UPS Industrial Buying Dynamics study – Evolution of the distributor value proposition

Study of the behaviors, preferences and perceptions of industrial products buyers
The industrial distributor business model has seen tremendous success throughout U.S. history. Serving a vital link between manufacturers and industrial buyers, distributors have provided a layer of convenience and service to customers upstream and downstream in the value chain.

Yet distributors are at the center of unprecedented market pressures. Their customers, both manufacturers and industrial products buyers, have access to more ways to research vendors and products, and to buy and sell than ever before. In this study of buyer behavior, it is clear that most buyers are taking advantage of the options before them, and are reevaluating the value of being loyal to an established supply base.

Buyers are also using many different methods to research distributors, making face-to-face interactions merely one channel in a long list of influences on buyer behavior. Resilient distributors have adapted by stepping-up their e-commerce capabilities, broadening SKUs or expanding geographic coverage. Others have found a profitable market niche.

Is the traditional distributor value proposition dead? No, but this study implies that it’s being redefined by the momentum of major market forces:

1. Customer demands: The transition from relationship-driven service to experience-driven
2. Direct-from-manufacturer purchasing: The blurring of channel boundaries
3. E-commerce: The expectation of a consumer buying experience in a B2B world
4. Influence of Millennials: The race to meet the needs of a new mindset

This paper explores many dimensions of the contemporary industrial buying experience, and offers insights into areas where distributors excel, and where they may need improvement.
Customer demands

Perceptions of performance
Buyers think distributors are performing somewhat well or very well on attributes across the board. They are least satisfied in the areas of added-value services and physical locations.

Figure 1 Distributor performance
How well do your current distributors perform on...?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product quality</td>
<td>98%</td>
</tr>
<tr>
<td>Product availability</td>
<td>95%</td>
</tr>
<tr>
<td>Delivery when products are needed</td>
<td>93%</td>
</tr>
<tr>
<td>Payment options</td>
<td>90%</td>
</tr>
<tr>
<td>Product price</td>
<td>90%</td>
</tr>
<tr>
<td>Product catalog/product information on supplier website</td>
<td>89%</td>
</tr>
<tr>
<td>Return policies and procedures</td>
<td>89%</td>
</tr>
<tr>
<td>The supplier’s website overall</td>
<td>88%</td>
</tr>
<tr>
<td>Ability to make purchases on the supplier’s website</td>
<td>86%</td>
</tr>
<tr>
<td>Having a sales representative</td>
<td>83%</td>
</tr>
<tr>
<td>Printed/hard copy catalog</td>
<td>81%</td>
</tr>
<tr>
<td>Shipping costs</td>
<td>81%</td>
</tr>
<tr>
<td>Contract/negotiated pricing</td>
<td>78%</td>
</tr>
</tbody>
</table>

Percent of buyers rating not performing well

- **25%** Value-added services such as repairs, training or technical support
- **30%** Having a nearby physical location where you can purchase or pick up your order

The impact of distributor size and scope
To gauge whether a distributor’s perceived size was meaningful to buyers, respondents were asked who they prefer to buy from according to these general guidelines.

- **Small** – Typically a single location or niche service
- **Midsize** – Regional coverage
- **Large** – National and/or international coverage

Once the preferred distributor size was selected, buyers in each group were asked to choose the top five reasons they prefer that size of distributor. It’s important to note that although one buyers’ perception of small, medium and large may vary, the results provided some interesting insights.
Putting price aside, buyers who prefer small distributors do so for personal service, while buyers who prefer large distributors favor their wide selection. Among buyers who prefer midsize distributors, no single characteristic but best price stands out from the other options.

**Figure 2 Top 5 factor(s) when purchasing**
Select the top 5 factor(s) that are most important to you when purchasing industrial supplies from your preferred distributor size.

