

THE BIGGER DIGITAL PICTURE

SIX WAYS TO USE E-COMMERCE TO REINVENT
B2B SALES RELATIONSHIPS IN DISTRIBUTION



“We’ve been hit hard by commodity prices... while our board is pushing us hard to cut back on spending, our investment in e-commerce remains aggressive.”

– CEO of a billion dollar distributor

“We had a few false starts on e-commerce, but true customer impact came when our leadership and board bought in to digital and how it would change the way we engage our customers.”

– Digital executive of a billion dollar distributor

“Last year, several of our top customers came to us and gave us an ultimatum. Either we develop the e-commerce capabilities necessary to allow them to order efficiently or we lose their business.”

– President of a billion dollar distributor

SIX WAYS TO USE E-COMMERCE TO REINVENT B2B SALES RELATIONSHIPS

In recent interactions with more than 15 CEOs of large, billion dollar B2B companies, we have seen a level of urgency around e-commerce that we have not witnessed before. For many, driving e-commerce has risen to the top of their agendas and has been identified as an area of aggressive investment despite a cautious approach overall. In this article, we explain what is causing this shift in opinion and detail six ways to build e-commerce as a capability that goes beyond being an IT project and can transform B2B sales.

The urgency around e-commerce appears to have reached a tipping point among distributors, and CEOs and boards are starting to see it as a “need-to-have” versus a “nice-to-have”. The CEO of one distributor, particularly affected by commodity price moves, noted that his board had pushed him to scale back heavily on spending on most initiatives, with the exception of e-commerce. Even sectors like industrial gases and chemicals, which were viewed as likely to be the last to come around, are starting to push into e-commerce aggressively and see it as essential to remaining competitive.

Two key trends are driving this sense of urgency. Firstly, for many B2B distributors, customers are sending a clear signal that they want to engage with them in ways that are different from how they were in the past. For many customers, the traditional “donuts and coffee” approach of meeting face-to-face with a sales representative or calling a customer service representative to place an order just isn’t working any more. They are looking for efficient digital ways of ordering, combined with focused, high-quality interactions and advice where required. One industrial distributor was approached by several large customers and given an ultimatum to develop e-commerce capabilities or risk losing their business. Secondly, the successes of Airbnb and Uber in asset-intensive industries like hotels and transportation are challenging the notion that distributors are insulated from digital disruption.




























E-COMMERCE FOR B2B SALES IS FALLING SHORT

While e-commerce programmes have been successful at creating a technical and operational e-commerce capability, so far they have failed to generate the customer benefits and financial returns they are capable of achieving.

Our experience suggests that while many distributors justify their e-commerce investments by projections of positive return on investment (ROI), the reality is that programmes have fallen significantly short of expectations. One big distributor, having recently invested to equip its model with e-commerce functionality, has seen only 0.1 percent of sales go through e-commerce. Furthermore, several of these programmes have created complications across channels and left many distributors struggling to manage channel conflict issues.

The key issue is that distributors are embarking on e-commerce programmes with too great an emphasis on technology and operational matters and too little a focus on commercial strategy (see Exhibit 1). They view e-commerce as a narrow transaction growth and efficiency play instead of seeing it as a first step in a digital reinvention of customer engagement.

Exhibit 1: Switch the business focus to customer proposition and strategy to drive success in e-commerce

AREA THAT DRAWS MOST FOCUS		AREAS THAT DESERVE MORE FOCUS			
TECHNOLOGY AND OPERATIONS		CUSTOMER PROPOSITION		CUSTOMER STRATEGY	
Technology platform choice and evolution 	User interface customisation 	Customer journey 	Target customer segments 	Catalogue pricing 	Customer pricing 
Fulfilment and inventory management 	Mobile support 	Target availability and service level 	Proposition and messaging 	Sales force incentives 	Product recommendations 
Commercial workflows 	CRM connections 	Lifetime management 	Engagement strategy 	Customer monitoring 	Communications and messaging 
Analytics 	Tech support options 	Target service models 	Channel roles and alignment 	Credit management 	Custom campaigns 
Vendor integration potential 	Training 			Order control mechanisms 	

Source: Oliver Wyman Analysis

We often see the e-commerce programme start with a plan for the technology and infrastructure requirements. These plans usually describe the required operational changes and technical platforms in excruciating detail. Often, these projects are led and championed by the IT department and there tends to be a heavy focus on the proposal process for selecting technical vendors.

