



UPS B2B purchasing insights:

Behaviors, preferences and perceptions
of industrial supplier performance





Introduction

Industrial distribution, once dominated by family-owned companies built on generations of personal relationships, has undergone a quiet but dramatic renaissance. Vendor reduction initiatives, widespread mergers and acquisitions and the inevitable growth in online selling have intensified competition for available dollars.

The UPS B2B Purchasing Insights Study, conducted in partnership with research firm TNS, is designed to shed light on factors driving the purchase decisions of those who buy or influence industrial supplies purchases. Touching on both current and intended purchase behaviors, the study offers distributors a glimpse into their competitive position in the marketplace as well as potential areas for growth.

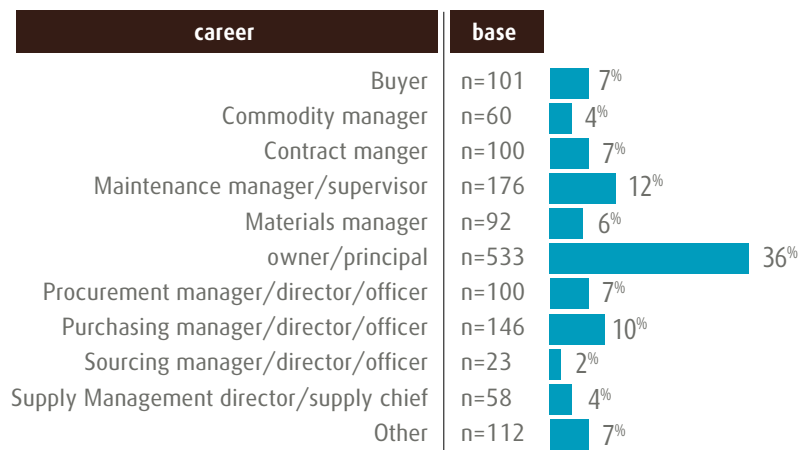
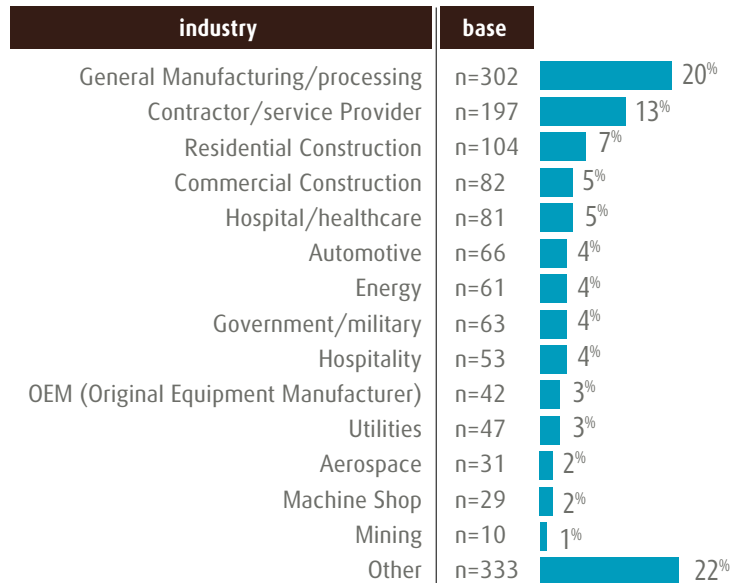
Methodology

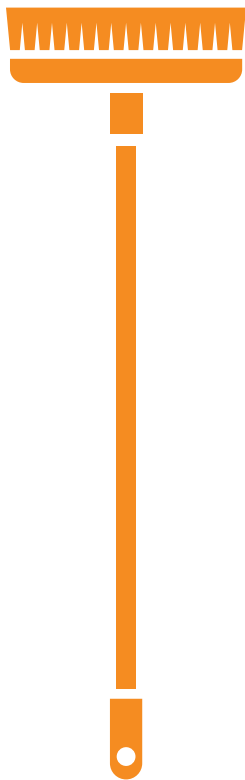
TNS conducted an online survey of 1,501 industrial supplies purchasers in December 2013. Respondents included sole/joint decision makers or strong influencers of sourcing and purchasing decisions.

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 of less than \$50,000 (n=680), \$50,000 to \$250,000 (n=504), and more than \$250,000 (n=317) were included in the study. Factors such as age, tenure as a buying professional and size of supply base were also studied. Demographic differences are provided where the findings were significant and useful.



- Less than 1 year
- 1-5 years
- 5-10 years
- More than 10 years





Executive Summary

The UPS Purchasing Insights study, a broad view of the industrial supplies buyer's mindset, studies customer perceptions across five key factors of the purchasing process.

- 5** **Key factors of purchasing process**
- Researching and Selecting Suppliers
 - Purchasing
 - Website Features and Functions
 - Delivery and Returns
 - Post-sales Service and Support

Researching, selecting and purchasing behavior are in transition

As expected, factors considered important in choosing a supplier and making a purchase are dominated by enduring features such as product quality, availability and price, followed closely by shipping, delivery and returns capabilities. Yet, it's interesting that only half of purchasers say having a catalog and having a sales representative are important to their supplier decisions. That is not to suggest that catalogs and sales representatives aren't important to the purchase process, because they are, but it does signal that the wants, needs and actions of industrial supplies buyers have taken a noticeable turn.

Readers may be most surprised to learn how quickly web-based research and purchasing has grown, with more than half of buyers now making some of their purchases online. One-third of buyers spend most of their budgets online. Buyers report that the majority of their suppliers have websites that offer online ordering. And, it can be argued that e-commerce is having an impact on buyer-supplier relationships -- 34% of buyers say they've gone outside of their existing supply base to make an online purchase with a new vendor. For suppliers, finding strategic ways to be in the right place at the right time is the key to retention and growth.

But perhaps one of the most unexpected findings is how very satisfied buyers are with their current suppliers' capabilities in all the areas they consider most important to the supplier selection process. This is great news for distributors in good standing with their customers, and perhaps concerning to those looking to expand a customer base.



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A common need - integration

Taking a big picture view of the findings reveals a common thread: the capabilities buyers rank most important require greater integration of a seller's systems and processes – inventory, shipping and returns – in order to provide a more competitive and satisfying customer experience. For example, data suggests that offering real-time product availability, negotiated pricing and shipping costs into the online purchase experience may help to fill a need for many buyers.

The results that follow help to reveal windows of opportunity for distributors seeking to retain and even grow their businesses. The findings suggest that suppliers who are not yet meeting their customers' purchasing demands must act quickly to remain competitive and grow.



