



# 2022 TRENDS IN E-COMMERCE

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*We know the world is adapting quickly to e-commerce, but are industrial distributors ready to effectively support these sales channels?*

**B**ack in 2016, when Grainger announced its intent to double its direct online sales to \$2 billion by 2019, there were few industrial companies who could identify with them. Based on *Industrial Distribution's* own 2021 data, which includes subscriber companies of all sizes within the market, 73 percent of surveyed distributorships said they derived just one to ten percent of their revenue from e-commerce.

But that's not to say they want it that way: at the same time as distributors waded in at the shallow end of the sales possibilities, 89 percent identified e-commerce as a priority, the highest mark in our survey's history.

### Distributor Trends

The pandemic has brought many, largely unwelcome changes to our lives, though individual industries have been impacted in more nuanced ways. In distribution, the pandemic leaned heavily on supply chains and added to the growing pressure to digitize.

While experts suggested that the pandemic would further drive online spending in B2C and

B2B, the intensity of this shift has been impressive, even as lockdowns have lifted. In its 2021 year-end reporting, Fastenal revealed that daily sales through its e-commerce channels (via EDI, other technical integrations and web verticals) grew 45.2 percent vs. 2020. Q4 e-commerce sales even outpaced this monumental growth, with a 48.2 percent increase year-over-year, representing 15.0 percent of total Q4 revenues.

Additionally, W.W. Grainger's e-commerce sales increased a reported 2 percent in 2020 and another 2.7 percent in 2021. According to their 2021 annual report, 75 percent of all 2020 orders were via digital channels: 32 percent of total sales were via their website; 28 percent via EDI/ePro and 15 percent via KeepStock. Back in early 2017, Grainger CEO DG Macpherson said he wouldn't be surprised if 80 percent of their sales came from e-commerce by 2022.

Key competitor to Grainger — Birmingham's Motion — doesn't segment its e-commerce sales specifically, but parent Genuine Parts Company (GPC) emphasized "omni-channel buildout to accelerate e-commerce growth" as a key strategic

initiative for 2021.

But the shift towards e-commerce isn't just for big distributors. In a January 2022 poll of the *Industrial Distribution* audience – a group heavily represented by privately-held, independent companies – 72 percent said their businesses planned to grow sales via e-commerce in the coming year. These same companies also acknowledge the many benefits of this adaptation, including 61 percent who believe that e-commerce will allow independent distributors to enhance their advantage.

## The Big Changes

No doubt, changes for those who embrace this trend could be swift and potentially disruptive. We believe the following elements of organizational change will be significant for distributors embarking on an e-commerce journey, though they will impact each business in a targeted way based on existing customer requirements and strategic goals.

### Sales Transformation:

It's no secret that a shift towards online procurement has created some concerns among industrial distributors that have long relied on an outside sales model, branch sales and/or print catalogs. And while the data suggests the e-commerce phenomenon is a speeding freight train, what does that mean for the pace of change within traditional distribution?

Among our survey respondents, 26 percent believe the industry-wide transition to omnichannel will result in distributors reducing their branch footprint. Perhaps an indication of a wider trend, bricks-and-mortar stalwart Fastenal announced in January that it closed the 2021 fiscal year with 1,793 public branch locations, down 10.5 percent year-over-year. Meanwhile, the company's headcount

was up and, as we mentioned earlier in this report, e-commerce sales grew at an astonishing rate of 45.2 percent over the year prior. Just weeks later, Fastenal CEO Dan Florness previewed a right-sized branch network that would reduce bricks-and-mortar a further 300+, though no timeline was given for the effort. Either way, Fastenal has paired this strategic shift with a greater emphasis on e-commerce, onsite sales and vending – a hybrid approach, to be sure, that provides for the balanced needs of a diverse customer base.

And it's this type of varied approach that bodes well for the role of the salesperson, a critical component in omnichannel, if positioned correctly.

Paul Reilly, an expert in B2B selling and the owner of Tom ReillyTraining, feels salespeople who can tactically bring value to omnichannel will prove their worth. "Outside sellers will always have a place in distribution, as long as they create value," Reilly told us recently. "Distributor sellers must create more value than sharing information or processing orders. Focus on solving problems and educating the buyer. Ask questions that decision-makers didn't think to ask themselves."

Reilly's points underscore the importance of value-added selling in the traditional industrial distribution model, as well as the challenge of replacing the role of a seasoned sales veteran with a transactional online model. It's these reasons that have encouraged many distributors to take a more hybrid approach by enhancing their digital presence but continuing to offer an omnichannel experience that allows customers to access in-depth and comprehensive information from a website or take their questions to a trained company representative in either customer service or sales.

### "Outside" Competition:

And while this type of detailed, supportive approach



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isn't something being replicated by Amazon Business, it hasn't stopped the e-commerce giant from eating up market share.

