

B2B ECOMMERCE QUARTERLY MARKET REPORT

Q3 2022

Despite inflation and ongoing supply chain disruption, total B2B sales grew in double digits through the first three quarters — but B2B ecommerce grew slightly faster.

DECEMBER 2022



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Analyzing customer data is now within reach for any B2B business

An executive conversation with **Ben Lorenz**, managing partner, Human Element

Collecting various data from disparate systems, analyzing it, and putting the insights gleaned into action has typically been an exclusive privilege of large corporations with big budgets. But as technology has moved forward, advanced data collection and analytics tools have streamed down market. To discuss how small and mid-sized B2B businesses can use data to improve the B2B customer journey, Digital Commerce 360 B2B spoke with Ben Lorenz, managing partner at Human Element.

What challenges do B2B companies face capturing and using customer data?

One of the biggest challenges they face is understanding where and how their data gets collected. It's important to have qualified people in the company dedicated to data gathering and analysis.

They also need to identify the data sources they need to string together and analyze. It's common for companies to have an email marketing system that sends out emails, Google Analytics tracking the traffic those emails send to their site, a CRM system tracking the leads the emails generate, and the ecommerce system on which customers purchase. Companies need to pool all the data coming from those four separate systems into a data lake, then have a qualified person sift through it and create a consistent report relevant to the business.

How is data collection and analysis an area of growth for B2B companies?

Systems and software are coming down market now that allow companies to leverage their data. This technology just wasn't available to them a few years ago. And the education around it is getting easier.

You can go online and find tutorials about how to extract data from Google Analytics and my QuickBooks, and then join the two datasets in a database.

Many companies are developing a baseline level of reporting, and then they're getting savvy about the other datasets they include in their business intelligence, such as weather or the price of energy. For example, if the price of energy goes up in Texas, the price of 80%-efficiency air conditioners may become expensive. That may mean I can sell more 90%-efficiency air conditioners. Because of these new ways companies can capture data, they can find new markets to unlock and leverage these opportunities.

What technologies are helping companies the most?




Systems, such as Snowflake on Amazon, let companies dump all the data from their various systems into a database and apply reporting tools to identify the pieces of data that are most important to the business. Then, reporting software like Tableau allows you to visualize the data. What's most important is having that consistency of capturing the data, getting it into the data lake and processing it so it can be reported on consistently.

Being a data-informed or data-driven business is within the reach of every company today. It's not difficult to get a few key pieces of data that will change the trajectory of your company if you start using it. The key is to just get started.

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OVERVIEW

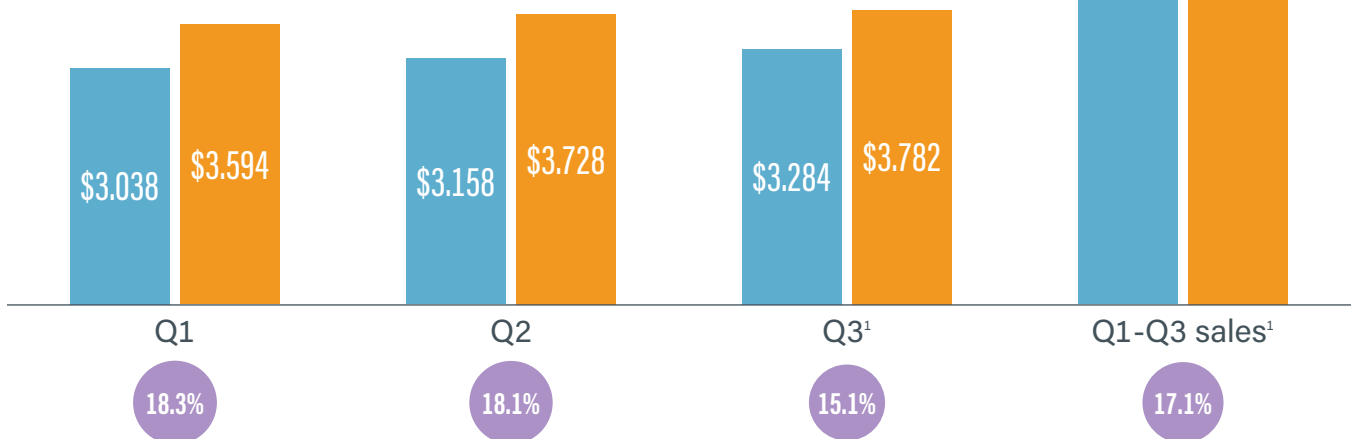
SO FAR, SO GOOD: YTD B2B ECOMMERCE SALES HOLD STEADY

