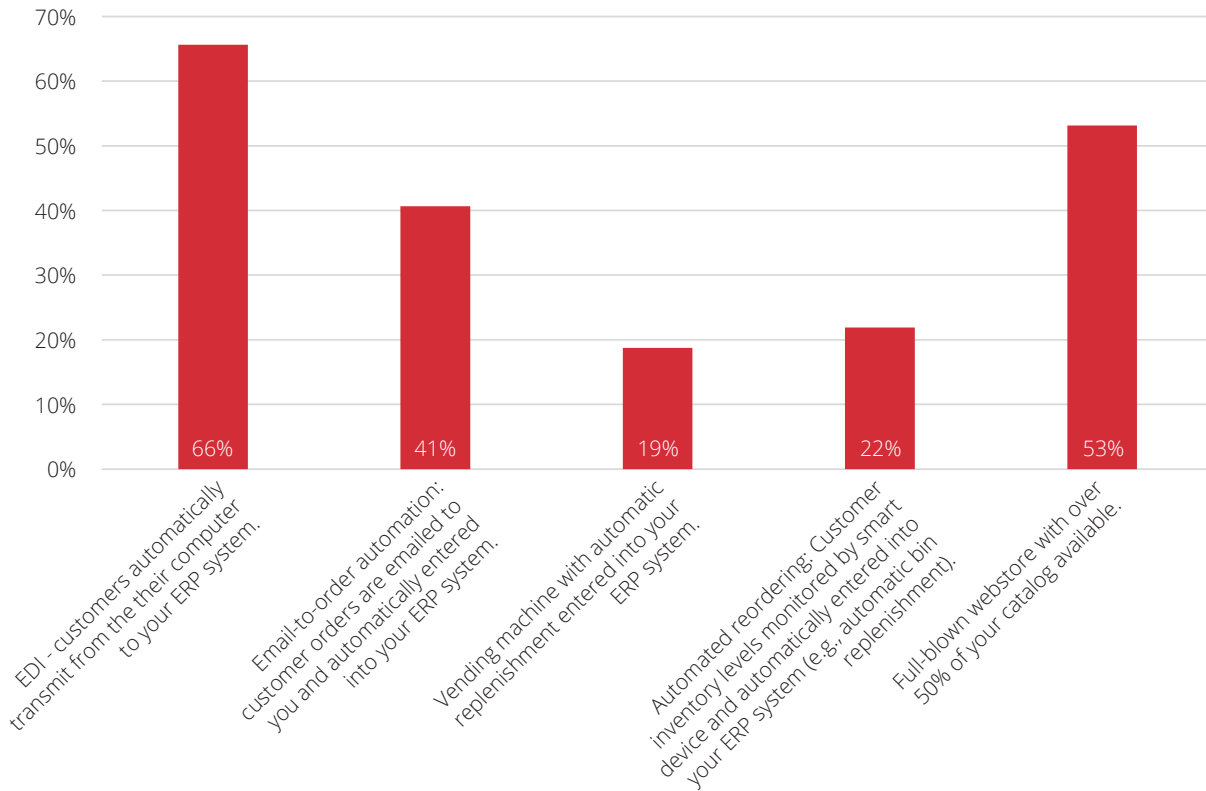
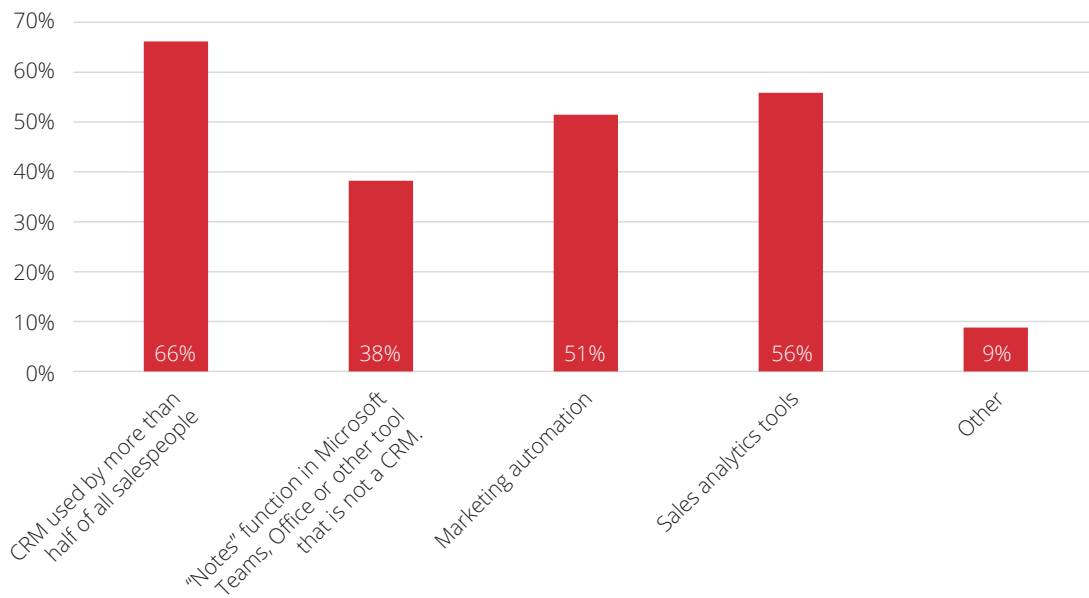


