



Billion Dollar B2B Ecommerce

by **Brian Beck**

Chapter 1: The Time is Now

This story has been told

The year was 1998. Sears, Roebuck, & Company, one of the oldest and largest retailers in the United States, had just released its prior year earnings. Profits were strong, and the company had just completed a year in which retail revenues increased by a healthy 8 percent.ⁱ The merchant opened 87 new stores in the prior year and was ranked as the 2nd largest retailer in the nation, based on gross revenue. In the company's annual report, the executive chairman reported, "We are confident that the changes we are making throughout our organization will further strengthen our competitiveness...customers often do not recognize that we meet or beat our competitors for price and overall value on a consistent basis." Sears believed they knew how to meet their customers' needs, seemingly better than their customers knew themselves.

The year was 2017. After a six-year, \$10 billion losing streak with no turnaround in sight, Sears warned investors in March of that year that "substantial doubt exists related to the company's ability to continue as a going concern." The company's very viability was in question. Sears was down to 894 U.S. store locations, from its peak of 3,500 locations in 2005, and had slashed its workforce by more than 50 percent.^{ii,iii} By 2014, Sears' total debt had surpassed its market capitalization, which stood at 4 percent of its former value. Many stock analysts and industry pundits were reporting the firm would soon file for bankruptcy. Looking for ways to save cash, management was shrinking inventory levels. In some stores, employees hung bedsheets to hide store departments that stood completely empty of products. In October 2018, the company filed for bankruptcy, with a re-organization in the plan but the company's ultimate outcome remaining uncertain. By the time you

read this book, Sears may no longer exist in any form. Retail analyst Cathy Hotka called the Sears Holdings' situation "the world's longest liquidation sale."^{iv}

An unprecedented fall from grace. *What happened?*

The answer lies with both too little too late, combined with a solid dose of hubris. During this twenty year period, Sears focused on maximizing shareholder returns, and turned away from focusing on its customers, their wants and needs. Along with a serious case of organizational inertia, management's over-confidence caused the company to fall behind—far behind.^v Apparently this Internet thing, among other factors, had become a place where customers were researching and buying products. Management recognized this trend way back in the 90s, and made some investment in Ecommerce, but it wasn't enough.^{vi} In addition, the company's slow moving culture proved difficult to change.^{vii} The investments did little to shift the company's culture or create the change need to compete in the digital age.

Over that same 20-year period, Amazon.com, Sears' rival and a major reason for the company's fall from retail prominence, looked at things differently. The CEO of Amazon, Jeff Bezos, designed his company to put the customer first. In a quote from 2010, Mr. Bezos highlighted his belief about the changing state of retail. He noted:

The balance of power is shifting toward consumers and away from companies...The right way to respond to this if you are a company is to put the vast majority of your energy, attention, and dollars into building a great product or service and put a smaller amount into shouting about it, marketing it.^{viii}

Since the late 90s, the retail economy has shifted, and consumers are in charge. Mr. Bezos is listening. His publicly stated goal is for Amazon to be, "The earth's most customer-centric company."^{ix}

And Mr. Bezos and Amazon are winning as a result. From the period of 2006 to 2016, Amazon's market capitalization increased by 1,934 percent while Sears' value fell by 96 percent. Amazon's total sales were a mere 17 percent of Sears' in 2005. Sears' revenues went on to fall by 14

percent over the following five years, while Amazon's nearly quadrupled. In 2011, the online retailer's revenue surpassed Sears, then completely lapped it in 2013. In 2016, Amazon earned \$136 billion in sales to Sears' comparatively meager \$22 billion.^x

