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How industrial companies can put e-commerce at the heart of their growth strategy

How can industrial companies maintain strong bonds with distributors while cultivating direct sales through e-commerce?

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Even though most industrial companies are still in the early days of their digital marketing and sales (M&S) efforts, the potential benefits are clear. Analytics-driven digital marketing can help identify new customer opportunities and improve target and product recommendations. Digital tools may provide insights about the market and customer base that allow companies to optimize pricing and increase revenue. And thoughtful management of digital interactions with customers through websites, chatbots, and other tools can improve the overall customer experience while enhancing efficiency, sales, and revenue growth.

While many industrial companies have e-commerce websites, they have struggled to fully embrace this strategy because of the complexities involved, particularly those related to distributor management, and thus they remain stuck at the pilot stage. With this in mind, we embarked on a series of articles to help industrial companies transform digital M&S from a minor focus to the heart of their growth strategy. The first, "Creating strong digital B2B channels at industrial companies," examined big-picture strategic questions, and the second, "Implementing a digital transformation at industrial companies," discussed how to translate a digital vision into reality.

This third article focuses on helping industrial companies move from dabbling in e-commerce to building their growth strategy around it.

The need for strong e-commerce

The number of B2B customers using digital self-service channels is soaring, and many clearly prefer online interactions.[1] Take e-commerce: our research shows that 60 percent of B2B customers find remote sales at least as effective as traditional sales, and 62 percent prefer to reorder products online (Exhibit 1).[2] But only 13 percent of industrial OEMs say that they are able to offer digital solutions with their current capabilities, and only 10 percent offer online, automatic self-service tools for placing reorders.

As companies build an e-commerce platform, their channel strategy must reflect their overall goals and industry environment. Do they want to reach customers in a particular segment? Improve penetration for existing customers? Generate better leads? Regardless of the chosen focus, the channel strategy must provide benefits and reduce risks for all parties involved: internal stakeholders, end customers, and distributors. To help industrial companies strike the right balance, we explored seven strategic questions related to

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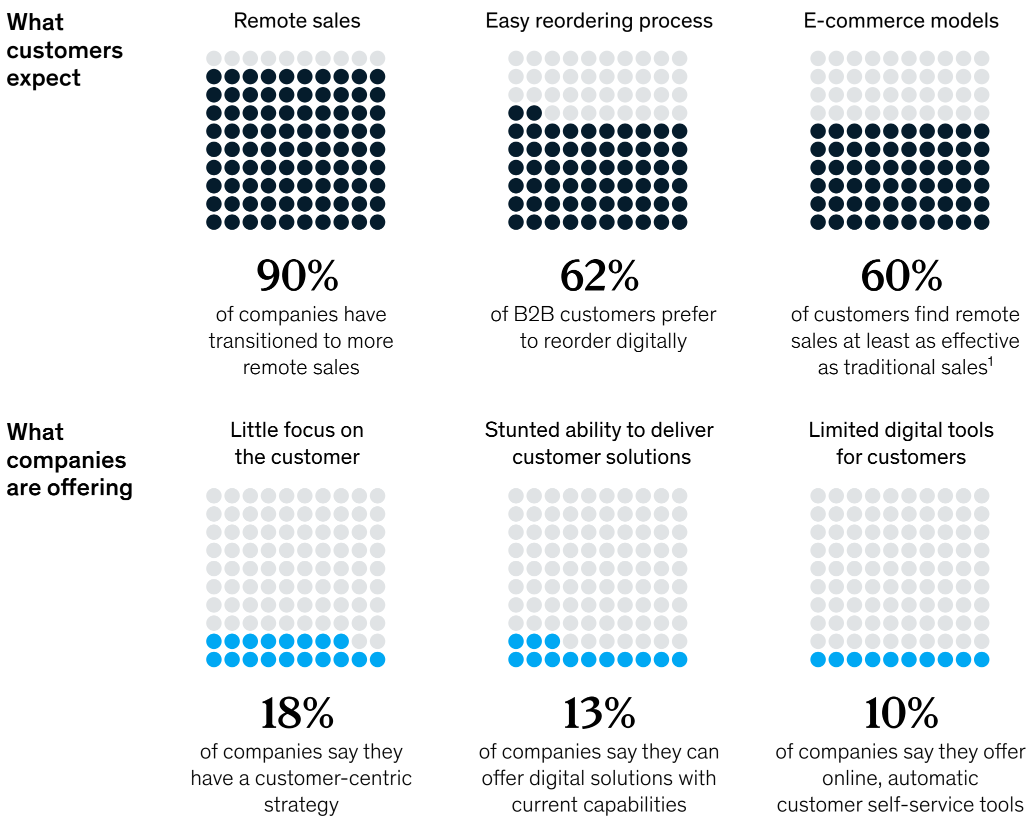
[1] *Business-to-business e-commerce market size, share & trends analysis report by deployment model (supplier-oriented, buyer-oriented), by application, by region, and segment forecasts, 2020–2027*, Grand View Research, May 2020, grandviewresearch.com; "7 B2B ecommerce trends you need to follow for 2020 and beyond," Big Commerce, accessed on June 1, 2021, bigcommerce.com; Liz Harrison, Dennis Spillecke, Jennifer Stanley, and Jenny Tsai, "Omnichannel in B2B sales: The new normal in a year that has been anything but," March 15, 2021, McKinsey.com.