Chart 6: How distributors are digitizing their businesses



distributors have failed to implement them successfully. Investing in new technologies, increasing the use of existing solutions and training our team on how to utilize their tools are all necessary. Conversations with distributors reveal many are redoubling their efforts to better utilize “already”-purchased technologies. The need to drive productivity has forced many to apply greater scrutiny towards laggards within their organization who have not fully executed long-standing plans.

The Role of eCommerce in Sales

More than half of the distributors we interviewed said that they are using ecommerce as a sales channel. While we don't have data indicating whether they are selling 1%, 20% or 100% of their business offerings through ecommerce, the 58% number is significant. Thankfully, the price tag of becoming involved in ecommerce is shrinking, so we're seeing more distributors, even smaller ones, moving into that space.

The problem is that distributors still struggle to use their website and track its effectiveness correctly, and typically underinvest, which results in weaker results.

For instance, leaders tend to get caught up on sales dollars driven through their site's cart, but that is only a tiny piece of the puzzle. Most distributor ecommerce ROI models don't account for revenue results outside of the shopping cart. If you have a great ecommerce site that customers are using to research before ordering through their purchasing department (which is very common), ecommerce isn't getting the proper credit for the revenue it's bringing in. Progressive distributors indicate their analysis consists of things like number of customer visits, products searched, product inventory searches and other points.



58% of distributors are using ecommerce.