Amazon's emergence as a competitor in the B2B space has been years in the making, though the past few have seen notable increases in the size of the company's business-oriented marketplace. In September of 2021, eMarketer predicted that Amazon Business would net \$27.59 billion in 2021 total sales — up 43.5 percent over 2020. This gargantuan sum would represent 1.7 percent of total US

“to enable buyers to start their purchasing journey directly on Amazon Business and submit the cart to their e-Procurement system for purchase order creation and reconciliation.” In short, the effort looks to provide an easier path for buyers to incorporate the website into their existing purchasing process and policies and the company emphasizes its familiarity and functionality as a platform.

Further, Amazon has onboarded more and more recognizable names as its marketplace continues to grow, adding to its legitimacy in an industry that

values trusted brands. That said, unless Amazon Business can add the kind of expertise and value-added experience that traditional distributors can offer, it seems distributors have more to gain as they digitize and capitalize on offering one of the top priorities for buyers: an intuitive and easy-to-use platform.

And outside of Amazon, will there be an increase in pressure coming from manufacturer-suppliers that see e-commerce as an opportunity to drive disintermediation? According to a recent poll issued by *Industrial Distribution's* sister magazine, *Industrial Equipment News (IEN)*, 40 percent of manufacturer



B2B e-commerce sales, says eMarketer, who also projected the division to nearly double its sales by 2025.

But as traditional distribution becomes decidedly more non-traditional, is there such a thing as “outside” competition? Especially when the outsiders begin to model their businesses to further mimic the best parts of the distributor?

For its part, Amazon has continued to add technology enhancements suitable to business buyers. In January, the e-tailer launched “Amazon Business Punch-in,” described as being the latest feature in a growing suite of procurement products that simplifies the buying experience, while increasing organizational compliance. At the time of the announcement, Amazon Business said it created the feature

respondents said they had an e-commerce system in place, and more than 37 percent had added it within the past three years. As for their target buyers: 79 percent said they were serving end users.

And while competitive pressures have always weighed on distributors, it's not a foregone conclusion that outsiders like Amazon, coupled with more digital-savvy manufacturers, mean distributors are getting less of the pie.

According to McKinsey's [latest B2B Pulse research](#) (published in December 2021), 94 percent of B2B leaders want omnichannel commerce, meaning digital self-service, face-to-face and remote selling in one combined package. And not



only that, they want them at different stages of the buying process, leading McKinsey to conclude that “B2B suppliers cannot solve the needs of an entire segment of customers through one channel.” It stands to reason, then, that manufacturers looking to sell direct will need to do more than simply add digital channels to their existing offering. Outside of adding self-serve digital options, there is more ground to be made up with customers including offering benefits like knowledgeable sales and service models. The same applies to Amazon, whose offering — while robust and user-friendly — lacks the critical human element where many traditional distributors continue to excel.

### **Technology:**

Investments in technology have experienced a big ramp up in the past few years, with the pandemic’s remote work phenomenon sending the entire process into overdrive.

In our recent poll, 66 percent of respondents said they are currently exploring — or plan to explore — new technologies to help enhance e-commerce sales. And while the fervor behind omnichannel strategies is undeniable, are businesses truly doing enough to optimize their opportunities?

According to Gartner Marketing Research published last year, there’s still a lot of work to be done. Gartner has predicted 50 percent of brands will have “failed to unify customer engagement channels” by the close of 2022.

Solutions may lie in taking a page from the B2C book. According to McKinsey, B2B buyers are highly likely to switch suppliers if certain conditions are not met within the purchasing process. These include 80 percent who say prices must be shown online and 81 percent who say availability must be transparent. Further, 71 percent of McKinsey’s surveyed B2B buyers say it must be easy to place an order via mobile device.

What’s come into stark relief over the past few years is that the B2B buying experience is no longer expected to be second-tier in terms of user experience, and businesses need to offer a similar level of transparency, intuitiveness and ease of use in order to retain customers.

## **Moving Forward**

In the end, the benefits of rapid digitization with an eye towards e-commerce will largely outweigh the bad, though opinions don’t change the data: with 94 percent of buyers saying they prefer an omnichannel experience, many distributors won’t have a choice but to conform to their wishes. Will there be collateral damage? *Industrial Distribution* readers certainly think so. According to our recent poll:

- 23 percent of respondents believe an increase in e-commerce spending will result in distributors reducing headcount.
- 46 percent say it will enable big distributors to get bigger.
- 43 percent think it will drive further industry consolidation.

While the latter two points likely generate different feelings depending on who you ask, the response from our readership shows some unequivocally positive leanings as well. For example, 51 percent of those polled believe an increase in e-commerce spending industry-wide will improve distributor profitability.

For those who plan to move forward, it’s with varied pillars of support. For example, our polled audience said they would use the following to support their efforts:

- Internal IT departments (52 percent).
- Suppliers (37 percent).
- Consultants (37 percent).
- Technology companies (34 percent).
- Associations, coops or buying groups (22 percent).

No matter the length or trajectory of the road towards adoption of a robust, omnichannel presence, there’s no question that the clock is ticking. That said, any lengths made towards digital commerce must be supported by a solid foundation and, luckily for many industrial distributors, it’s one with which they excel: says McKinsey, “Personal relationships are paramount, regardless of channel.”