<table>
<thead>
<tr>
<th>Prefer Small Distributor</th>
<th>Prefer Midsize Distributor</th>
<th>Prefer Large Distributor</th>
</tr>
</thead>
<tbody>
<tr>
<td>58%</td>
<td>67%</td>
<td>69%</td>
</tr>
<tr>
<td>Personal service</td>
<td>Best prices</td>
<td>Best prices</td>
</tr>
<tr>
<td>56%</td>
<td>51%</td>
<td>61%</td>
</tr>
<tr>
<td>Nearby location</td>
<td>Speed of delivery</td>
<td>Wide selection of products</td>
</tr>
<tr>
<td>49%</td>
<td>50%</td>
<td>55%</td>
</tr>
<tr>
<td>Customer service</td>
<td>Customer service</td>
<td>Customer service</td>
</tr>
<tr>
<td>41%</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Speed of delivery</td>
<td>Wide selection of products</td>
<td>Speed of delivery</td>
</tr>
<tr>
<td></td>
<td>39%</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Level of tech support provided</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Researching and selecting distributors**
Word-of-mouth and personal references are used most often to research a new distributor (60%). Buyers also rely on a distributor’s website slightly more often than a company sales representative. When selecting a new distributor, foundational factors like product quality and price ranked highest, followed by customer service.

**Figure 3 Resources used in researching**
What are the top 5 sources you use most frequently to research?

| Word-of-mouth | 60% |
| Distributor website | 54% |
| Company sales representative | 51% |
| User review | 45% |
| Trade shows | 37% |
| Blogs and social media | 36% |

**Figure 4 Factors in selecting a distributor**
Select the top 5 factor(s) you rely on most frequently when deciding which distributors to purchase from.

| Quality of products | 64% |
| Best prices | 58% |
| Best value | 53% |
| Customer service | 50% |
| Speed of delivery | 39% |
Channel usage
In the 2013 UPS study of industrial products buyers, 57% said they purchased online most frequently, compared to 66% in this study. Buyers most often purchase online, but not exclusively as Figure 5 shows, below.

Figure 5 Top channels used
Select the top methods you most frequently use to purchase industrial supplies.

Among those who prefer to use offline channels such as phone/fax and in-person, the barriers keeping them from going online point to challenges such as:

- 30% Too difficult to get answers to product or order-related questions
- 29% Too difficult to identify/confirm product details
- 29% My suppliers’ sites don’t show my negotiated pricing
Perceived challenges to purchasing from distributors

When asked about the challenges faced in working with distributors, 35% of buyers cited *price* and *payment options* while 31% rated service-related issues as most challenging.

*Totals may not match due to rounding

**Figure 6 Most critical challenges with distributors**
Select the top 5 most challenges of working with distributors today
Logistics needs

Same-day delivery:
To gauge demand for more urgent services, buyers were asked to share what percentage of their orders require same-day delivery. Most said they need less than 25% of their orders on the same day.

Characteristics of buyers with greatest demand for same day shipping:

66% Spend $50,000 - $250,000

58% Between the ages of 31-50

Top 3 industries
- General Manufacturing/Processing
- Contractor/Service Provider
- Residential Construction

Top 3 products
- Hand Tools
- Safety/Personal Equipment
- Power Tools

Key takeaway

With technology making it easy to bypass or switch intermediaries, distributors must reevaluate how well they are delivering on customer expectations. Findings suggest vulnerability for distributors in some areas.

- Stand out—Midsize distributors need further differentiation from competitors who are seen to excel at selection (large distributors) and personal service (small distributors).
- Service matters—When given a long list of distributor attributes and services to rate, buyers are least satisfied with the level of support distributors offer for post-sales and help resolving issues. Distributors may benefit from taking a fresh look at the strength and effectiveness of their post-sales support infrastructure.
There is certainly a push-pull aspect to direct purchasing in industrial sectors, with increasing numbers of manufacturers and buyers exploring their direct-sell and direct-purchase options. In fact, one of the most surprising findings was the extent to which buyers said their companies already buy directly from manufacturers (DFM), or have considered doing so.

