The Value of Convenience

Distributors are still all-in on e-commerce, but an uncertain economy has clouded the outlook. **By Andy Szal**

As 2023 winds to a close, distributors find themselves in a curious position.

Companies aren't seeing the kind of runaway year-over-year sales growth that occurred in the immediate aftermath of the pandemic years, but revenues remain generally on the rise despite widespread uncertainty about the state of the economy at large.

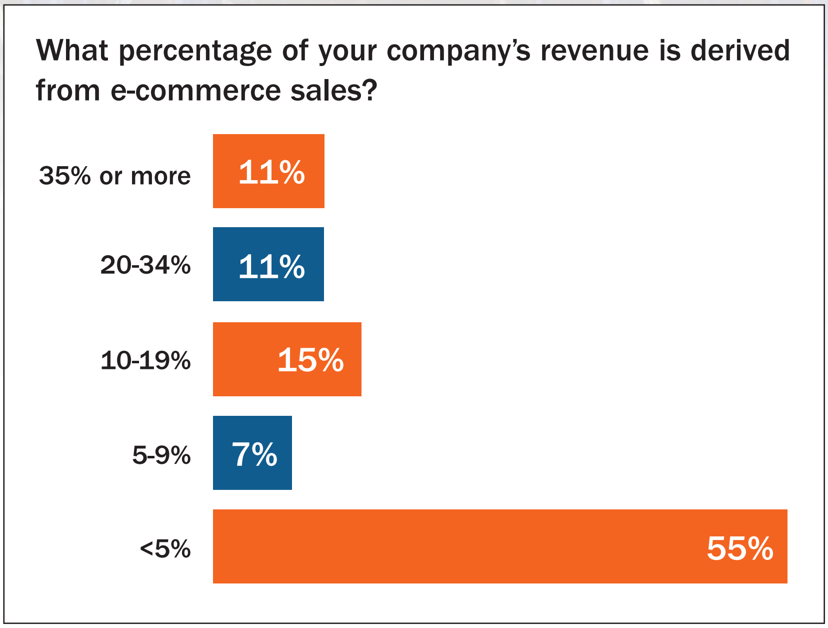
Financial policymakers around the world have taken steps to rein in inflation, and they appear to have done so without sending the economy into a recession — for the time being. A range of indicators, however, suggests that the economy is, in fact, slowing down, and distributors say they're taking steps to maintain stability in the event that demand from the manufacturing sector drops heading into the new year.

For most, that means ensuring that their customer service is strong enough to make them essential, even when hard decisions must be made — and for a growing number of those companies, that means an increased emphasis on e-commerce.

Industrial Distribution debuted its inaugural Survey of E-Commerce Operation last year after pandemic-era lockdowns made online ordering a virtual must for any service provider — distributors included.

That initial report found that a strong majority of participating distributors provided an e-commerce option for their customers, and that most expected their e-commerce sales to continue to expand in the following year.

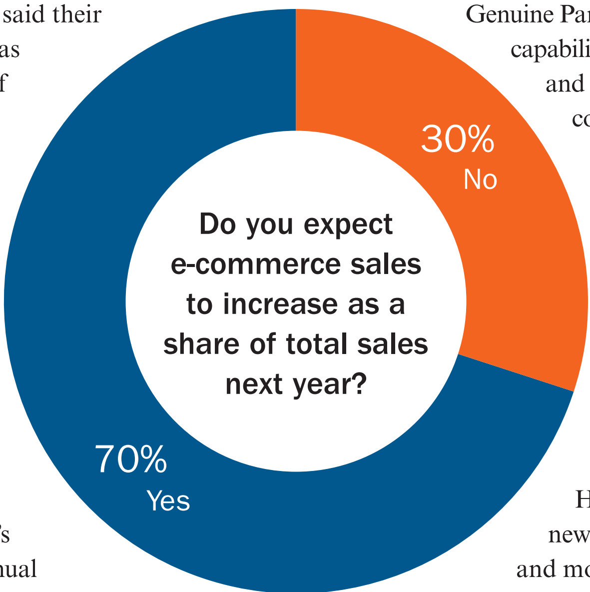
Those patterns held in the second edition of the survey, conducted through an online poll of distribution company executives, managers and sales representatives in late October and early November, but expectations were also more modest this time around — a reflection, perhaps, of a return to more normal business conditions as the pandemic moves further into the rearview mirror, or, more worryingly, an indication of more pessimism about the industrial economy overall.



A Fraction of Sales — but Growing

This year's Survey of E-Commerce Operation found, once again, that a strong majority of distributors offer an online buying option, but those sales tend to account for a small percentage of overall sales.

A majority – 56% of survey respondents – said that e-commerce sales account for less than 5% of their company's total revenue. The remainder were split between companies reporting above or below 20% of total sales through e-commerce: 7% said e-commerce accounted for 5% to 9% of sales and 15% put their e-commerce sales at between 10% and 19%; 11%, meanwhile, said their e-commerce revenue was between 20% to 34% of revenue or represented more than 35% of total sales.



