



The Growth of E-Commerce Investments in Wholesale Distribution

A deep dive into the eye-opening results of the 2021 Distribution State of E-Commerce Survey



Introduction

While much of the economy shut down or went into remote work mode last year, customers and partners of many organizations grew used to doing more things virtually than ever before. The result is that distributors that already had an e-commerce presence saw their online activity and revenue grow significantly.

This trend is unlikely to reverse itself, making it imperative that distributors have a robust e-commerce strategy. Those that do will better delight customers, will reduce operational costs, and will gain competitive advantage. They have the ability to emerge as leaders in the space. Those that don't will be laggards, doomed to a fate of constantly trying to catch up.

In this white paper, we explore the current state of e-commerce investments in the distribution sector. The findings are the result of our recent polling of distributors around their e-commerce marketplace investments and plans. MDM partnered with SAP and Mirakl for a robust look at several issues surrounding digital sales channels, and the result was our 2021 State of Distribution E-Commerce Survey.

Our findings include:

- While distributors still have far to go before they reach maturity with e-commerce, there is definitely progress in the right direction.
- The percentage of revenue being generated from e-commerce is significant and growing.
- The percentage of distributors reporting little revenue generated from e-commerce is shrinking dramatically.
- Many distributors plan to make investments in their web shops, especially to improve search capabilities. The pandemic has resulted in significant revenue growth for distributors that already had an e-commerce program.
- Boosting efficiency, productivity and brand awareness are the top goals for distributors.

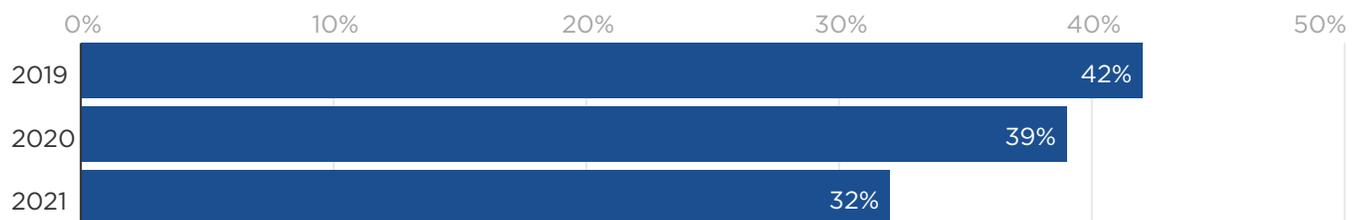
Shrinking number with little revenue from e-commerce

It is said that numbers don't lie, and recent MDM data tell a very clear story. Distributors that had a strong e-commerce program prior to the pandemic saw their e-commerce activity grow significantly as more sales moved online. Quite simply, increased revenue from e-commerce helped those organizations to thrive during the dark days of the early pandemic.

Equally significant, nearly 21% of distributors reported that e-commerce sales now account for 20% to 30% of total revenues. The majority of buyers now expect convenient purchasing experiences similar to what is offered by consumer websites. Digitally driven purchases are the new normal in most industries.

On the flip side, the percentage of distributors that say little of their revenue comes from e-commerce is shrinking.

Percentage of distributors who expect that e-commerce will account for less than 10% of total sales



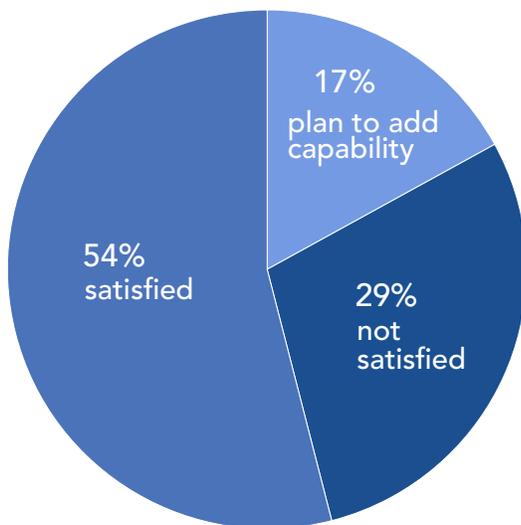
These numbers are a sharp decline from where they had been in years prior. MDM data show that from 2011 to 2017 the number of distributors experiencing 10% or less of their revenue from e-commerce fluctuated from 65% to 79% each year.

Growing investments in e-commerce strategies

Great adversity can often bring great opportunity, and that has been the case with e-commerce and the distribution sector during the pandemic.

Investments in digital commerce have grown considerably in just the last few years, and distributors don't want to be left out. As evidence, research firm Forrester says that B2B digital commerce exceeded \$1 trillion in the United States in 2018, outpacing the firm's forecast at the time by nearly 20%. Forrester now predicts that by 2023, the B2B digital commerce market in the U.S. will be \$1.840 trillion, a near doubling in just five years.