Factors Affecting Supplier Selection

Selection criteria

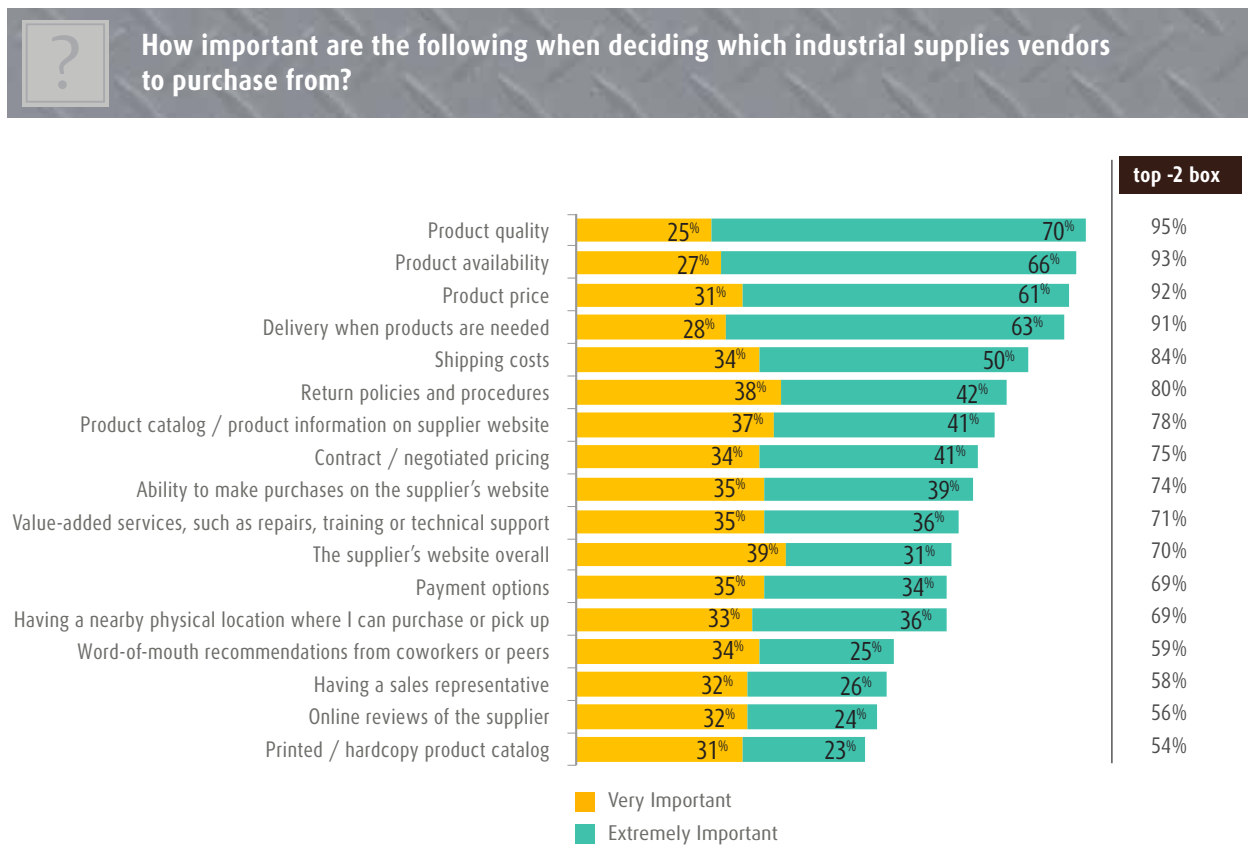
While the vast majority of buyers rank product-related features as important when selecting a supplier, more notable is that delivery and returns capabilities, along with the ability to buy on a supplier’s website, are important to more buyers than *having a sales representative* and *having a printed catalog*.

The findings presented ahead show that sales representatives and catalogs are still important and relevant to the supplier research process, but the data does signal a shift toward less traditional methods of research.

Diving more deeply into the selection requirements shows that more higher-spending buyers assign importance to supplier websites, sales representatives, catalogs and added-value services. They also rely more on word-of-mouth recommendations from coworkers and peers.

Figure 1: Important Criteria When Selecting Suppliers

Base: All respondents - n=1,501



* Respondents asked to rate “Extremely Important” attributes first followed by “Very important” up to a maximum of five attributes. Attributes randomly selected if more than five, prioritizing “Extremely Important” attributes.

Higher spending firms place greater importance on suppliers’ websites, as well as traditional offline criteria, including value added services, sales reps and printed catalogs.

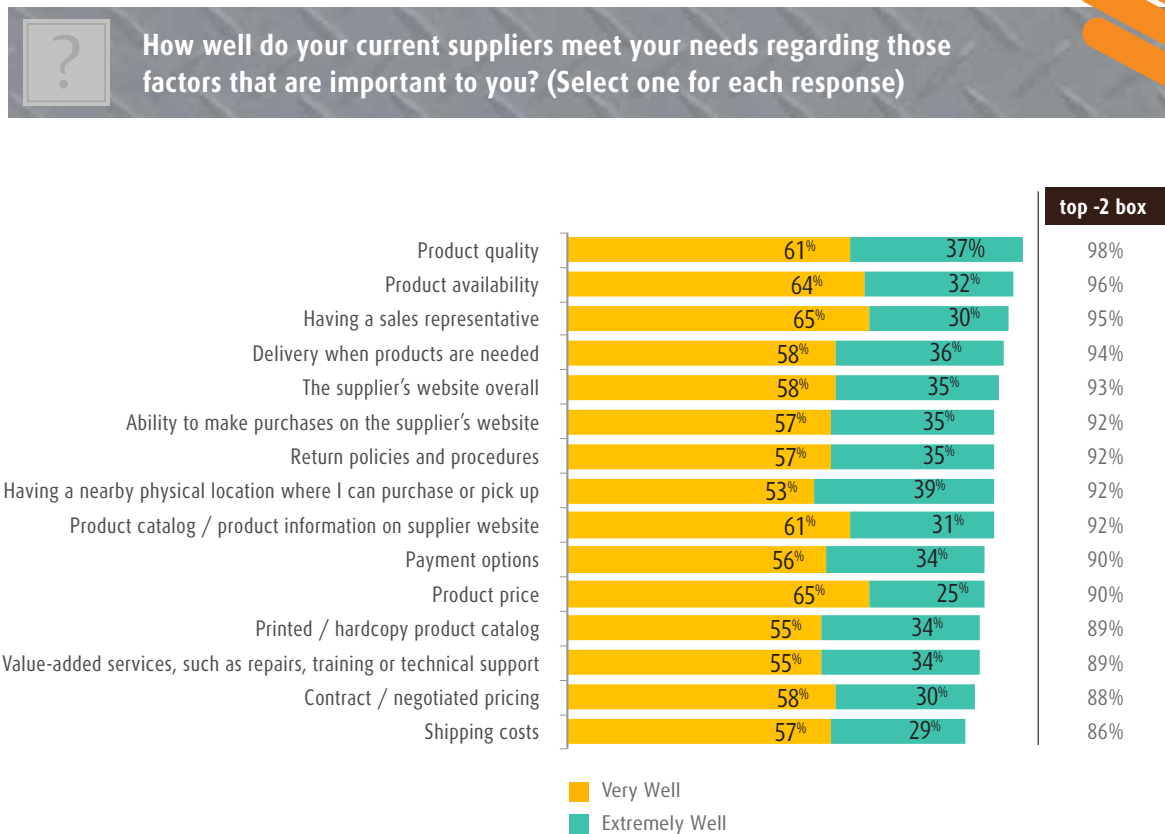
Supplier performance on selection criteria/attributes

Buyers indicate their suppliers are performing very well on all the criteria important to selecting a vendor. No meaningful differences could be found among the three annual spending levels.