Meanwhile, the plan for how this investment will specifically generate incremental sales growth from existing and new customers is all but ignored. The business leader is in many cases appointed too late in the process to influence the broader e-commerce programme – including crucial commercial questions around how and which customers to engage with online, how to adapt pricing strategies to a new multi-channel approach, and how to bring about change management with the sales force. Often, none of these are done or else done as an afterthought. Consequently, a host of issues and questions around commercial strategy remain unanswered, and the road maps that tend to be created are mostly technical and operational.

More broadly, e-commerce overall may be viewed as an IT project and, as such, there is no broad business-led vision on reinventing customer engagement. The sales and product organizations, not feeling fully vested in the effort, view e-commerce as IT programmes to be implemented, rather than an urgent and necessary reinvention of the business. The net result is that while these programmes may succeed from a technology standpoint, they fail commercially.

Done right, we believe there is a massive upside to be captured with e-commerce and more broadly in the digital reinvention of customer engagement. Our experience in both retail and distribution suggests that most successful e-commerce programmes are grounded in a robust commercial strategy.

There are six ways to help your e-commerce programme start capturing the massive upside:

1. Use e-commerce to start reinventing customer engagement.
2. Identify and reduce sales channel conflicts.
3. Actively manage every customer life stage.
4. Commercialize customer insight.
5. Be the best for your best customers.
6. Build technology that is smart and nimble.

1. USE E-COMMERCE TO START REINVENTING CUSTOMER ENGAGEMENT

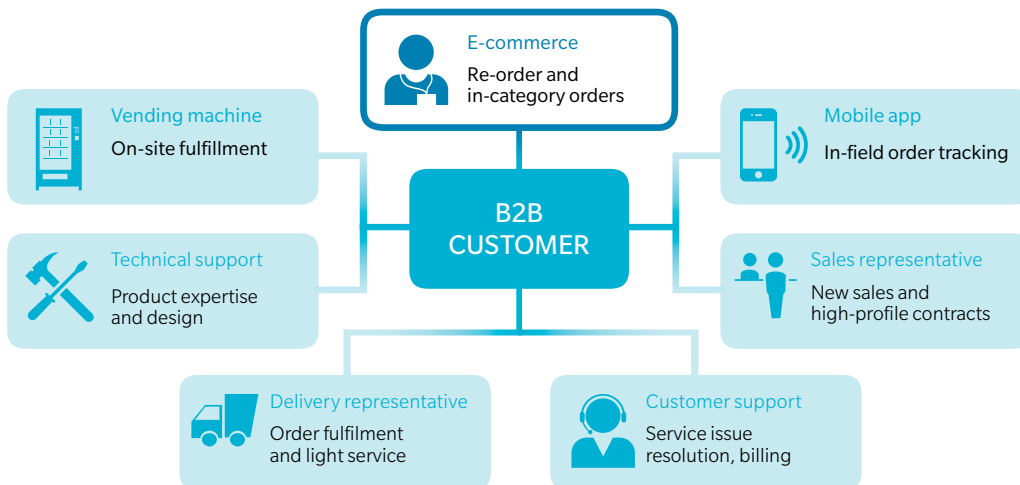
The most successful B2B and B2C companies have launched e-commerce as a first background step to a broader reinvention of the digital customer engagement agenda. Notably, this means they have done two things quite differently from the rest.

Firstly, leadership has articulated and bought in to a broad and ambitious vision on how the company will engage with its customers in the future. There is a strong digital culture in the organization and, along with it, openness to reinventing several foundational aspects of the business. Leadership is aligned in a view that the company may be likely to change many things, such as the shape and size of its sales force, the touchpoints it has with its customers, and the balance of how it does business across its current channels. There have been bold and provocative discussions on these issues, and leaders have discussed and debated various aspects of the future. In doing this, the company has learned deeply who its customers are, in terms of both current and future needs. While there may not be a consensus on the future vision, there is alignment on some of the bets that need to be placed in the short term.

Secondly, the e-commerce programme itself is grounded in a well-thought-out commercial strategy and is seen as a leadership-driven business initiative critical for the future. This means that the programme has been crafted based on an understanding of the customer and a perspective on the winning proposition. There is a thoughtful plan around change management, customer adoption, sales force engagement, and a clear channel strategy. This has then dictated the technical and operational aspects of what is required, not vice versa.

A good example of this is a leading industrial-parts distributor, which fundamentally reinvented its customer engagement over the past decade. After a false start with e-commerce, the company found that true impact and change came only after it had generated buy-in on an ambitious vision not just from the leadership team but from the board as well.

