



# BEWARE AMAZON AND GOOGLE SHOPPING

HOW THE RULES ARE ABOUT TO CHANGE  
FOR WHOLESAL DISTRIBUTION

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Over the past 15 years, the Internet has transformed the way consumers buy everything from books to music to insurance to travel. Giants such as Amazon and Google promise a future filled with instant-access information, interactive eyewear, and drone delivery of our groceries.

But another change is afoot that threatens wholesale distribution business models as more procurement professionals log on to AmazonSupply and Google Shopping. Worth about \$7.2 trillion a year, the business-to-business market is a target that Amazon and Google can no longer ignore. The question is not whether Amazon and Google will be a threat in B2B, but rather which customers, purchase occasions, and categories will be attacked first.

In our view, AmazonSupply, Google Shopping, and likely one or two more “new” entrants, will have a profound effect on many wholesale and distribution sectors over the next five years. In fact, we are already seeing the early stages of a wave of innovation as the most forward-thinking wholesale and distribution businesses invest significant time and resources into becoming potent multichannel competitors.

## B2B BUYING: THE NEXT GENERATION

The growth of general online purchasing is driven by one simple fact: Customers rule, and most procurement executives increasingly value quick, simple, effective ways of interacting to get the products and services they need, as well as new value-added services unavailable previously. As one chief executive officer recently shared

# \$7.2 trillion

The size of the world’s wholesale distribution market

with us: “Our customers have already been trained by Amazon on what ‘good’ looks like. That’s what we have to compete with.”

Online B2B purchasing already has a greater following among younger professionals. Ninety percent of procurement buyers between the ages of 18 and 35 in the United States make B2B purchases online, versus only 45 percent of purchasers between the ages of 46 to 60. (See Exhibit 1.)

As more of the purchasing workforce becomes Internet-savvy, the threat from online competition in wholesale distribution will only grow. Forty percent of corporate buyers spend at least half of their procurement budget online. Elsewhere in the supply chain, some manufacturers are using the Web to reach customers directly and to reduce their reliance on channel partners and intermediaries. Google AdWords supports this strategy by allowing suppliers and manufacturers to pay to appear in Google search results.

Next up could be meta-search businesses, already established in insurance, general retail, and travel, which allow B2B purchasers to compare products and prices before going direct to the manufacturer, cutting out the wholesale distributor altogether.

# AMAZONSUPPLY IS CHANGING THE RULES

# 90%

The percentage of procurement buyers between the ages of 18 and 35 in the United States who make B2B purchases online

In our view, there are three reasons why AmazonSupply’s offering is about to change the rules for wholesale distribution. We examine each, in turn.

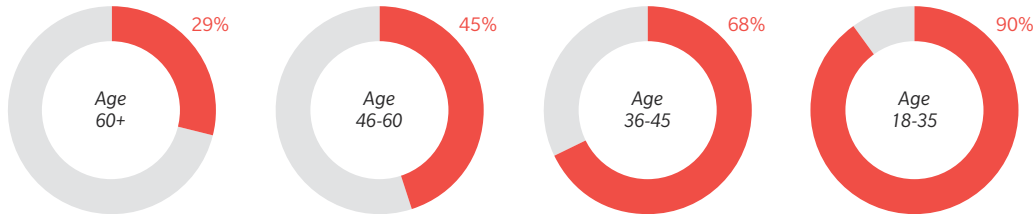
## RULE 1: CHOICE OF STOCK

In retail, Amazon already has a comparable or broader range of offerings than club stores or cash-and-carry formats. Additional services such as “Subscribe & Save” allow Amazon to automatically deliver frequently purchased, high-margin items – such as razor blades and diapers – every month. The impact to the club stores is twofold: First, Amazon is “hollowing out” shoppers’ baskets since fewer items are needed, and those that are bought have a narrower margin. Second, customers are making fewer trips to the store, decreasing the amount that they spend on additional purchases, impulse or otherwise.

Items that are small, high-value, low-weight, and easy-to-handle and ship are especially amenable to Amazon’s offering. It is no coincidence, then, that AmazonSupply launched with an industrial parts offer – a category which meets all of the above criteria – rather than, say, industrial chemicals, which fail most of the above tests. (See Exhibit 2.)

### EXHIBIT 1: YOUNGER PROCUREMENT BUYERS – THE FUTURE OF THE B2B CUSTOMER BASE – ARE FAR MORE LIKELY TO USE ONLINE PLATFORMS THAN THEIR OLDER COUNTERPARTS

RESPONDENTS BY AGE MAKING B2B PURCHASES ONLINE



Source: The Acquity Group 2013 State of B2B Procurement Study

EXHIBIT 2: SOME CATEGORIES ARE MORE IMMEDIATELY PRONE TO A NEW ONLINE THREAT THAN OTHERS

		INDUSTRIAL CHEMICALS	INDUSTRIAL PARTS
PRODUCT DRIVEN	Intrinsic “shipability”	Much lower value, heavy, bulky product – requiring local supply chain density	Typically high value, light, smaller product – easy to ship via common courier
	Handling requirements	Often requires specialist equipment/handling/certification	Straightforward
CUSTOMER DRIVEN	Technical guidance	Numerous products require technical guidance and support	Many products easily “bought to specification”
	Product selection	Typical customer buys a small number of predictable products – enabling local product counts of hundreds and thousands only	Customers can buy across many thousands of products
	Value-added services	Diluting, blending, and cleaning are widespread and require physical presence	Real-time availability, tracking, and inventory management can often be executed remotely
		Not an obvious place to start	Online platform and remote distribution centers well-suited to meet many customer needs

Source: Oliver Wyman analysis

**RULE 2:  
PRODUCT RANGE AND PRICE**

AmazonSupply’s low prices are underpinned by a business model that permits it to run on operating margins that are a fraction of traditional suppliers’ operating margins. Amazon’s scale and lack of local operations and field sales give it a 20 percent sales and administration cost advantage. As a result, its operating margins are less than 2 percent.

