DISTRIBUTION STRATEGY GROUP

2021 State of eCommerce in Distribution

Part 1: A Rapid Rise in Adoption & Maturity

By Dean Mueller & Jonathan Bein, Ph.D.

Distribution Strategy Group, formerly Real Results Marketing, conducted its ninth-annual State of eCommerce in Distribution survey from October-December 2020, updating the leading benchmark in distribution for adoption and drivers of ecommerce in the wholesale distribution industry. This is the first report based on this research. The second will be a playbook on what to do in response to this data in 2021 and beyond.

The adoption rate of ecommerce in distribution soared in 2020 with a weighted 26.3% increase from 2019 to 2020. We define adoption as meaning a company can accept a transaction from a shopping cart. Adoption is not a measure of ecommerce success or maturity.

The percentage of distribution companies offering ecommerce varied widely depending on company size and sector. About 25% of companies under $50 million now offer ecommerce while 47% of companies larger than $1 billion do. The increase in ecommerce in the under-$50 million category is staggering: from 13.4% in 2019 to 25.1% in 2020, or an 87.3% increase. The more-than-$1 billion category saw an increase of 45.4% to 47%. Given the significantly smaller number of companies in this category and the larger beginning base, this is not surprising. The JanSan sector leads with more than half of companies offering ecommerce in 2020.

Company Size	% Change 2019-2020
$10M to $50M	87.3%
$50M to $100M	36.9%
$100M to $500M	12.3%
$500M to $1B	7.3%
More than $1B	3.5%

eCommerce Adoption Trends

To get a broader picture of who is offering ecommerce functionality across sectors, Distribution Strategy Group exhaustively analyzed more than 3,600 B2B websites. The resulting data (Chart 1) shows the percentage of companies that offer ecommerce but does not show how mature their ecommerce is. eCommerce maturity data was also identified in the survey and will be discussed later.

We found that smaller companies, which we defined as $10 million to $50 million, are 1.9 times less likely to offer ecommerce than the largest companies with revenue in excess of $1 billion. Not surprisingly, the larger a company, the more likely it was to offer ecommerce in some form.

That said, the astounding change from 2019 to 2020 came from the smaller companies (Chart 2), those that are less than $100 million in size. Smaller companies have resisted ecommerce for a variety of reasons. Whether it's cost, lack of personnel, lack of product data, et.al, ecommerce has often seemed like a distant option.

Fast forward to 2020: Buying groups and associations have been banding members together and tackling the difficulty of securing product data, and in many cases, working to provide quality and affordable ecommerce platform options. Throw in the pandemic and many of the smaller distributors understand to continue serving customers well, they must add the ecommerce channel.

Chart 1: Percent of B2B Companies with eCommerce by Size: 2020

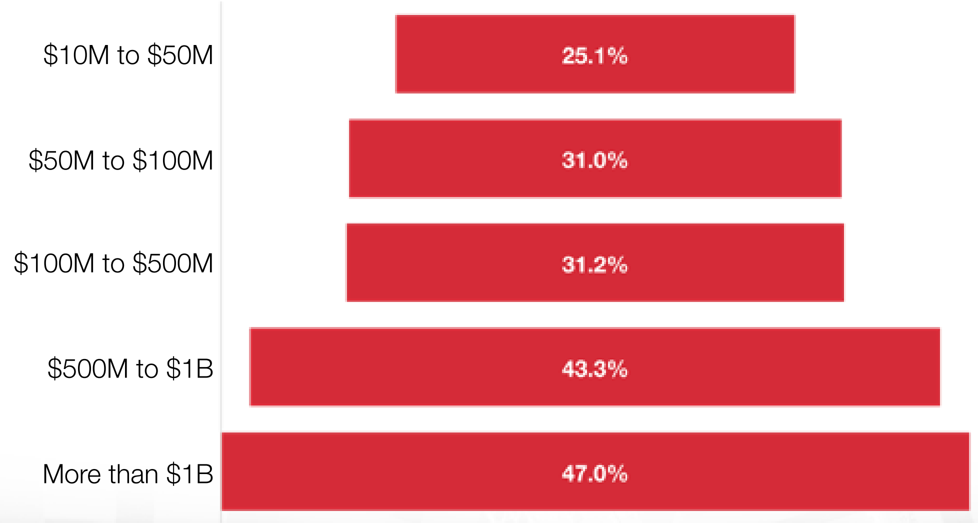
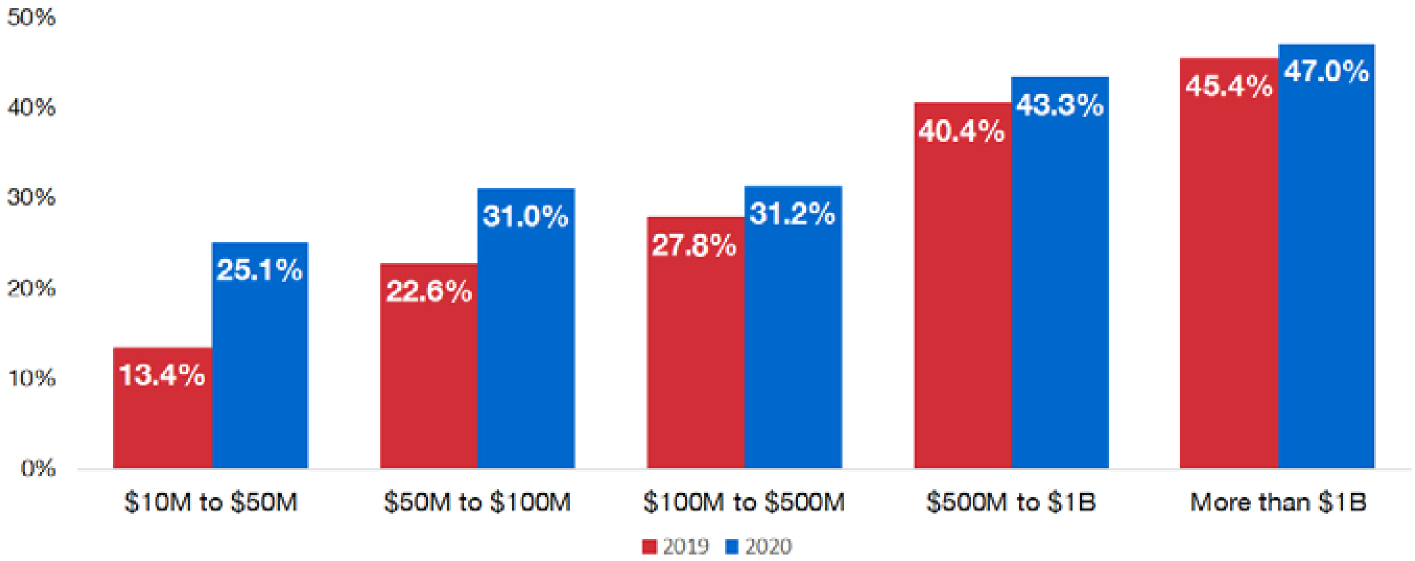


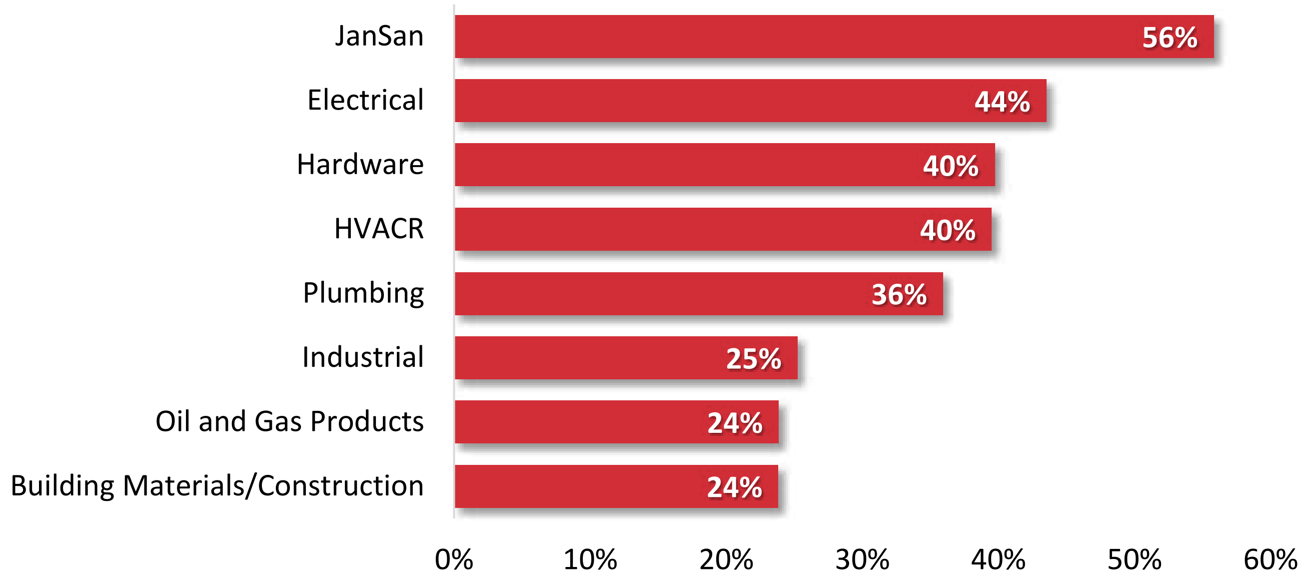
Chart 2: Percent of B2B Companies with eCommerce by Size: 2019 vs. 2020