[2] Hugues Lavandier, Senthil Muthiah, Kevin Neher, Stephanie Trottier, and Hyo Yeon, "How to boost growth in industrial services: Better customer experience," July 28, 2021, McKinsey.com.

Exhibit 1

Industrial companies are struggling to keep up with rising customer expectations.



[1] Up from 49% in early April 2020 to 60% in July 2020.
Source: Forrester Customer Experience Performance Index (2007–09); press search; US SMB Financial Pulse Survey; McKinsey global B2B customer-buying research: US & Europe; McKinsey COVID-19 B2B Decision-Maker Pulse Surveys; McKinsey Digital Quotient 2020, including ~400 B2B companies

product offerings, customer targeting, partner benefits, online pricing, channel conflicts, change management, and essential capabilities (Exhibit 2).

Which products should industrial companies offer online?

Industrial companies tend to have extensive product portfolios, with offerings spanning many categories and often numbering in the thousands; it would not be feasible to sell all of them through digital channels. As they select their online offerings, companies should keep their general strategic goals in mind.

Priority products that are already receiving extra attention from sales staff are likely to be selected for inclusion on e-commerce platforms because of their strategic significance. Standardized products also tend to be offered online, since buyers of such items are less likely to require guidance during the purchasing process. But those factors are not the only considerations. For instance, products that require consultative selling, such as those for which a customer wants sales representatives to provide general advice, guidance about how machinery will fit on the floor, or installation assistance, may see few sales if they are offered on sites that fail to

Exhibit 2

An industrial company's e-commerce strategy must consider seven strategic questions.

Key elements of e-commerce strategy

	Channel strategy element	Description
1	Product and service offering	Identify products and services that should be offered on e-commerce platform
2	Engagement, transaction, and fulfillment rules	Create rules for engagement, transactions, and fulfillment for all customers who access e-commerce platform, segmented by customer type and product type
3	Distributor growth, including partnership "gives and gets"	Determine ways to enable distributor growth through e-commerce platform and identify potential distributor partnerships to drive growth and mitigate channel risk
4	Pricing implications	Create strategy for pre-login pricing, if applicable, and transaction price strategy with negotiation process
5	Management of potential channel conflicts with distributors	Create guidelines that help preserve and nurture partnerships once e-commerce takes root
6	Channel partner communication and change management	Define plan for communicating with distributors about e-commerce platform and internal change-management process
7	Capability building	Build internal IT, supply-chain, and sales-force capabilities to ensure seamless customer experience and smooth platform launch

provide an opportunity to ask questions. Customers may also become frustrated if they purchase a product based on its online description only to find that it does not meet their requirements. While the same issues may arise with retail or consumer-goods products, they are much more common with industrial offerings.

As industrial companies become more comfortable with e-commerce, they may expand the range of products offered by improving their capabilities. For complicated products that require customization, for example, industrial companies may need to buy or develop self-configuration tools that allow customers to select the desired specifications during the purchase process. They may also want to make experts available for live chats with customers.

In some cases, distributor relationships may influence the decision to offer a product online. If few distributors currently sell a product, companies may choose to offer it exclusively through direct e-commerce sales, often with a follow-up visit from a representative to answer any questions that come up. Products that are commonly sold by distributors, on the other hand, may never be included on the site to eliminate the potential for conflicts.

How can industrial companies create rules for engagement, transactions, and order fulfillment with customers and distributors?

Direct e-commerce sales can help industrial companies, as it gives them more of a connection to end customers and their needs. In turn, end customers benefit from the convenience of e-commerce, which many have come to expect based on their purchasing experiences in the consumer sphere. More direct interaction with industrial companies may also give end customers a better understanding of their products, as well as more opportunities to ask questions.

In addition, certain e-commerce features, such as the ability to easily reorder products and track orders, could increase customer satisfaction, resulting in both new accounts and the expansion of existing accounts through upselling and cross-selling. But direct e-commerce sales may not be the best answer for every account. Deal terms and pricing may vary for different customer segments, or even for customers within the same segment, making it impossible to have a set price for certain products on the website. What's more, existing customers may have strong relationships with an industrial company's major distributors, and direct e-commerce sales could challenge such partnerships.

