ROI Considerations for B2B eCommerce

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Calculating the return on investment (ROI) of a distributor ecommerce site can be daunting. In this paper, Distribution Strategy Group explores different ways to think about it.

Consider these facts:

- Digitally engaged customers, and those that visit websites recently (for example, in the past month), buy **a lot more online and offline** than less frequent website visitors
- Very digitally engaged customers **buy much more online and offline** than others
- Large customers are much more digitally engaged—**digital engagement correlates to customer size**
- Distributors need robust shopping and account management capabilities even if shopping cart revenue is minimal

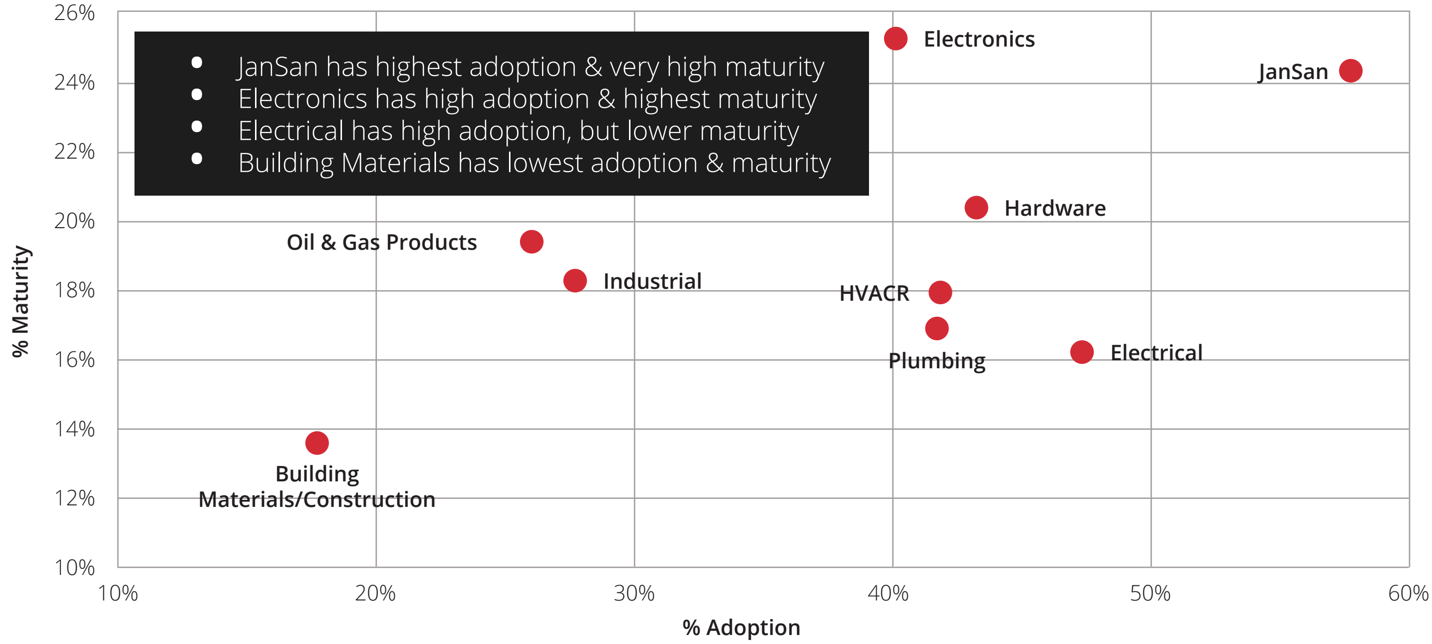
We'll explore trends affecting the B2B ecommerce opportunity, and a more inclusive way to think about ROI calculations. We will share data from two distributors, one in the electrical space and the other in the PVF sector, to support our observations.

Market Trends

Forrester estimates the B2B ecommerce market to be $3 trillion by 2027 – that opportunity will continue to grow.