This year's survey added a new option for respondents at 35% or higher, a reflection of concerted efforts by major distributors to develop their e-commerce strategies. Several of the industry's titans now list their annual e-commerce revenue in seven-digit figures, including Grainger, Fastenal and Motion — the latter of which said on its latest earnings call that e-commerce now accounts for more than 30% of total sales.

Will Stengel, the president and chief operating officer of Motion parent Genuine Parts Company, told analysts on the call that e-commerce had risen as a total of overall sales by six percentage points since 2021, and that revenue across all company e-commerce channels had jumped nearly 30% through the first nine months of the year.

Motion Executive Vice President James Howe, the MRO giant's chief commercial officer and chief technology officer, told ID that the distributor's role within Genuine Parts Company provided it with the financial capability to build an e-commerce marketplace and customer experience with "a lasting competitive advantage."

Howe said that Motion employs a large field team that works with customers to ensure the effectiveness and efficiency of its e-commerce platforms despite the distributor's scale – 13 million SKUs, 25,000 suppliers and more than 200,000 customers – and that it continues to invest both in its own talent base and in groundbreaking technology solutions.

He said the company is poised to launch new tools that will enable easier purchasing and more opportunities for customization — moving beyond "parts in a box" to an "industrial solution provider of choice."

Motion, Howe said, views e-commerce as a strategic pillar both now and "in the decades to come."

"World-class e-commerce requires a strong ecosystem between our customers' data, our Motion product catalog, our suppliers' data, and customers' ease of use," Howe said. "Motion's e-commerce store combines all that, providing a smooth and consistent buying and research experience."

A Changing Approach

Motion is far from the only distributor to see growth in online sales this year, but the responses to ID's survey suggest that the industry as a whole could be in more of a holding pattern than it was at this point last year.

Thirty-seven percent of participants in ID's poll said e-commerce sales were up as a share of their company's overall revenue compared to last year, but a majority – more than 57% – said that the percentage was about the same year-over-year. In the debut survey, a little more than half of companies saw e-commerce outpace company revenue growth as a whole.

What's more, not a single respondent to the initial e-commerce survey said that e-commerce sales fell as a percentage of company revenue; this year, 5% saw online sales fail to keep pace with overall revenue.

Distributors also appear more pessimistic about e-commerce heading into next year: 37% of respondents said economic conditions are affecting how their companies approach e-commerce, and although just shy of 70% still expect e-commerce sales to grow as a percentage of total revenue next year, that's down from more than 80% in last year's survey.

Despite the conventional wisdom that a more uncertain economic climate could lead companies to pare back their spending on new technology, based on individual responses to ID's survey, the opposite could be the case.

Company officials, in fact, suggested that they planned to dedicate more resources to their digital presence, either in a bid to grow business in a tougher environment, keep up with their competitors, or open up a new sales channel altogether. One respondent noted that customers operating in a more sluggish climate would place an even greater emphasis on online channels: "Customers are doing more with less and they expect the convenience of an e-commerce shopping experience."

The ability to reach customers, in fact, was by far the most-cited reason that respondents to ID's survey embraced e-commerce.

More than three-quarters of participants identified customer reach among the reasons their companies pursued e-commerce, ahead of a greater geographic reach – identified by nearly 60% – more convenience at 48%, and a more diverse customer base at just over 45%.

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Comparatively fewer respondents pointed to a need for better business data – at 33% – cost savings, at 24%, and curbing price variability at 12%.

"This is a service that our customers and potential customers expect," added another respondent.

'Have to Be Perfect'

The latest edition of ID's e-commerce survey also indicated some changes in the impact of online channels on both product lineups and staffing decisions.

Last year, nearly two-thirds of respondents told ID that e-commerce was allowing their companies to add more products; this year, that number dropped to half of participants.

The news was better, however, for distribution sector sales representatives. The rapidly evolving e-commerce landscape has meant sweeping changes for the conventional sales role, but respondents continued to say that, on the whole, their sales staff remained in place despite their embrace of e-commerce. In fact, the percentage of poll respondents who said e-commerce hadn't impacted their sales staff climbed from 80% to 85%. The percentage who acknowledged reducing sales positions, meanwhile, dropped from 10% last year to less than 2% in the latest survey.

About the same percentage of respondents as last year – a little over 25% – said that e-commerce was affecting their companies' pricing strategies. One respondent suggested that online sales helped drive down the price of both company costs and sales prices alike, while others pointed to the importance of offering the proper price – and quoting it to customers – in an era of easy online price-shopping.