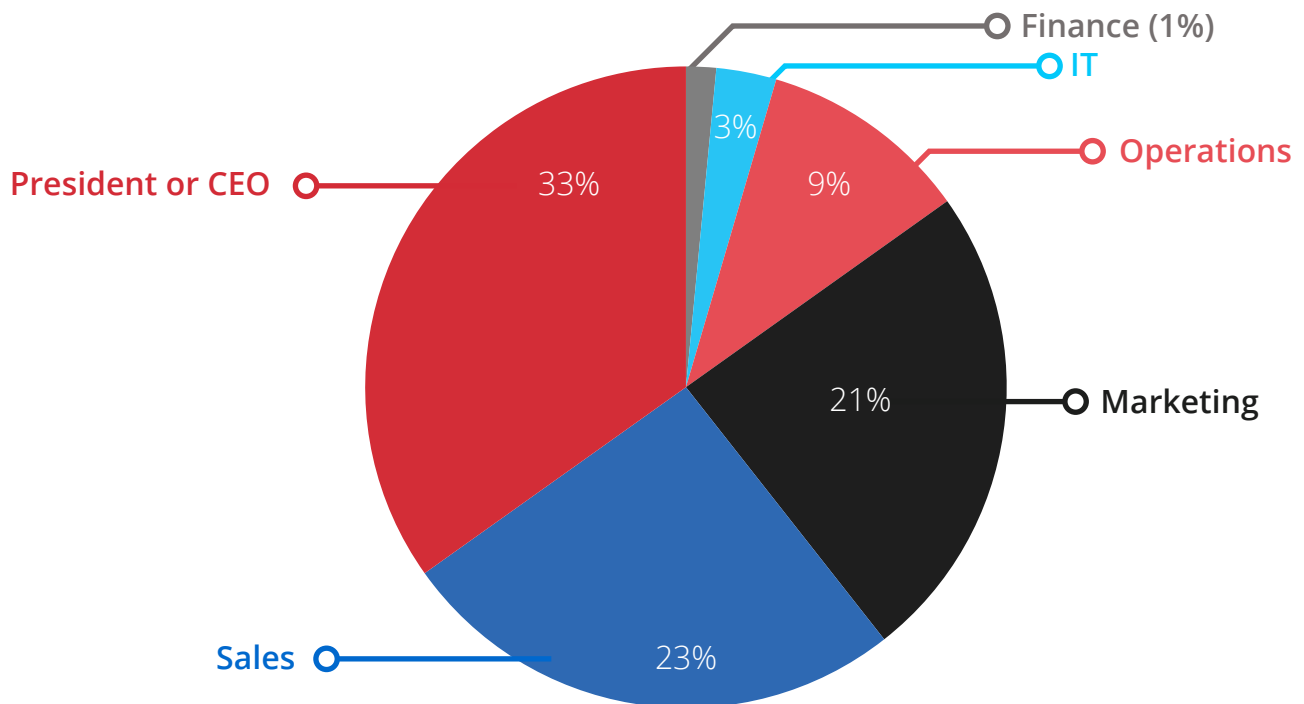
B2B customers don't just rely on one or two channels anymore to shop and buy. According to McKinsey, the average B2B customer regularly uses [10 or more channels](#) to interact with their suppliers. Customers may be putting bids together using product data from your website, for example. Most B2B buyers have specific steps they have to go through to get orders approved.

As you build or improve your ecommerce site, remember that content is king. You have to create robust, insightful product listings to improve visibility on Google for those who start on Google to search for information; and provide an avenue for customers and prospects to research products before they reach out to your sales team. The website can become a catalog alternative that is even more robust than paper, allowing a searcher to view photos and video, real-time stock availability, dynamics pricing, and more complete product descriptions and specs.

If you are serious about growing the percentage of sales through your ecommerce site, you should have someone on your team who is in charge of and responsible for your website's success. Unfortunately, fewer than half of distributors in our survey said they have a single person in charge of ecommerce for their business.

Having a single person in charge improves accountability and provides an effective way to monitor incoming traffic, oversee new customer outreach, check content quality and ensure team buy-in.

Chart 7: Where ecommerce reports



Inspiring your salespeople to use your website as a tool is also vital. Encouraging customers to buy or reorder through your e-commerce site can free up outside and inside salespeople's time and resources so they can focus on more strategic support. If your team is worried about your website stealing business from them, consider finding a way for salespeople to receive their usual (or even enhanced) commissions from online orders. Offer special online-only deals that salespeople can promote, or build a special online catalog for smaller-customer segments.

How Distributors Attract and Engage New Customers

When we asked distributors how they find and add new customers, most respondents said they rely on traditional sales teams, followed by a proactive inside sales team and customer service, and then their supplier partners. However, when we asked how they felt about their average number of new customers, most were unhappy with their results.

Only 34% were satisfied or very satisfied with their lead-generating efforts; the rest felt like they were struggling to find new, high-quality leads.