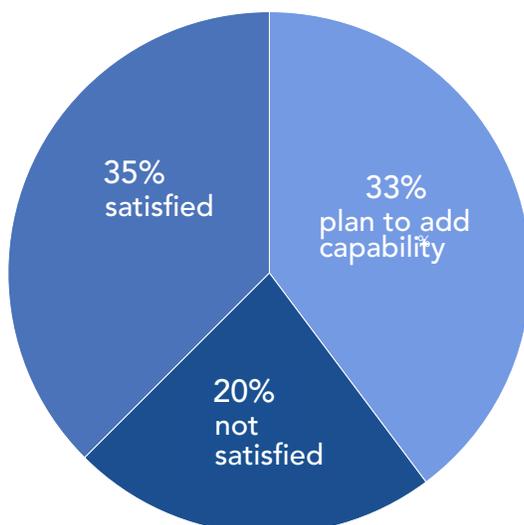
Search tools are critical for the success of any e-commerce initiative, and this is a top area where distributors say they plan to make investments.



Basic Search Functionality

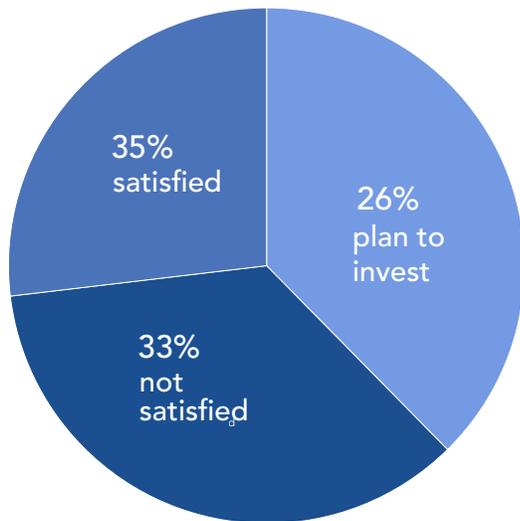
Half of distributors say they are satisfied with their basic search function (to search by product category, manufacturer/brand name), while 29% say they are not satisfied with this function, and another 17% plan to add to the capability.

"It's very important to remain out in front of others and adopt new technology that constantly improves customer experience"



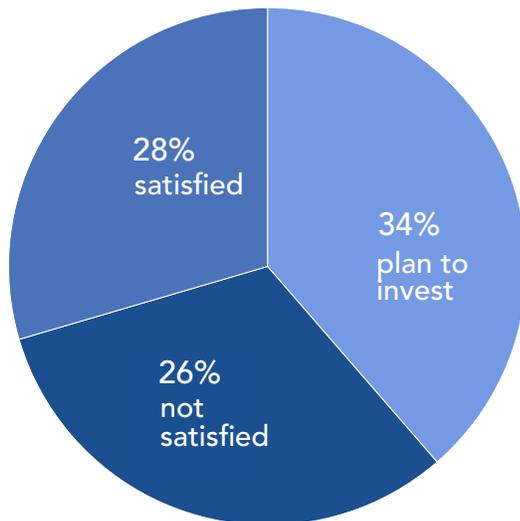
Search results providing customer-specific pricing

Some 35% say they are satisfied with this functionality, 20% say they are not satisfied, and 33% plan to add to the capability.



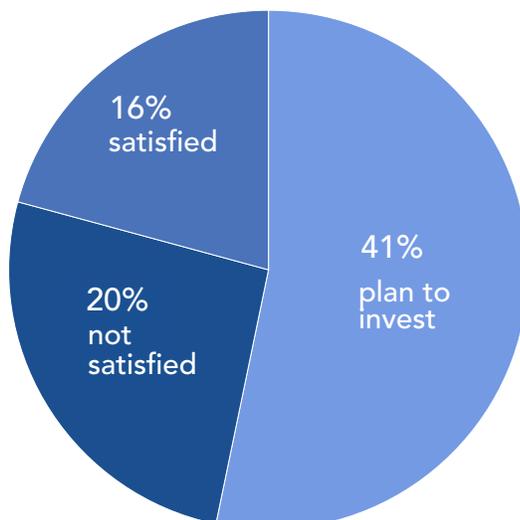
Advanced Search Functionality

It's a similar tale for advanced search functionality (the ability to search by product descriptions, customer's part numbers or filter options). Approximately 35% of distributors say they are satisfied with their ability here, while 33% say they are dissatisfied, and 26% say they will invest in these capabilities.



SEO Functionality

In terms of SEO functionality (the ability to rank higher in search engines), the results are a mixed bag. Some 28% of distributor are satisfied with their capability here, 26% are dissatisfied, and 34% plan to add capability.