Exhibit 2: How e-commerce fits into an integrated sales strategy



Source: Oliver Wyman Analysis

2. IDENTIFY AND REDUCE SALES CHANNEL CONFLICTS

While e-commerce has many benefits, opening up another channel to interact and transact with customers can also create confusion and conflict if not carefully handled. This is especially true with complex distribution businesses that have multiple channels like an outside sales force, telesales, and retail branches.

Confusion and conflict can occur for both customers and the sales force, as customers can now view products in multiple formats with greater pricing visibility. Distributors may want to make use of price or other business levers to incentivize customers to buy certain products online and others from its sales professionals. Putting product and pricing information online means that customers will engage differently with your sales representatives. It will in turn change the role of the sales professionals in the organization from being the face of the business to becoming an advisor whose function it is to help customers find the right products for their business, supplementing the online channel.

Take the example of an industrial distributor and a food-service distributor that were both early to the game on e-commerce. Both managed to get the technology and operations for e-commerce up and running and drive adoption with customers. However, several months in, both faced a significant amount of channel conflict. In one case, there was an issue with pricing conflict across channels; in another case, there were many in the sales force who had pushed back hard against e-commerce for fear that their compensation would be negatively affected. Indeed, one of the biggest challenges that a new e-commerce platform poses for distributors comes from its own sales force. Often, sales representatives see online sales as "taking from me". This is particularly true when one of their active accounts uses the platform to place an order and the incentive systems do not reflect the new reality and expectations.

An important step to addressing this is to develop a clear channel strategy, which involves understanding the different costs and value propositions of each channel in each customer interaction (see Exhibit 2). This stretches beyond selling and into customer service, fulfilment, and other interactions, and helps you optimise many things. It helps to define which promotions and offers are appropriate for different channels. It allows you to set a robust and differentiated pricing strategy across channels. It also allows you to modify your sales incentive programmes to drive desirable behaviours. Most importantly, it allows you to present a unified proposition to the customer that is seamless.

Many distributors that launch e-commerce sites often fail to appreciate the considerations required to ensure that various channels work together. In our experience, the key is to develop a clear channel strategy before launching an e-commerce platform, not after issues have developed that frustrate customers and employees.

3. ACTIVELY MANAGE EVERY CUSTOMER LIFE STAGE

An executive at a food-service distributor recently made a disturbing claim about e-commerce in his business. He indicated that driving e-commerce had actually hurt the business and resulted in customer loss. The company had found that once customers had started transacting online, the sales representative stopped visiting them weekly to take orders. While this had the desirable effect of freeing up sales representatives' time to pursue other opportunities, it had also put the customer at greater risk of churn. Many of these customers had been picked off by competitors who sent a sales representative in to visit – possibly with donuts and coffee.

What the distributor failed to do was to actively manage the life stage of the customer and read and anticipate signals of churn. As e-commerce platforms grow as a proportion of the businesses, distributors risk losing touch with customers, who may be poached by competitors who deliver personal attention. Establishing the right cadence of interactions, based on the life stage and other attributes of a customer, is a critical component of a business with a popular e-commerce platform. Some customers will happily buy online, while others prefer the personal touch that a sales representative provides – the key is knowing which is which and engaging with customers in the right way.

A global office-supplies distributor is a good example of doing this well. The distributor uses various customer attributes and purchase history to understand how often a sales representative needs to be in contact. For newer customers, the sales representative uses a thoughtful migration plan in moving them online. As the relationship matures, a tiered service model allows the customer to get different levels of engagement, depending on client needs. There are also alerts to indicate when a sales representative should visit a customer who may be at risk of churn for one reason or another.

4. COMMERCIALIZE CUSTOMER INSIGHT

One of the massive benefits of e-commerce is the customer insight and the data it generates. An e-commerce platform allows you to see every mouse click, every product customers look at, how they are searching, and how much time they are spending on your site. It also opens up many more avenues on how you can engage and target customers at a massively lower cost. It lets you experiment and try out new things, such as targeted offers to specific customers for products that are alternatives to those they buy today or which you think they might need based on their current purchases or purchases of other customers like them.

B2C has led the way and Amazon, Netflix, and best-in-class retailers have set the standards on how to do it best. Netflix was famously quoted as saying that it learned an order of magnitude more about its customers by looking at what they didn't purchase versus what they did purchase. Similarly, in retail, hyper-personalization has become a key focus in the past year.