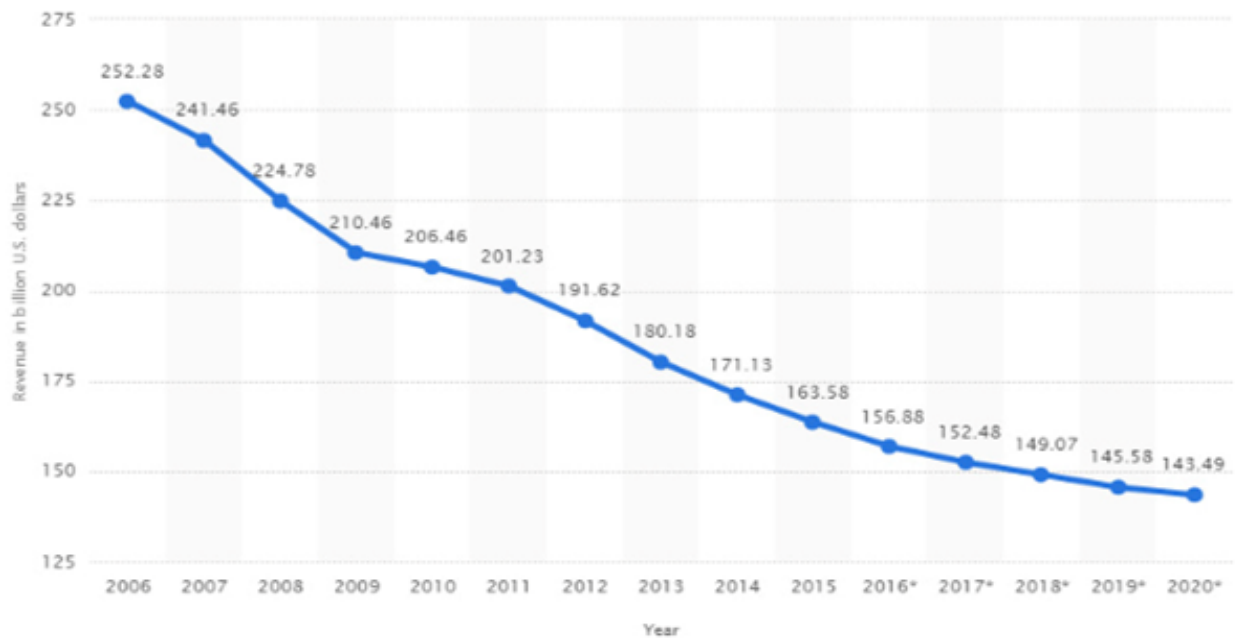
These are fundamental changes in buyer preferences and behaviors, and Sears wasn't the only company to fail to effectively respond to them. In fact, much of the retail industry—particularly traditional department stores and many in the “big box” retail category—have been unable to keep up with shifting buyer preferences and compete with Amazon and other Ecommerce companies. Reviewing the market caps of the top 10 retailers in the country during the period from 2006 vs. 2016 is quite revealing, as shown in the following graphic.



Source: <http://www.visualcapitalist.com/extraordinary-size-amazon-one-chart/>

The rise of Ecommerce is a primary challenge to the market dominance these firms enjoyed for so long. Big box and department store sales have plummeted during this period, as consumers increasingly do their shopping online. Visual Capitalist, a market research firm, estimates that revenues of these firms in 2020 will be equal to just 57% of their totals in 2006, as shown in the following graphic.

Big Box and Department Store Sales (\$ Billion)



Source: <http://www.visualcapitalist.com/extraordinary-size-amazon-one-chart/>

Meanwhile, Amazon grew its revenue an astounding 31 percent from 2016 to 2017, and is expected to reach almost \$400 billion in total revenue by 2020.

Some forgiveness may be in order here. There was no precedent at the time for the massive and rapid change in buyer preferences that impacted Sears, JC Penny, Lord & Taylor, Kmart, Toys ‘R’ Us, Macy’s, and dozens of other large retailers. The shopping mall, once a symbol of the vibrancy of American commerce, is now a dated and deteriorating retail model. There is a dramatic discrepancy between retail square footage in the United States and current consumer buying preferences. Analysts

predict that 25 percent or more of all malls in the U.S. will be closed by 2022. Retailers—and the entire system that was developed over decades to support them—have been forced to react to these changes. While merchants could see and feel these trends as they arrived, they had no way of knowing the massive scale of impact they would have on their business.

The same cannot be said for B2B companies, including manufacturers, brands, and distributors across all traditional industries. Many B2B companies have not yet had to contend with these changes outright, but they need to study and learn from their B2C counterparts. Disruption is upon our industry and ignorance is not an excuse for inaction. Be warned—change is here. Right now. I'll say it again. Right. Now. Unless you want to be Sears in 10 years, you need to take action immediately.

Lessons for B2B

Internet Retailer, the preeminent industry publication for Business to Consumer (B2C) and Business to Business (B2B) Ecommerce released a study in 2018 indicating that only 40% of manufacturers have Ecommerce web sites.^{xi} However, the industry is catching on. That same study found that 70% of companies that did not have Ecommerce web sites planned to launch a site by 2019. The window for action is closing.

The time is now.

B2B leaders across the globe must sit up and pay attention or suffer the fate of companies like Sears. Those that are taking action today are capturing a competitive advantage and driving enterprise value right now. This is across all kinds of industry sectors. Consider these companies:

- **illumina:** A multi-billion dollar biotechnology manufacturer that has grown Ecommerce sales to a substantial double digit portion of sales in less than two years, with a considerable part of these sales coming from incremental units purchased online, increasing their share of existing customers' wallets.