More distributors are embracing that opportunity. But there are significant differences between sectors for adoption and maturity. Adoption is defined as the percentage of companies that can accept an ecommerce order. Maturity is the percent of overall sales that go through an ecommerce channel. In our 2021 estimates of ecommerce adoption and maturity, we found the percent adoption of the JanSan (Janitorial Supply) market to be 58%, and the percent maturity of that sector was >24%. Contrast the JanSan sector to the Building Materials/Construction space where adoption is 18% but the percent maturity is just 14%.

Chart 1: 2021 eCommerce Adoption & Maturity by Sector

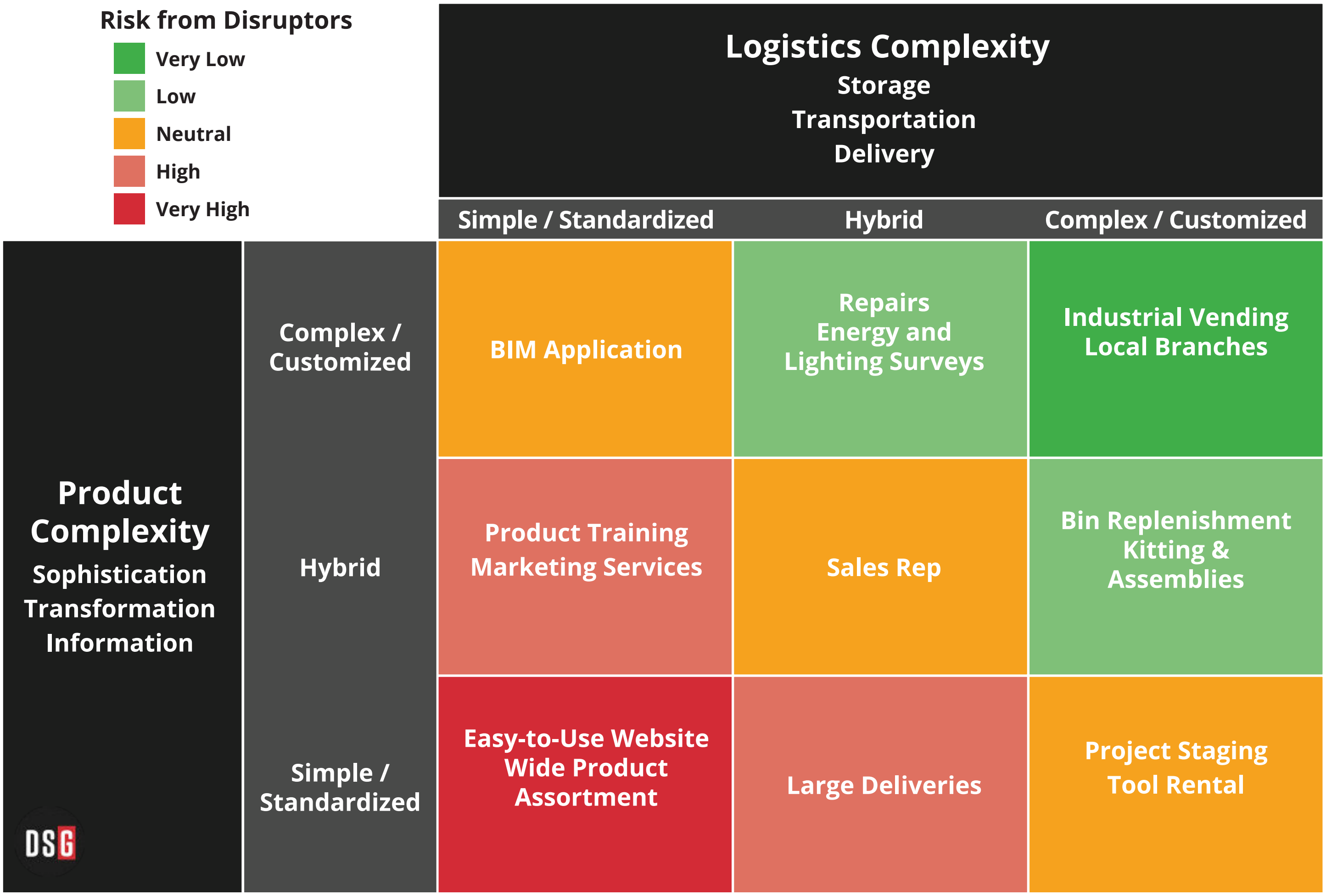


The difference lies in the type of products. In the JanSan market, many of the products and services are simple and SKU-based, making it easy to research and order digitally. Building Materials, however, can require more assistance or configuration to determine the right product. In those cases, a website might still be very important to both sectors, but the latter may focus more on providing information, solution options, product configurators, specifications, etc. versus transacting. It depends on where the distributor lies on the Distributor Relative Value Model. (See Chart 2 on page 4.)