Total B2B sales generated from the combination of manufacturing and distribution operations grew nicely in the third quarter and nine months ended Sept. 30. But B2B ecommerce sales grew faster.

Despite soaring inflation, ongoing supply chain disruption, and talk of a possible recession, total B2B sales for the third quarter grew to \$3.782 trillion. That's up 15.1% from \$3.284 trillion in Q3 2021, based on data from the U.S. Department of Commerce. For the first nine months of the year, total B2B sales grew slightly faster — by 17.1% — to \$11.104 trillion from \$9.481 trillion in the first nine months of 2021.

TOTAL B2B SALES GAIN MOMENTUM

■ 2021 total B2B sales ■ 2022 total B2B sales Sales in trillions, with growth



KEY TAKEAWAYS

- ▶ Total year-to-date sales are growing in large measure from the burgeoning ranks of digital-first B2B buyers.
- ▶ Many B2B sellers say business for digital commerce will remain brisk for the foreseeable future.

1. Projected Q3 2022 Source: U.S. Department of Commerce

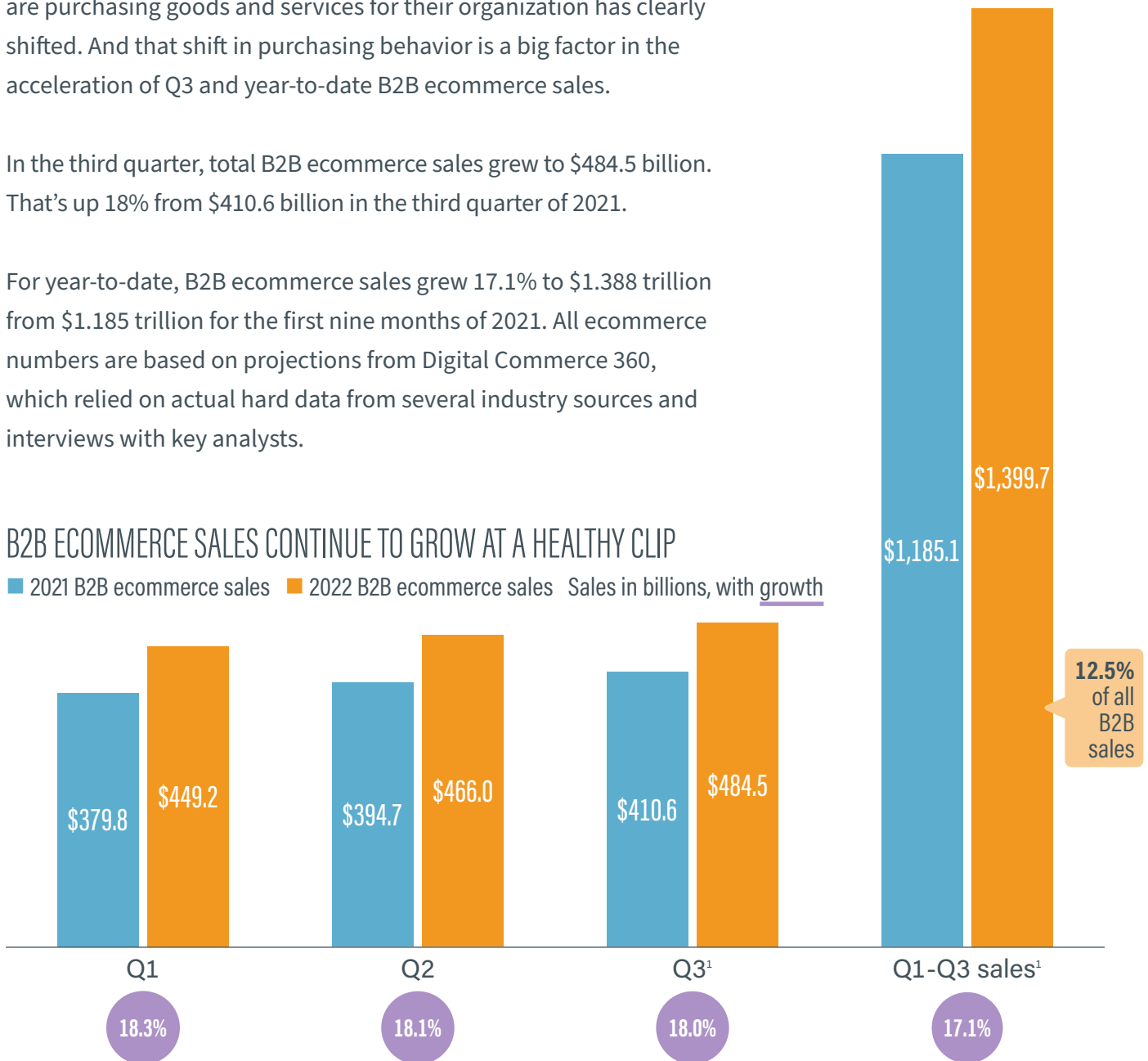
Total B2B sales continue to grow as demand for goods and services remains strong across many industrial sectors. But how B2B buyers are purchasing goods and services for their organization has clearly shifted. And that shift in purchasing behavior is a big factor in the acceleration of Q3 and year-to-date B2B ecommerce sales.

