Look out B2B marketers!

Here come Amazon & Google

warns Richard Barnes, principal at RS Consulting USA

The business press is all abuzz about Amazon and Google entering the industrial distribution market. And most commentators believe that industrial (and commercial) distributors don't stand a chance against the size, scope, and sophistication of Amazon and Google.

Before B2B marketers hit the panic button and start completely re-arranging their marketing plans, I recommend patience, thorough analysis, and creative thinking. Based upon RS Consulting's channel marketing experience, major channel trends typically play out differently than many experts predict, and companies that truly understand and capitalize on these trends can gain a competitive advantage.

What are Amazon & Google doing?

Although I lump Amazon and Google together, they are pursuing different strategies for industrial distribution, with Amazon, at this time, being the greater threat (or possibly opportunity).

Amazon started Amazonsupply.com in April 2012 and has established itself as an online distributor with an extensive (and expanding) logistical network, but they also act as an intermediary for existing industrial distributors, e.g., C&H Distributors, a materials handling and industrial supplies distributor, is a feature supplier. Amazon actually sells product to the customer (just like their books and music business), but it is uncertain the extent to which they maintain inventory in their distribution centers vs. leverage the inventory of their featured suppliers. And as we know, Amazon has a national network of distribution centers and is exploring last-mile delivery.

Google followed several months later with Google Shopping for Suppliers, but Google strictly acts as an intermediary, enabling customers to search and find suppliers for industrial products. A supplier can gain preference on Google's Shopping site by paying a fee to become verified. This virtual marketplace was done in the first E-Commerce Wave (remember FreeMarkets and Ariba, which still exists by the way), but obviously Google has unparalleled digital expertise and resources. Google, unlike Amazon, does not create a whole new supplier, but its site enables "alternative" suppliers to gain market presence via a trusted name.

What is the concern?

Why are commentators and many in the industrial distribution business worried?

- Purchasing behaviors of end users are changing as decision-makers become younger, use the Internet more (solely?) to do search, evaluation, and purchase, seek a sophisticated, more consumer-like, Internet experience, and hence have different channel needs;
- A "significant" portion of industrial distributors lack Internet savvy and thus cannot meet the needs/expectations of these younger decision-makers;
- Amazon and Google can offer superior product breadth and lower prices to better meet the needs of convenience buyers;
- Amazon, Google and other Internet-only distributors are being lured by the size and fragmentation of the industrial distribution market;
- And there are synergies for Amazon with industrial volume supporting its logistical network.

While I agree that younger decision-makers are Internet-savvy and seek a more user-friendly, consumer-like experience, I am less convinced that Amazon, Google, and other Internet-only distributors will just dominate industrial distribution.

It reminds me of how home center chains like Home Depot were going to be on every corner, obliterate hardware stores and lumber yards, and dramatically (and negatively) alter life for industrial distributors. And of how the 1st E-Commerce Wave was going to make bricks and mortar locations of established companies completely irrelevant.

No doubt that home center chains and the 1st E-Commerce Wave had an impact and are now key players in all segments of the marketplace. But hardware stores and lumber yards (as well as many other industrial distributors) did not go away, and while the 1st E-Commerce Wave dramatically changed certain industries, it was co-opted by many others. Brick and mortar stores play a lesser role in the retail economy but still an important one.

Amazon & Google, the gathering storm?

A little bit of theory & what it means

This opinion isn't just based upon a contrarian feeling but rather channels marketing theory and market dynamics.

Two major reasons:

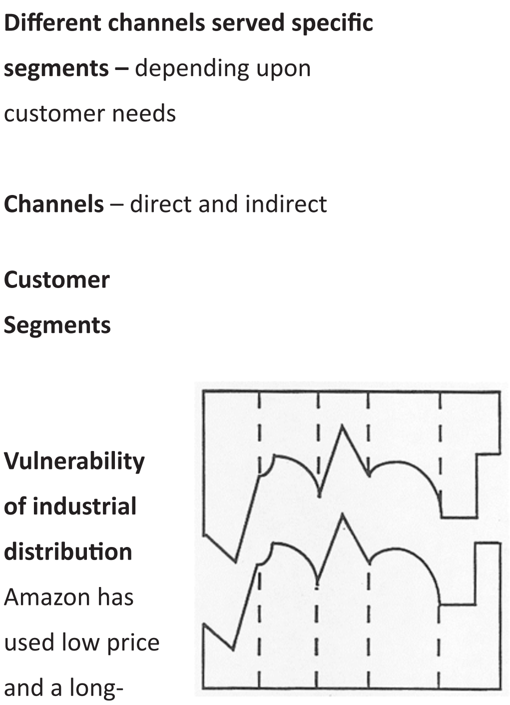
1. Channel marketing theory that states end users seek to purchase from distribution channels that best meet their needs, which not only includes product and price but other factors such as product assortment, brands, sales and technical support, packaging, delivery, credit, aftermarket services, etc.

2. The market is fluid, i.e., manufacturers and existing channels of distribution can adapt and respond to a new and emerging channel. And probably more important, end-user needs can change.

Industrial customers' heterogeneous channel needs

We know that industrial distribution is not a monolithic, homogeneous market but rather an incredibly fragmented, heterogeneous one. Thus, it is quite possible that Amazon and Google can meet the needs of certain segments (e.g., electronic components) better than existing suppliers but cannot do so for other segments (e.g. large-to-medium contractors).

