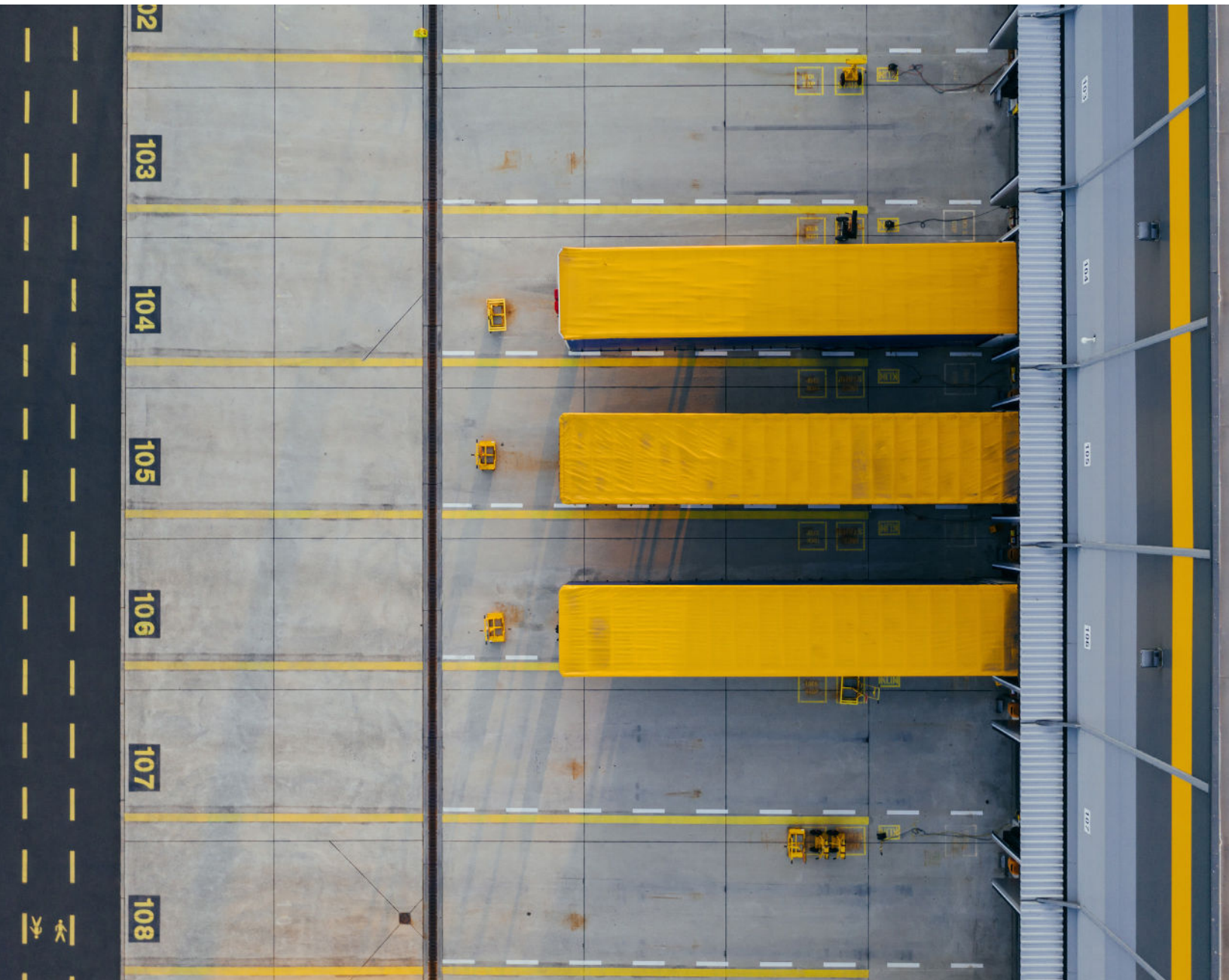


2023 State of eCommerce in Distribution

## Getting More from Your eCommerce Investment

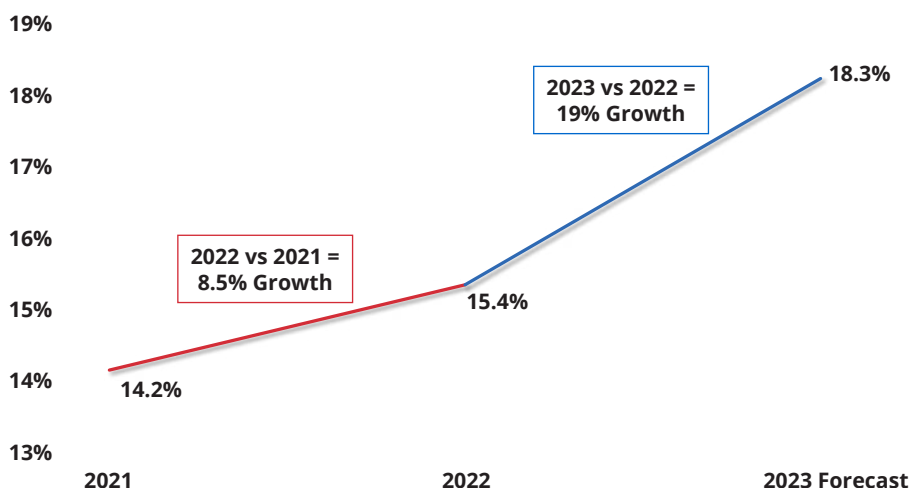
By Dean Mueller and Jonathan Bein, Ph.D.



*Distribution Strategy Group conducted its 13th-annual State of eCommerce in Distribution survey from October-January 2023, updating the leading benchmark in distribution for adoption and drivers of ecommerce in the wholesale distribution industry.*

The maturity rate of ecommerce in wholesale distribution has soared, with 8.5% growth from 2021 to 2022 – from 14.2% to 15.4% of total revenue.

We forecast a 19% increase in the percent of total revenue ecommerce makes up on average – to 18.3% of revenue in 2023.



Note: Data is for respondents that had at least some ecommerce.

Adoption means they can accept a transaction from an online shopping cart; adoption is not, however, a measure of individual company ecommerce success or maturity.