With distributors, the situation is more complex. A direct e-commerce offering to distributors' end customers might be seen as a threat, but this will not occur if the channel is well managed. And if industrial companies make sales directly to distributors via their e-commerce channels, they might be able to strengthen their partnerships and provide services that go far beyond executing a simple transaction.

As they contemplate their distributor strategy, industrial companies must decide which distributors will be given direct access to customers or provided with analytics that will help companies to improve their products. They must also determine if distributors will be allowed to interact directly with end customers through the e-commerce site.

When deciding which distributors and end customers can access their e-commerce platform, industrial companies might consider segmenting their accounts into groups: end customers or distributors they currently serve offline, new end customers, and new distributors, as shown in Exhibit 3. Some finer distinctions are also necessary within the category for new end customers, as shown in the exhibit.

For each group, industrial companies can create rules governing customer engagement and transactions. Under this model, customers register before using the e-commerce site, which can be challenging, depending on the company and the product, especially for potential customers who have not yet committed to making a purchase. Industrial companies must also ensure that their websites can recognize the level of access that each customer has been granted. For example, some end customers might be allowed to research

Exhibit 3

Industrial companies can segment both distributors and end customers when deciding which customers can access e-commerce platforms.

Relationship with client e-commerce platform

Current offline customers	New end customers for direct sales			New distributors
1	2	3	4	5
Customers who currently make direct purchases from the industrial company; can be end customers or distributors	New end customers with no previous relationship with the industrial company or any of its distributors	New end customers who have a relation-ship with one of the industrial company's distributors but that have not yet bought any of the industrial company's products	New end customers who have not yet directly purchased an industrial company's products but have purchased them indirectly through distributors	Distributors that have not previously made direct purchases from the industrial company

products on the company's site but are directed to current distributors for purchases. This model avoids any potential channel risk but potentially limits new-customer growth. Further, the purchase process may be interrupted as customers are handed over to distributors, and long-term customer value may be lower if distributors later promote a competitor's product.

Industrial companies may give select end customers permission to conduct research and make transactions, either directly or through a distributor. This model may attract new end customers and promote margin growth, but it can also result in channel conflicts unless industrial companies take action to prevent them. For instance, equipment companies might want to create an e-commerce site that allows customers to make purchases either directly from its website or through select distributors.

If an end customer makes a transaction through the industrial company's e-commerce site, the company must decide whether it will fulfill the order or use a third party or distributor—a decision that will affect the supply chain. Industrials should collect and analyze customer data from all transactions, regardless of who fulfills them, since this can provide insights about purchase decisions and opportunities for upselling or cross-selling.

Many process issues will arise as industrial companies define their e-commerce guidelines. For instance, if they want to redirect existing or new end customers to a distributor for purchase, they will need to have steps in place for automatically transferring the sale to the right distributor and flagging it for their attention.

What are the 'gives and gets' for each channel partner?

As an industrial company creates an e-commerce web site, it must clearly communicate with distributors about the "gives and gets" inherent in its strategy, and these may vary depending upon the relationship. For all partnerships, industrial companies should have one main goal: encouraging distributors to prioritize their products over those of their competitors. It will likely facilitate sales if companies share e-commerce channel collateral (for instance, photos they can use on their websites) with distributors. Industrial companies are most likely to create successful partnerships if they provide a seamless digital experience, such as by allowing distributors to browse products and manage orders online. Offering customized solutions, such as live chats with sales agents via a distributor portal, may also help. Distributors that work closely with industrial companies in such partnerships may acquire new end customers and increase their sales volume.

In all their business partnerships, industrial companies should establish clear expectations, including a detailed description of distributor obligations. For instance, distributors that are allowed to close sales on an industrial company's e-commerce platform may be asked to provide data about products that are frequently bought together or other information, such as market-growth statistics. If an industrial company redirects customers to a distributor's website to close a sale, it may ask the distributor to ensure that its products are the most prominently displayed. Some industrial companies may also ask distributors to commit to purchasing a certain amount of products, or to emphasize their products in email-marketing campaigns.

For each distributor, such gives are balanced by a number of gets. Industrial companies may automatically send some new customers to distributors by linking to their websites. They may also have systems in place for identifying a distributor's existing customers and ensuring that any sales inquiries are rerouted to that distributor. Other partnership benefits might include exclusive distributor portal workspaces (such as those for tracking orders and billing), free training programs that discuss a company's products and the intricacies of selling goods in its industry, marketing support, and proprietary analytical data. Industrial companies may also make their experts available to engage in live chats with distributors' end customers.

There is no hard-and-fast rule about how to define the gives and gets for each distributor; they often depend on the importance of the relationship.

How can pricing enable—rather than complicate—the overall channel strategy?

As mentioned in the second article in our series, B2B pricing is often complicated because it can differ depending on various factors, including a company's strategic relationship with a customer and the requested order size. Two different customers might be offered very different prices online, or a customer might get a large discount by placing a large order.

