Digital
Channel Advisors

Executive Summary for Distributors Lose Sales or
Make B2B E-Commerce Work

Benfield, Griffith, Martin, Yezbak

December 2017

The authors' research finds that in 2016/2017, distributors visibly began to lose sales online. Despite distributor executives' acclaimed differences between retail and wholesale, distributors' online struggles very much parallel leading retail firms. To correct the problem, distribution executives will need to look well beyond software to the fundamental structure of the firm and the way business has been done.

Wholesale distribution has offered products and services online since the late 1990s. However, it has been within the last decade that software for B2B relationships appeared and an accepted bundle emerged as prerequisite for a competitive online offering. The bundle includes PIM, transaction platform, punch-out suite, faceted search, and online quotation/special pricing management. Research finds that distributors with this bundle outsell their online competitors by a factor of 3x. However, our research findings also point to an increasing number of distributors that have made significant investments in software but are not growing online. Additionally, our review of three separate distributor sector research projects finds that 2016 was the year that distributors began to lose to online competition. It is notable that the decline may be imperceptible due to a robust economy, the relatively young life of B2B e-commerce software, and modest penetration of online sales at 15% of total. However, B2B e-commerce grows at 7% per annum and this is 3.5x the traditional distributor growth rate.

The research projects, respectively, were two buyer studies released in the first half of 2017 (UPS Buyer Dynamics Study) and Forrester B2B Buyer Research (with B2B EC News). The third study was done by Real Results Marketing on B2B distributors in MRO/Industrial/Contractor, etc. markets in early 2017. The buyer research finds that traditional distributor customers moved buying from distributors to manufacturers direct or other firms not identifying with wholesale distribution. The distributor survey found that distributors deemed "mature" in e-commerce sales, lost online sales in 2016 from the previous year. These observations, plus our 2016 sponsored research, points to a high probability of online sales decline for distributors as an industry category and this decline is likely to accelerate as online competition grows in capability and as an accepted supplier.

Our review of the distribution decline finds that, despite visible differences in services and customers, wholesale distributors' online journey closely reflects that of retailers including:

- Placing the e-commerce engine as a transaction service on top of the existing full-service firm with poor results
- Investing millions in online capabilities but having poor online sales
- Rationalizing the effect of smaller and less well-known online competitors as able to take share
- Taking a wait-and-see attitude toward online competitors and underestimating the desire of customers to move online due to buyer convenience
- Making online acquisitions and partnerships with muted success
- Stressing sales assistance over customer self-serve

Our review finds that, very much like the retailers, wholesaler-distributor problems with online success go well beyond the software and to the financial structure and cultural biases of the core full-service firm.

Structural and Cultural Issues

The structural and cultural impediments in full-service distribution are significant and deep-seated. The "way of business as usual" is the problem and wholesalers will need to initiate change on many aspects of the business to stem a growing sales decline. Major issues include:

- The sales culture that stymies or undercuts online sales because they see the technology as a job threat
- Frenetic pace of buying that creates large, complex, and inefficient firms where the cost of complexity is a detriment to technology that strips cost out of the full-service value proposition
- Movement of sales further into the value chain by extending the service promise which adds costs, increases complexity, and makes it difficult to compete against focused and efficient online competitors
- Financial goal incongruence between margin dollar compensation and sales control over the service promise which expands operating costs faster than gross margin accumulation
- A growing dependence on an ever-decreasing number of activity profitable accounts (41%) to fund the nominal activity profit accounts (19%) and activity unprofitable accounts (40%)
- An environment where low-cost online competitors can target commodity sales at activity profitable accounts and send earnings of the full-service firm into a tailspin
- Sales background of distribution executives and traditionally weak marketing that is subservient to sales
- Over-reliance on brick and mortar locations carried over from a time when inventory availability information was not real time and logistics were much more limited

These biases must be dealt with head on and distributors will need to familiarize themselves with Organization Change Management including validated models to guide change and successful change examples. Change should have elements of Appropriateness, Efficacy, Valence, and Leader Support. Additionally, sales forces need to move from geographic-centric models with margin dollar compensation to Enterprise sellers, role-based efforts or segment-driven models.

Competition and Opportunity

Competition online comes from three primary sources of new, stripped-down models serving traditional customers, manufacturer direct sales, and models that rearrange elements of the service-value proposition for a better perceived value.

Full-service distributors should use technology to rearrange and lean-out the existing operating platform while simultaneously reviewing their firm for new online opportunities including:

- Segment overlay to online efforts with segment-based marketing mix (product, place, price, promotion, service)
- Opportunities to join marketplaces or sites that place buyer and supplier together for a fee
- Development of low cost transactional model with a new name and buyer proposition of limited service for a good price
- Use of technology to rearrange the existing value proposition and create an entity with a verifiable "better deal."
- Thin-slice segments or segment platform businesses that identify a "granular/layered" segment and serve it with a highly customized marketing mix

Where possible, wholesalers should use online technology under the banner of a new entity that is separate from the full-service firm. This allows the firm to bypass many of the cultural and structural issues inherent in the full-service model. Today, new entrants and "thin-slice" segment platforms of full-service wholesalers are the most successful online models.

Summary

Existing research and observation suggests that full-service wholesale is in decline versus new models of distribution, manufacturer-direct, and wholesalers with the best in technology that have used it to take redundant costs out of operations and sales. Wholesalers that do not change their existing culture by replacing redundant services with technology while developing new online entities have a high probability of losing sales. This will increase as buyers move online and online value propositions are more desirable and cost-effective than full-service, bundled distribution.

Benfield, Griffith, Martin and Yezbak are an association of B2B consultants aka ***Digital Channel Advisors. (See site page at http://www.benfieldconsulting.com/digital-channel-advisors.html)*** *They were formed to guide distributors and manufacturers through the digital journey from software, account migration, and e-commerce culture to online organic growth. They have significant experience in the distribution and manufacturing sectors prior to their consulting including:*

Scott Benfield was manager and executive in nationally-ranked wholesalers and Fortune 250 manufacturing firms prior to starting his consultancy in 2000. He has consulted and/or been an interim exec for a variety of Fortune-rated firms and distributors in North America and globally. He has been quoted in Forbes and The Financial Times and his site is www.benfieldconsulting.com. *He has an MBA from Wake Forest University. His profile is at:* *https://www.linkedin.com/in/scottbenfield/*

Steve Griffith, PhD. is an Associate Professor at the Jack Welch Institute, and Univ. of Maryland, among others. Prior to his academic career, he served as V and C level executive for Fortune Rated and midmarket manufacturing firms in North America and globally. He has an MBA from South Dakota, and MA/PhD from Indiana Wesleyan. His profile can be seen at: *https://www.linkedin.com/in/stevegriffith/*

Skip Martin is former Director of Business Technology at Graybar Electric where he developed the corporate digital strategy and built the digital platform and organization for $200MM in online sales. He has prior management positions in leading North American manufacturers. Skip has a BSEE from Univ. of Wisconsin. His Profile can be seen at: https://www.linkedin.com/in/skipmartin/

George Yezbak is a consultant for distribution firms. Yezbak Consulting (www.yezbakconsulting.com) was started in 2014 to serve mid-market distributors in North America. Prior to consulting, George worked in V and C levels in top-ranked distributors in material management and operations. George has an MA and MBA from Appalachian State University. His profile is at: https://www.linkedin.com/in/george-yezbak-204b7211/