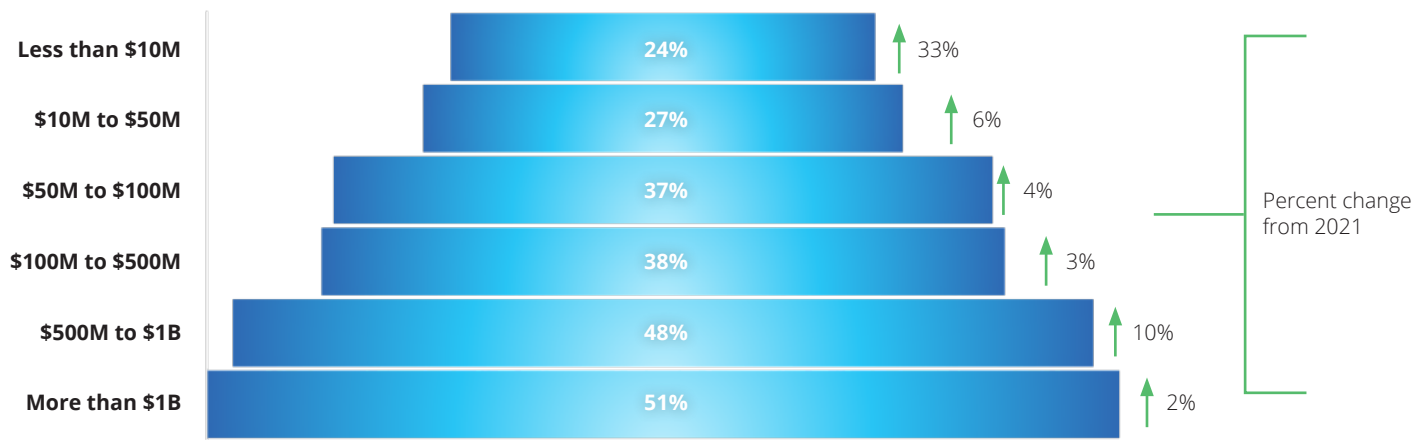
The percentage of distribution companies offering ecommerce varied widely in our latest research depending on both company size and sector.

About 37% of companies between \$50 million and \$100 million in revenue offer ecommerce in the latest survey while 51% of companies larger than \$1 billion do. Less than a quarter of those with revenue less than \$10 million and 27% of those \$10 million to \$50 million allow transactions on their websites.

Despite the lower numbers for the smaller companies, smaller distributors' adoption is growing due to the ongoing explosion in affordable ecommerce platforms, better product data, and digital and online expertise.

Companies in the \$10 million to \$50 million revenue range, for example, grew adoption by 6% from 2021; those with less than \$10 million in sales grew adoption rates by 33%.