Chart 8: Distributor satisfaction with the number of new customers attracted

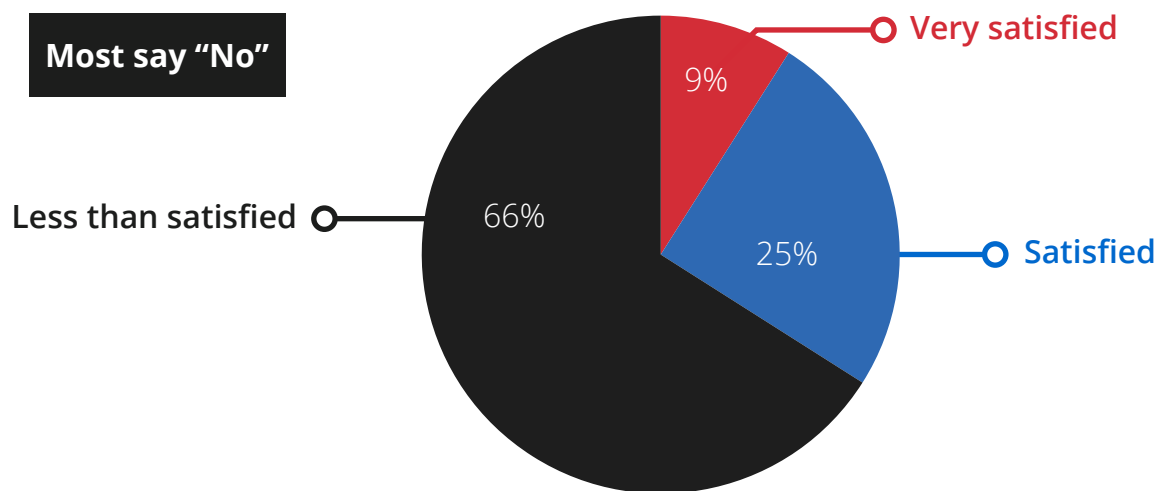
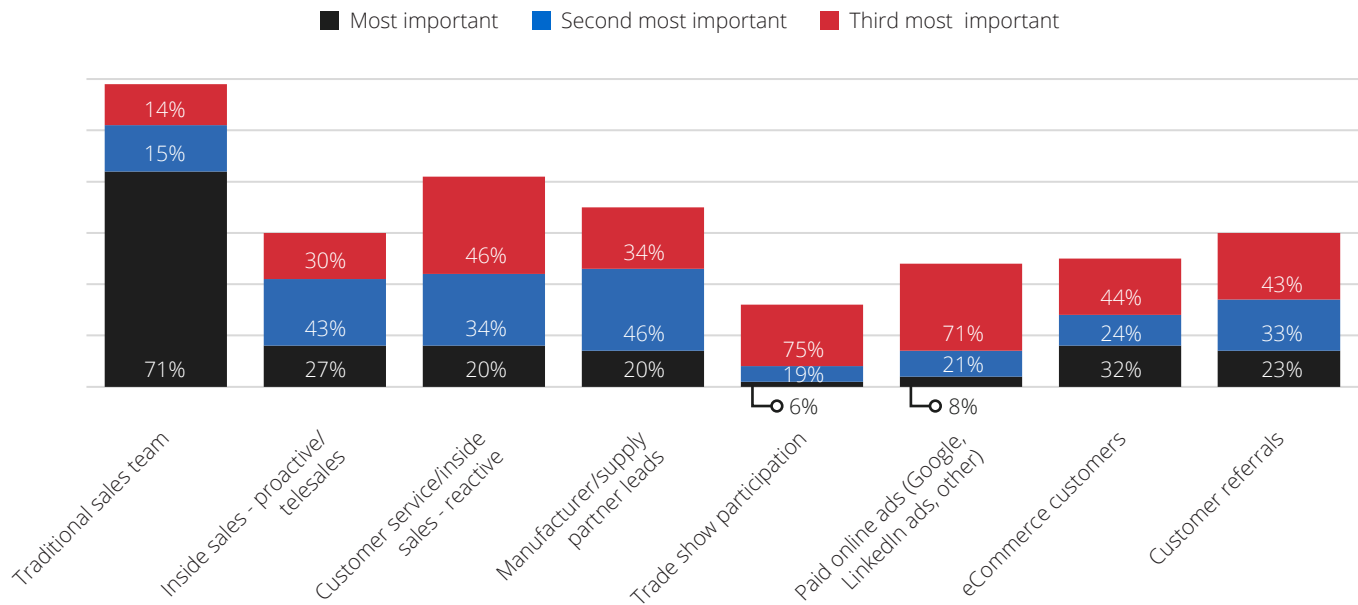


Chart 9: How distributors add new customers



By channel, respondents said leads from their manufacturers were the best, while leads from ecommerce were the worst. The problem is that distributors usually only get one or two monthly leads from their manufacturers. So while they may be high-quality leads, there aren't many of them. On the other hand, distributors may get as many as 100 potential customers per month from their website, with varying levels of quality.