At the same time, this raises a chicken or egg question. Are industrial suppliers, in general, performing well across the board? Or, are buyers choosing to work with vendors who better meet their needs on all these criteria? Regardless of the answer, the performance standard for suppliers is quite high, and it's reasonable to assume that those who anticipate and meet buyers' expectations stand the best chance of success.

Figure 2: Supplier Performance on Attributes

*Base: Varied bases among those placing importance on each attribute**



Research methods - most used and most preferred

More buyers choose websites and search engines to research industrial supplies purchases, and they're also the most preferred methods. A majority of buyers are researching supply purchases via supplier websites (68%), and 52% are using search engines.

Purchasers who prefer non-web based research – which includes everything from catalogs to independent reviews to technical articles – cite personal interaction and unbiased information as their reasons for choosing offline methods. As might be expected, buyers spending more than \$250,000 annually on industrial supplies are much more likely to rely on sales representatives and catalogs for information. However, buyers in higher spending brackets may have greater access to sales representatives.

Given buyers' high satisfaction levels with supplier performance on key selection criteria, and considering that web-based research is most preferred, it's reasonable to infer that many buyers consider online research essential to their supplier selection process. The use of search engines means that suppliers may be at greater risk of losing share to companies whose products are perhaps easier to find, in stock or more competitively priced. On the other hand, suppliers whose products are easy to find online and meet buyers' criteria may also stand to gain customers.

Figure 3: Industrial Supplies Purchasers' Research Methods

Base: All respondents n=1,501



Purchasing

Purchasing online is the most used and most preferred method, but traditional methods endure

Sixty-three percent of industrial supplies buyers purchase through websites, whether directly from suppliers or through a third-party provider, but use and preference for phone, fax and placing orders through sales representatives or emails remain strong. Across all purchase methods, the reasons cited were factors related to speed, ease and convenience. Those who prefer offline channels to make purchases cited personal interaction and the ability to get answers to order-related questions. Some participants noted company procurement policies dictated the purchase method they used.

Figure 4: Important Criteria When Selecting Suppliers

Base: All respondents - n=1,501

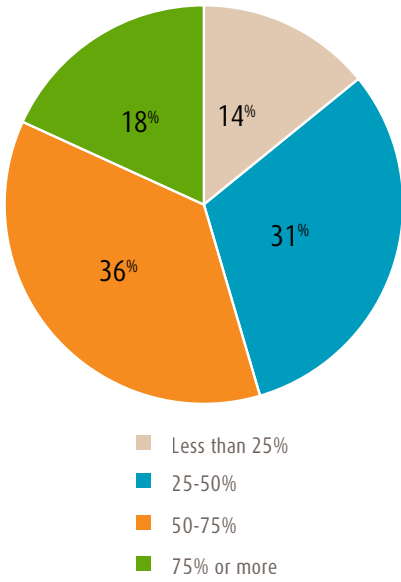


Looking at buyers' projected purchase behavior in Figure 5, it's fair to assume that the rate of online purchasing from supplier websites will continue to rise.

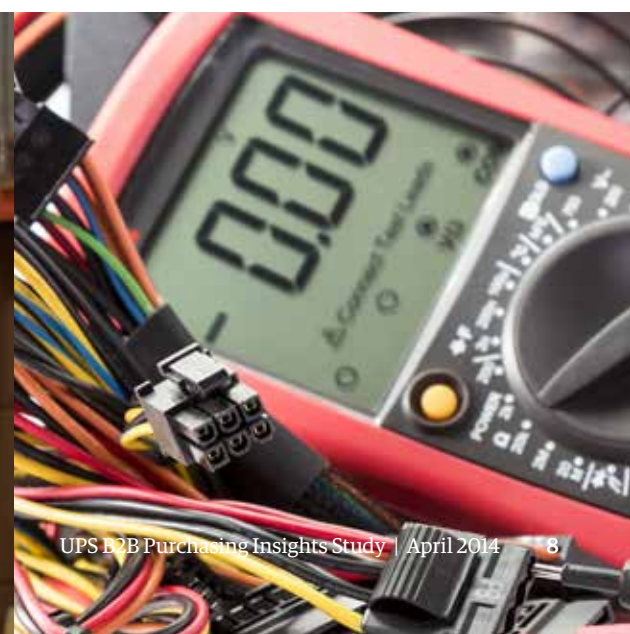
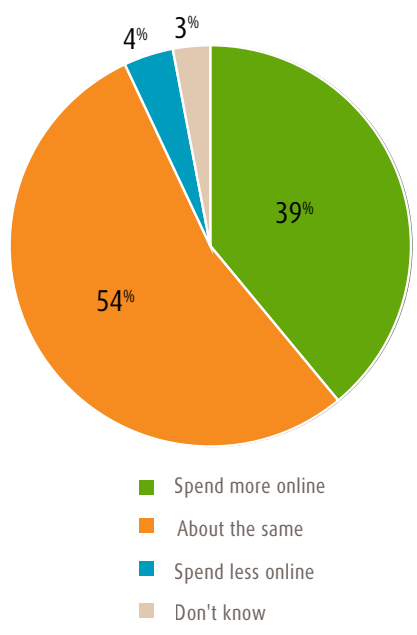
Figure 5: Approximate Percent of Annual Spend Conducted on Suppliers' Websites

Base: Among supplier website purchasers; n=863

? Approximately how much of your annual spend on industrial supplies is conducted on suppliers' websites? (Select one)



? How do you foresee the amount you spend on suppliers' websites changing in the next few years?