## Percent of B2B companies that have ecommerce



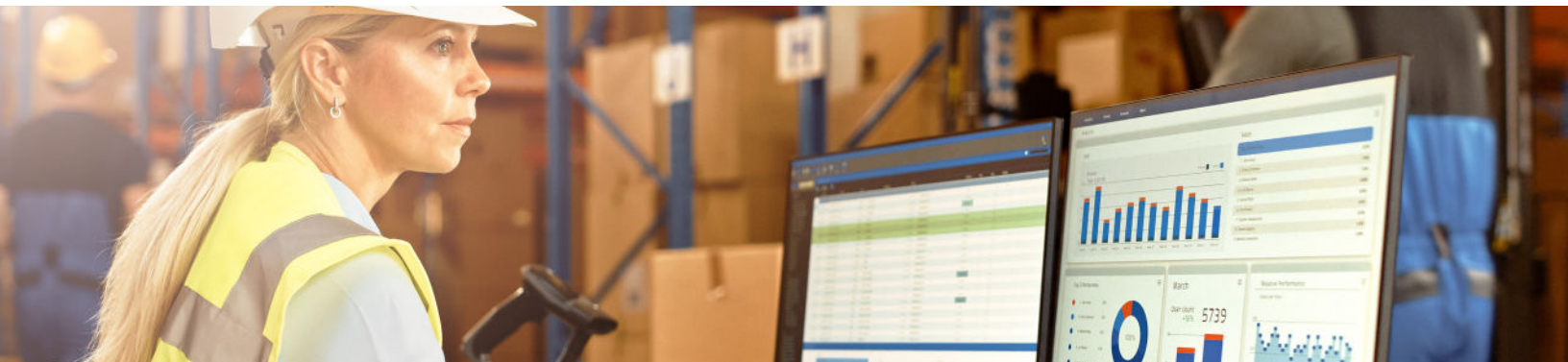
Note: Data from review of >3,900 companies

To get this data, Distribution Strategy Group analyzed nearly 4,000 B2B websites. Not surprisingly, the larger a company, the more likely it was to offer ecommerce in some form.

Another way to look at ecommerce adoption is by sector. While adoption rates are climbing overall, there are significant differences when you drill down into sectors. The JanSan sector continues to lead ecommerce adoption with 58% of companies offering ecommerce. Many, if not most, of the products offered in JanSan may be easily sold through ecommerce, so it is logical this segment has high adoption.

On the other end of the spectrum is Building Materials/Construction, with just 18% of companies offering ecommerce. Does that mean that building materials and construction distributors are behind the times? No. It means that the product assortment doesn't lend itself well to a shopping cart. Building materials are much more complex and customized.





We also have to consider how the customer wants to buy. If you are an electrical distributor selling to an industrial customer, you're going to have a tough time getting them to put their complex order in your shopping cart. There are many electrical distributors between \$200 million and \$3 billion in sales that have very little going through their shopping carts. But that does not mean that their ecommerce platforms are a failure.

## eCommerce Maturity Trends

Companies that don't make a continued investment and effort are generally those that will not gain traction and will remain in the Nascent, or under 5% of total sales, maturity stage. Gaining traction in ecommerce requires continued resourcing and effort.

Nascent	Greater than 0, less than or equal to 5%
Development	Greater than 5%, less than or equal to 10%
Mature	Greater than 10%, less than or equal to 20%
Leader	Greater than 20%

Ideally, the time you spend in the Nascent state of ecommerce maturity (between 0% and 5% of their revenue from ecommerce) is short and sweet. In the latest survey, the percentage of respondents with ecommerce still in the Nascent stage fell rapidly, from 57% to 50% (2021 to 2022) and is expected to drop further to 40% of firms in 2023.

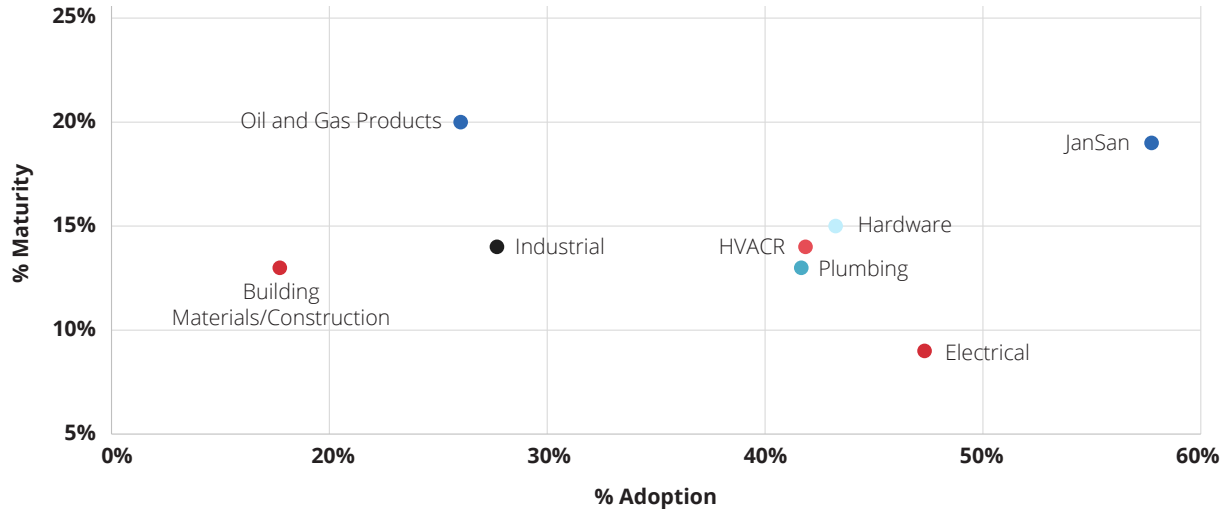
On the other hand, a quarter of companies in the survey expect to be Leaders in 2023.