With such variations, industrial companies could find themselves in a difficult position as they transition to e-commerce. For instance, allowing customers to see prices up front, prior to login, might initially attract more site visits, since customers appreciate transparency, but this approach could backfire if customers see a higher price after logging in to their account. To avoid such problems, industrial companies could establish standard prices based on volume and display these on the site, or they could allow customers to counter quotes and negotiate through an automatic-approval process. In other cases, companies may want to avoid posting any pricing information and route customers to offline discussions with sales representatives. The selected strategy will depend partly on the types of products sold and customers served, as well as the company's overall pricing strategy. In all cases, industrial companies can rely on analytics, including some from their e-commerce site, to determine the post-login price and any discounts.

How can industrial companies anticipate and mitigate potential channel conflicts with distributors?

Offering products for purchase online—especially to new customers—creates an inherent tension for companies that often work through distributors. But this does not have to be an unhealthy tension: a clear pricing strategy can eliminate many distributor conflicts, and other guidelines can help preserve and nurture partnerships once the e-commerce platform takes root. These guidelines will not merely protect industrial companies; they are also designed to ensure that distributors benefit from data analytics, sales support, and other tools for growth. Since the guidelines will not be the same for every situation, companies will need to evaluate each partner relationship before setting rules as they transition to e-commerce.

Ideally, industrial companies will set guidelines before their e-commerce sites go live, which will help to update their channel partners on the transition. Some guidelines will focus on growing the overall pie by helping distributors sell more of an industrial company's products, rather than competing with it for end customers.

Multiple options are available for structuring e-commerce. Manufacturers can continue to make certain products available only via select distributors. In other cases, particularly in industries that are new to e-commerce, companies can support distributors as they move to online sales. At a minimum, they could share data and analytics to enable more effective product recommendations and cross-selling. Where appropriate, industrial companies can route customers to their distributor partners by sharing links to those partners' sites, as well as by showing distributor pricing and inventory information on their own sites.

What elements should a change-management and communications plan for stakeholders contain?

Industrial companies can allay concerns about utilizing e-commerce by creating a clear communications plan for all stakeholders. The elements will vary by company, but the plan should always be designed to mitigate surprises, both for internal staff and distributors. For instance, the plan might call for industrial companies to ask distributors about any issues they foresee, as well as their particular interests, as they design their e-commerce strategy. It might also specify when and how companies should interact with distributors when discussing their e-commerce plans. Having a segmented view of your distributors—that is, which channel partners are key and which ones might be less so—should be a part of any plan. A company's top management should also align on the key messages to send to distributors to minimize any confusion and inconsistencies.

The sales force will also need training, including information on the process to escalate channel risk. If an industrial company's new e-commerce site makes a distributor feel insecure, leaders may need to get involved, depending on the importance of the relationship. For many companies, it might also be helpful to have a road map to steer transactions toward e-commerce, with critical milestones noted—for example, the release date for the self-configuration tools that will allow more products to be sold online.

What new capabilities, individual and organizational, are required for success?
As companies expand their e-commerce presence, they will need to continue to emphasize customer satisfaction and deliver a seamless omnichannel experience. The e-commerce site itself must be informative, and digital transactions should provide the same value as in-person interactions, or else be supplemented with live interactions where appropriate. Ideally, customers will not have to transition from an online platform to calling a distributor when placing an order (many distributors do not have websites, which could pose a challenge). Returning customers who have created accounts should be able to reorder products easily, and order tracking should be transparent, even if fulfillment is being done by a third party. Sales services that complement e-commerce sites, such as customer call centers or chatbots, may also increase customer satisfaction. In that spirit, companies should not simply transform digital interactions with customers; they must also carefully deploy human resources where they are most valuable, such as when onboarding a customer or qualifying a product.

An omnichannel world also necessitates omnichannel loyalty programs in which customers receive benefits by making purchases. Often these may be modeled on programs used in consumer goods and retail, such as earn-and-burn programs, in which customers get rewards based on the amount of money they spend, or paid memberships that increase the purchase frequency and share of wallet for each customer.

The move to a greater e-commerce presence will necessitate more integrated systems and better capabilities. For instance, supply-chain and inventory-management systems must automatically share information with the e-commerce system to ensure that customers instantly know about potential delays. Similarly, even companies with strong supply chains must make some adaptations to fulfill online orders.

Digital channels can help industrial companies improve the customer experience and eliminate pain points for existing accounts. But the creation of an e-commerce platform also introduces some risks because it could jeopardize relationships with critical distributors, and that makes digital sales more complicated than those within retail, consumer-goods, and many other industries. Industrial companies that create a solid channel-management strategy before launching their e-commerce sites will be the most likely to achieve long-term benefits from digitization.

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