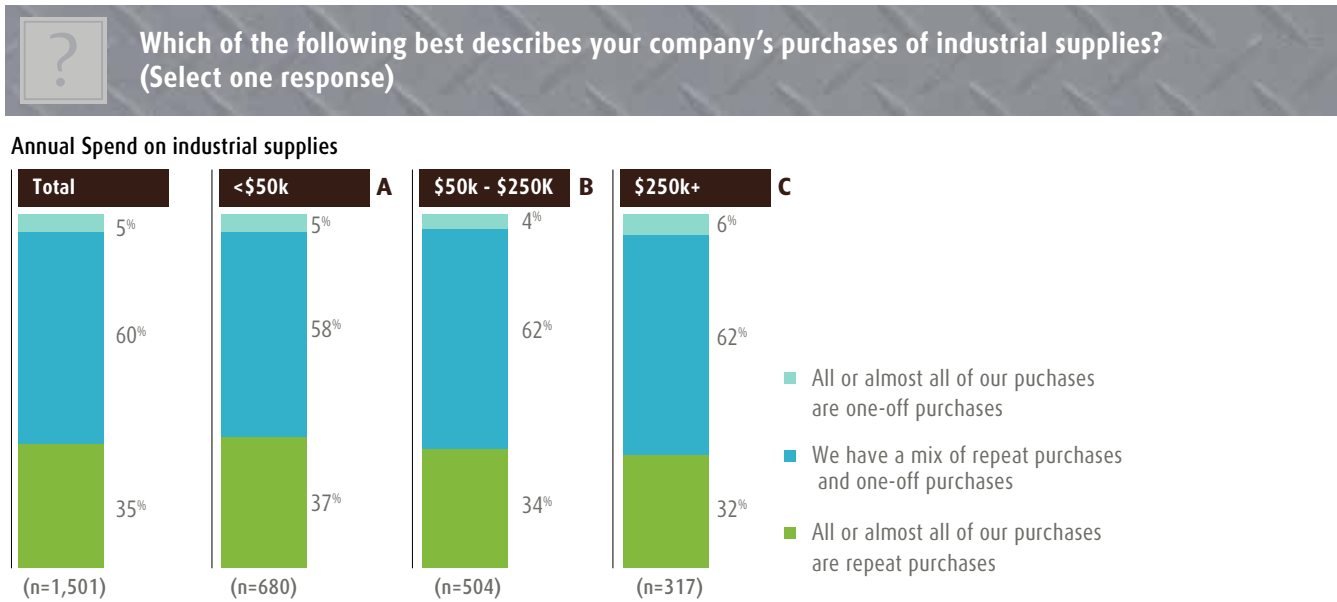


Most purchases are a combination of repeat and one-off orders

The majority of buyers across all spending levels report making a combination of repeat and one-off purchases, indicating that suppliers may have ample opportunity to acquire new customers. Since buyers expect to increase their online purchases in the future, and a clear majority prefer to research supplies online, having robust e-commerce and Search Engine Optimization (SEO) and Search Engine Marketing (SEM) strategies are essential for suppliers seeking to add or potentially retain customers.

Figure 6: Repeat Versus One-off Purchases

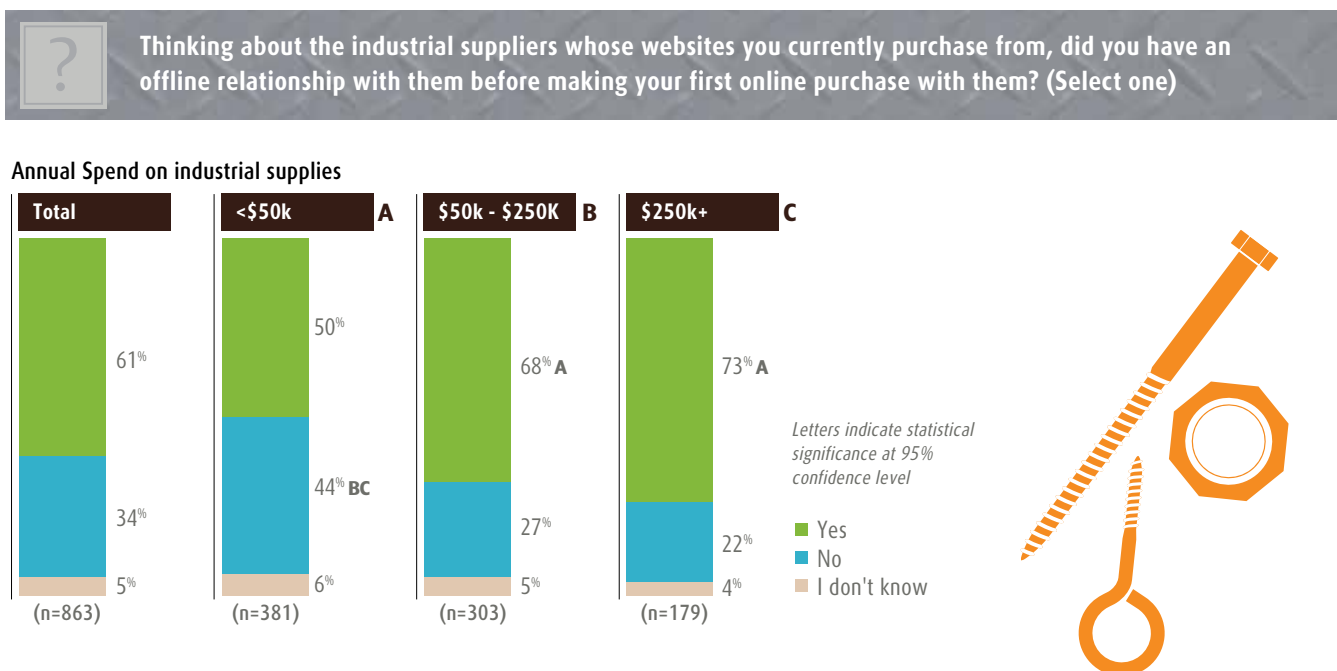
Base: All respondents; n=1,501



The opportunity to gain or lose online customers is underscored in Figure 7, showing that 34% of buyers say they've gone outside their existing supply base to make an online purchase. Buyers spending less than \$50,000 per year are more likely to purchase online from a supplier with which they had no previous relationship.

Figure 7: Pre-existing Offline Relationship with Supplier(s) for Online Purchases

Base: Among supplier website purchasers; n=863



Supplier websites

Online ordering has become table stakes; most buyers say half or more of their vendors offer website ordering