In the third quarter, total B2B ecommerce sales grew to \$484.5 billion. That's up 18% from \$410.6 billion in the third quarter of 2021.

For year-to-date, B2B ecommerce sales grew 17.1% to \$1.388 trillion from \$1.185 trillion for the first nine months of 2021. All ecommerce numbers are based on projections from Digital Commerce 360, which relied on actual hard data from several industry sources and interviews with key analysts.

B2B ECOMMERCE SALES CONTINUE TO GROW AT A HEALTHY CLIP

■ 2021 B2B ecommerce sales ■ 2022 B2B ecommerce sales Sales in billions, with growth



KEY TAKEAWAYS

- ▶ Digital business buyers are purchasing because more B2B sellers are launching or expanding ecommerce.
- ▶ 94% of B2B buyers agree their company prefers to work with suppliers that continuously evolve their digital capabilities.



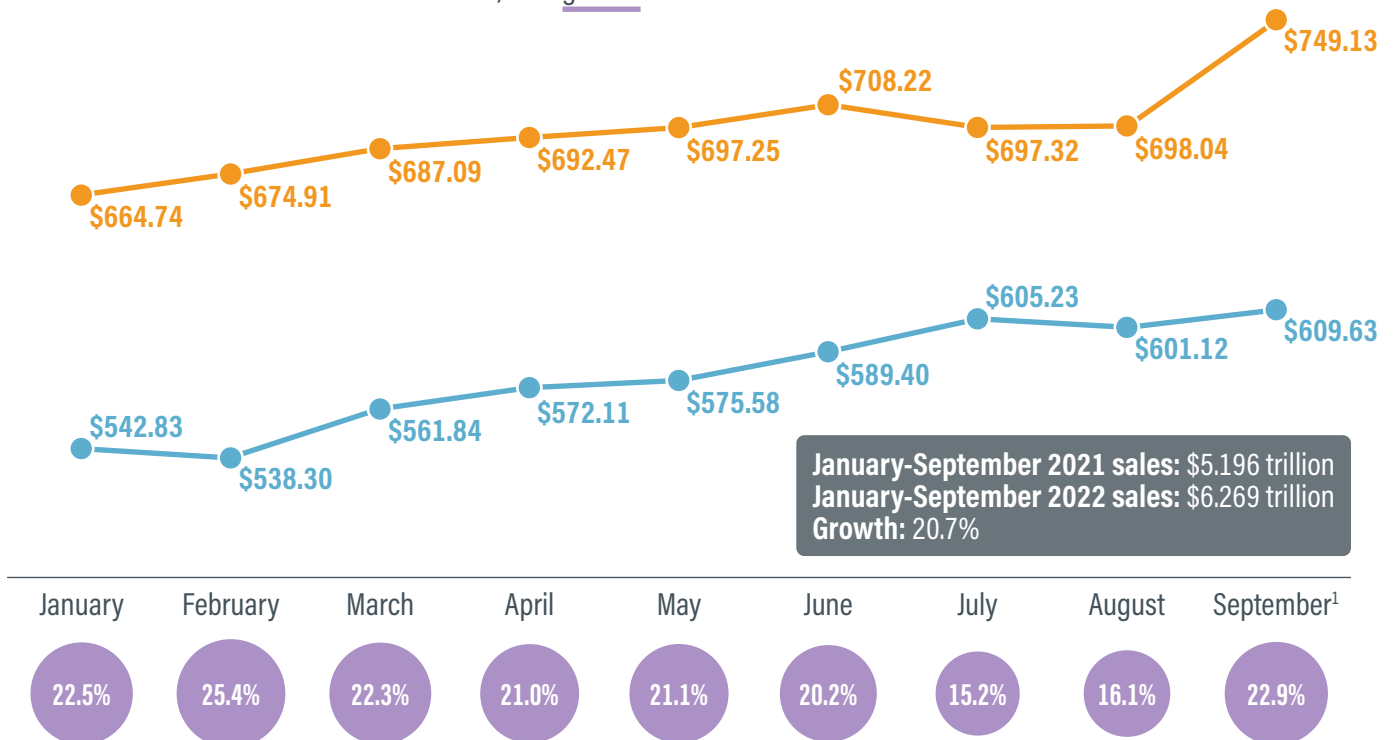
1. Projected Q3 2022 Source: Digital Commerce 360 B2B estimate based on market analysis, interviews with key analysts and analysis of ecommerce metrics of select public companies.

In a regular year, it's highly unusual that ecommerce sales would grow at about the same pace as total B2B sales. Typically, ecommerce sales grow at a faster rate. But the last two years have been highly unusual, given the ongoing economic impact of COVID-19 and supply chain wrinkles.

Total B2B sales and ecommerce sales are growing at about the same pace so far this year because digital-first business buyers are shifting more of their purchasing behavior from offline to online sales channels.

DISTRIBUTORS POSTED HEALTHY SALES IN 2022

■ 2021 sales ■ 2022 sales Sales in billions, with growth



KEY TAKEAWAYS

- ▶ B2B distributor ecommerce is a market that Digital Commerce 360 projects will grow 25% to \$1.400 trillion in 2022.
- ▶ For distributors that take only a minor or passing interest in B2B distributor ecommerce, the result will likely be less sales and shrinking market share.