In addition to volume, most distributors don't realize there are two problems with relying solely on manufacturers for leads. First, most manufacturers have their own filtering process. For instance, when they find a prospect, they'll run quality tests before sending the lead to your team. This means that they may determine that a candidate isn't worth pursuing when, in reality, that lead may have been an excellent customer for you.

Another problem is that more and more manufacturers are launching their own ecommerce sites. Instead of operating through distributors, they're beginning to cut out the middleman and put themselves directly in front of their end customers. As this trend continues and manufacturers start to gather their own leads, distributors will need to find another way to draw new customers.

Although your website may not provide your sales teams with as many high-quality leads as manufacturers do, it will likely be the best avenue to finding new buyers in the future.

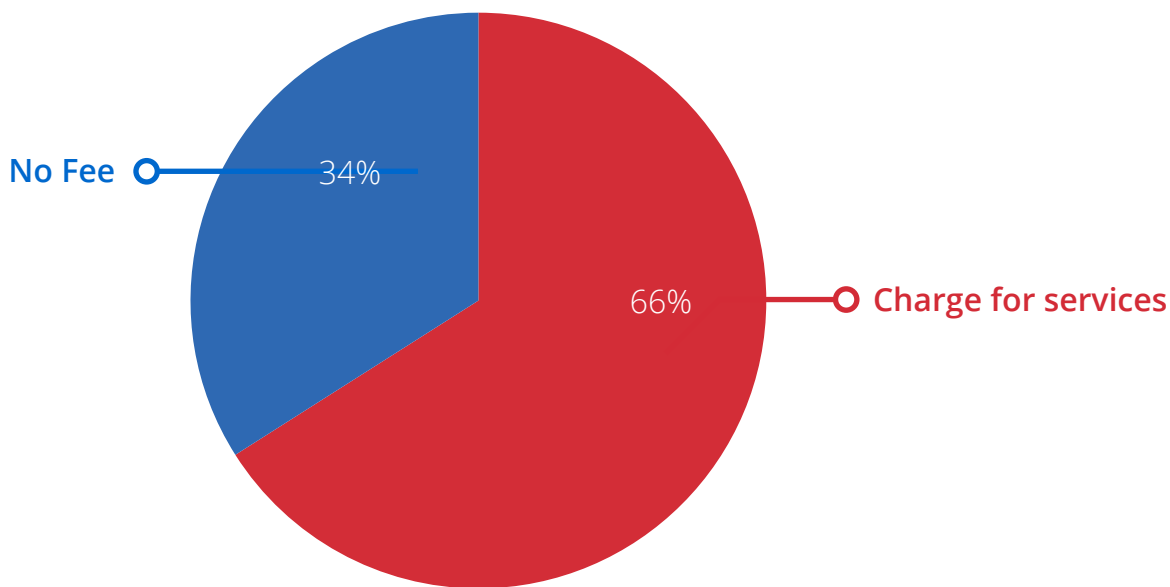
It's time to invest in a new kind of sales funnel.

When a new lead comes in, put strategies in place to determine their potential and ability to serve with next-day outreach. Send small potential customers a welcome package and add them to future marketing campaigns. Send larger customers to traditional sales teams. This way, you can connect with every potential customer, and build an independent lead-generation system.

Value-Added Selling

In 1984, Tom Reilly published the first edition of his book, "Value-Added Selling." In it, he talks about the importance of consultative selling, critical today, as well as how to increase the value of your services to buyers, including the strategy of giving some services away for free. Unfortunately, this tactic was never capped, and over time, distributors gave away so many services in an attempt to be competitive that their profitability plummeted.

Chart 10: Distributors that charge for some services



Distributors don't charge for their services for three reasons:

- They don't know how to start.
- Their salespeople are convinced that it could drive away customers.
- They are afraid competitors will use it against them to steal accounts.