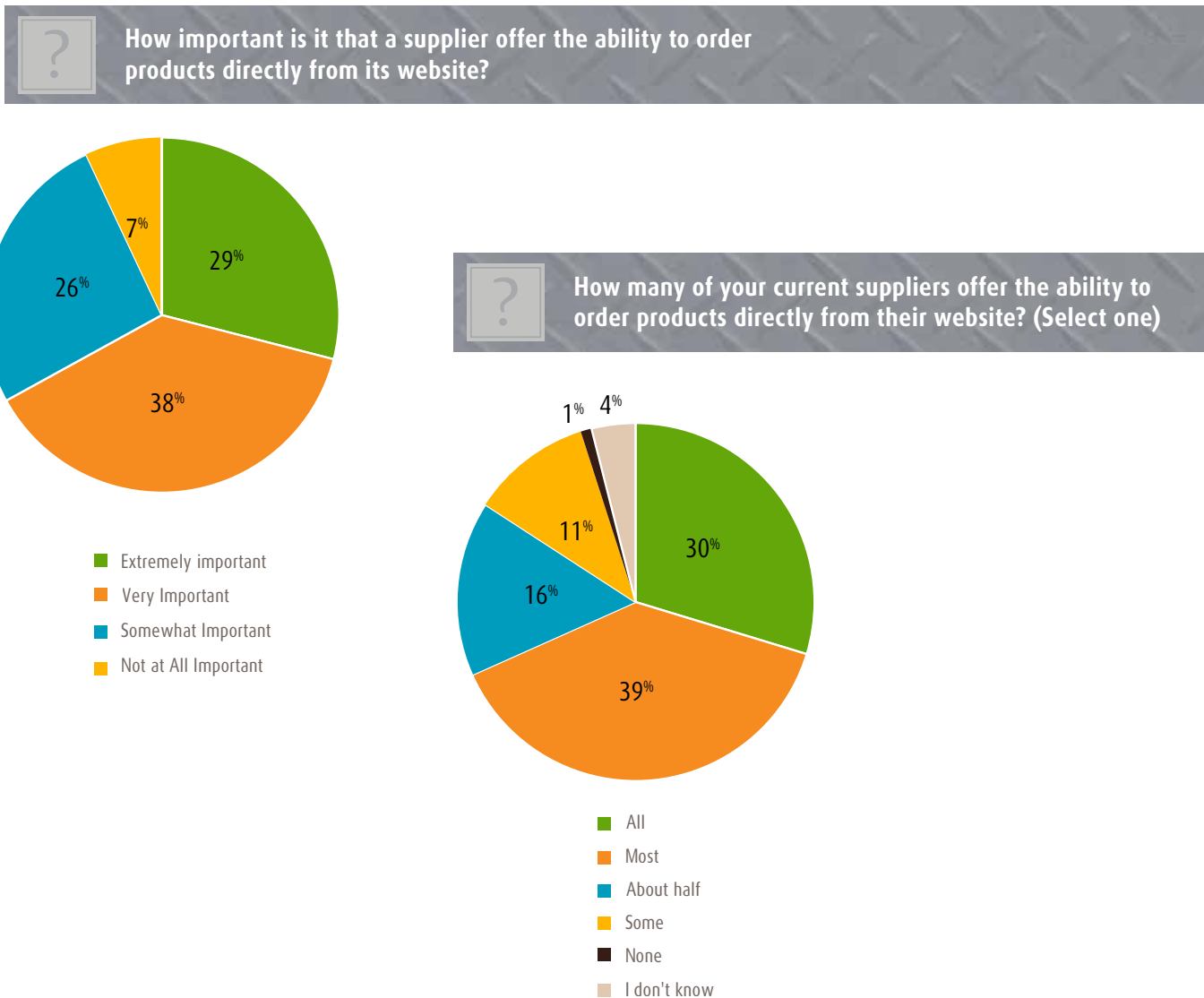
For 67% of buyers, the ability to order through a supplier’s website is considered either very important (38%) or extremely important (29%). Buyers with larger budgets, and younger purchasers, assign the highest importance to online ordering.

Buyers indicate that the majority of their suppliers offer website ordering. Again, it can be questioned whether the majority of suppliers actually offer website ordering or whether buyers have established more relationships with vendors who meet their expectations for that capability. Regardless of the explanation, the importance buyers assign to online ordering is high and worthy of supplier attention.

Despite the growth in current and projected online sales, many industrial supplies purchasers still rely on traditional methods when researching and ordering products. It could be argued that the complexity of B2B purchasing, such as negotiated pricing and procurement policies, means that online buying is unlikely to completely replace all offline methods in the immediate future.

Figure 8: Importance of Ordering from Supplier’s Website

Base: All respondents - n=1,501

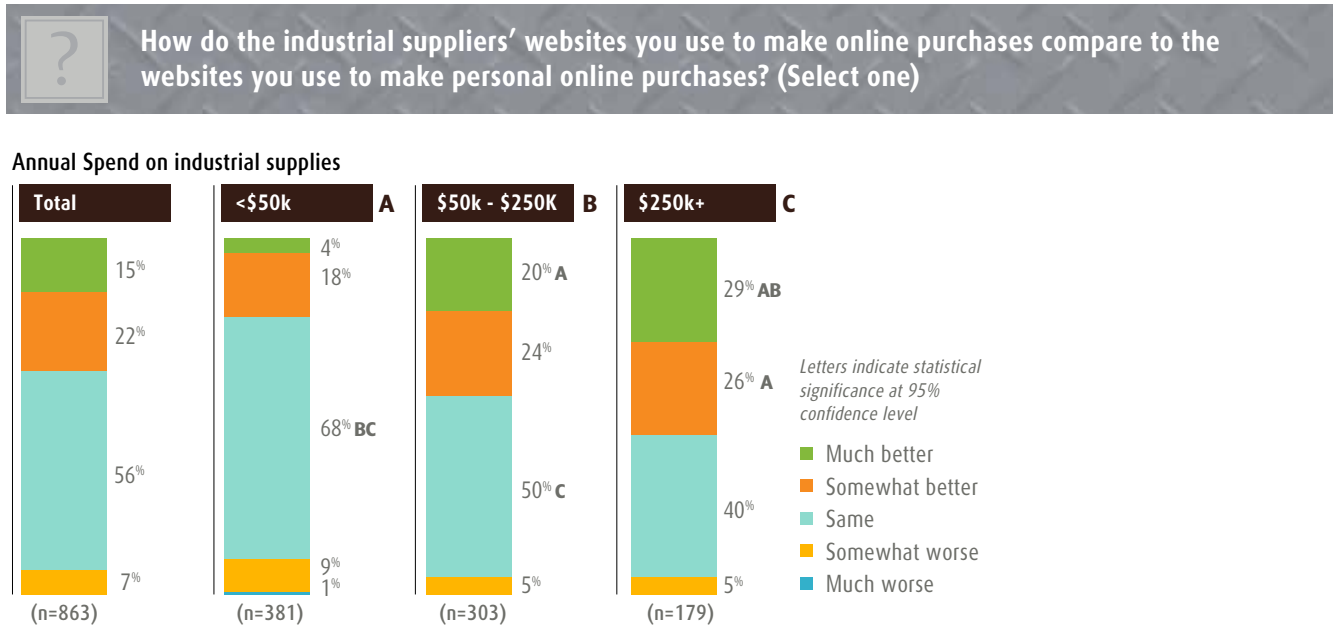


Supplier website features and functions are apparently on the right track

As seen earlier in the report, buyers on the whole are satisfied with their suppliers' websites. In fact, 93% of purchasers report the websites they order from are the same or better than the consumer websites they use to make personal online purchases. The higher the annual spend, the more favorably B2B websites are viewed compared to consumer websites.