Why do the adoption and maturity rates matter? Because it's easy to fall into the trap of thinking that because the segment you're in has low ecommerce adoption and/or maturity, you don't need to emphasize digital capabilities. Our data shows that even for distributors that are in low maturity and adoption sectors, digitally engaging is crucial for overall revenue as those customers drive a huge part of the business.

To answer the return-on-digital-investment question, DSG intentionally sought out distributors that have lower ecommerce maturity. As the data will show below, having robust website capabilities such as shopping, buying and account management can result in dramatic differences for customers that are digitally engaged versus those customers that are not digitally engaged.

Chart 2: The Distributor Relative Value Model



Know What Your Customers Want

Before we dive in, it is critical to start with the very important question of what your customers want. Does your site need to be a great shopping site, buying site or both? What is your customer's journey? Gaining a solid understanding of the answers is important to building the type of site your customers will use and value. It also points to how and where you should make investments into the digital space.

In our example PVF distributor, we have data for what customers want:

- 72% of the distributor's customers say they shop at least frequently (research, find or select) for products via search engines (Chart 3)
- 55% shop with a distributor website
- 59% of respondents said they research a product online before purchasing
- 77% of respondents say they frequently or very frequently **buy** by email, branch or sales rep **after** they shopped on a distributor website (Chart 4).

Chart 3: Example PVF Distributor of How Customers Want to Shop

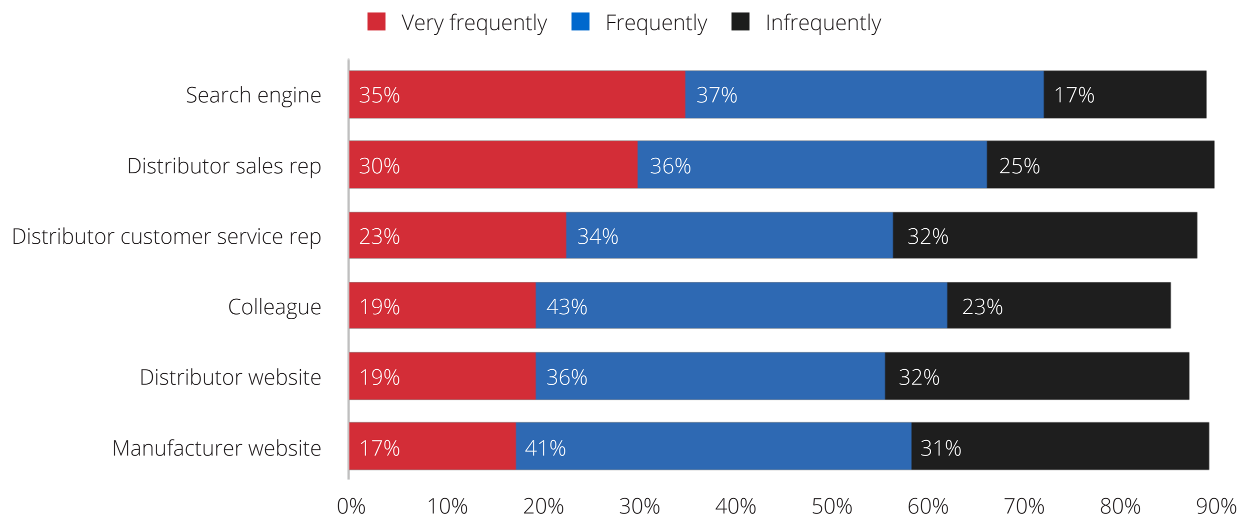
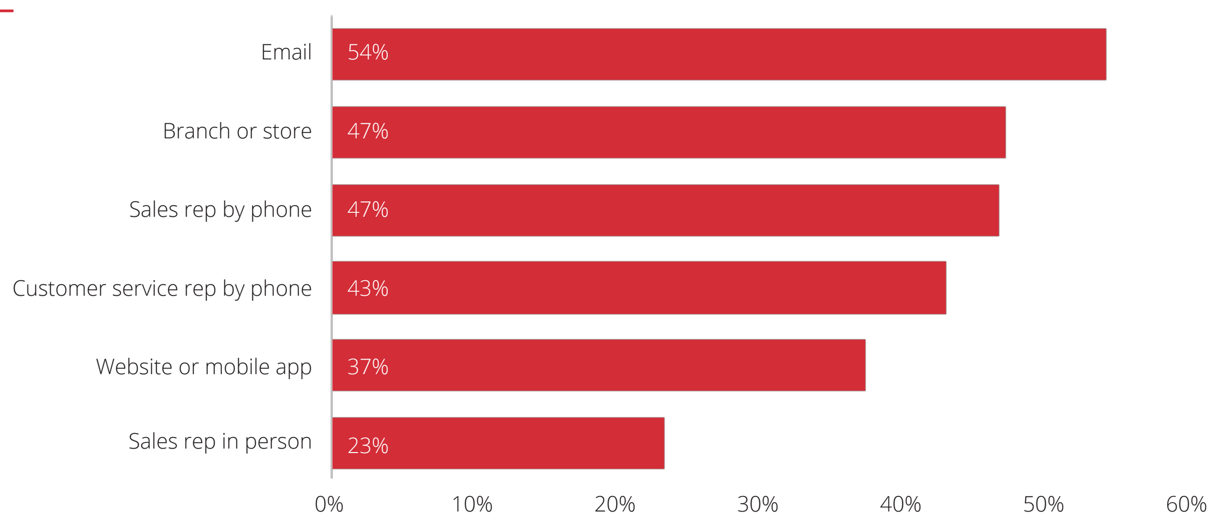