- **Kelly Paper:** A \$500 million privately-held paper distribution company driving 3 percent higher gross margins from orders placed online, which are over 50 percent of total sales.
- **Mountz:** A \$20 million tool manufacturer finding an entirely new market for its products by using digital marketing to reach new customers its sales force did not have time to get to, adding millions in top-line revenue.
- **Henry Schein:** A multi-billion dollar dental equipment distributor leveraging Ecommerce to auto-generate subscription renewals with customers, improving renewal rates, making its sales team more effective, and freeing sales associates' time to engage in more strategic activities with customers.
- **Evergreen Enterprises:** A \$300 million manufacturer/brand of home products that added \$20 million in revenue by seizing control of their marketplace presence on Amazon, and is now investing in further growing the channel.
- **Augusta Sportswear:** A \$200 million manufacturer of sports team apparel driving more than 50 percent of sales, and all of its growth, from Ecommerce.

These are just a few examples; more are entering the market every day. B2B buyer behavior has shifted fundamentally, just as it did in B2C. And while B2B Ecommerce, as of this writing, remains at least a decade behind B2C Ecommerce in terms of availability of products for sale on the web, the fact of the matter is that B2B Ecommerce is twice the size of B2C in terms of absolute revenue. In 2017, U.S. B2B Ecommerce was estimated to amount to \$900 billion in sale, vs. B2C's \$453 billion.^{xii} Firms that are acting are winning this Ecommerce revenue.

The sell side is what is holding back the sector from even more explosive growth. Forrester Research found in a 2017 study that 38 percent of business buyers make more than half of their work purchases online, and more than 55 percent of buyers will do the same by 2020.^{xiii} Why aren't more B2B buyers buying online currently? The answer is surprisingly simple: the companies they want to

buy from aren't selling online! B2B sellers are being dragged into Ecommerce by their customers. This will continue to evolve as younger, digitally native buyers come into the workforce. As I noted above, those sellers that are actually listening are reaping the benefits.

The time is now.

My Goal in Writing this Book

My goal in this book is to provide you—the B2B executive, manager, business owner, or entrepreneur at a manufacturer, brand, or distributor—with a solid foundation of Ecommerce knowledge, and give you the tools to lay out and execute an Ecommerce roadmap for your organization. I have been in the Ecommerce field for over twenty years, the first seventeen of which were as an operating executive, and since then as an advisor, consultant, and board member for both B2B and B2C Ecommerce organizations. I've been the owner of the P&L and have managed every aspect of building Ecommerce—from startups with little revenue to large firms with hundreds of millions in online revenue. I have managed first-hand all of the functions of a successful Ecommerce operation, including: web merchandising, digital marketing, user experience, technology selection and implementation, customer support, fulfillment, and other operating functions. I have built companies from concept to Inc. 500 and Internet Retailer Top 500 prominence. And, in recent years, I have translated this knowledge and experience into advisory services to help B2B companies of many sizes—from tens of millions to many billions in total revenue—engage in digital transformation. It is very exciting and engaging work, and I love what I do.

I don't tell you about my experience to brag; I'm telling you because I've made every mistake discussed in this book, and have learned a ton along the way. My goal is to share this hard-earned knowledge with you, to help you understand what makes for a successful Ecommerce operation, and to allow you to avoid common mistakes along the way. In reflecting back on my two decades in this field, what I find most amazing is the consistency of challenges, misconceptions, and opportunities in Ecommerce across all types of organizations and in wildly diverse industries, including:

- The consistent desire for today's customers to research and purchase products online (yes, this includes old line industries where traditional buying methods have existed for decades—YOUR customer is changing)

- A mix of fear, legacy thinking, and business performance that is “good enough” in traditional channels preventing action by many product sellers (who wants to sign up to be the B2B version of Sears? Anyone?)
- The need for leadership to break the chains of traditional business practices, demolish silos and inaction, create alignment, and begin digital transformation
- Management concerns about channel conflict (external and internal sales channel alignment)
- Management concerns about brand protection in a digital world
- Worries that Ecommerce will eliminate personal relationships, and the sales force and other traditional selling channels will hate it and fight it to the death

These factors can create inaction, even as B2B buyers clamor for the ability to purchase online. I am encouraged every day, though, as more companies reach out to seize control of their digital destiny.

When I started this effort in late 2016, I was amazed to find no book on B2B Ecommerce existed in the market. So I decided to write one. With the precedent of B2C retail turmoil in plain site, my hope is that you will use this book to get in front of trends and create opportunity from change for your organization.

The time is now to take action.

What you will learn

I created this book in what I hope you will find to be a logical manner. My intent is to allow you to first understand the foundational requirements of Ecommerce and the importance of leadership. I then go into detail around specific tactics you will need to successfully execute. I will give you the ability to see the forest from the trees and create a strategy, and then provide you with details to guide your execution in each critical area necessary to build a thriving Ecommerce operation.