Figure 9: Suppliers' Websites vs. Consumer Websites

Base: Among supplier website purchasers; n=863

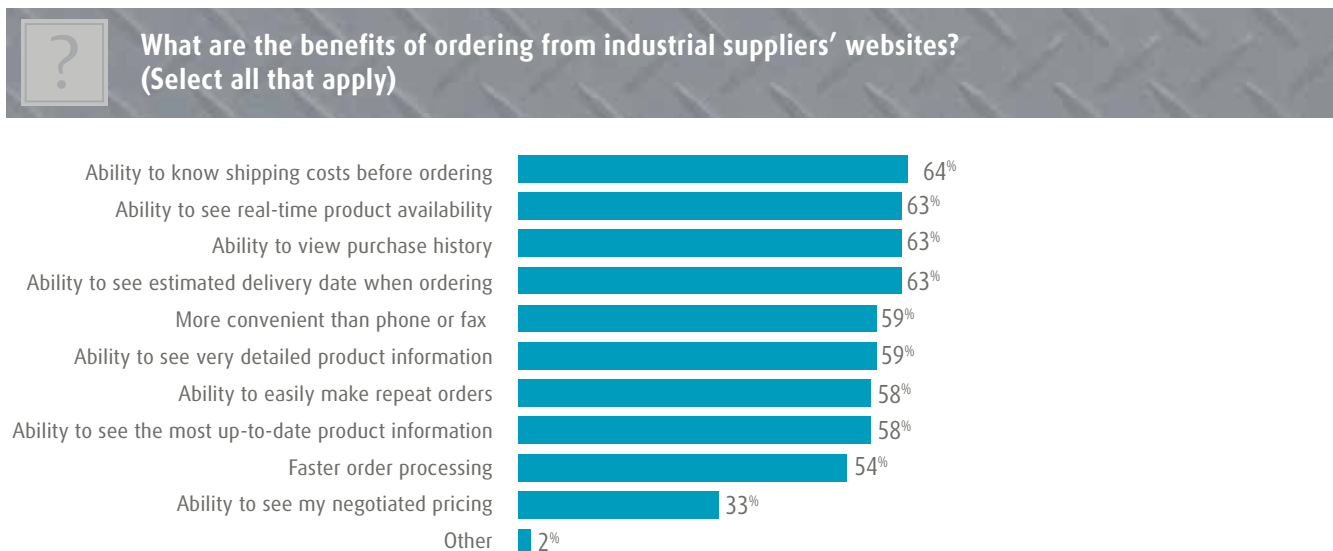


Online buyers appreciate website features that offer more insight into order cost and status

Among buyers who purchase through suppliers' websites, the ability to know shipping costs before ordering is one of the most mentioned benefits. Other frequently named benefits are real-time product availability, purchase history and delivery dates

Figure 10: Benefits of Ordering from Suppliers' Websites

Base: Among supplier website purchasers; n=863



Industrial supplies buyers do have a website wish list

Earlier, we saw that industrial supplies buyers are very satisfied with their vendors' performance. Buyers do see areas for improvement in the online buying experience, though. Specifically, having better visibility into real-time product availability is the feature buyers most want improved, and by a sizeable margin. Suppliers who fully integrate their e-commerce and inventory management platforms may have a competitive advantage here.

Figure 11: How Suppliers' Websites Could Improve

Base: Among supplier website purchasers; n=863



Those who buy through suppliers' websites see some downsides, such as *less personal service* (57%), and *more difficult to get answers to product or order-related questions* (40%). It's possible that buyers who have access to knowledgeable customer service representatives via online chat may possibly rely less on more traditional methods of purchase

Figure 12: Drawbacks of Ordering from Suppliers' Websites

Base: Among supplier website purchasers; n=863

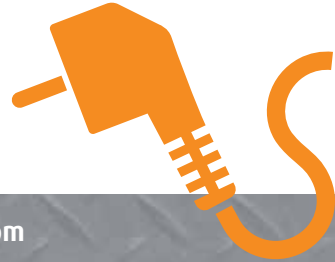



Barriers to online purchasing

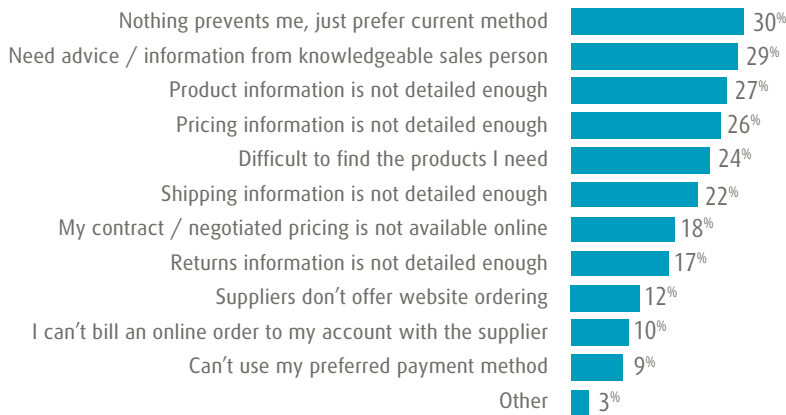
Despite buyers' satisfaction with suppliers' websites, those who don't buy online cite several reasons; top among them are those who simply prefer to buy through offline channels. Other reasons cited are related to the need for answers to product questions or pricing. In fact, since multiple reasons could be selected, some of the reasons are likely interrelated. While some buyers may remain more resistant to online buying than others, it's reasonable to assume that satisfying the need for more detailed product and pricing information through online channels may help to migrate existing customers to online channels, or to help gain new online customers.

Figure 13: Barriers Preventing Non-web Purchasers from Transacting on Suppliers' Websites

Base: Among non-web purchasers whose suppliers offer web purchases; n=626



 Which of the following prevent you from purchasing industrial supplies from suppliers' websites? (Select all that apply)



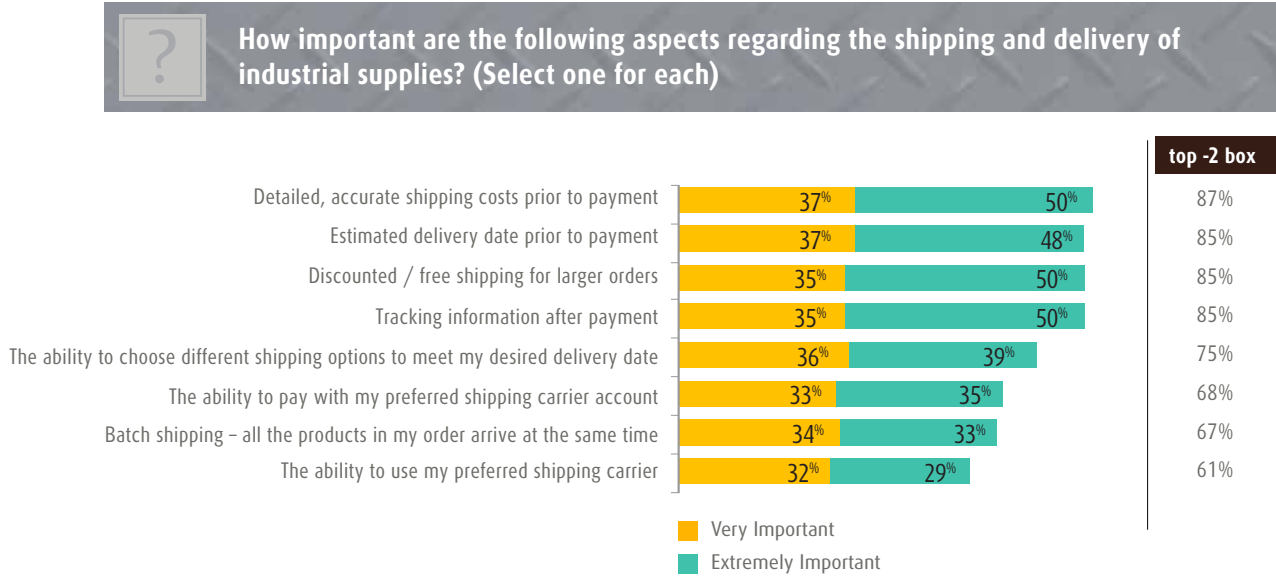
Shipping, Delivery and Returns

Earlier, Figure 3 showed that the overwhelming majority of buyers indicate their suppliers are performing well on criteria related to shipping, delivery and returns. Digging deeper, Figure 14 below illustrates that a majority of all surveyed buyers see shipping and delivery factors as very important or extremely important in the purchase process. Buyers want to see *accurate shipping costs* (87%) and *estimated delivery dates* (85%) before they buy, and 85% indicate that it's important to have *discounted shipping for large orders* as well as *tracking information*.