**Figure 7 Purchase direct-from-manufacturer (DFM)**
When it comes to buying direct-from-manufacturers, which of the following best describes your company?

![Pie chart showing the distribution of responses to the question about DFM purchase.](chart)

- **7%** We have not considered doing this
- **30%** We have considered this, but do not currently do it
- **64%** We already do this

**Figure 8 Likelihood to increase purchasing DFM**
How likely are you to increase purchasing directly from a manufacturer?

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Overall Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase DFM purchase</td>
<td>37%</td>
<td>51%</td>
<td>88%</td>
</tr>
</tbody>
</table>

**Figure 9 Likelihood to start purchasing DFM**
How likely are you to start purchasing directly from a manufacturer?

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Overall Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start DFM purchase</td>
<td>8%</td>
<td>58%</td>
<td>66%</td>
</tr>
</tbody>
</table>
The budget and age demographics of purchasers buying direct provides an interesting dimension to the findings. Specifically, those in higher spending categories and in younger age demographics are more likely to buy direct.

**Figure 10** Purchase direct-from-manufacturer by age group
When it comes to buying direct-from-manufacturers, which of the following best describes your company?

<table>
<thead>
<tr>
<th>Buyer age groups</th>
<th>21-30</th>
<th>31-50</th>
<th>51-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>69%</td>
<td>65%</td>
<td>62%</td>
</tr>
<tr>
<td>31-50</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>51-70</td>
<td>1%</td>
<td>5%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Figure 11** Purchase direct-from-manufacturer by spending level
When it comes to buying direct-from-manufacturers, which of the following best describes your company?

<table>
<thead>
<tr>
<th>By spending level</th>
<th>Low spend</th>
<th>Medium spend</th>
<th>High spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>34%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>31-50</td>
<td>56%</td>
<td>65%</td>
<td>76%</td>
</tr>
<tr>
<td>51-70</td>
<td>10%</td>
<td>4%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Those in higher spending categories and in younger age demographics are more likely to buy direct.

**Key takeaway**
There are reasons distributors see a silver lining in the trend toward direct-from-manufacturer purchasing.

- **More than meets the eye** — Although buying direct-from-manufacturers appears to be on the rise, it’s too early to project the long-term impact. There are factors that manufacturers may not want to address, or be prepared to address, in a way that suits buyers such as sales support, customer service, returns, physical locations and repairs. In the meantime, distributors have an opportunity to reinforce the value of their services with customers.
Forrester Research estimates that B2B e-commerce will reach over $1 trillion by the end of 2020. For perspective, that’s about four times B2C spending. The findings in this study seem to support that projection, with 66% of buyers purchasing through distributor websites. Among that group, 53% are spending more than one-half of their budgets there.

The power of user-friendly websites

Nearly three-quarters of the buyers surveyed said they would shift spending to a distributor with a more user-friendly website. That finding is just one sign of the evolution from relationship-driven to experience-driven loyalty.

However, as Figure 12 shows below, a user-friendly website is not necessarily enough to meet buyers’ needs. In fact, most who buy online are using other channels as well.

Figure 12 Top methods used to purchase
Select the top methods you most frequently use to purchase industrial supplies.

Even among buyers whose top choice was an offline channel, the clear second choice in each case was online.

Key takeaway

Facing the challenges of e-commerce head-on is vital to the future health of virtually any business today.

- **Consistency counts** — Buyers use online channels most to make purchases, but not exclusively. While all distributors are expected to meet the standard for quality and price, those who meet expectations for cross-channel consistency, ease and convenience will have an advantage.

- **Invest for tomorrow** — While staffing resources, expertise and budget are perennial barriers to taking the next step in an e-commerce evolution, it’s important to note that there are relatively turn-key and affordable resources available to businesses of all sizes.
Brand loyalty is important [to Millennials] and is earned based on product quality, a good customer experience and support for society.1

The UPS Industrial Buying Dynamics Study also shows why Millennials’ purchase preferences may be among industrial distributors’ greatest business challenges.