While adoption rates are climbing overall, there are significant differences when you drill down into sectors (Chart 3). The JanSan sector leads ecommerce adoption with 56% of sampled 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 24% of companies offering ecommerce. Given the often-customized nature of products offered by these companies, it is not surprising there would be less adoption of ecommerce.

Chart 3: 2020 eCommerce Adoption by Sector



eCommerce Maturity Trends

The survey we conducted had a built-in bias for the maturity numbers, in that the data is relevant only for those distributors and manufacturers that do offer ecommerce and does not take into account those that do not offer ecommerce.

eCommerce maturity increased significantly in 2020 and, with that, a new milestone has been reached for the first time: 50% of respondents said that ecommerce revenues were greater than 10% of total sales, or mature. (See Chart 4 on the next page.)

The trend toward greater maturity has been consistent over the past couple of years. An additional factor in 2020 was the pandemic and the resulting acceleration of ecommerce, which we also saw in the adoption section above. Respondents have told us for the past two to three years that one of their key priorities, to be discussed later, is to improve the customer experience. Knowing that so many companies are putting significant resources into improving the customer experience, the gain in maturity makes sense. Companies getting into ecommerce without the continued investment and effort are generally those that will not gain traction and will remain in the nascent, or under 5% of total sales, stage. The "build it and they will come" mentality just doesn't work. Gaining traction in ecommerce requires continued effort.

Maturity Levels

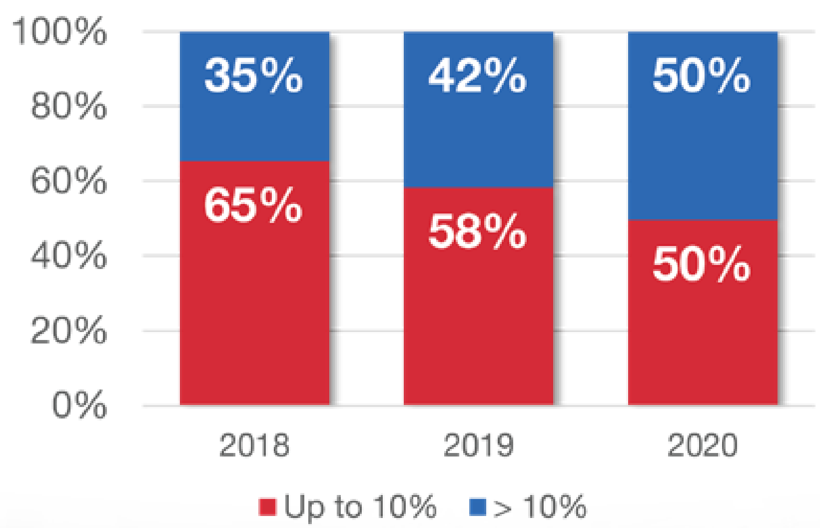
Nascent	Greater than 0, less than or equal to 5%
Development	Greater than 5%, less than or equal to 10%
Mature	Greater than 10%, less than or equal to 20%
Leader	Greater than 20%

Breaking this down further, we looked at how the individual maturity levels, defined above, changed. (See Chart 5 on page 8.)

The biggest change in 2020 was in the leader stage, where a big jump occurred from 2019 at 26% to 34% in 2020. Conversely, the number of companies in the nascent stage dropped from 43% in 2019 to 36% in 2020. The data clearly shows companies are not only getting into ecommerce through higher adoption rates, but also are gaining ecommerce traction. Looking at ecommerce maturity by sector, there are several interesting takeaways (Chart 6).

First, there is no surprise when looking at the maturity leader, JanSan. This sector also led the adoption. As discussed, a high percentage of SKUs in the JanSan sector can be merchandised online fairly easily.

Chart 4: eCommerce Maturity: Percent of Total Revenue by Year



One that does stand out is the Building Materials/Construction sector. As noted in the adoption data, less than a quarter of companies in this sector offers ecommerce. Yet, this data shows a relatively high 48% of companies that have more than 10% of total revenue in ecommerce, meaning it is fairly mature. Many of the companies that indicated they sell into the Building Materials/Construction sector also have closely related sectors. For example, several companies that sell into the electrical and fastener products logically sell into building materials/construction markets.

The electrical sector has the highest percentage of companies in the up to 10% maturity category with 67% early in their ecommerce journey. The adoption rate of electrical is fairly high at 44%. One of the key explanations for this is that electrical buying groups have done a good job at making ecommerce data and a cost-effective ecommerce platform available to members. As a result, the barrier to ecommerce entry is relatively low. A big challenge for these distributors is to gain traction and grow the ecommerce channel.

It was clear in distributors' responses that many still struggle to do that:

- "Fundamentally, we lack an ecommerce strategy."
- "We need a better onboarding process."
- "eCommerce takes a real commitment. It is much harder than expected."

In short, distributors are concluding that while they have built the technology – customers won't automatically come.