Chart 4: Example PVF Distributor on How Customers Buy After Shopping on Distributor Website



The key takeaway is that while placing orders on the website was ranked just fifth for preferences, customers used the website 55% of the time to shop.

If this distributor did not have a good shopping website, it is highly likely the overall sales would be significantly less given the customers' preferences. The customers would likely go to a competitor that did offer a robust shopping experience. Having strong digital capabilities helps this distributor provide the information their customers need, even beyond product information. Any interaction a customer takes online, including looking up order history, downloading proof of delivery or researching a product or solution, is considered digital.

Real-World B2B Examples

DSG analyzed data from two B2B distributors. One in the electrical space and the other in the PVF sector. The distributors were intentionally selected because they have less than 5% of their overall sales completed over the website. Using data from low ecommerce maturity distributors helps us show how important it is for customers to be digitally engaged, no matter what channel the ultimate order is transacted.

The reality is that for B2B distributors, many customers have a corporate purchasing department that will not use a shopping cart very much. For example, that is certainly the case with municipalities that may use EDI, punchout or even email a purchase order. PVF and electrical distributors have many customers that fall into that category. These different purchasing methods are important to note as the website is often used for research, but the actual transaction will not be placed via the shopping cart. Still, the website is a critical resource for customers.

The table below has the customer base in deciles with approximately 600 customers in each of the deciles. The deciles are sorted by the total number of web visits made over the course of a 12-month period. The total visits data came from their Unilog CIMM2 platform and the total revenue from the distributor's ERP. In this example, you can see the top decile accounting for 72% of total website visits has a staggering value of more than $13,000 for each visit. This shows that the value of the website goes way beyond the less than 5% of overall revenue transacted through the site.