These results underscore that buyers are looking for an integrated and seamless purchasing experience. Suppliers, in order to meet their customers' needs and remain competitive, should make sure their online and offline purchasing systems are highly integrated with order management, inventory, e-commerce, billing and returns processes.

Figure 14: Shipping and Delivery Experience

Base: All respondents; n=1,501

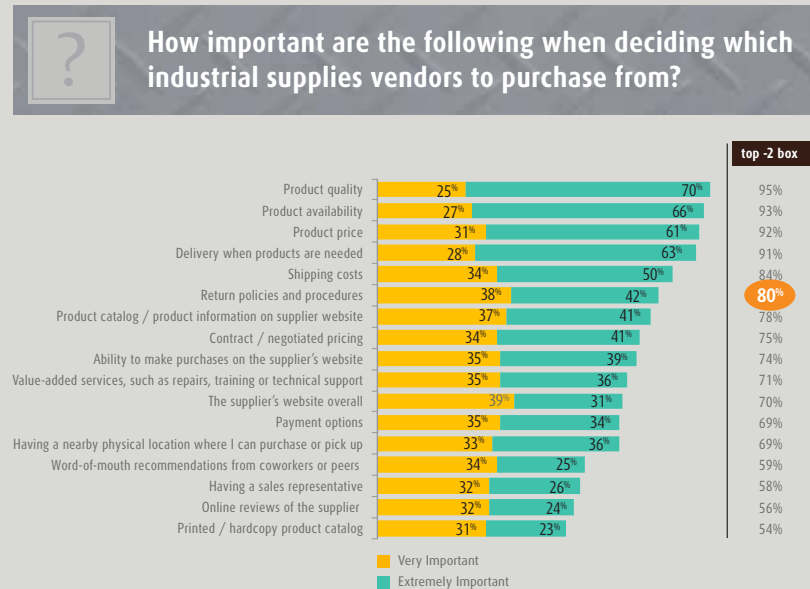


Returns policies are important to buyers

At the opening of this white paper, Figure 1 showed that return policies and procedures are high among criteria considered important when selecting a supplier.

Figure 1: Barriers Preventing Non-web Purchasers from Transacting on Suppliers' Websites

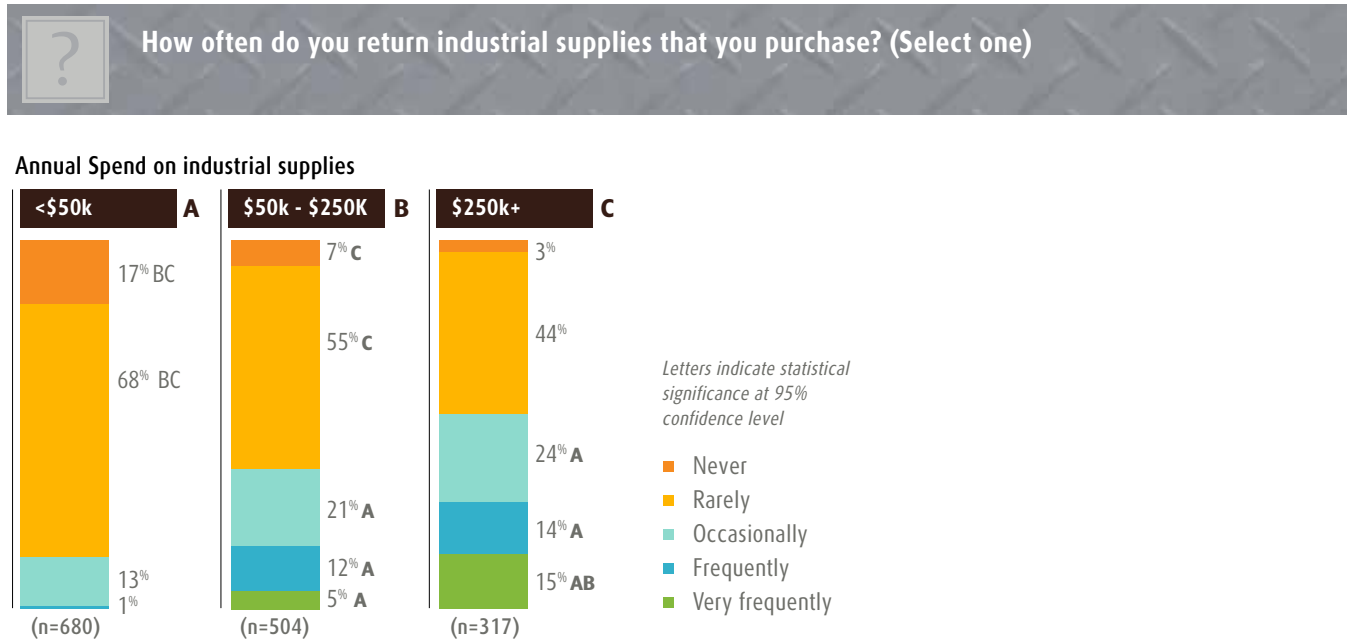
Base: Among non-web purchasers whose suppliers offer web purchases; n=626



As shown in Figure 15, over half of buyers in the \$250,000+ spending category indicate they make returns; 29% say they return industrial supplies frequently (14%) or very frequently (15%).

Figure 15: Frequency of Returns

Base: All respondents n=1,501



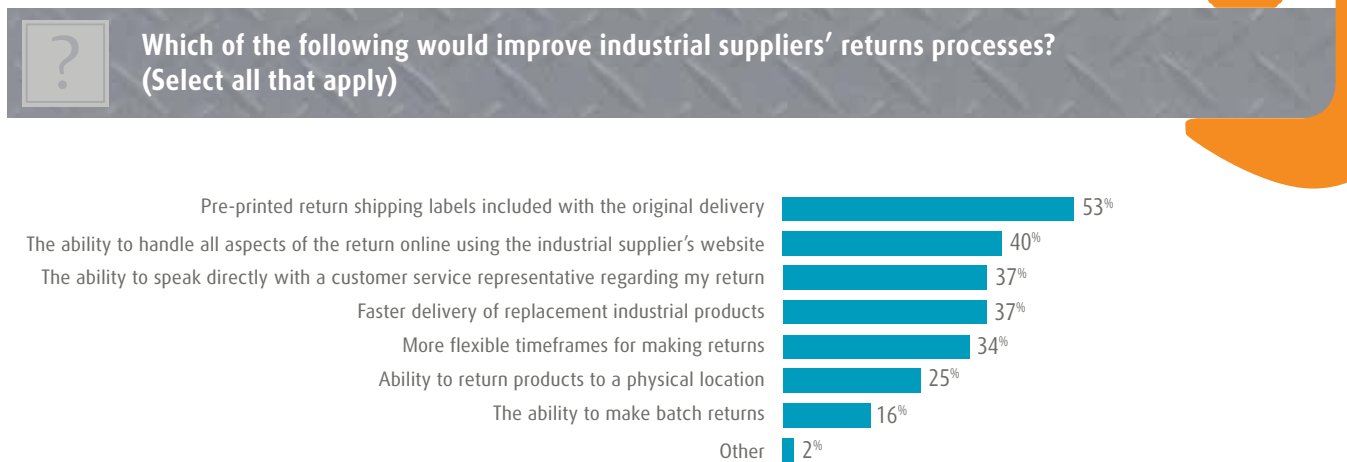
Among those who make returns, pre-printed shipping labels top the wish list