Chart 5: Maturity Trend by Year

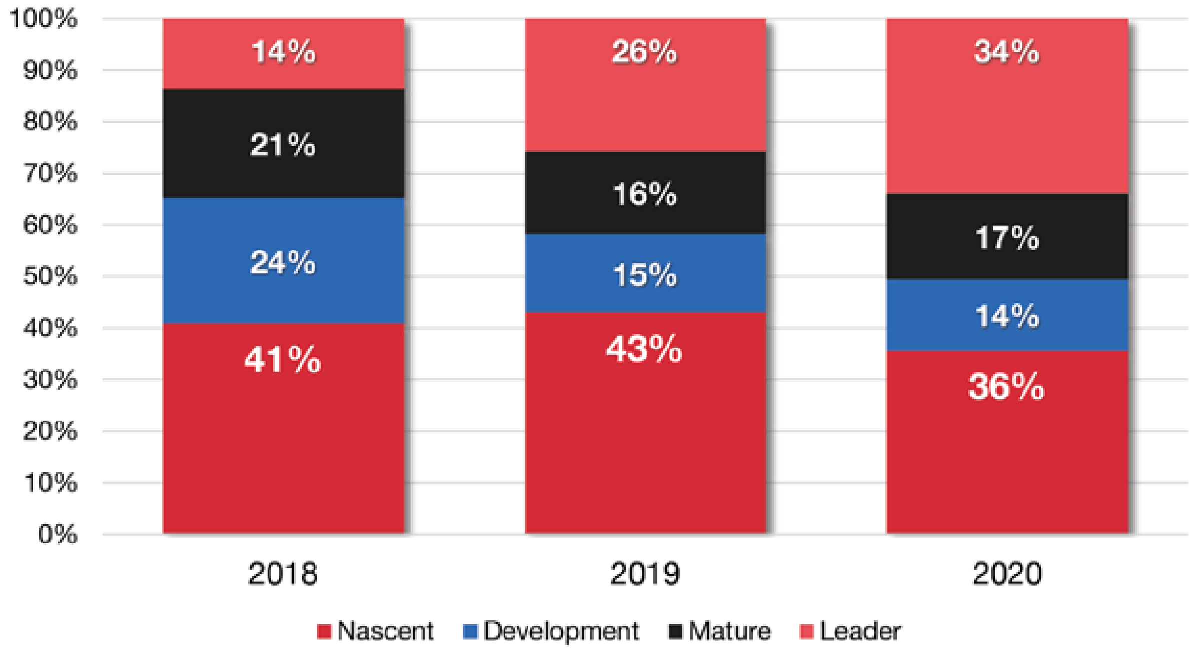
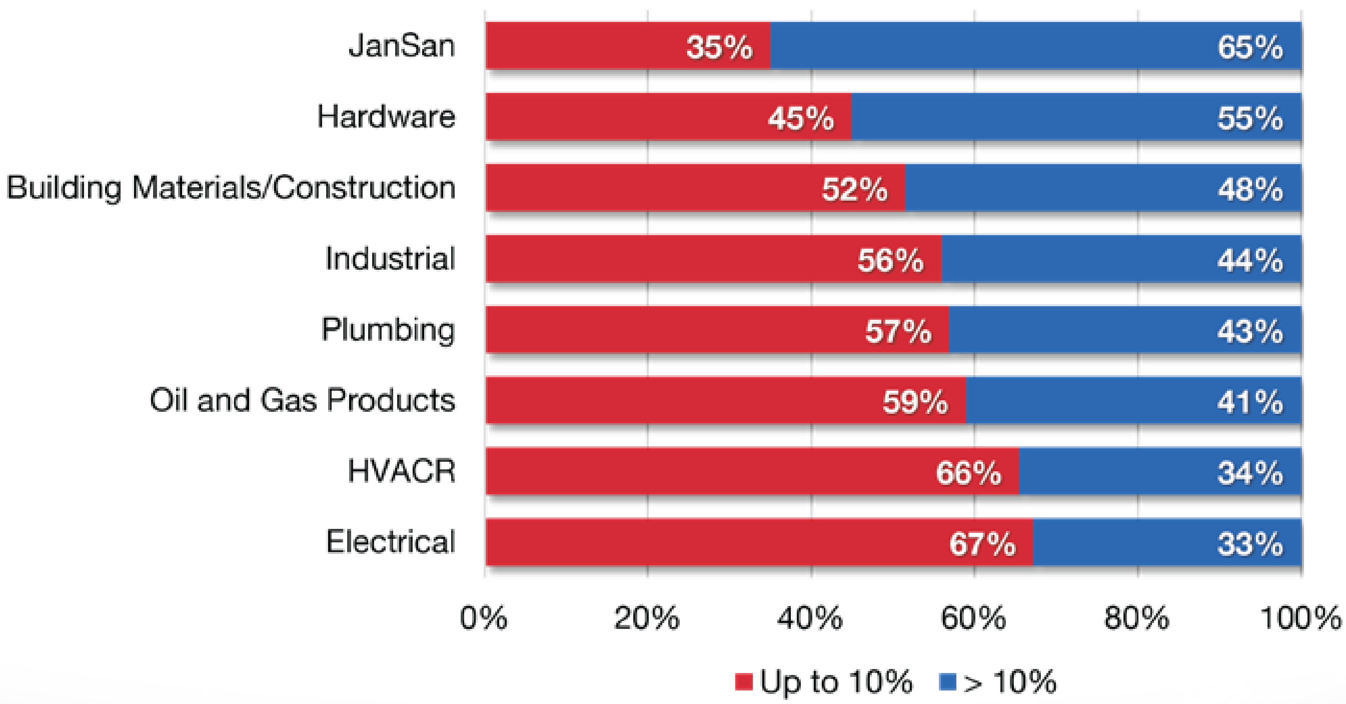


Chart 6: Maturity: eCommerce Percent of Total Revenue by Segment



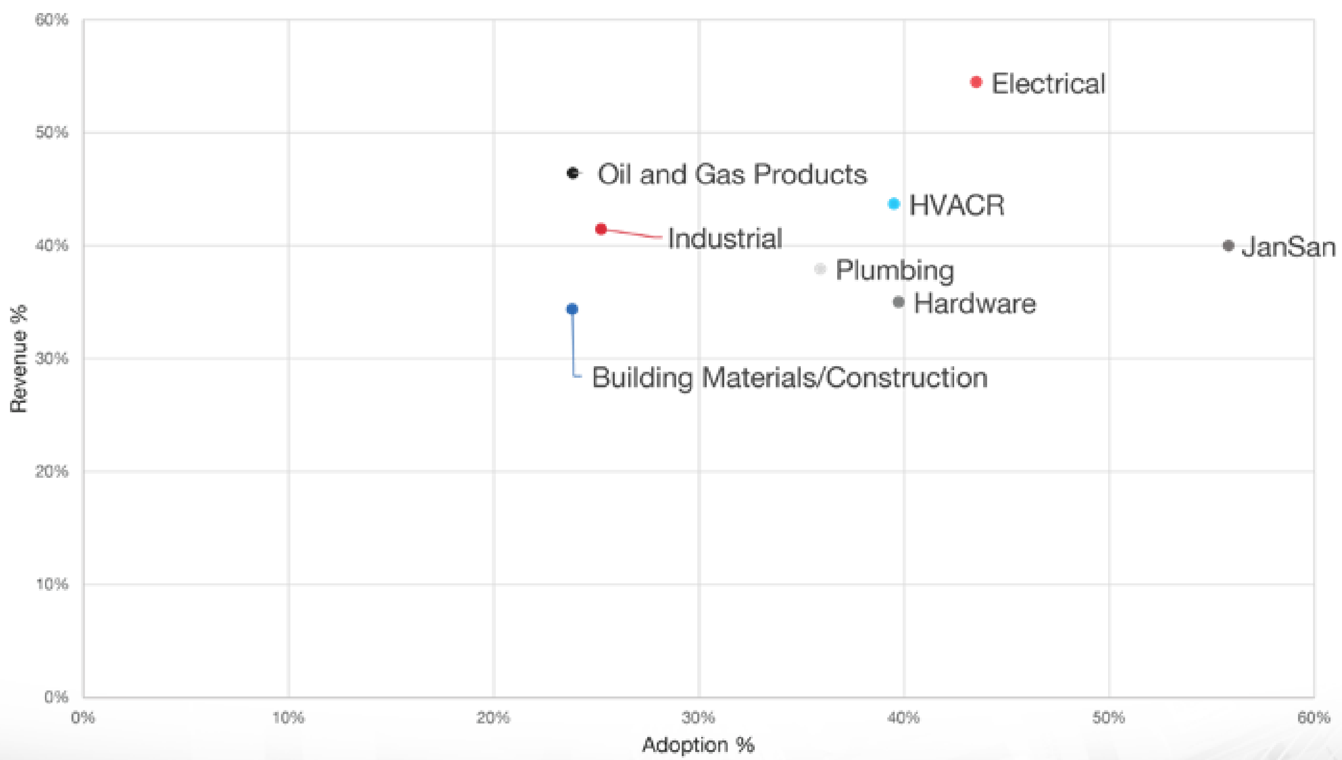
High Adoption in a Sector Does Not Mean High Maturity

Comparing adoption rates to maturity rates in specific sectors reveals that a sector that has a high ecommerce adoption rate does not necessarily mean the sector is mature.

As an example, Chart 7 shows the percent of companies that are in the nascent ecommerce stage, or sales greater than 0% through ecommerce, but less than or equal to 5%, on the Y axis compared the adoption rate by sector on the X axis. For example, the electrical sector has a high adoption rate of 44%, meaning that 44% of electrical companies have an ecommerce site. A first reaction may be to assume that if a sector has a high adoption rate, the maturity rate is likely to be high also. Not true. Fifty-four percent of electrical companies are in the nascent or beginning ecommerce stage.