1. Digital Commerce 360 B2B estimate based on previous month's growth metric Source: U.S. Department of Commerce.

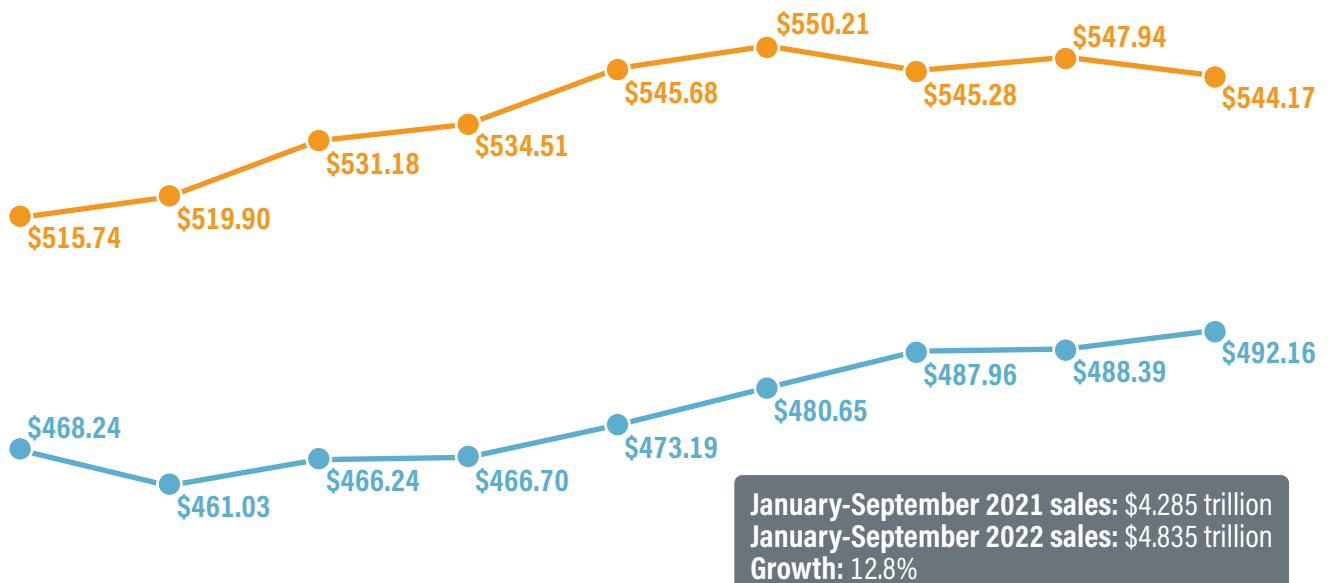
A case in point is MRC Global Inc., a 100-year-old distributor of pipes, valves, and fittings (PVF) and other products and services to the energy industry.

For the third quarter ended Sept. 30, MRC Global's B2B ecommerce sales accounted for 49.6% of all sales, up from 43% in Q3 2021.

MRC grew Q3 2021 total sales to \$904.0 million, up 32% from \$685.0 million in the third quarter of the prior year.

MANUFACTURING SALES FINISH STRONGER IN 2022

■ 2021 sales ■ 2022 sales Sales in billions, with growth



| Month | 2021 Sales (Billions) | 2022 Sales (Billions) | Growth (%) |
|------------------------|-----------------------|-----------------------|------------|
| January | \$468.24 | \$515.74 | 10.1% |
| February | \$461.03 | \$519.90 | 12.8% |
| March | \$466.24 | \$531.18 | 13.9% |
| April | \$466.70 | \$534.51 | 14.5% |
| May | \$473.19 | \$545.68 | 15.3% |
| June | \$480.65 | \$550.21 | 14.5% |
| July | \$487.96 | \$545.28 | 11.7% |
| August | \$488.39 | \$547.94 | 12.2% |
| September ¹ | \$492.16 | \$544.17 | 10.6% |

KEY TAKEAWAYS

- ▶ Manufacturers have much to gain in branding, customer loyalty and sales by deploying a B2B ecommerce presence and strategy — if they do it the right way.
- ▶ Using an ecommerce channel to sell to B2B customers provides manufacturers with valuable customer data, including direct insights into how their customers shop and interact with their site.

¹. Digital Commerce 360 B2B estimate based on previous month's growth metric. Source: U.S. Department of Commerce.

Based on 49.6% of Q3 2022 sales being digital — versus 43% a year earlier — Digital Commerce 360 projects MRC's Q3 ecommerce revenue grew year over year to \$448.3 million. That's a 52.2% increase from \$294.6 million. Net income was \$24.0 million versus a loss of \$11 million in Q3 2021.

“We have seen a remarkable transformation in our business in recent years as our revenue sources have shifted dramatically to become more diversified and stable,” president and CEO Rob Saltiel told analysts on a recent earnings call.

Now that ecommerce totals half of all revenue, MRC will continue to invest and expand ecommerce, he told analysts.