AI-powered search for personalized results

Where there is the least satisfaction, and the biggest area of growth, is with intelligent search functionality (AI-powered search for personalized results). Among survey respondents, only 16% said they are satisfied with their current capability, while 20% said they are dissatisfied, and 41% said they plan to invest here.

Role of the pandemic in boosting e-commerce programs

The impact of COVID-19 on e-commerce investments by distributors in 2020 and 2021 cannot be understated. According to anecdotal evidence from the distributors we surveyed, many distributors that had invested in digital channels prior to the pandemic saw their brand awareness increase significantly during it.

Indeed, as distributors compete for customers, a robust e-commerce program could be a key differentiator. According to 2020 research from McKinsey & Company, more than 75% of B2B buyers and sellers say that they prefer purchasing online.

As a result, the message should be clear: Investments in e-commerce are now table stakes for any distributor wishing to remain competitive or be an industry leader. But it isn't sufficient to just offer e-commerce options. The program must be done right in order to reap the full potential benefits.

It is true that in past years, many distributors often struggled with having e-commerce programs provide larger benefits with each successive year. In fact, there was little variation in MDM survey statistics from 2011 to 2019. But with the arrival of the pandemic and the increased move to digital commerce, distributors with e-commerce programs began to see more revenues coming from those channels.

Fortunately, that message is getting through to distributors. In the MDM 2021 survey, many respondents indicated anecdotally that they intend to invest more heavily in their firm's website. The intentions cited are to make e-commerce programs more robust and customer friendly.

Changing priorities are driving e-commerce investments

A few years ago, MDM survey data revealed that the top priorities for investing in e-commerce were largely customer-focused and meant to satisfy those customers that preferred online engagement. But the pandemic's impact on distributors has pushed awareness, efficiency, productivity and profitability to the top spots.

Distributors' ranked top priorities with an e-commerce strategy



Improved efficiency, productivity and brand awareness are the top benefits being sought by distributors right now, as the 2021 survey results reveal. But they are certainly not the only significant ones.

As the pandemic initially raged and devastated the economy, organizations were desperate to find new ways to engage with and delight customers, and to reduce costs and improve operations. E-commerce provide just that solution for many firms, and they don't want to go back.

Maintaining a strong e-commerce presence and increasing those investments going forward will be key to attracting new customers and growing the business. Even if a web shop is not the main sales channel for a distributor as of yet, it is a key requirement to make the firm visible as a distributor. It will drive awareness with both current and future customers.

The appeal of the marketplace in e-commerce strategies

In addition to expanding their efforts in e-commerce in general, nearly two-thirds (65%) of distributors are moving in the direction of creating online marketplaces, in which third-party sellers provide the stock and fulfill orders. A marketplace approach can significantly increase efficiency and cost savings for any distributor.

A third-party marketplace can enable distributors to quickly expand assortment in response to customer needs without the upfront cost or risk of investing in more inventory. They also enable the organization to push some of the administrative heavy lifting, such as managing product descriptions to the vendor.

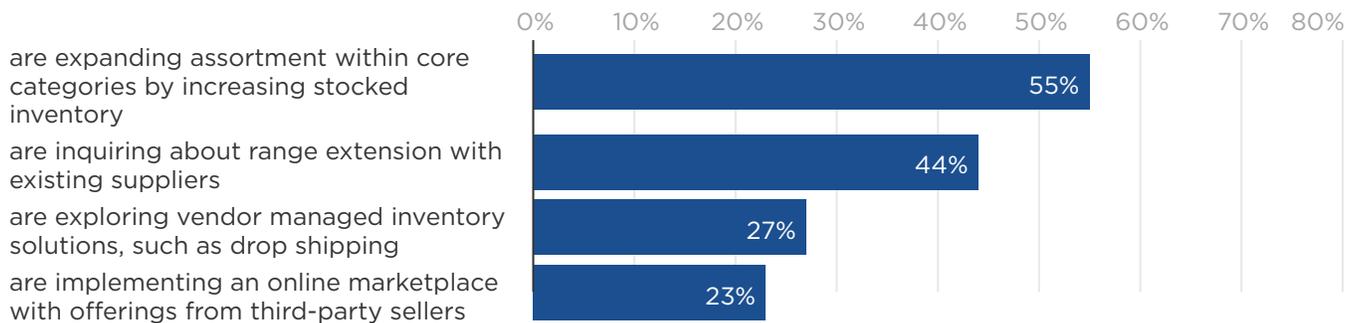
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Taken together, these gains can result in a better customer experience. They can increase the ability to capture tail spend now that an organization is in new categories. And they can enable the distributor to better handle substitutions and out-of-stocks. But to achieve desired goals, the solution should provide some level of process automation for seller onboarding and catalog integration, ensuring the front-end e-commerce experience remains high-quality.