We previously discussed how buying groups and associations have helped get companies into ecommerce. Since more than half of electrical companies that have ecommerce are in the nascent stage, it bears repeating that these companies have largely not yet gained

Chart 7: Companies in Nascent Stage vs. Adoption %



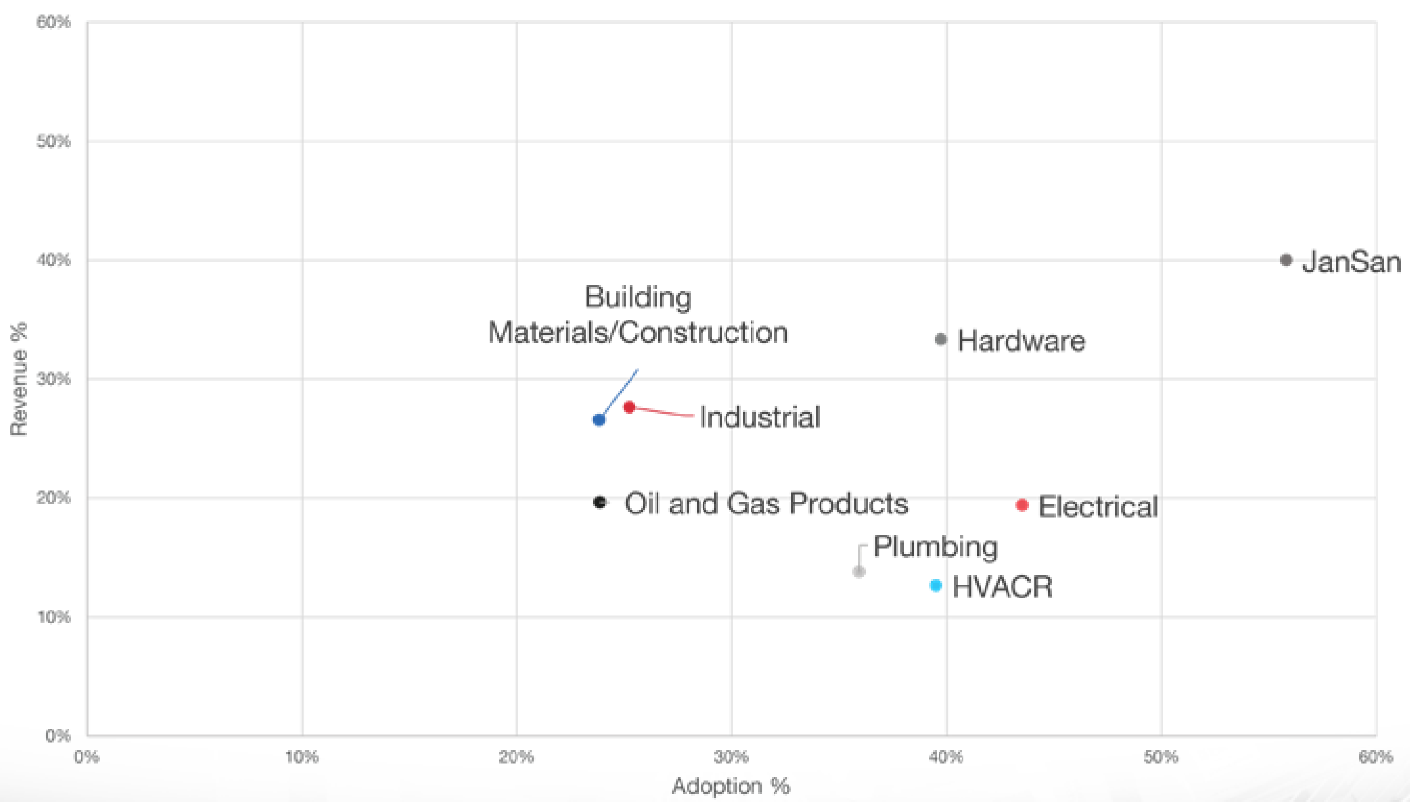
the ecommerce traction and economic benefits that more mature companies enjoy.

Another factor that helps to drive the adoption rate up in the electrical sector is that due to increased competition, the number of solid ecommerce platform options with better capabilities are increasing, and at the same time, becoming more affordable. Add in the aggressive pricing negotiated by buying groups and associations, the cost for high-value platforms has come down significantly.

The graph (Chart 8, below) showing the leader maturity stage versus the adoption rate looks a fair bit different. The adoption rate, of course, remains the same in both charts for electrical. The big difference, however, is the number of companies in each maturity category. For example, the majority, or 54%, of electrical companies are still in the nascent stage. When we switch to the leader stage, just 19% of electrical companies are in the leader category, or more than 20% ecommerce revenue.

What else does this data point to?

Chart 8: Companies in Leader Stage vs. Adoption %



Many companies are in either the consolidator or to-be-consolidated position. Companies that can do ecommerce well are in a very good position to be a platform company, or one that consolidates other companies into their umbrella because they can be scaled up quickly. As a result, they can enjoy the economic benefits faster than others that are not as ecommerce savvy.

Conversely, a small regional company may not have the desire or resources to tackle the digital opportunity. They may still be profitable and well-run. However, these companies are more likely to be a target to be consolidated with a platform company.

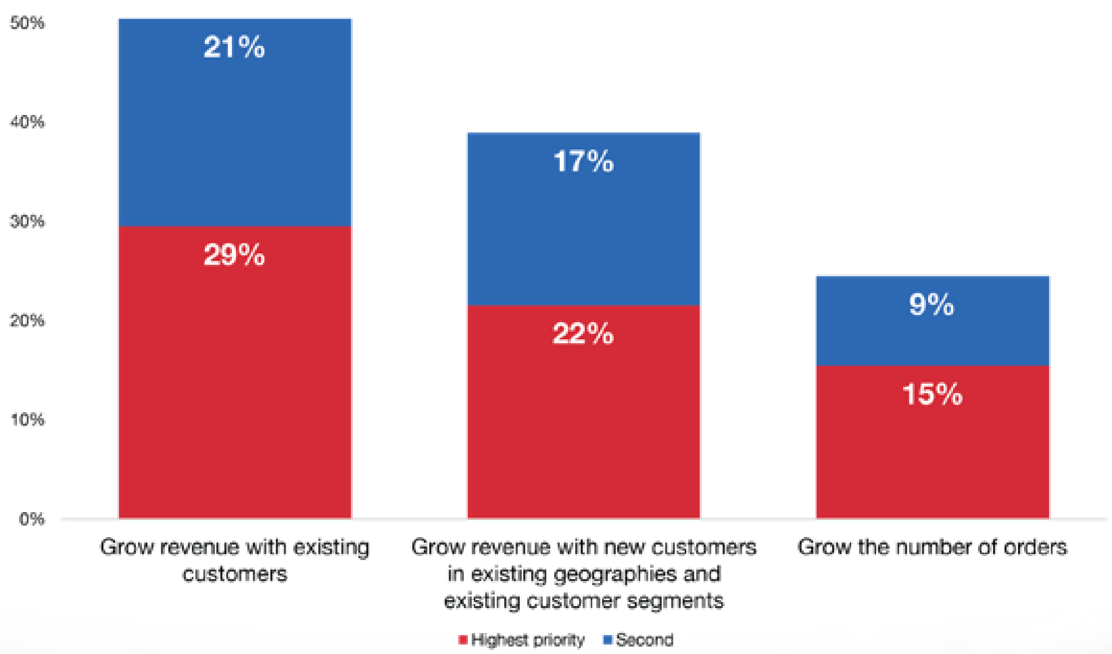
What's Driving eCommerce Investments?

Priorities for ecommerce implementations fall into two categories: financial and operational. (See Charts 9 and 10.)

Respondents' top two financial priorities for ecommerce include:

- Growing revenue with existing customers
- Growing revenue with new customers in existing geographies and customer segments

Chart 9: Financial Priorities for eCommerce



These make a lot of sense given that generally, most business growth comes from the areas in which you already have the most success. Many other research reports have documented that adding an ecommerce channel helps the entire channel mix grow. One study by Google suggests that omnichannel customers have a 30% higher lifetime value than those who shop using only one channel.

Note this is omnichannel and not multichannel. These are often used interchangeably, but they are different. An omnichannel experience is customer-based, focused on providing a consistent, personalized experience for customers across all channels and devices. Bottom line is that omnichannel is customer-based and not channel-based. Multichannel is differentiated from omnichannel in that marketing may go across different channels like a website or branch/store, but each is separate and independent from the others. Having a different customer experience with different channels often causes customer confusion and frustration.