“We continue to invest significantly in our digital strategy and moving more of our commerce to the digital realm,” Saltiel said.

“This isn't just a more efficient way for our customers to buy from us or for us to serve those customers, but we also have an opportunity to engage with our customers in a more meaningful way — when they get on the MRC Go website and they're making purchases either through the site itself or through the punchout through their own ERP system.”

Ecommerce provides strategic benefits to MRC in ways beyond just digital sales.

“We have an opportunity to really engage with the customer around the products and services they're purchasing, the status of those orders, and even look more predictably to what they may need going forward and be ahead of that,” he told analysts.

“Some of our digital benefits include the opportunity to centralize inventory. You have fewer piles of inventory you can work from, and obviously that reduces working capital costs and increases working capital efficiency.”



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—Rob Saltiel, CEO,
MRC Global Inc.

CONCLUSION

The first three quarters of the year have come and gone for the biggest public distribution companies. And if the first nine months of 2022 indicate how distributor B2B ecommerce will fare for the rest of the year and into 2023, it will be steady to strong but not blockbuster.

Six public bellwether distribution companies break out actual or at least some ecommerce metrics:

- ▶ Fastenal Co.
- ▶ Global Industrial Co.
- ▶ MSC Industrial Supply Co.
- ▶ MRC Global Inc.
- ▶ W.W. Grainger Inc.
- ▶ Watsco Inc.

2022 won't be a breakout year for their digital sales. But it will accelerate a shift, making it an even bigger priority to serve an increasingly digital-first customer.

And that shift is well underway. Digital sales — or sales that occur through channels including ecommerce, electronic data interchange, e-procurement, internet-based vending machines, and marketplaces — are now a major, if not already the dominant, sales channel for these bellwether B2B companies. ↗



CASE STUDY

Q3 SALES AT GRAINGER'S ZORO.COM SURGE 27% TO \$276 MILLION

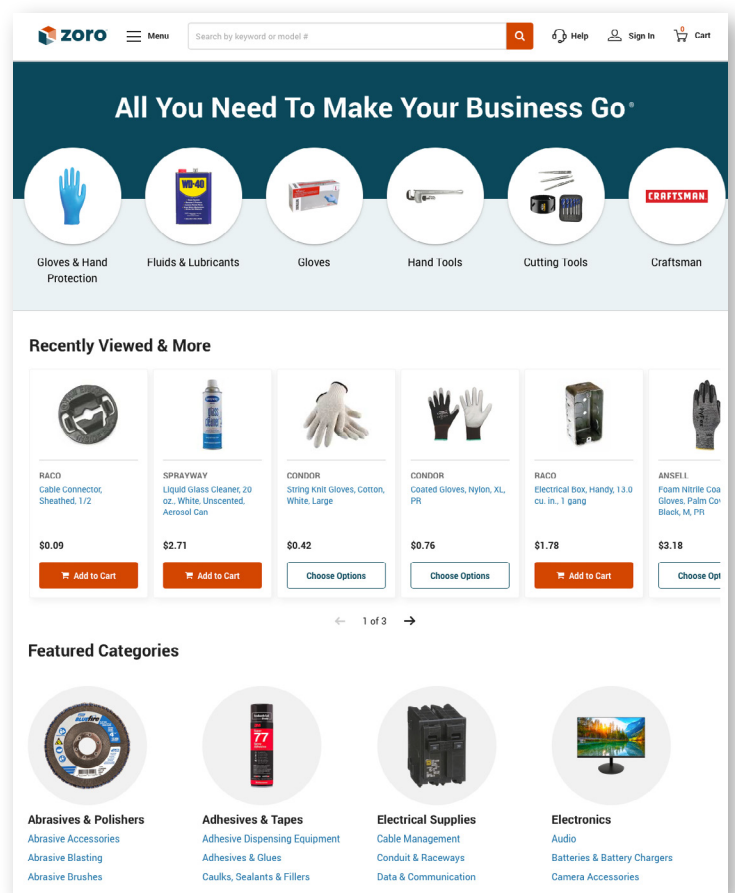
While Zoro's sales mushroomed, Grainger's companywide sales, including through Grainger.com and sales agents, rose 16.9% to \$3.94 billion.