Electrical Distributor Example

Revenue Decile	Total Revenue	Total Visits	$/Website Visit
1	88.6%	72.3%	$13,081
2	7.6%	15.4%	$5,237
3	2.3%	7.0%	$3,500
4	0.9%	2.1%	$4,376
5	0.4%	1.4%	$2,777
6	0.2%	0.7%	$2,667
7	0.1%	0.4%	$2,032
8	0.0%	0.2%	$2,568
9	0.0%	0.1%	$1,973
10	0.0%	0.3%	-$155

Several key takeaways come from this data:

- Very digitally engaged customers buy much more than less digitally engaged customers. Case in point: Those customers that represented 88% of total visits to the distributor's website also accounted for 96% of total revenue.
- Larger customers tend to be more digitally engaged.
- Digital engagement correlates to customer size.
- Deciles 2-8 also have high-value visits. The goal with those customers is to encourage more digital engagement.

We also reviewed data pulled from Google Analytics, which was analyzed for the same TTM period. Taking just the top 5,000 pageviews, we looked for an approximate split between pages that were for a product and those that were non-product related; **30% of the visits were product pages and 70% were other pages.** The inclusion of Google Analytics data to estimate what was being viewed supports how important it is for this, and other distributors, to have robust digital resources and capabilities that go beyond products. Examples of pages viewed were locations, training, whitepapers and account-management pages.

Distributors need to encourage customers to use their website – those that visit more, buy more. Usage of the website does not have to mean purchasing. In fact, this distributor has less than 5% of their overall sales made via the website or mobile app. Yet, the value of a robust site is clear. Making it easier for customers to interact with each stage of their journey is important. Removing friction from each key customer journey stage can have significant value, and having as many steps available to be conducted digitally results in both improved customer satisfaction and efficiency gains for the distributor. Consider the time saved by allowing customers to pay online, check PODs, download documentation, et al. Most of those activities are of high value to the customer but can be most efficiently served via digital automation. The time saved can be better utilized for high-value activities such as targeted prospecting and better serving customers.

We also looked at the data from a different perspective: the RFM, or recency, frequency and monetary value model. Data in this table was for customers active in a trailing 12 months basis. The way to read this table is to consider the frequency of visits in the categories shown below on the left column, then the frequency of visits in the categories to the right of the left-most column. For example, 24% in the green "1-month" column means that 24% of the total revenue came from customers that visited the website 200 or more times in that 12-month period and the most recent visit was in the past month.

Electrical Distributor Example

Total revenue TTM	**Months since last order**					
Frequency of Visits	**7 to 12 months**	**4 to 6 months**	**3 months**	**2 months**	**1 month**	**Grand Total**
200 or more	0%	0%	0%	0%	24%	**24%**
50 to 199	0%	0.8%	0.9%	1.8%	27.4%	**31%**
10 to 49	0.6%	0.8%	0.5%	3.2%	17.5%	**23%**
2 to 9	3.4%	3.9%	1.0%	0.8%	9.1%	**18%**
1	2.0%	1.0%	0.2%	0.6%	0.6%	**4%**
	6%	**7%**	**3%**	**6%**	**78%**	

Here is an interesting example from a PVF distributor, which covers the same one-year time period, revenue data from their ERP and visits data from the Unilog CIMM2 platform.

PVF Distributor Example

Total revenue TTM	**Months since last order**					
Frequency of Visits	**7 to 12 months**	**4 to 6 months**	**3 months**	**2 months**	**1 month**	**Grand Total**
200 or more	1.0%	0.3%	0.0%	0.6%	12.6%	**14%**
50 to 199	0.2%	1.1%	0.8%	1.5%	29.5%	**33%**
10 to 49	0.2%	1.9%	0.9%	2.5%	12.3%	**18%**
2 to 9	0.8%	1.9%	1.7%	2.6%	16.5%	**23%**
1	1.0%	0.8%	0.7%	1.1%	7.4%	**11%**
	3%	**6%**	**4%**	**8%**	**78%**	**100%**

Both of these independent examples clearly show that customers who visit more recently buy more. For example, in the PVF distributor example, 42% of the revenue earned was from customers who visited the website 50 or more times in that year **and** visited the website in the past month.

These examples show that **78% of total revenue was made by customers that visited the distributor's website within the most recent month.** The recency of visits makes a difference.

Data from both distributors shows a compelling case to encourage digital engagement with a distributor's website and create reasons for customers to come back often. Success with the website goes way beyond just the dollars that are expended via the site. Providing robust shopping, buying and account management are key components of an exceptional customer experience.