Comments from survey respondents on financial priorities included:

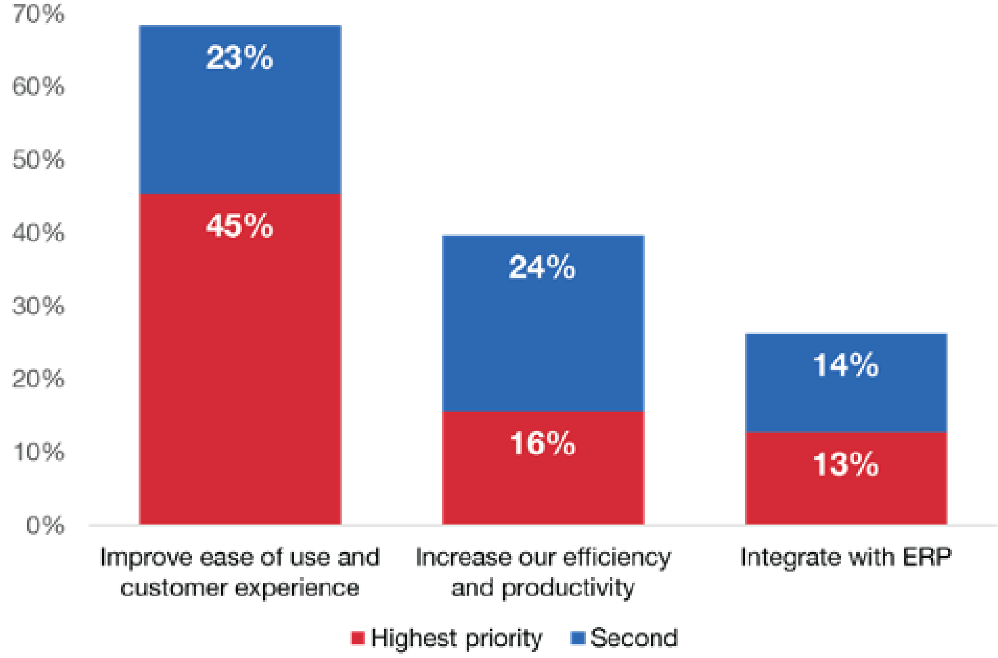
- "We see our biggest priority as enhancing customer service with existing customers and new customers who will be looking to modernize purchasing."
- "With increased demand, our priority is to cover our existing customers' increased needs and then to expand and take on new customers and orders."
- "eCommerce solutions are being rolled out to reduce our costs and provide 24/7 access to information that our customers might need."
- "While adding ecommerce is important for our current customer base, we also see it as a tool for finding new and underserved customers."
- "We want to reduce our transaction costs and improve customer satisfaction by giving them the ability to transact with us the way they prefer."

Distributors' top two operational priorities for ecommerce include:

- Improve ease of use and customer experience
- Increase efficiencies and productivity

Distributors' clear priority operationally is to improve the customer experience, with 45% of respondents saying it is the top operational priority. Combining the highest and second priority, 68% of respondents said improving customer experience is a top priority.

Chart 10: Operational Priorities for eCommerce



On operational priorities, survey respondents said:

- "Integration to ERP is table stakes."
- "Our No. 1 priority is to protect our current business from moving to a competitor's ecommerce platform."
- "Our ecommerce is already integrated with our ERP."
- "We are using a platform that provides most of our product data."

Less than a third cited the customer experience as a top priority in the 2019 survey. Given the accelerated digital focus due to the pandemic, the shift this year is not surprising. Also, user experience on a website has become more critical for both shopping and buying.

How a customer or prospect experiences your website goes beyond how pretty it is. It includes how easy it is to navigate and find information they need to move forward in the shopping or buying process. Google will be making its Core Web Vitals, which measures how easy it is to navigate a website, how quickly a website loads and how well it performs on a mobile device, a key factor for ranking in search engines in May 2021. This alone should be a call to arms to understand your customer experience and know what their expectations are online.

It's all part of a bigger drive across B2C and B2B to improve the customer experience, much of which takes place online (but not entirely). The second priority – to increase efficiency and productivity with ecommerce – is a key benefit of going digital. Value can be created with e-business (the broader set of digital purchasing tools such as EDI and email ordering that go beyond just shopping-cart revenue) 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
- 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

The Impact of the Pandemic

In our survey this year, we asked respondents to tell us what percent of sales were purchased electronically by customers. Electronically was defined as:

- website
- EDI
- punchout
- email

The biggest point is that post-COVID electronic purchasing is not expected to retract to pre-COVID or even during-COVID rates. (See Chart 12 on page 15.)

For electronic purchases, we see an average increase of about 20% during COVID vs pre-COVID. In our personal lives, many of us have resorted to ordering online in light of the pandemic, so that 20% is a significant increase, but not entirely surprising in 2020.

Many people initially thought that as soon as the pandemic ends, customers will go back to the same way of purchasing as they did pre-COVID. Several research studies conducted by Distribution Strategy Group and others indicate otherwise.

Continued on page 16 >

What about e-Procurement?

In this year's survey, we wanted to gain insight into e-procurement usage. For definition purposes, we included: EDI, punchout, and email/fax order automation. Not surprisingly, manufacturers have the highest form of e-procurement, as some manufacturers require orders to come in electronically. Industrial and Electrical were next at 36% and 35% respectively with Building Materials and HVACR rounding out key sectors at 29%.

Many distributors have a significant amount of orders that are received via e-mail and/or fax. Targeting customers who are heavy users of e-mail/fax ordering and automating that order entry process can be a quick, relatively easy way to reduce costs. Consider this: It generally takes 10-30 minutes of manual entry per order. On top of that, the customer experience is negatively affected because the order cycle time is not immediate and often runs more than a day. One additional factor: The potential for errors goes up with manual data entry. A surefire way to lower costs and improve your customer experience includes implementing order automation.

Chart 11: Percent of 2019 Total Revenue Going Through e-Procurement

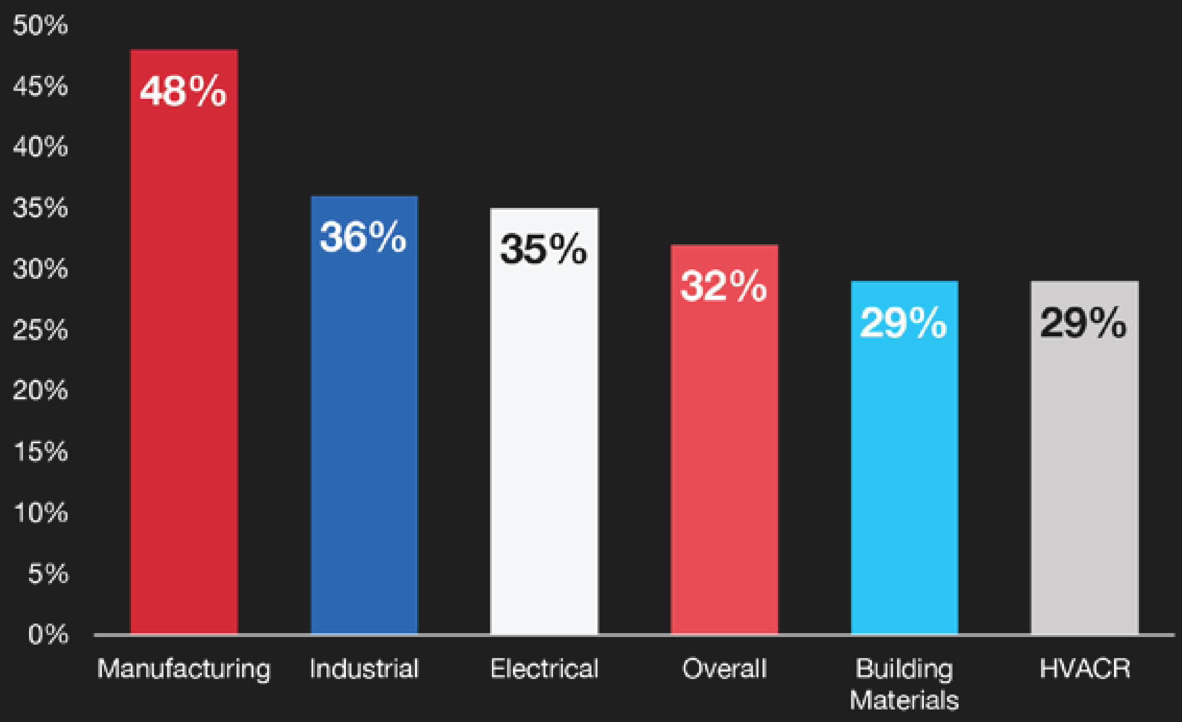
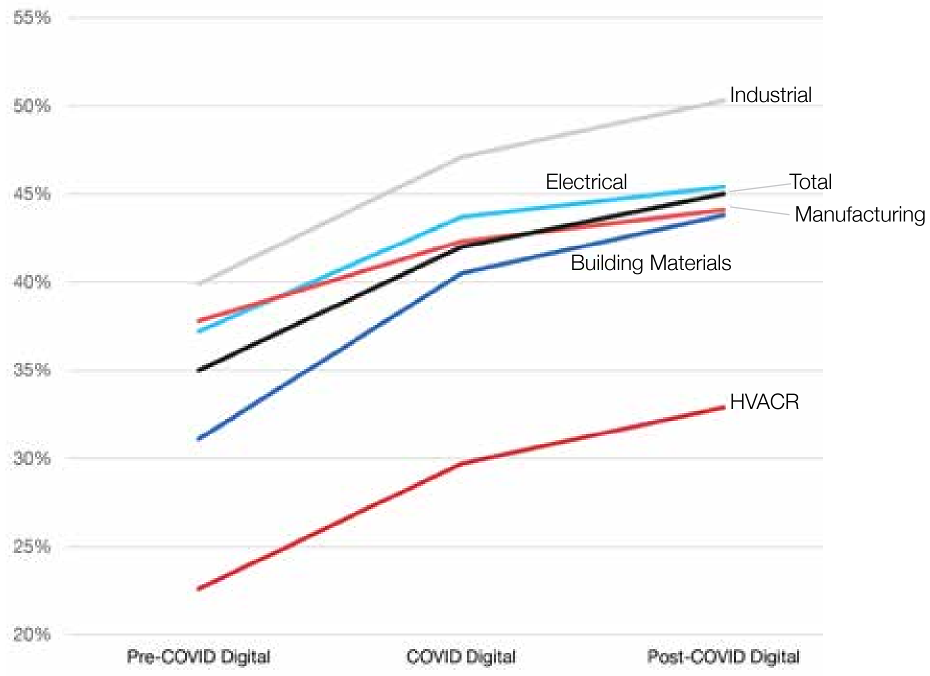