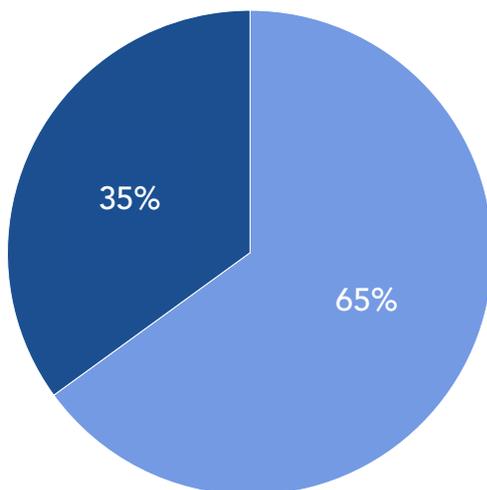
Finally, according to Gartner, "This business model contributes to improved engagement for buyers and sellers, better efficiency in the buying and selling process and supply chain, and better financial results for the organization, with increased and new revenue sources."

The good news here is that nearly 80% of distributors say they are happy with the job these third-party partners are doing so far. Still, there is always room to improve. Distributors report multiple strategies to broaden and deepen their catalog.

Top steps that distributors are exploring to broaden and deepen their catalog



What percent of distributors are exploring steps to broaden and deepen their catalog



"Being a leader in the implementation of a marketplace strategy is paramount for increasing market share"

According to MDM data, only 35% of distributors have no intention of heading in this direction. The vast majority of these firms have either implemented a marketplace program, are considering one, or would be open to the idea.

■ have either implemented a marketplace program, are considering one, or would be open to the idea.
■ have no intention

Combatting e-commerce hesitancy

While recent MDM statistics reveal great opportunities to be had in the digital commerce space, unfortunately for many distribution companies, the adoption of e-commerce has generally been a slow journey.

If a distributor hadn't already launched e-commerce efforts before the pandemic, they might have felt they had missed the boat. As the pandemic was declared and statewide lockdowns and social distancing soon followed, launching an e-commerce program at that time might have felt like too little too late. But it shouldn't have.

The pandemic forced buyers to digital channels, and now they are used to it. Buyers want the convenience of fast ordering and search functions, and they now expect to buy on digital channels. If a distributor doesn't already have a webshop or digital channels, there is no time to lose.

As distributors ponder what to do next when it comes to e-commerce, whether that means expanding an existing program or launching a first effort, they should keep focused on the future, not the past.

Conclusion

Some distributors were slow to embrace e-commerce, and that fact worked against them during the pandemic. The pandemic changed the rules of the game, and there will be no going back. If a distributor is just now implementing an e-commerce program, that still gives them a leg up on new competitors entering their market. These firms can also learn from the mistakes and successes of early-adopters, and fast-track a program that will satisfy customers. Another advantage is that it is much easier now to find experienced talent in the job market.

On the other hand, distributors that already had a program saw increased revenue and competitive advantage. That competitive advantage will be important going forward. These distributors have the opportunity to emerge as the true leaders in the sector.

The bottom line is that e-commerce is growing, a fact that most distributors are coming to recognize. Regardless of which e-commerce path a distributor chooses to take, acquiring the right technology, devoting resources, and finding the right technology partners are key to success.

Methodology

The survey results presented in this whitepaper are the result of an online survey of distributors from MDM (www.mdm.com) in May and June 2021.

MDM is the only specialized information business that provides high-level in-depth resources to executives who are in or serve the wholesale distribution industry. It completed a survey in conjunction with SAP (www.sap.com) and Mirakl (www.mirakl.com) on the 2021 Distribution State of E-Commerce.

The survey included only responses from wholesale distributors. Most distribution sectors were represented in the 2021 Distribution State of E-Commerce Survey.

The sector breakout included Industrial (15.2%), Building Materials/Construction (8.9%), Electrical (8.9%), Electronics (8.9%), HVACR (8.9%), Grocery/Foodservice (5.4%), Power Transmission/Bearing (5.4%), Safety (5.4%), Hardware (3.6%), Chemicals and Plastics (2.7%), JanSan (2.7%), Oil and Gas Products (2.7%), Plumbing (2.7%), and Pharmaceutical (1%)

Almost half of respondents — 45.5% — identified as executive management, while another 17% were general management and 10.7% were in marketing. Other job functions included information technology, sales and finance.

Size distribution of respondents was diverse with 36.6% of respondents below \$50 million in annual revenues; 29.5% between \$50 million and \$100 million; 22.3% between \$100 million and \$500 million; 3.4% between \$500 million and \$1 billion; and 8% more than \$1 billion.



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About Mirakl

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