For example, home center chains clearly provided greater value to certain, but not all, segments of the construction and home remodeling/repair market. Small contractors and hardcore DIY-ers flocked to Home Depot, Loews, and their ilk, but large to mid-sized contractors stayed loyal to lumber yards and industrial distributors, and less sophisticated homeowners still purchase from hardware stores. And ironically home center chains are now considering the smaller format to compete with hardware stores in urban – suburban markets.



Vulnerability of industrial distribution
Amazon has used low price and a long-term view to enter and establish itself as a major (or dominant) player, a strategy facilitated by investors' acceptance of low margins and minuscule profits or profit losses (so far – check out recent Wall Street Journal article, "Amazon's Never-Ending Story"). Although it appears that Amazon's industrial pricing is competitive but not unusually low, one could certainly argue that a low-priced strategy would attract customers and really disrupt industrial distribution.

Typically when such a low-priced, disruptive player enters a market, middle-of-the road suppliers are the most vulnerable and the ones that go out of business. Larger suppliers with scale and resources and smaller, more nimble suppliers adapt and survive. A notable example is Wal-Mart (and Target) entering the grocery market. The ones who have borne the brunt have been the middle-of-the road stores who lacked scale (re: ability to sell at low prices and survive) or differentiation while Kroger, one of the top chains, and many smaller, local/regional chains have successfully adapted.

But are industrial distributors so vulnerable? Maybe not as vulnerable as one may think.

In many (but probably not all) industrial markets, distributors have undergone significant transformation since the 1980s, a transformation driven by consolidation and leveraged buy-outs (LBOs), economic change, rise of e-tailers (no, Amazon and Google are the only online distributors), and adoption of more sophisticated management and technology. Thus, most are no longer fat, dumb, and happy but rather have a better understanding of customer needs, more streamlined operations, and a clearer business focus. In a recent Wall Street Journal article, Amazon's retail gross profit was reportedly 27.9% in Q1 2014, which honestly isn't much different than that of many industrial distributors.

Response of industrial distributors
And the Internet savvy of industrial distributors is debatable. Larger distributors, notably Grainger, are very savvy, but many smaller distributors do lack Internet sophistication. However this situation could change. With Wordpress small businesses can create highly functioning websites, and who is to say that

manufacturers may not support smaller distributors if they believe these distributors play an important (and higher margin) role in the market.

Clearly the 1st E-Commerce Wave transformed certain industries (e.g., travel, entertainment), but in many industries, the established companies with brick and mortar locations have adapted and co-opted the Internet, and in some cases manufacturers are helping their existing channels to compete more effectively with Internet-only channels.

Grainger has been a leader in the omni-channel movement, i.e., engage your customer across all channels (i.e., brick and mortar, hardcopy catalog, outbound sales, tele-sales, and Web) to market and sell more effectively. And Samsung worked with its brick and mortar channels (e.g., Best Buy) to counter the show-rooming trend.

And lastly Amazon, Google, and other Internet-only distributors may actually be an opportunity for B2B distributors (as well as manufacturers), i.e., they may choose to work with this Internet-only channel and thereby capitalize on this trend. As mentioned, C&H Distributors is a featured seller for Amazon. In pursuing this path a company would face a whole new set of issues and challenges.

What Does This Mean for B2B Companies?

Essentially manufacturers need to re-assess the effectiveness and efficiency of its channels to determine if and where their channel partners are vulnerable to the Amazon and Google trend AND if and how they can capitalize upon this trend.

This assessment for manufacturers includes the following major steps:

- Understand and analyze your customers' needs, in particular their channel needs.
- Evaluate how well your company – and if relevant, your channel partners - is serving their needs, identifying "gaps" and determining if a different channel system, Amazon for example, could better meet their needs.
- Also evaluate your channel policies and how well your company maintains those policies. One issue is authorized distributors making unauthorized sales to Amazon, Google, or other Internet-only distributors and causing erosion in the street price for well-established brands.
- If the current channels are effective – and efficient – then implement programs to strengthen the channel partners, but if not, then evaluate a different channel system that better meets customer needs.
- Evaluate, if appropriate, your company's ability to work with Amazon, Google and/or other Internet-only distributors (i.e., they could be a new channel for your company).
    - This means negotiating/accepting the terms and conditions of a very different type of relationship, taking on the risks of a channel likely to have much more power than you do, and understanding what Amazon, Google, or other Internet-only distributors will and will not do to help you manage and support your business through them.

For distributors the task is to really understand your customers' needs and determine where and how you add value, identifying potential "gaps" vs. Amazon, Google, and other Internet-only distributors. One outcome of this exercise could be to upgrade your website and enhance your customers' Internet experience. Another could be deciding to try and work with this emerging channel.

There are plenty of David and Goliath marketing stories in which a David, understanding the customer better, thinking creatively, and acting quickly – defeated the Goliath. Just recently, Opower, a provider of customer engagement tools for the utility industry, beat out Google and Microsoft by providing simple comparison information - in hardcopy via the mail –

encouraged consumers to reduce energy usage. If Opower, why not industrial distributors?

RS Consulting has experience and tools for helping companies evaluate and improve their distribution channel system, and thus we can help your company to figure out what to do – and not do – to counter and take advantage of this Amazon and Google trend.

Richard Barnes *works with B2B companies to identify, evaluate, and capture sales and profit opportunities via more effective strategies and programs, product innovation, and competitive differentiation.*

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