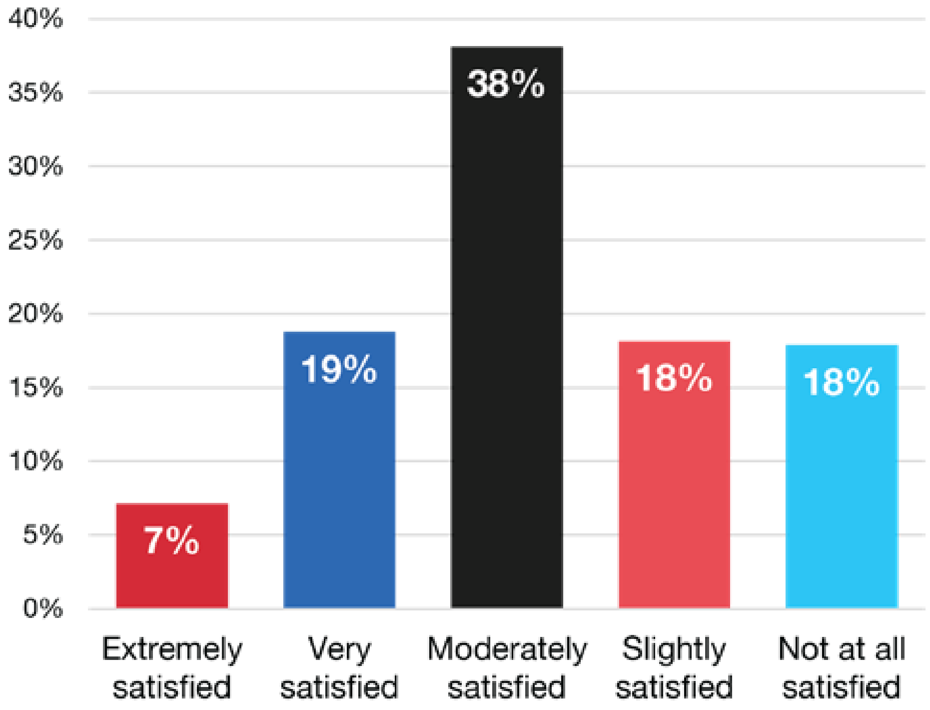
Chart 12: Percent of Purchases Online Pre-, During and Post-COVID



The data from this survey's respondents is shocking: On average, the distributors and manufacturers expect orders placed electronically post-COVID to increase 31% over pre-COVID days. Clearly, these respondents believe that not only is increased online purchasing here to stay, they expect it to increase even over what is occurring during COVID.

There are clear differences between sectors. The industrial segment leads the pack, with the HVACR sector the lowest. Interestingly, the curve of the lines (Chart 12) are very similar, meaning that each sector shows a big increase from pre- to during COVID and has another increase from during COVID to post-COVID. That is a clear indication that the increased online ordering is not just a temporary phenomenon, but a long-lasting trend. COVID accelerated the percentage of online ordering by three to five years. The sector that showed the least amount of increase from during COVID to post-COVID is electrical.

Chart 13: Satisfaction with eCommerce Investment



Satisfaction with eCommerce

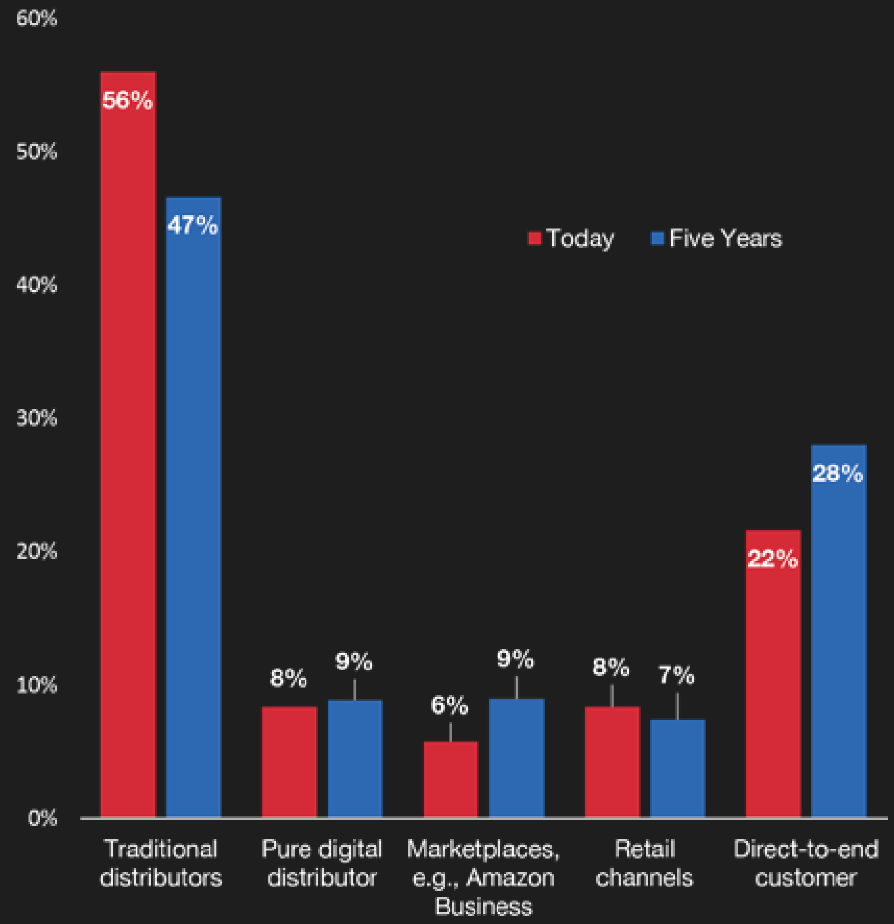
A majority of respondents (64%) indicated they are at least moderately satisfied with their ecommerce as a result of their company's investment (Chart 13). That leaves a little more than a third that are only slightly satisfied or not at all satisfied. Another way to look at this data is to say about three-quarters of the companies could be more satisfied with their ecommerce. These companies generally fall into three categories of deficiencies:

- Not using the right technology
- Inadequate product and/or pricing information
- Inadequate marketing

There are other deficiency categories, however, these are the big three. Be sure to read the second whitepaper in this series for more discussion about how to improve an ecommerce implementation.

Manufacturers’ Plans to Diversify Away from Traditional Distribution

Chart 14: Revenue by Channel: Today and Over the Next Five Years



Manufacturers expect a significant 16% drop from selling through traditional distributors today to five years from now.

This reduction in the use of traditional distributors mirrors other research conducted by Distribution Strategy Group. The primary winning recipient of this change is the direct-to-end-customer with a projected 6 percentage point gain and marketplaces like Amazon Business with a 3 percentage point gain. But while the Traditional Distributors channel is expected to decrease in importance to manufacturers in the survey, the Pure Digital Distributor is projected to increase by 1 percentage point.

Manufacturers are not waiting; they’re tasked to drive revenue and take advantage of the channels available - including digital - to do that. Some segments have also made it easier to bypass traditional distributors. For example, safety supplies such as masks and gloves that a distributor adds less value to vs. a marketplace like Amazon Business is easier to sell through multiple channels than a product line that is more technical.