Customers need our help now more than ever. But, the cost of services is rising, and distributors can't afford to keep giving services away for free. Although it feels awkward to put a price tag on something that has been free for so long, distributors must move past these preconceptions if they want to be profitable. According to the distributors we surveyed, these obstacles stand in the way of fee-based services:

- A paradigm shift: When selling what has been given away for free, customers naturally push back. No sales rep wants to put stress on their customer relationship so they shy away from promoting fee-based services.
- Fear of lost business: Sales doesn't feel comfortable charging when they think the competition gives it away.
- Sales need more training: Selling services strays from the process of selling products. Features and benefits are not as evident. If sales doesn't understand the real value behind a service, they won't be able to sell it.

With the right measures, fee-based services can be the saving grace for distributors bogged down by supply chain disruption, inflation and other pressures.

What's your next move?

Distribution isn't a lifestyle or a God-given right – it's a business model. What's more it is a business model that has changed significantly since the pandemic. The first step toward ensuring your business keeps up with the changing times is acknowledging this reality.

Ask yourself:

- What do my current sales efforts look like? Are they delivering on my expectations?
- What technology have I implemented? Am I using the technology already paid for to its full potential?
- What new technology should I consider? These should be gauged against its ability to build future productivity, and the distributor organization's ability to successfully implement.
- Am I using ecommerce? If so, am I tracking the right metrics to determine its success?
- Do I rely solely on my manufacturers for quality leads? Are there other methods I should be exploring?
- Do I give all of my services away for free? If so, how is that impacting my profitability? Are there some services I can start charging for without upsetting my customers?

DISTRIBUTION STRATEGY **GROUP**

About Distribution Strategy Group

Distribution Strategy Group's thought leadership, research and consulting services are provided by a team with decades of experience in the distribution industry. They have helped more than 70 distribution companies build a solid foundation to win in today's changing market.

Distribution Strategy Group offers strategic guidance for distributors in the face of disruption, including:

- Independent expert content
- Digital and ecommerce strategy
- Customer lifecycle management strategy
- Customer analytics

Contact us:

distributionstrategy.com | 303-898-8626 | contact@distributionstrategy.com

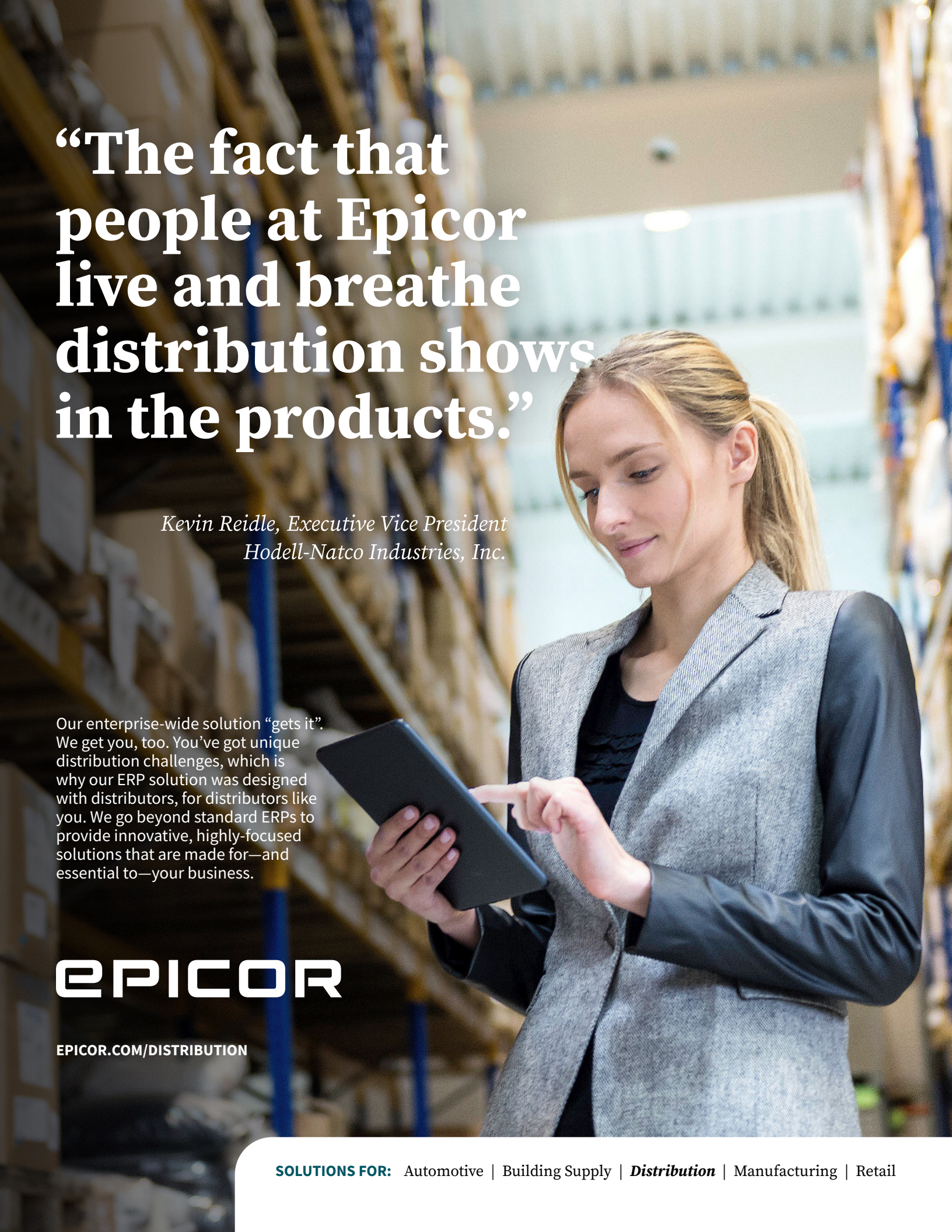
Thank you to our sponsors:

EPICOR

epicor.com

 **proton.ai**

proton.ai

A woman with blonde hair in a ponytail, wearing a grey blazer over a black top, is looking down at a tablet computer she is holding. She is standing in a warehouse or industrial setting with metal shelving units in the background. The lighting is bright and even.

“The fact that
people at Epicor
live and breathe
distribution shows
in the products.”

*Kevin Reidle, Executive Vice President
Hodell-Natco Industries, Inc.*

Our enterprise-wide solution “gets it”. We get you, too. You’ve got unique distribution challenges, which is why our ERP solution was designed with distributors, for distributors like you. We go beyond standard ERPs to provide innovative, highly-focused solutions that are made for—and essential to—your business.

EPICOR

[EPICOR.COM/DISTRIBUTION](https://www.epicor.com/distribution)

SOLUTIONS FOR: Automotive | Building Supply | **Distribution** | Manufacturing | Retail



Proactive, AI-Powered Sales for Distributors

Know More, Sell More

Integrate in weeks and drive 10%+ increase in sales.

Request a demo: welcome.proton.ai/demo

Contact us: welcome.proton.ai/contact

Email us: info@proton.ai

Founder Benj Cohen wanted to see that companies like his family's 90-year-old distribution business could use technology – instead of getting squeezed out by it. He teamed up with a group of engineers to build Proton, a cutting-edge AI-powered platform designed for B2B.

Your Challenges

- Reactive sales channels
- Siloed sales activities
- High cost to serve

How Proton Helps

- Gives sales reps the tools to be proactive
- Coordinates channels for cross-sell/upsell
- Increases profits, average order value and wallet share

Identify and target sales opportunities across every sales channel

Customer Service: Turn reps into revenue-generators on customer calls

Inside Sales: Guide reps on who to call, and what to sell them

Outside Sales: Put data at field sales reps' fingertips in a mobile app

eCommerce: Personalize customers' experience with AI-driven recommendations

How it Works

We create a complete view of every customer by consolidating data across channels. This gives us data-driven predictions about who is going to buy what and when. We use those to push a coordinated sales strategy so you can make targeted upsell and cross-sell pitches with every interaction, across every channel. **The result: Simply put, you'll sell more.**

Success Stories



A lawn and garden parts distributor increased ecommerce revenue per customer by 27%.



Turning telesales reps into order-makers, a dental distributor increased revenue per pitch by 13X.



An industrial MRO distributor added \$115K annual incremental revenue per Customer Service Rep