**Demands**

Over 79% of those between the ages of 21-30 are buying online. Among the small number of people who do not buy online, most say it’s because it is too difficult to confirm product details online.

![Image: Graph showing 79% of those between 21-30 are buying online]

51% have purchased via third-party websites like Amazon and Alibaba

Few Millennial buyers use catalogs, but those who do use them for:

- 39% accurate product and visual information
- 34% clear delivery date

Millennials’ purchase most often via websites but need more information than is often provided. By default, they rely on additional channels to confirm details before making a purchase. Cross-channel consistency is likely to appeal to this group.

1Source: Millennial Consumer Trends, 2015 by Elite Daily
e-commerce

As a generation raised on websites offering detailed product specs, user reviews and the ability to zoom in on high-definition photos, there are big expectations to meet for the Millennial generation. There is evidence that this group will be especially difficult to attract and retain as customers. For example, the study showed that 72% of all buyers surveyed were likely to shift spending to a distributor with a more user-friendly website. In comparison, 85% of Millennials would shift spending.

Figure 13 Likelihood to shift spending/Increase online purchases
If another distributor had a website that you found more user-friendly, how likely would you be to shift more of your spending to that distributor?

<table>
<thead>
<tr>
<th></th>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>16%</td>
<td>55%</td>
<td>72%</td>
</tr>
<tr>
<td>21-30</td>
<td>28%</td>
<td>57%</td>
<td>85%</td>
</tr>
<tr>
<td>31-50</td>
<td>22%</td>
<td>55%</td>
<td>77%</td>
</tr>
<tr>
<td>51-70</td>
<td>9%</td>
<td>56%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Buying DFM

Over two-thirds of Millennials are already buying direct and most expect to increase (Figure 14 & 15).

Figure 14 Buying DFM
When it comes to buying from manufacturers, which of the following statements best describes your company?

- Direct-from-manufacturer purchase: 69% We already do this
- We have considered this, but do not currently do it: 30%
- We have not considered doing this: 1%

Figure 15 Increased buying DFM
How likely are you to increase purchasing directly from manufacturers?

Increase direct-from-manufacturer purchase

<table>
<thead>
<tr>
<th></th>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>50%</td>
<td>40%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Key takeaway

This next generation of purchasing executives is leading the trend toward higher expectations for the buying process.

- **There is risk ahead** — There is reason to be concerned about losing Millennials’ business. That age group reported buying direct-from-manufacturers more frequently than other age groups. Millennials are also more likely to switch spending to a distributor with a more user-friendly website. And only 1% have not considered buying direct-from-manufacturers. Millennials are seeking information from multiple channels before making purchases. At minimum, it is essential to provide detailed product and shipping information via their preferred (online) channel, and knowledgeable support in any of the other channels they choose.

- **Mind the new mindset** — Distributors may not feel the full impact of this generation’s demands and choices for several years, but advance planning and strategy is key. Millennials are shaping the purchasing landscape of the future. Being in tune with their needs, and ideally ahead of them, will be vital to success.
In Conclusion
The challenges faced by industrial distributors are many, but they’re surmountable if companies are willing to re-examine how best to serve their customers’ needs today and tomorrow. The findings in this study offer a good place to start the discussion.

1 Customer demands
Price, quality and value are mainstays when selecting a distributor to buy from, and customer service is close on their heels. However, all signs say those are becoming minimum requirements – the so-called point of entry to the marketplace. Today’s buyers seek and demand an experience that best suits their needs, and they are gravitating in greater numbers to the distributors who meet them. There is no one-size-fits-all definition of a good customer experience. Bridging the distance between what a buyer wants and a distributor offers will take honest introspection and potentially difficult organizational change. Yet this study shows that buyers are not waiting for distributors to evolve.