The range of products available to users of AmazonSupply is another key advantage. Between June 2012 and June 2014, its product range grew from 500,000 to 2.25 million items. (See Exhibit 3.)

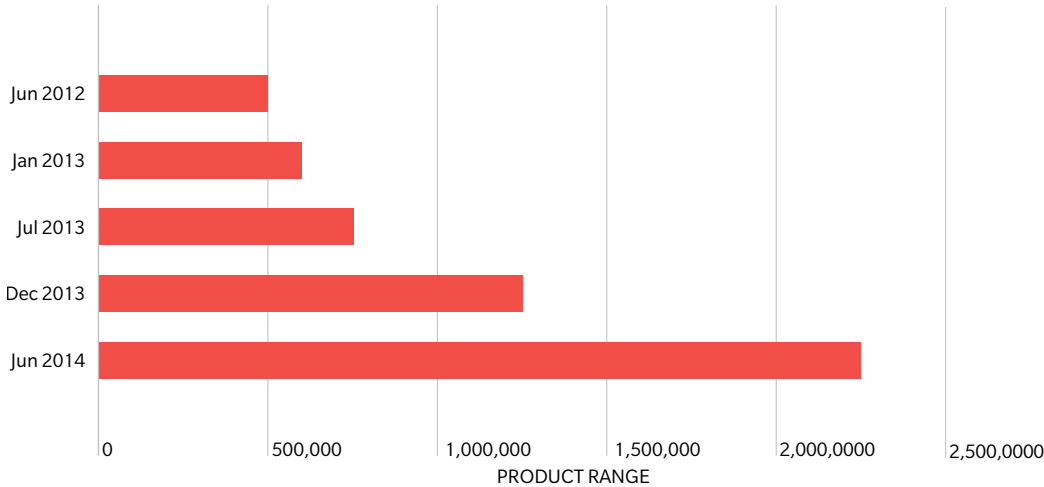
Amazon has also made substantial investments in distribution centers, allowing it to offer same day delivery within 19 cities in North America and Europe. This reach

will only grow, and rapidly. In Europe, seven new fulfillment centers are expected in 2014, adding 7.1 million square feet in addition to its existing 23 centers. We estimate that as many as 20 additional satellite depots are potentially being considered.

**RULE 3:  
BRAND AWARENESS**

Amazon has also already won an important battle: Its brand is almost universally recognized and associated with the idea of a one-stop-shop for anything and everything at a competitive price. This means that it is often the first and only place that consumers and professional buyers go when thinking about making a purchase. Strong reliability, a “no quibbles” returns policy, and aggressive pricing add to its appeal. As a result, many customers now never check prices or range anywhere else.

EXHIBIT 3: BUILDING A COMPELLING RANGE – AMAZONSUPPLY HAS BEEN AGGRESSIVELY GROWING ITS PRODUCT SELECTION, DOUBLING ITS BREADTH IN JUST OVER A YEAR



Source: Oliver Wyman analysis

## CONCLUSION

Until recently, wholesale distribution was an industry ruled by traditional distributors that had local presence and fulfillment, field sales, expert knowledge, and established relationships. These traditional tenets for success are now being disrupted by online distributors with more centralized operations and fulfillment, and no pretense of technical knowledge or field sales.

The online invasion has given rise to a well-executed multichannel model, where a number of CEOs are already working hard to take their businesses in the next two to three years. This approach enables customers to

get the information and products they need via the Web, phone, mobile devices, and in person in a seamlessly integrated way, and with competitive economics.

History suggests that those companies that act quickly to strengthen a differentiated, high-quality, and good-value customer proposition will see their businesses flourish. Those that do not will struggle.

If your business does not yet have a credible plan to survive and thrive in the new ecosystem, there may be less time than you think.

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## WHAT IS THE THREAT FROM **AMAZON**?

In April 2012, Amazon launched a web site for purchasing products for businesses, labs, workshops, and factories in the United States. AmazonSupply is specially tailored for B2B purchases in several ways. First, orders can be placed by telephone and fax as well as online. Second, a telephone customer service and helpline is available seven days a week. Third, suppliers can obtain credit through the service.

## WHAT IS THE THREAT FROM **GOOGLE**?

From January 2013 to June 2014, Google ran Google Shopping for Suppliers as a test service targeted at B2B companies. Many of the learnings will be transferred to the main Google Shopping and Google AdWords businesses. Google Shopping for Suppliers was essentially an online catalogue in three test categories, with detailed structured technical data comparable across products and suppliers. The customer concept was to develop a truly comprehensive, fully up-to-date product catalogue that is as easy to search as Google.