Manufacturer respondents to this survey shared their plans:

- “Enhancement of our ecommerce website and OEM market strategy.”
- “COVID forced no contact and showed us how much more effective and efficient the online/digital channel can be.”
- “Our customers are demanding our online presence.”
- “Customers are shifting the value-add proposition away from the traditional distribution model.”
- “COVID has accelerated our plans to expand our ecommerce offering.”
- “Our customers’ B2C experience is expected in B2B.”
- “The purchasing behavior of a new generation of specifiers and buyers is impacting this trend away from the traditional distribution model.”
- “Customer demand requires we must move to ensure our brands/products can reach the end-user regardless of the channel. Digital is – and will continue to be – the fastest growing channel.”
- “Online marketplaces will continue to pressure and replace traditional distribution.”
- “We are still fiercely protecting our distributors and expect they will continue to add value in ways we (as a manufacturer) cannot or do not have the appetite for. Our distributors will use technology to serve them in a way to enhance business relationships – *not replace them.”*

Clearly some manufacturers see continued value with distribution, whether it is having products in stock when needed, or other value-added services. Distributors that sell more commodity products that have limited value-add opportunities are ripe to see the biggest declines.

Traditional distributors should see this as an urgent task to ensure their services and solutions strategy is robust and differentiated.

The Opportunity Ahead

As we said in the 2019 State of eCommerce in Distribution report, there is plenty of runway left for the adoption of ecommerce. Nearly three-quarters of smaller companies ($10M - $50M) still do not have ecommerce, even as adoption for those companies increased by more than 87% from 2019 to 2020. And about half of the largest companies still don't have ecommerce.

The challenge that 2020 brought, however, is that the runway is now far shorter.

For distributors that already had an ecommerce platform in place, 2020 accelerated their maturity. One of our clients doubled their ecommerce revenue in just a few months. Another grew ecommerce by about 50% in a short period of time, focused on PPE.

We've made about five years' worth of progress in less than 12 months. You need a digital platform that enables more efficient and effective shopping and buying for your customers. And if you already have one or have built one, you need to invest in broader capabilities, marketing tools and organizational alignment to drive maturity for your organization.

The second report based on the 2021 State of eCommerce in Distribution will be a playbook on what to do in response to this data in 2021 and beyond, and will be published in February 2021.

About This Research

This research was conducted by Distribution Strategy Group. The research included an online survey taken by 704 participants across a variety of sectors. Of those identifying as either manufacturer or distributor, 90% were distributors and 10% manufacturers.

More than 75% of the respondents had either executive or general management roles, and 60% of the respondents were in the 46-65 age bracket.

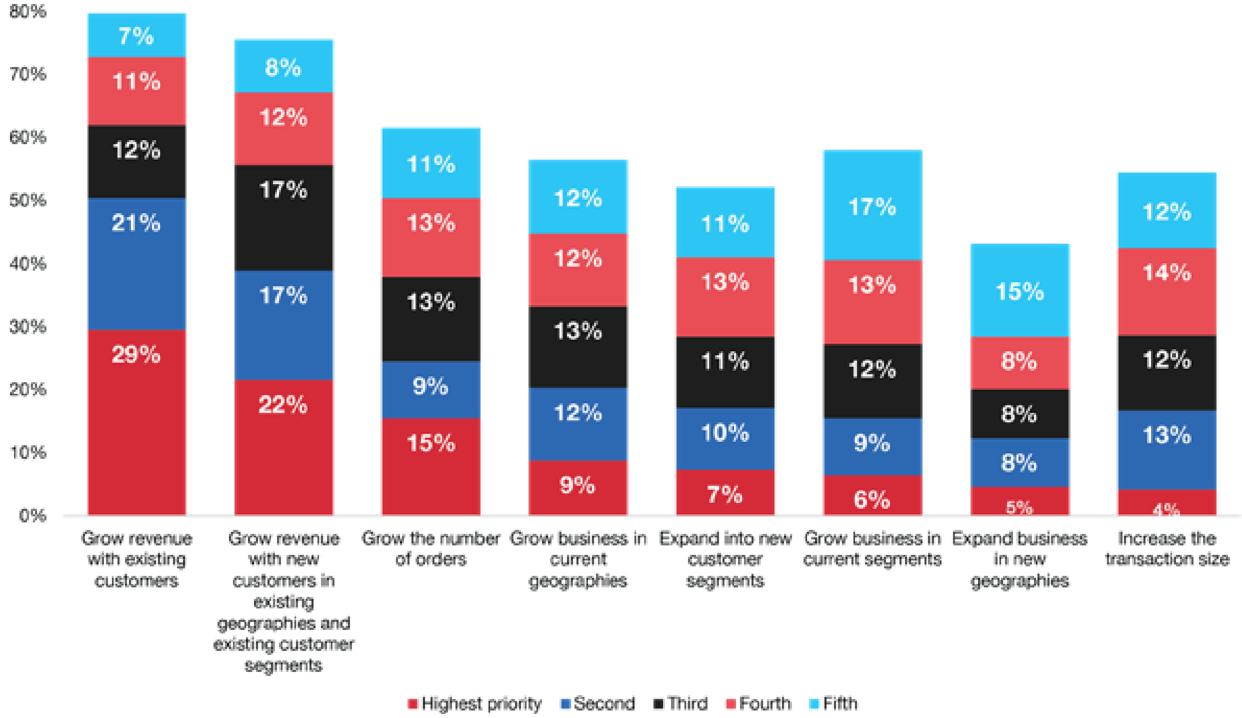
There was greater participation from industrial, electrical, safety, HVACR, building materials, hardware, chemical and plastics, oil and gas products, and plumbing. Other participating sectors include: power transmission/bearings, pharmaceutical, grocery/foodservice, jan-san, pulp and paper, electronics, along with several others.

About 56% of respondents represent small companies with less than $50 million revenue. About 31% are mid-market with $50 million to $500 million, 7% are large with more than $500 million revenue. The remaining 6% did not disclose the revenue range.

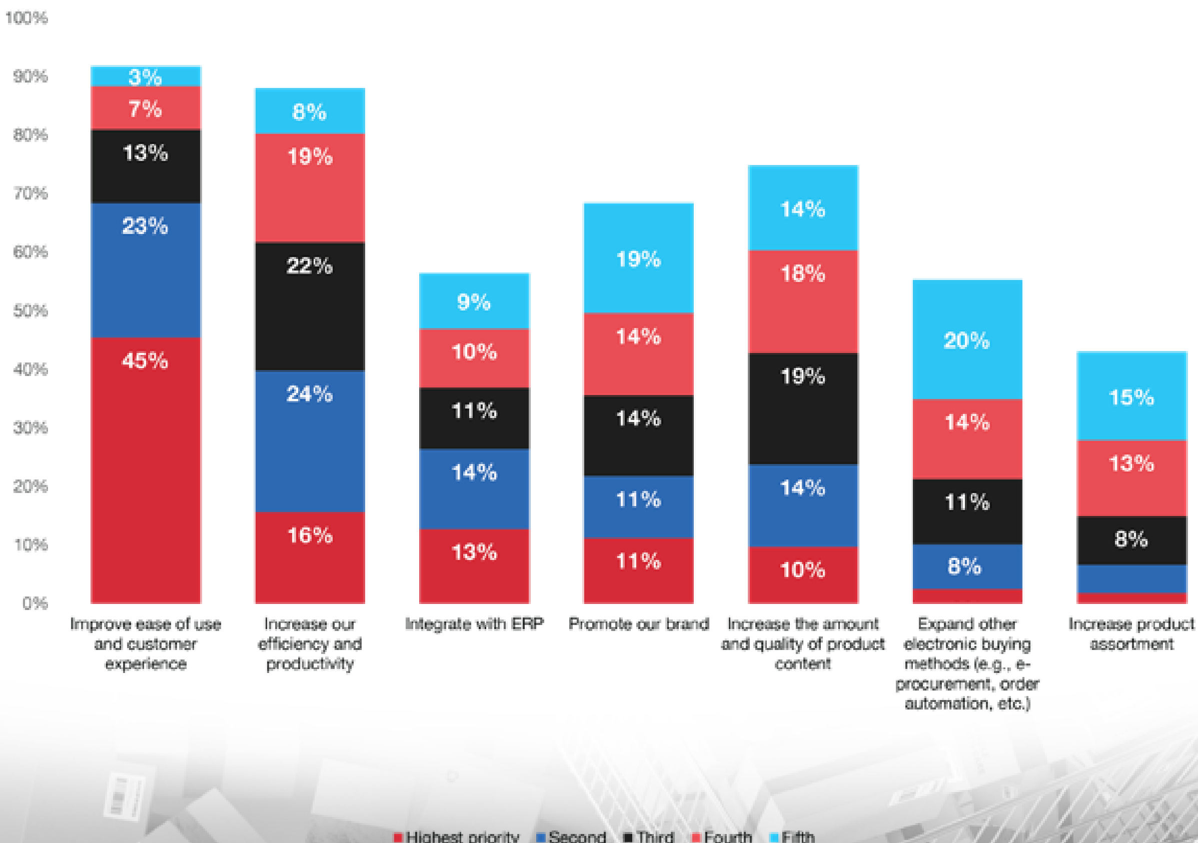
About 21% of respondents are primarily focused on MRO, 24% are focused on OEM customers, 30% serve trades/contractors, and the remaining 26% serve other customers.