2 Direct-from-manufacturer purchasing
Direct purchasing is apparently widespread among industrial products buyers. In fact, it’s fair to view direct buying as a symptom that buyers fail to see the value of working through an intermediary for certain transactions. Given the willingness of sellers and buyers to establish direct connections, distributors must deliver perceived and quantifiable value that is difficult to match by both manufacturers and other distributors.

3 e-commerce
It is easy to equate e-commerce with online purchasing. However, it should instead be seen as a strategic foundation upon which most services and transactions take place into the future. With a strong strategy in place, procurement systems work with inventory management and customer service systems, and so on, offering a seamless pathway for customers, employees and vendors across every selling and service channel. This study reinforces that distributors who fail to embrace e-commerce will face serious challenges in their efforts to attract and retain customers.

4 Millennials
This next generation of purchasing leaders brings new expectations for the buying process that will challenge distributors. Millennials are the most likely of all age demographics to shift spending to a distributor with a more user-friendly website. Only 1% have not considered purchasing direct-from-manufacturers. This age group has been raised on technology and they bring high expectations to the buying process. However, they need information they cannot always find from their vendors. Getting in touch, and then ahead, of this generations’ demands will be vital to success.

To learn more contact your UPS representative or visit ups.com/insights
Methodology
TNS conducted an online survey of 1,500 industrial supplies purchasers in February 2015. Respondents included sole/joint decision makers or strong influencers of sourcing and purchasing decisions. Survey respondents purchase catalog or stock-type products (not custom-made items) from a predefined list of product categories representing a wide range of industries.

Purchasers with annual spending levels on industrial products included in the study:

- **<$50,000 (n=664)**
- **$50,000 to $250,000 (n=460)**
- **>$250,000 (n=376)**

Factors such as age, tenure as a buying professional and preferred distributor size were also studied. Demographic differences of respondents are provided where the findings were significant and useful.

About UPS
UPS (NYSE: UPS) is a global leader in logistics, offering a broad range of solutions including the transportation of packages and freight; the facilitation of international trade, and the deployment of advanced technology to more efficiently manage the world of business. Headquartered in Atlanta, UPS serves more than 220 countries and territories worldwide. The company can be found on the Web at ups.com® and its corporate blog can be found at Longitudes.ups.com. To get UPS news direct, visit pressroom.ups.com/RSS.

About TNS
TNS advises clients on specific growth strategies around new market entry, innovation, brand switching and customer strategies, based on long-established expertise and market-leading solutions. With a presence in over 80 countries, TNS has more conversations with the world’s consumers than anyone else and understands individual human behaviors and attitudes across every cultural, economic and political region of the world. TNS is part of Kantar, the data investment management division of WPP and one of the world’s largest insight, information and consultancy groups. Please visit www.tnsglobal.com for more information. For further information on Kantar, please visit www.kantar.com.

Industry
- 23% General Manufacturing/Processing
- 14% Contractor/Service Provider
- 13% Residential Construction
- 11% Commercial Construction
- 9% Hospital/Healthcare
- 8% Automotive
- 4% Energy
- 3% Government/Military
- 3% Hospitality
- 3% OEM (Original Equipment Manufacturer)
- 2% Utilities
- 2% Aerospace
- 2% Machine Shop
- 1% Mining
- 1% Other

Title
- 32% Owner/Principal
- 13% Maintenance Manager/Supervisor
- 10% Purchasing Manager/Director/Officer
- 9% Buyer
- 8% Contract Manager
- 7% Materials Manager
- 6% Procurement Manager/Director/Officer
- 5% Commodity Manager
- 3% Supply Management Director/Supply Chief
- 3% Sourcing Manager/Director/Officer
- 2% Other

Years of experience purchasing industrial products

- 2% <1
- 24% 1-5
- 28% 5-10
- 46% >10

© 2015 United Parcel Service of America, Inc. UPS, the UPS brandmark and the color brown are registered trademarks of United Parcel Service of America, Inc. All rights reserved. 01972206 6/15