Some leading distributors are beginning to recognize the opportunity and are capitalizing on it to drive revenue from their existing customer base. Take, for example, a major food distributor that realized the value in linking pricing to online recommendations using recent purchases (or those of customers like them) to suggest further products to consider buying. When this distributor initially implemented an e-commerce platform, the pricing algorithm set prices for products a customer didn't currently buy to levels that were unlikely to generate incremental and impulse sales. Furthermore, it was cumbersome for customers to browse for new products: a pizza chain might find it easy to repeat its typical purchase of cheese and tomato sauce but would have a hard time finding olive oil on the site – and if they did, the pricing would not appear competitive. When this distributor put in place a careful strategy to present olive oil at an attractive entry price and pro actively pushed it via its recommendations programme, it started getting significant uptake and sales representatives reported their sales increasing by several percentage points.

More broadly, distributors can use data to target and engage customers online at a much lower cost than through the traditional channels. For example, rather than scheduling a half-hour meeting every two weeks from today to share new products, a distributor with an e-commerce platform and commercial strategy can send a targeted marketing email with product specifications and pricing to the customers most likely to purchase that product. Getting this to work, however, requires a concerted focus to drive sales from customer insights from the online channel.

5. BE THE BEST FOR YOUR BEST CUSTOMERS

With most distribution businesses, we see dramatic differences across customers in how they want to engage and purchase. Consequently, the e-commerce customer experience and the features and interface required to win can be very different for different customers. Developing diverse technical features properly is expensive and time consuming. Many distributors don't have a sufficiently robust understanding of their customers and what they care about, and they try to do many things quickly. As a result, they end up compromising heavily on the rigour and depth to which each feature is executed. This is a crucial mistake that we have seen play out a few times in retail.

Take the example of AmazonFresh, FreshDirect, and PeaPod, three of the primary players in the US online grocery retail market for the past several years. Surprisingly, despite Amazon's scale and synonymy with online retail, it has been losing the market share battle to FreshDirect.

Digging into the key drivers of shopping preference and satisfaction of grocery customers, we see some notable differences. While the various sites have much in common – such as recipe suggestions, vouchers, and so on – FreshDirect has clearly delivered those features to a much higher and more rigorous standard.

So while AmazonFresh built a site similar to its venerable, all-too-familiar Amazon.com, FreshDirect has focused hard on understanding the needs of the online grocery customer and delivered to a very high standard in those areas. Its design concentrated on creating a pleasant shopping experience, with simple product searching and speedy checkouts – the features that matter most to the relevant customer set.

6. BUILD TECHNOLOGY THAT IS SMART AND NIMBLE

When setting up an e-commerce platform, many distributors use the traditional approach to IT projects, where the specifications are locked in up front and the platform is built over several months before being rolled out. Most IT organizations in distributors utilize this approach for projects. It is designed for safety and control, and minimizes the risk of any failure. The issue with this approach is that it doesn't allow for iteration and adjustment based on what you learn along the way.

Particularly with e-commerce platforms, there is a need to try many things, fail fast, and adjust. To cope with this, an agile or more iterative approach is starting to emerge as the new best practice for tackling such programmes. It focuses on getting one or two priority use cases rapidly delivered and then progresses through successive develop-test-iterate cycles.

Consider the case of a billion dollar distributor that built and launched a new pricing platform for its sales force using this sort of agile deployment. The team engaged many stakeholders from the sales force before and during design and prototyping and built the tool through a series of rapid sprints. These included more than a hundred outside sales representatives, inside sales representatives, and even customers. The method was built using an approach that the distributor dubbed "for the field, by the field".

The net result with the pricing platform was an adoption rate never before seen in the business. Within six weeks, usage hit 80 percent, outstripping that of any previous platform. The agile approach to development ensured that the functionality of the technology was built and iterated until it worked brilliantly for the end user and success followed.

CONCLUDING REMARKS

There is no doubt that e-commerce has become an urgent priority for distributors. Despite the urgency, many e-commerce programmes are falling short of expectations. While these programmes have been successful at putting a technical and operational e-commerce capability in place, they are failing to generate the customer impact and returns that are possible.

The key issue we see is that many distributors embark on e-commerce programmes with a heavy focus on the technology and operations issues but without a sufficiently robust commercial strategy. More broadly, they are viewing e-commerce as a narrow opportunity to engage customers, as opposed to a first step in a digital reinvention of customer engagement.

Successful e-commerce programmes start with an understanding of customer needs and are supported by a rigorous commercial strategy. The most successful e-commerce programmes are those that are part of a broader journey to digitally reinvent customer engagement.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Distribution and Wholesale practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs.

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