This survey had a built-in bias, in that the data is relevant only for those distributors that offer ecommerce and does not take into account those that do not offer ecommerce.

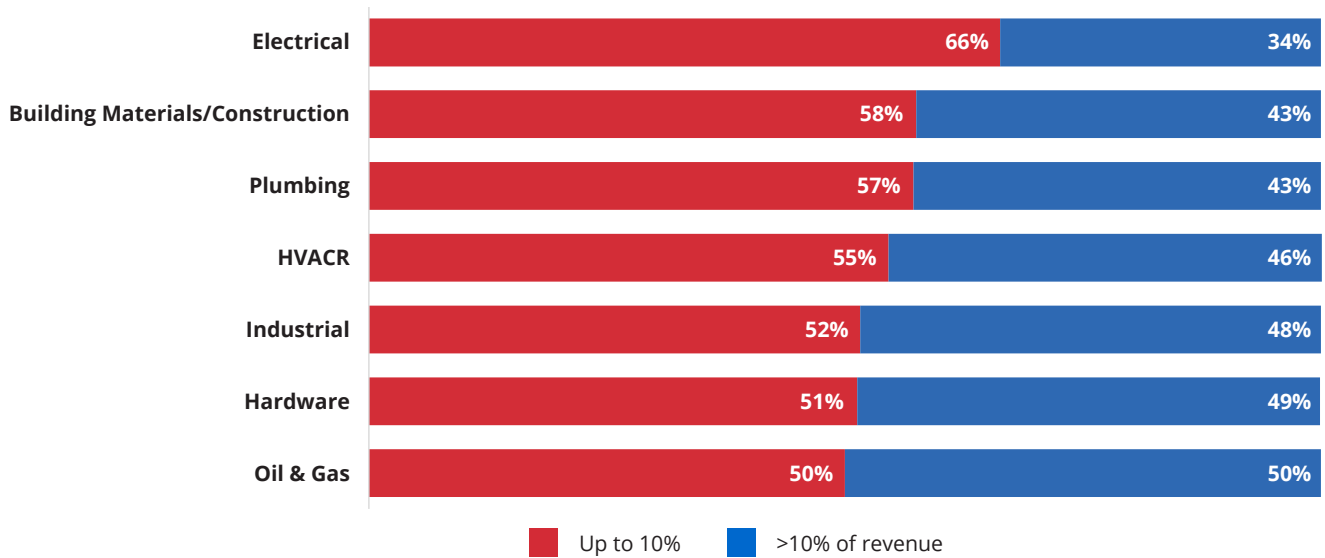
Looking at ecommerce maturity by sector, there are several interesting takeaways.

First, there is no surprise that the sector leader in maturity is JanSan. The Hardware and Industrial sectors follow in rank order. Lowest in our survey was the Electrical sector, which remains less mature; still, as noted, a digital presence is important in that segment.

## 2022 eCommerce Adoption & Maturity by Sector



## 2023 Forecast: eCommerce Maturity by Sector



## Satisfaction with eCommerce Investment

Just 40% indicated that they are at least moderately satisfied with their ecommerce as a result of their company’s investment. About a third said they are only slightly or not at all satisfied. However, there are companies in the middle (23%) that could be more satisfied with their ecommerce and need to diagnose why they are not achieving greater success. These issues generally fall into three categories:

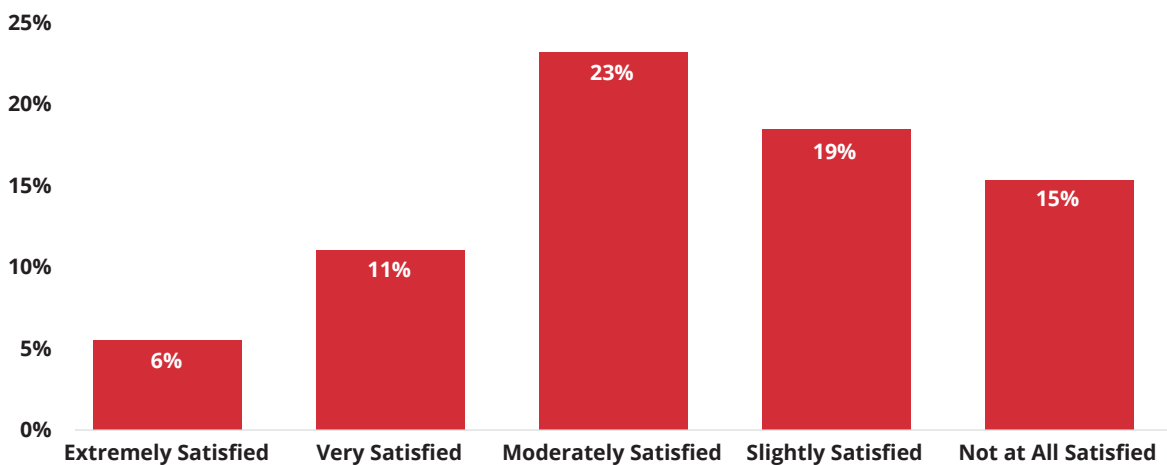
- Not using the right technology or not using it correctly
- Do not have adequate product and/or pricing information
- Inadequate marketing

Another issue is that companies don’t consider all the other benefits of an ecommerce platform, including driving sales through other channels. As a result, they likely aren’t considering that in their evaluation of how satisfied they are with their investments.

Most B2B buyers cannot check out via your shopping cart, even if they wanted to. Instead, they may spend all day shopping on your website, browsing products and building an order – and then transact through the corporate-approved method to purchase, whether that’s through EDI, email, a formal purchase order, a call to their sales or customer service rep, or at the branch.

What’s more, distributor websites are often the most expensive

### eCommerce Investment: How Satisfied?





channel for a customer. Because there are so many discounts available through other channels, most buyers will call or email a sales rep to negotiate a lower price. This is why it is important to have consistent pricing regardless of the channel used.

But the fact that customers aren't buying through your shopping cart doesn't make your site any less valuable; you just may not be measuring its effectiveness correctly. Distributor websites should provide value by offering customers a way to shop and learn about products before buying through other channels.

Think of this in terms of basketball. Great point guards in the NBA are rated on a statistic called "point creation." They are credited with creating points not only for directly scoring a basket but by passing to the player who does score the basket – called an "assist." That is often the role of your website; sometimes, it will score directly through the shopping cart, and sometimes it will get an assist by generating a transaction that comes through another channel. To gain a complete picture of how well your website is performing,



## Simple Assist ROI Calculation

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

**607% ROI**

- Example only uses top 3 deciles and 5% revenue for assist
- Only 1% shopping cart revenue
- The dollars used for expenses in the denominator are very high and likely would be significantly less for most distributors of this size
- Breakeven in this example is zero assists
- Just a 5% assist yields >600% ROI

you will need to take several factors into account, including:

- Shopping-cart profits
- All digital channel profits (EDI, email orders, e-procurement etc.)
- Orders generated by the website but placed via other channels
- Omnichannel impact
- Customer lifecycle, including improvements in new customers, retention and wallet share

If we knew then what we know now about the impact a website would have on the success of other channels, many distributors would have invested more and earlier into their online presence.