The Customer Journey

The Customer Journey includes:

B2B journeys are typically much more complex than B2C journeys, which often place less importance on the delivery/value creation and loyalty journey phases. We know with B2B that creating value for the end-user and providing an exceptional experience is key to loyalty.

Part of the consideration for the customer journey is what actions and portions of the journey can be completed, or assisted, online? For example, outside of the shop and buy actions, after-the-sale support and account management is especially critical in B2B. Account management includes everything from paying online, delivery tracking, getting proof of delivery documents and so on. Removing friction at every stage of the journey increases digital engagement and revenue, leading to more loyal customers.

The journey stages are particularly important to the question: *"How did the website contribute to a sale?"*

Assuming you have answers to the questions above, you can begin thinking about how to think about the ROI for a B2B ecommerce site. The traditional method of thinking about ROI is:

Numerator:	*+Shopping Cart Gross Margin Dollars*
Denominator:	*+eCommerce Capital Costs*
	+eCommerce Expenses (Labor, Fees, etc.)

If that view is taken, it can very quickly lead to the ecommerce "Doom Loop." Let's use a basketball example. The job of a point guard is points created. Let's consider two NBA stars, Chris Paul and Steph Curry. For definition, points created = (assists x 2) + points scored.

Over their career, there is only a 0.1 per game difference in what is scored. No doubt Steph Curry is thought of as the major superstar among the two. But Chris Paul has more assists.

Chris Paul		
Points	18.3	Assists
Assists x 2	18.8	9.4
Total	**37.10**	

Steph Curry		
Points	24.2	Assists
Assists x 2	13	6.5
Total	**37.20**	

Career Diff	.10	Per Game

Let's go back to the job of ecommerce, which is to create sales. Using the calculation of sales created = (ecommerce assist x average order value) + shopping cart sales, we get a more holistic view of the real ecommerce value. In this example, distributors should consider an ecommerce assist when someone shops on the ecommerce site, then buys from any of the following:

- Customer Service Rep, Inside Sales Rep, Field Sales Rep
- Branch
- EDI
- Punchout
- Email order automation

Because of this, distributors need to include holistic tools in their tech stack, including CRM, marketing automation and so on, to support omnichannel shopping and buying. That visibility is critical. You absolutely must be **where** the customer wants to shop and buy and provide a **consistently exceptional experience.**

Going back to the traditional ROI definition and our more holistic view, the B2B eCommerce ROI should be more like:

Numerator:

+Shopping Cart Sales

+Orders generated by the website but placed via other channels

+Omnichannel impact: accounts engaging from multiple channels are bigger

+Customer lifecycle: Digital capabilities drive customer acquisition, onboarding, purchase frequency, wallet share, retention and win-back

+Lower cost to serve per transaction

Denominator:

+eCommerce Capital Costs

+eCommerce Expenses (Labor, Fees, etc.)

Remember earlier when we noted the Google Analytics data for the electrical distributor showed that 30% of the visits were product related? Another way to look at that is to say that 30% of the revenue was "assisted" from the website. In reality, that is too much since many visitors would be looking at multiple products before selecting the one that is purchased. What number should be used to help identify what percentage of revenue was assisted by the website? Is it 15% or 10%? It would be highly realistic – and conservative – in this example to assume that at least 5% of revenue from the top 3 deciles could be due to an assist from the website.

Using just 5%, let's look at our electrical distributor again. The top 3 deciles represent about $500 million in revenue for the company. The actual web revenue is just 1%, or $5 million. That leaves the top 3 deciles' non-web revenue at about $495 million. If we assume that just 5% of that revenue was assisted by the web, that is just under $25 million in web-assisted revenue. Combine that with the actual web revenue and you have $29.75 million in "total" web revenue credit. Subtracting a 25% gross margin, the total numerator for our distributor is $7,427,500.

Now let's look at the denominator. Assuming a $250,000 cost for the ecommerce selection and initial platform cost, allowing a generous $425,000 for development and implementation fees, $50,000 for other related technology expenses (e.g., marketing automation to help market the site), new ecommerce-related personnel, and additional marketing expenses of $250,000 each, the total denominator is $1,225,000.