Sales and the number of registered customers surged in the third quarter at Zoro.com, according to parent W.W. Grainger Inc.

Zoro is the U.S.-based unit of Grainger's online-only Endless Assortment segment, which compared to the flagship ecommerce site Grainger.com caters to "smaller customers with less complex operations" and also includes Japan-based MonotaRo.com.

Zoro's sales shot up 27.4% to \$276 million in the third quarter, up from \$217 million a year earlier. Helping to drive that growth were continued increases in the number of Zoro's registered customers, to more than 4.4 million, and its number of available SKUs, to 10.3 million, Grainger said.

Grainger did not break out the company's total Q3 ecommerce sales. It usually refers to digital commerce in its annual reports. In 2021, it said 75% of orders originated through a digital channel,



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“We’re happy with the quarter, and happy with the longer-term ability to gain market share and in a profitable way.”

—DG Macpherson, chairman and CEO, W.W. Grainger Inc.

including websites, internet vending machines, e-procurement software and EDI.

Grainger’s North American High-Touch Solutions sales, which include full-service sales through the company’s U.S. flagship Grainger.com, Canada-based Grainger.ca, and its sales agents, increased 19.4% in Q3 to \$3.180 billion.

“We’re certainly happy with the quarter, probably happier with our longer-term ability to continuously gain market share, and in a profitable way,” DG Macpherson, chairman and CEO, said on an earnings call.

Macpherson added that Grainger is experiencing improvements in its supply chain operations, with products flowing much more smoothly from Asia than a year ago.

The company’s ability to maintain inventory levels has coincided with Grainger’s increased sales of “technical products,” including items used in manufacturing assembly lines, that extend beyond Grainger’s core market of maintenance, repair and operations (MRO) products that companies use to maintain their facilities.



The increase in technical products sales stemmed from “our remerchandising efforts ... making sure those products are much easier for our customers to find.”


—Dee Merriwether, senior vice president and chief financial officer, W.W. Grainger Inc.

Dee Merriwether, senior vice president and chief financial officer, said the increase in technical products sales stemmed from “our remerchandising efforts ... making sure those products are much easier for our customers to find and are helping them solve their business problems.”

For the third quarter ended Sept. 30, Grainger reported:

- ▶ Sales through Zoro.com increased 27.4% to \$217 million. Zoro’s number of registered users increased 4.1% to 4.41 million and the number of SKUs increased 29% to 10.3 million.
- ▶ Total Endless Assortment segment sales, composed of Zoro.com and Japan-based MonoraRo.com, increased 8.6% to \$701 million. The total number of registered users increased 4.1% to 12,024.
- ▶ Total net sales increased 16.9% to \$3.94 billion.
- ▶ Gross profit increased 21.5% to \$1.52 billion, as gross margin increased to 38.5% from 37.1%.
- ▶ Net earnings increased 43.4% to \$426 million.

For the nine months ended Sept. 30, Grainger reported:

- ▶ Total net sales increased 18.2% to \$11.43 billion.
- ▶ Gross profit increased 25.2% to \$4.34 billion. Meanwhile, gross margin increased to 38.0% from 35.8%.
- ▶ Net earnings increased 49.6% to \$1.22 billion. 

ABOUT THE EDITOR

Mark Brohan is senior vice president, B2B and market research at Digital Commerce 360, covering B2B ecommerce trends. Prior to his current role, Mark was vice president of research for Digital Commerce 360 and editor of Internet Retailer's Top 500 Guide, Top500Guide.com and related research publications. Mark's previous experience includes leading new print and web product business development for Faulkner & Gray where he was web publisher and editorial director for DM Review magazine and its two websites: DMReview.com and dataWarehouse.com. He was also the founding editor of various Faulkner & Gray technology magazines, including Internet Retailer. Mark earned a bachelor's degree in secondary education and history from Western Michigan University and a master's in journalism and public affairs from the American University.



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