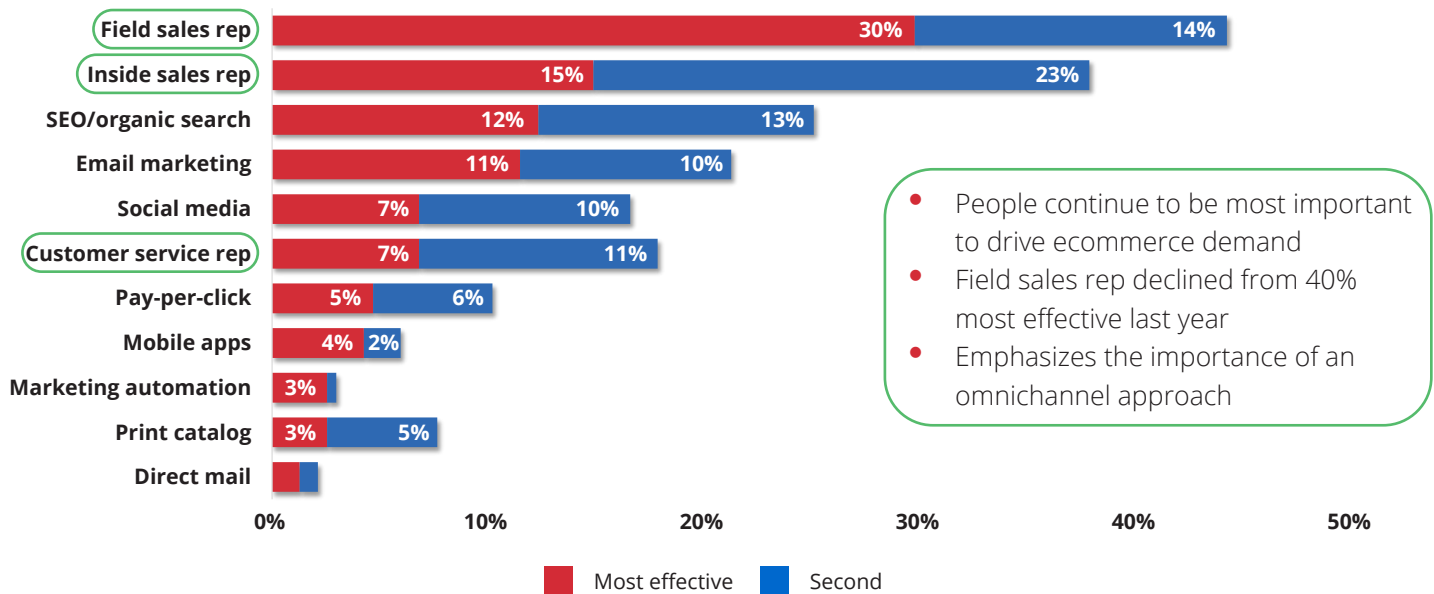
On the flip side, all other channels can also drive success on your website. People play a big role in driving ecommerce demand by customers. We found that field sales reps and inside sales reps are still the most effective in driving demand for ecommerce, but field sales rep declined in importance from 40% in 2021 to 30%. That's



probably due to fewer site visits, being physically in front of customers less often. They still top the list, however.

This data also emphasizes the importance of an omnichannel approach. All channels can drive traffic to your website, including your people, digital marketing, SEO, apps and even print catalogs and direct mail – which, if used strategically, can still be effective.

## Most Effective Channel in Driving eCommerce Demand

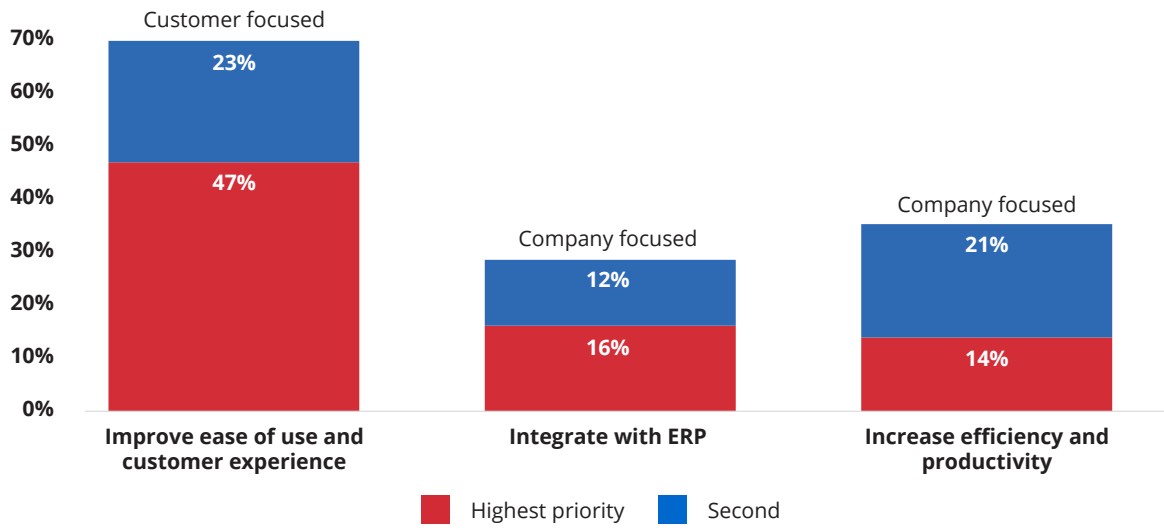


## What's Driving eCommerce Investments?

According to the research, priorities for ecommerce implementations fall into two categories: financial and operational. Improving ease of use and customer experience continues to be distributors' highest priority for an ecommerce investment.

A distributor's satisfaction with the ecommerce investment is highly correlated with their priorities: Those that are highly satisfied are more focused on customer experience, have already completed ERP integration and have prioritized increasing efficiency and productivity with their platforms.