Using these examples, the ROI is $7,427,500/$1,225,000 or 607%. The breakeven, in this case, is no web-assisted revenue. This ROI is positive even with the relatively high expense ratio that is included. It is quite possible the expenses would be significantly less for many distributors. Here's another way to look at this ROI – if a $100 million distributor had a similar 1% web revenue and using just a 1% web-assist for the top 3 deciles **and** using the same high expense denominator, the ROI is still 41%. Considering the revenue assist the website provides is a significant factor for most distributors.

Simple Assist ROI Calculation

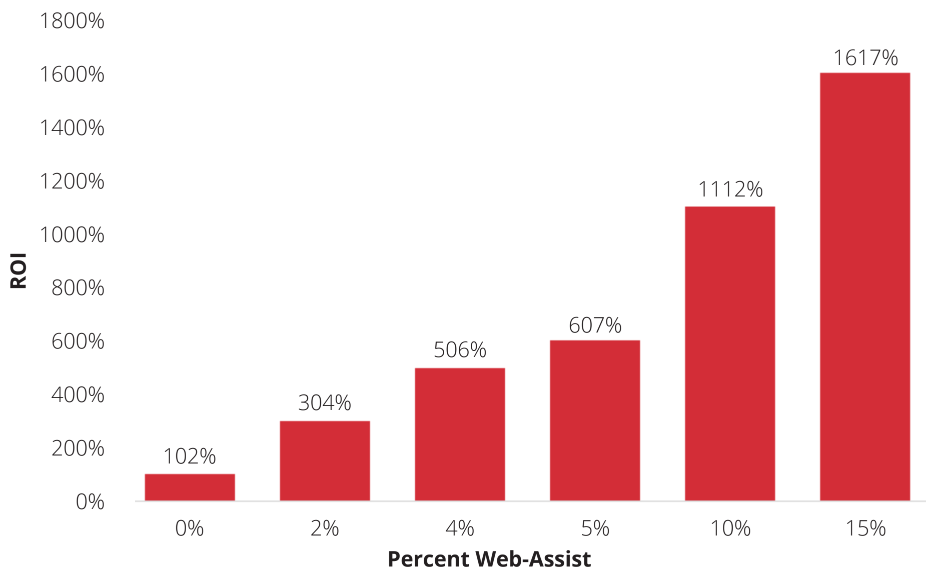
	$500,000,000	Top 3 deciles total revenue accounting for 95% of total visits
-	$5,000,000	Top 3 deciles total web revenue
=	$495,000,000	Top 3 deciles non-web revenue
	5%	Assist (Top 3 deciles non-web revenue)
+	$24,750,000	Total web assisted revenue
+	$5,000,000	Top 3 deciles total web revenue
=	$29,750,000	Total web "credit"
-	$22,312,500	Web credit revenue COGS (assumes 25% gross margin)
	$7,437,500	**Total Example Numerator**
=	$250,000	eCommerce platform capital expenditures
	$425,000	Development/implementation fees
+	$50,000	Additional technology expenses
+	$250,000	eCommerce labor, fees, etc.
=	$250,000	Additional marketing expenses (PPC, etc.)
-	**$1,225,000**	**Total Example Denominator**
	607%	ROI

The chart below shows how ROI increases based on different percentages of web assistance. The numbers are staggering – and the example only considers revenue from the top 3 deciles.

Estimating the web-assist value for your company is important, not just to justify an upgrade, but to gain the support of the entire company.

The numbers prove it: Digital engagement is critical to your overall success.

Chart 5: Electrical Distributor ROI Example



What should you do now?

- Understand what your customers want.
- Based on that, create your business strategy for a digital world.
- Identify the key factors that deliver an exceptional customer journey.
- Expand the definition of website ROI and analyze your data to better understand how digitally engaged customers drive your business.
- Estimate the web-assisted revenue for your company and include that in the ROI.
- Develop ways to increase the digital engagement of your customers and keep them engaged on an ongoing basis.
- Remove friction to signing up smaller customers as that can improve efficiency for the distributor and lead to increased engagement with customers.
- There is no excuse for not having a robust shopping and account-management site, even if shopping-cart revenue is minimal.

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

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