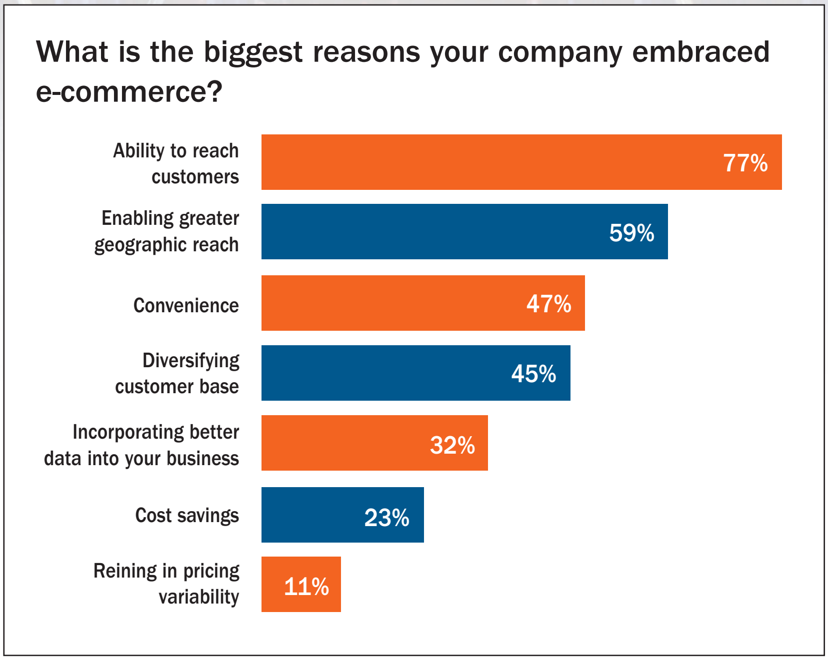
"We have to be careful to not be overpriced, but also not to reduce margins too much," wrote one participant.

Another pointed to benefits beyond the bottom line: "We are able to sell on the value of convenience as well as price."

The Customer Service 'Moat'

Despite the importance of meeting customers where they increasingly do business, establishing an online presence is rife with potential pitfalls.

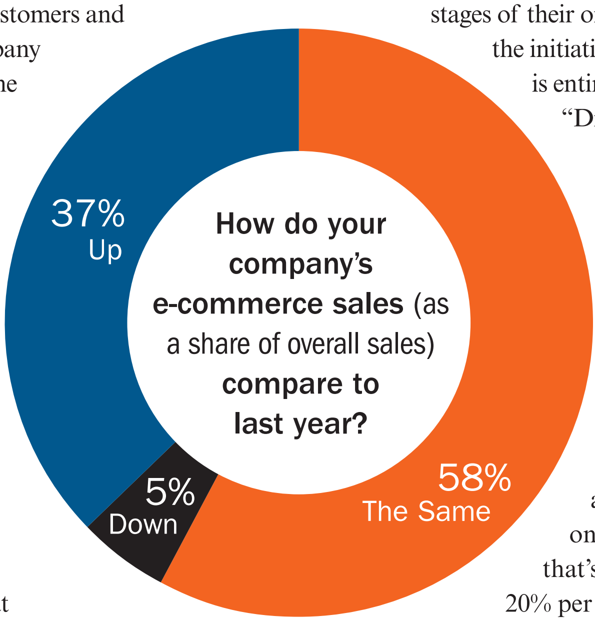
For the second year in a row, distributors pointed to information technology and website issues as the most pressing challenges to their e-commerce operations: nearly half expressed concerns about how to drive traffic to their company's website, and 55% worried about IT setup or integration — far ahead of online platform costs, a changing sales environment, maintaining a smooth omnichannel experience, or highlighting their company's value proposition.



For smaller distributors, those challenges can be particularly daunting — but the costs of avoiding e-commerce altogether would likely be even more costly.

Paul Dabrowski, senior business-to-business channel manager at e-commerce software provider BigCommerce, told ID that although "everybody agrees that they need to invest in digital," many companies simply lack the digital maturity to properly assess how to go about it.

Today, distributors tend to provide "basic" platforms designed for existing customers and repeat orders, but company officials acknowledge the need for continued investment: not only could they offer their customers the same online convenience that they get from their personal purchases, but they could also bolster their service offering, improve their data analysis, and form stronger connections with their customers.



Dabrowski said that distributors are relentlessly focused on customer experience, which could serve as a de facto "moat" in a more troublesome environment — and enable them to take market share from rivals who can't offer the same type of experience.

Among smaller, independent distributors, according to Bryana Kennedy, senior director of digital success at buying group Affiliated Distributors, companies can lack an integrated digital strategy, viewing e-commerce as an IT "project" rather than a vital business approach. AD's E-Commerce Solutions program, to date, has enrolled more than 240 AD companies across North America at varying stages of their online channel journey, and Kennedy said the initiative's "North Star" is a buying group that is entirely digitally enabled — after all, she said, "Digital is not going away."

"There is [a] cultural shift that needs to take place to have e-commerce seen as a product-based mindset versus an ROI project within an organization," Kennedy said. "Essentially, a strategy really needs a shared direction and vision within your organization driven by executives."

Dabrowski added that companies should feel a sense of urgency, as well: across the globe, distributors are pacing online growth in the B2B market — one that's projected to increase by an average of 20% per year through 2030 while traditional, offline channel growth hovers at less than 3%.

"From now to 2030, it's going to look vastly different," Dabrowski said. ID