There are a variety of opportunities to make the returns process more streamlined and convenient, with the key needs being ease, speed, and flexibility. Most buyers who make returns (53%) think the returns process could be improved by including a pre-printed return shipping label with the original delivery. Forty-percent think the ability to handle all aspects of a return online would help.

Annual spending levels do show differences in responses, however. Buyers with \$250,000+ annual spend are more likely to choose handling all aspects of returns online while those spending less than \$50,000 annually more often cite the ability to return products to a physical location.

Figure 16: Improving Returns Process

Base: All respondents who make returns n=1,339



Post-sales service and support could be a differentiator

When buyers were asked whether having better access to post-sales service and support information online, such as product manuals and warranty information, would affect their willingness to purchase from a new vendor, 68% indicated that it would make them *somewhat likely* (50%) or *much more likely* (18%) to purchase from a new vendor.

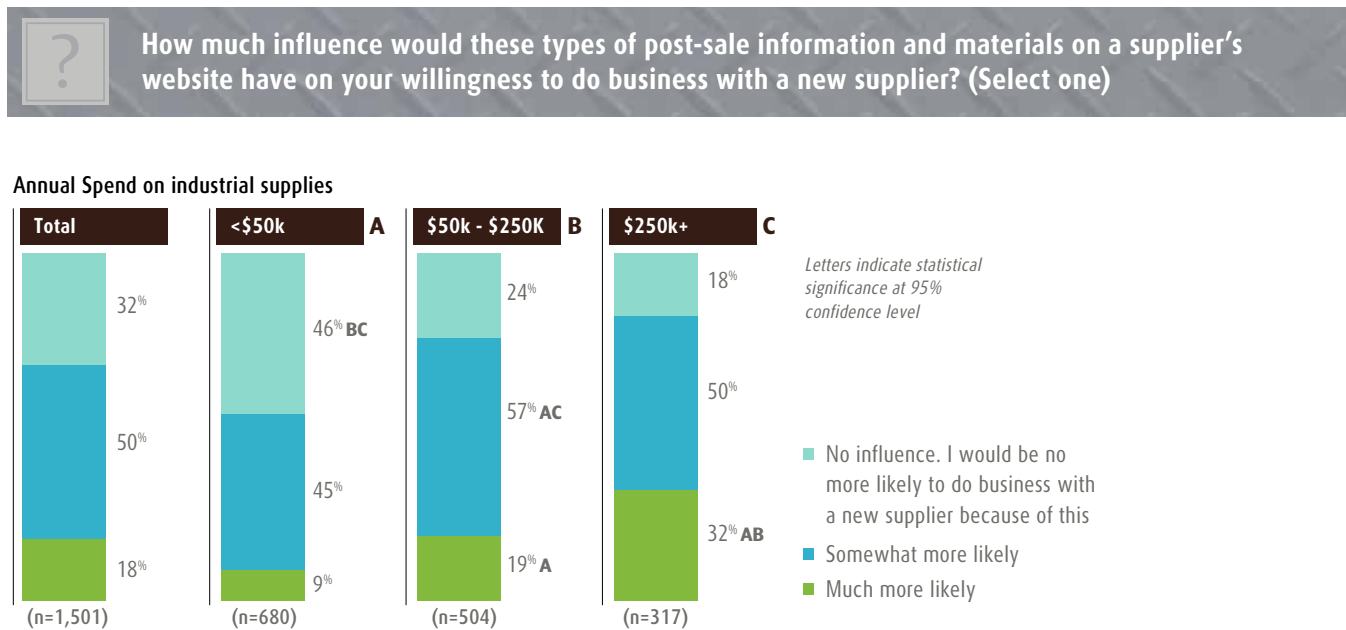
The influence of post-sales information appears strongest for buyers at higher annual spending levels, particularly at \$250,000 or more per year, for which 82% are either *somewhat more likely* (50%) or *much more likely* (32%).

The obvious implication is that for suppliers looking to gain new customers and retain existing customers, offering an enhanced level of post-sales information and support on their websites may be a competitive advantage.

These findings also suggests that suppliers should not view their websites as merely online catalogs and transaction vehicles, but platforms to engage purchasers across the entire customer lifecycle.

Figure 17: Post-sale Service/Support on Website's Influence on Selecting New Supplier

Base: All respondents n=1,501





Conclusions and Implications

Online selling is changing the dynamics of buyer-vendor relationships. While more traditional selling channels like catalogs, phone/fax or sales representatives are still in demand, buyers use and prefer online channels more. Thirty-four percent of buyers surveyed say they've gone outside of their supply base to make an online purchase. Their responses imply that if they can't find the product, price and delivery date they need, another vendor is just a click away.

More than ever, suppliers need to be in the right place at the right time online, but that's not all. Buyers want features that make them more confident in their orders before clicking submit, such as real-time product availability and firm or guaranteed shipping dates. They also want to know the returns policy and see their negotiated pricing. One of the greatest challenges suppliers face in meeting those needs is making sure their e-commerce systems are integrated with front- and back-office systems to create a seamless customer experience across multiple channels.

In the end, suppliers who deliver the buying channels their customers want, while continuing to advance and improve their customers' online buying experience, would seem to have the greatest competitive advantage.

Potential actions for suppliers

- **Embrace e-commerce (but not exclusively):** Suppliers who are not yet online risk being excluded from consideration by buyers at all spending levels. While traditional selling methods should not be abandoned yet, to not be present where a majority of buyers are increasingly spending their budgets will make it difficult, if not impossible, to compete.
- **Continually improve the customer experience:** The factors that buyers rate most important when researching and buying require a high level of integration between inventory, pricing, shipping and returns processes. Providing a seamless and complete purchase experience gives buyers the confidence they need to place an order, and can reduce inquiries and potential write-offs.
- **Be in the right place when buyers are looking:** Having a superior supplier website with stellar functionality means little if buyers can't find the site or don't know it's available. Making sure products and supplier information can be found easily by search engines (Search Engine Optimization - SEO), and being visible when buyers search for products (Search Engine Marketing - SEM), are essential strategies for retaining and increasing a customer base.