## Operational priorities



An omnichannel strategy can help distributors design the ideal customer sales and service journeys for their customers. Distributors' clear priority operationally is to improve customer experience, with 47% of respondents saying it is the top operational priority. Combining both the highest and second priority, 70% of respondents noted improving the customer experience as a top priority.

How a customer or prospect experiences your website goes beyond how pretty it is. It includes how easy it is to navigate and find the information they need to move forward in the shopping or buying process. There's a big gap between the experience companies think they provide – and how customers view that experience. It's critical to survey your customers to understand what defines a great customer experience for them.

Generally, what defines a good customer experience?

- **Speed:** Fast support, easy product search, easy self-service website
- **Transparency:** Product and pricing information are always accessible
- **Personalization:** Tailored recommendations, pricing and browsing
- **Consistency:** Pricing and recommendations harmonized across channels

The second operational priority – to increase efficiency and productivity with ecommerce – is a key benefit of going digital. Value can be created through:

- Existing customers who shift spend online
- Leveraging EDI, punchout and order automation, with orders sent from the customer's ERP system to a distributor's ERP system, reducing the need to manually enter item information
- Integration of ecommerce to the distributors' ERP system for efficiency
- Customer service reps no longer having to manually input orders that come in through ecommerce, email and e-procurement channels
- Order accuracy improvements
- Lower cost of field sales due to increase in self-service

Respondents' top two financial priorities for ecommerce include:

- Growing revenue with existing customers (46% said it was highest or second-highest priority)
- Growing revenue with new customers in existing geographies and customer segments (39%)

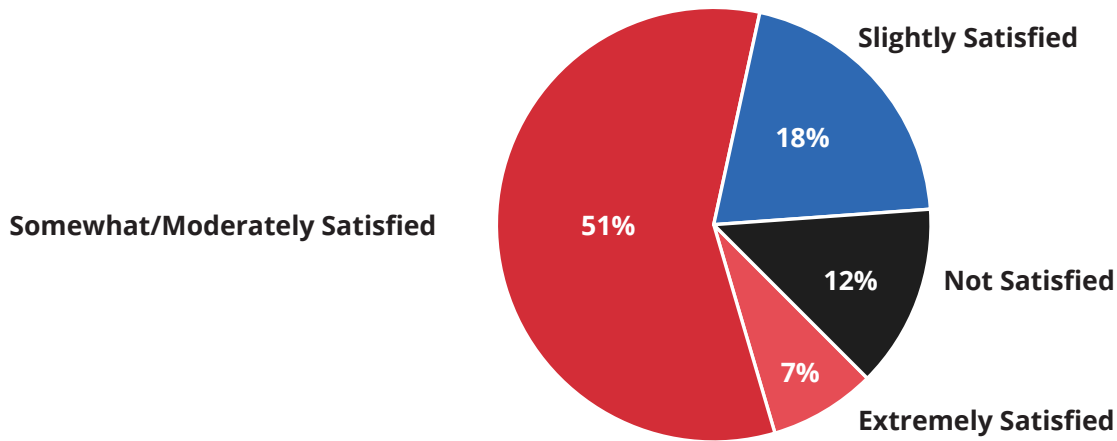
These top financial priorities are mostly unchanged from last year.

## The Product Data Challenge

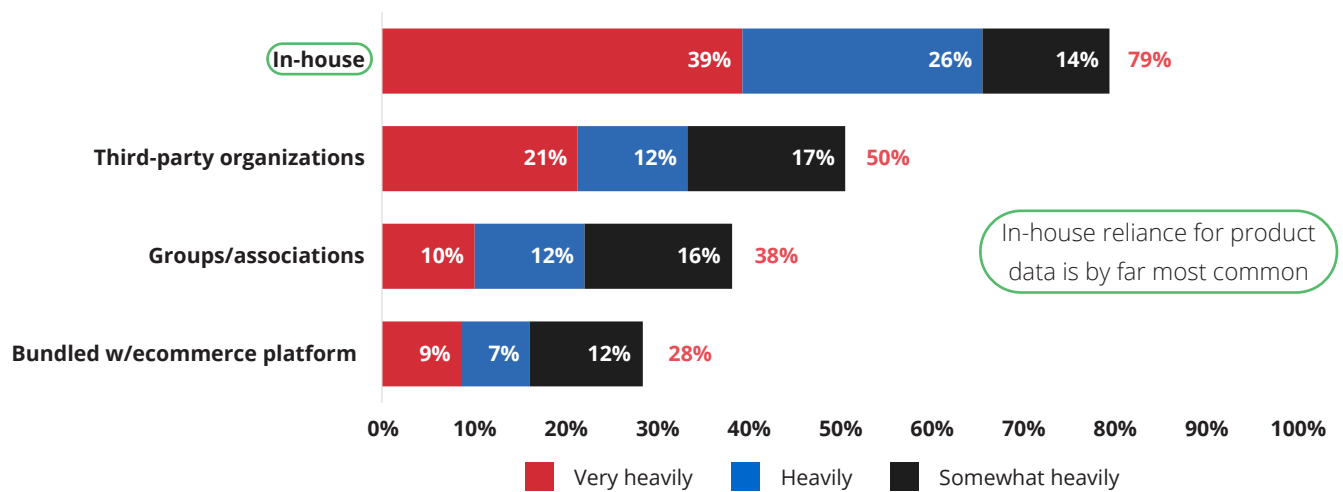
New to this year's survey were questions around product data, which is often one of the most challenging aspects of ecommerce implementation and maintenance. As expected, there was a lot of room for growth with product data among the distributors that responded. Just 7% were extremely satisfied with the quality and completeness of their data.