Here is a preview of what you will learn:

- **Leadership and Alignment**—In Chapter 2, I discuss the need for leadership as an essential catalyst to drive change. Without leadership, and getting the right, *experienced* people on the bus with you, B2B Ecommerce does not happen effectively. Period. Sorry, your long time IT

techie person or your 23 year old nephew won't get it done for you, just because they know how to use social media or write software code.

- **Revenue Drivers and Return on Investment (ROI)**—All solid business decisions start with an understanding of the expected benefits and costs associated with a new endeavor. In Chapter 3, I highlight the drivers of financial return (revenue and profit enablers), as well as common costs (both capital expenditures and ongoing expenses) that need to be considered.
- **Organizational Evolution**—In Chapter 4, I highlight the key roles and functions that need to be added to the organization in order to create a well-functioning Ecommerce operation. Tremendous amounts can be learned from the B2C world in this area, and entirely new concepts and roles to B2B—such as web merchandising staff—are introduced. Accountability structures and key performance indicators are also shared.
- **Aligning Selling Channels**—Most B2B organizations have long-established selling channels, such as a direct sales force, independent reps, distributor relationships, call centers, and other channels. These channels are often centered squarely on personal relationships between representatives at buyers and sellers (both executive and line level). In Chapter 5, I discuss how Ecommerce, when properly aligned with traditional sales channels, can actually make the entire sales function more effective.
- **Managing Channel Conflict**—With Ecommerce comes new levels of pricing transparency and potential shifts in where sales are transacted. This often threatens legacy sales channels. But, this should not prevent you from acting. In Chapter 6, I reveal the tactics that B2B sellers are using to effectively manage channel conflict, capturing opportunity while also maintaining traditional channels and recognizing their true value to the end customer.
- **Developing an Amazon Strategy**—No book on Ecommerce is complete without an in-depth look at Amazon. Amazon was responsible for 44 percent of all US Ecommerce in 2017.^{xiv} Given this company's extraordinarily prominent role in this industry, and their very

considerable investments in the B2B sector (called “Amazon Business”), I dedicate Chapter 7, aptly named “The Amazon Chapter,” to reviewing what they are doing, and the opportunity it may create for you. As a player in the modern digital economy, you must have an Amazon strategy, whether you sell on the marketplace or not.

- **Leveraging Digital Marketing**—With an effective Ecommerce web site, opportunities are available to your marketing team to capture new customers and sales via digital marketing. In Chapter 8, I define and cover how you can use digital marketing channels such as paid search, search engine optimization (SEO), email marketing, and other modern marketing methods to build traffic to your Ecommerce web site and reinforce your relationships and acquire and new customers.
- **Building an Ecommerce Technology Foundation**—Your Ecommerce platform and related systems are the ground game in your online selling playbook. Getting the right platform in place is absolutely critical to your long term success. Taking the time to do this right the first time is very important (I’ve learned the VERY hard way that shortcutting this process is a bad idea). In Chapter 9, I give you a step-by-step plan to documenting requirements and conducting a platform selection process.
- **Creating a Successful Online User Experience**—Too often, B2B companies do not realize the absolute criticality of a well-functioning online user experience and web site design that follows established conventions. Well-intentioned executives launch an Ecommerce web site without considering the user experience, present a hard-to-use interface to the customer that does not follow B2C best practices, and then wonder why they aren’t seeing massive sales gains. Today’s B2B online buyers are also online consumers in their personal lives, and these experiences inform their expectations in B2B buying. In Chapter 10, I review how B2B companies can “steal smartly” from B2C, while also accommodating common B2B workflows to make buyer’s jobs easier. I present several case studies of companies that learned the value of following online user experience best practices by first presenting a non-conventional experience, then re-launching with an effective user experience.

- **Being a Digital Organization**—It is not enough to just put an Ecommerce web site online. A full digital transformation touches all parts of the organization. In Chapter 11, I describe the characteristics of a digital first organization, and share how Ecommerce impacts and shifts processes across the entire company.
- **Our Digital Future**—One of the things I love the most about Ecommerce is that it constantly evolves. With the advent of things like Artificial Intelligence, Internet of Things, and Virtual Reality, merchants are learning to tie the physical and virtual world together in new ways. For sellers, this means enhanced personalization, and even deeper relationships with buyers, all facilitated by digital means. These are the topics of Chapter 12.

I have used case studies throughout this book to bring concepts to life. You will find examples from companies as large as Cardinal Health, with over \$130 billion in total revenue, to Mountz, with less than \$100 million. While the industries and company sizes vary, the stories and lessons are remarkably similar. Buyers are shifting research and purchase behavior online, and by following best practices and making the buyers' jobs easier via Ecommerce, these companies are winning.

Your time is now! Let's dive in!

For more information on “Billion Dollar B2B Ecommerce” and to purchase a copy, go to

www.BillionDollarB2BEcommerce.com

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ENDNOTE: SOURCES

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