Appendix

Financial Priorities for eCommerce



Operational Priorities for eCommerce



Three Steps to Heavenly Distribution:

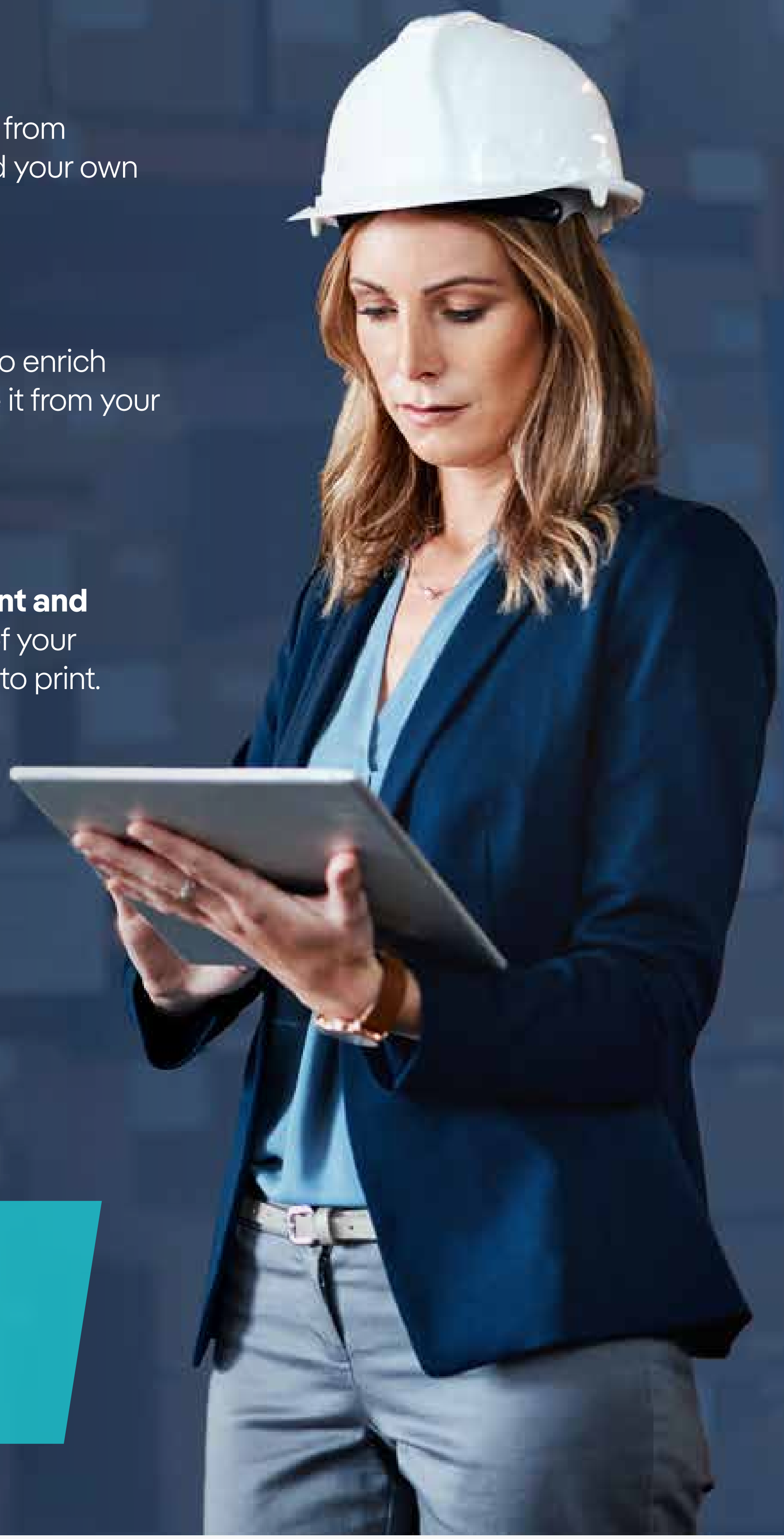
STEP 1
Aggregate product content from manufacturers, data feeds and your own internal efforts.

STEP 2
Add your own brand voice to enrich your content and differentiate it from your competitors.

STEP 3
Deliver flawlessly consistent and rich product content to all of your channels—from your website to print.

Optional Step 4:

Take the rest of the day off.



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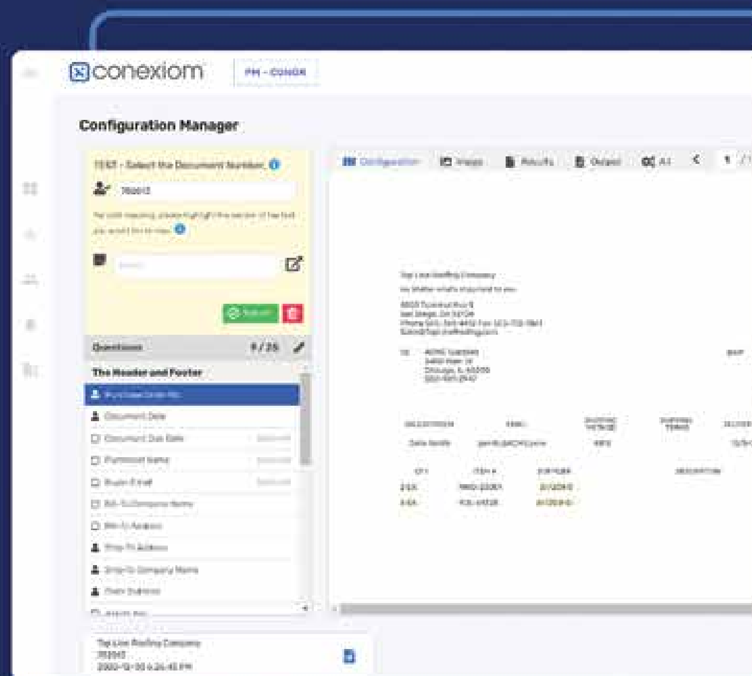

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How Distributors Use Technology to Drive Growth

The 2020 Epicor® Global Growth Report surveyed over 2,000 businesses across the globe. Here are the quick facts on business growth in distribution and how technology influences it.

Growth Stats

- **Almost 70%** of distribution companies **saw growth** in the last 12 months.
- Distribution leaders cite **planning and strategy** as the most significant positive influences on growth.
- Distribution businesses believe **working more efficiently** and **having better technology** will help overcome growth challenges in the next 12 months.

Tech Facts

- **58%** of distribution leaders believe they **can hire less experienced workers** by using modern technology.
- **Smart Supply Chain, Cloud Technology** and **5G** are the top technologies the industry believes will have a direct impact on positive growth over the next 12-18 months.
- **85%** of distribution companies report that **AI helped drive business growth.**
- Roughly **50%** of distribution companies polled have been using **AI for 1-5 years**.
- **50%** report that AI helps **reduce costs** and **40%** said it delivered **business value** in 6-12 months.

To read the full 2020 Global Growth Index report, visit **epicor.com/growth**.

For information about Epicor Distribution ERP solutions, go to **epicor.com/distribution**.

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- Customize to create a unique competitive advantage
- **Mobile Optimized & Mobile App**
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About Distribution Strategy Group

Distribution Strategy Group's thought leadership, research and consulting services are led by a team with decades of experience as senior operators in the distribution industry. They have since worked with more than 70 distribution companies to 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:

- Digital and ecommerce strategy
- Customer lifecycle management strategy
- Customer analytics
- Sales channel strategy

Contact us:

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