We also asked distributors to help us understand how they acquire their product data. Most (79%) do their product data work in house. Many also leverage and work with third-party organizations, such as buying groups and associations that help their membership by consolidating product data.

## Satisfaction with the Quality and Completeness of Product Data



## Reliance on Product Data



While some manufacturers do a great job providing complete and regularly updated product data, some don't. But even if suppliers are an obstacle, it still falls to the distributors to present good product data online. That may mean more elbow grease from your in-house group or working more heavily with other parties to get the data you need.

- The average percentage of SKUs respondents have complete product data for, including full attributes and at least one image, is 45%.
- The average percentage of SKUs they have application or context-specific information (for example, industry-specific information if their customer base is primarily food and beverage) is 24%.



If you get your product data from an association, that's great – but you're going to have the same product data as 50 of your closest competitors. One way to differentiate the product data for your top SKUs is to add more context around application and usage based on how your customers are going to use them.

Product data is the oxygen for your website. It not only supports your customers' shopping experience, it also plays a big role in driving potential new customers to your website through search. In fact, your ability to be found in search engines such as Google is only as good as the product data you have on your website. The other area where product data matters is searchability on your own website. If someone plugs a search query – “harnesses” – into your website, relevant results need to come up or they will just get frustrated and potentially leave without you knowing they were even there.

## The Opportunity Ahead

Most of your customers begin their shopping experience online even if the final transaction is conducted offline. There's a direct correlation between users on your website and purchasing.

- Digitally engaged customers, and those who visit websites recently (for example, in the past month), buy **a lot more online and offline** than less-frequent website visitors.
- Large customers are much more digitally engaged—**digital engagement correlates to customer size.**

The bottom line: Distributors need robust shopping and account management capabilities even if shopping-cart revenue is minimal.

For that, you need a digital platform that enables more efficient and effective shopping and buying for your customers. And if you have already built one, you need to invest in broader capabilities, marketing tools and organizational alignment to drive maturity for your organization.



Here's your checklist to build a successful ecommerce strategy by 2025:

- ✓ **Build a business strategy for a digital world, with customer experience at the core.** Make that experience frictionless, and give customers good reasons to use your website. A relentless focus on improving the customer experience can allow a mid-size distributor to punch through their weight class.
- ✓ **Expand your view of website ROI, and invest in understanding your web-assist revenue.** Start by calling 100 recent customers and ask them if they used the website before purchase and if they ordered via the website or other channel. Transactions that used the website but ordered via another channel count as an assist.
- ✓ **Focus on hyperpersonalization.** This requires really knowing your customers – including segment, applications, behaviors based on roles and needs, and interactions across all channels. Add real-time visibility across your channels so your team can see what your customers are doing no matter how they interact.

## About This Research

This research was conducted by Distribution Strategy Group. The research included an online survey taken by 403 participants across a variety of sectors. Of those identifying as either manufacturer or distributor, 85% were distributors and 15% manufacturers.

There was participation from industrial, jansan, chemicals & plastics, oil & gas products, electrical, safety, HVACR, building materials, hardware, plumbing and others. Thirty-one percent of respondents were in the 46-65 age bracket and 18% were in the 36-45 age bracket. More than 75% of respondents had executive or general management roles.

## About the Authors



Dean Mueller has more than 30 years experience in sales and marketing, including several senior-level positions in marketing and technology leadership, in both public and private equity organizations. Using market research, Dean has a deep understanding of distributor customer needs.



Jonathan Bein, Ph.D. is the Co-Founder & Managing Partner of Distribution Strategy Group and has worked with many distributors to make their marketing a profit center. He has developed and applied analytic approaches for customer segmentation, customer lifecycle management, positioning and messaging, pricing, and channel strategy for distributors.

# 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

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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 blue metal shelving units in the background. The lighting is bright and even.

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

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