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DIGITAL B2B

COMMERCE 360

THE 2023

B2B ECOMMERCE FORECAST FOR MANUFACTURING AND DISTRIBUTION MARKETS



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AS BUSINESS EVOLVES MANUFACTURERS AND DISTRIBUTORS GO MORE DIGITAL

Today's B2B buyers want more self-service ecommerce, and B2B companies are responding. Last year, the sales that occurred on B2B ecommerce sites and apps grew to \$9.14 trillion, a 19% increase over the previous year.

The economy is changing, and so is the pace and nature of digital commerce and transformation. As a result, U.S. manufacturers and distributors finished 2022 online in strong shape.

And that performance came against the backdrop of labor shortages, supply chain disruption and the impact of more than two years of the COVID-19 pandemic.

U.S. manufacturers and distributors grew total B2B sales in 2022 to \$14.89 billion. That is up 15.4% from \$12.98 billion in 2021, according to the U.S. Department of Commerce.

Manufacturing and distribution sales grew robustly in 2022 overall, but most of the growth took place early in the year. By the end of the fourth quarter, sales growth had slowed by about half from the first three months of the year. In the first quarter, sales grew 19% to about \$3.66 trillion, according to data from the Commerce Department. But in the fourth quarter, the growth in sales slowed.

Last year, electronic sales grew to \$9.14 trillion, a 19% increase from 2021. More important, B2B ecommerce grew faster than total B2B sales and accounted for 13% of all manufacturing sales.

Manufacturers and distributors both grew online last year, but distributors grew much faster than manufacturers. All in, manufacturers grew B2B digital commerce about 15% to \$623.3 billion in 2022 from \$543.3 billion in 2021. Distributors, meanwhile, grew year over year much faster, with ecommerce sales growing 25% in 2022 to \$1.4 trillion from \$1.1 trillion in 2021.

Distribution companies move faster on digital commerce and transformation than manufacturers because their prime customers are now younger and increasingly prefer digital channels to traditional paper and in-person purchasing.

TOTAL B2B SALES 2022

	2022 SALES	2021 SALES	GROWTH
January	\$1,200,770,000	\$1,027,211,000	16.9%
February	\$1,216,802,000	\$1,014,148,000	20.0%
March	\$1,242,504,000	\$1,047,879,000	18.6%
April	\$1,223,666,000	\$1,038,803,000	17.8%
May	\$1,240,423,000	\$1,048,774,000	18.3%
June	\$1,261,526,000	\$1,070,055,000	17.9%
July	\$1,243,451,000	\$1,093,193,000	13.7%
August	\$1,252,825,000	\$1,102,205,000	13.7%
September	\$1,250,219,000	\$1,104,009,000	13.2%
October	\$1,255,617,000	\$1,127,159,000	11.4%
November	\$1,242,354,000	\$1,144,179,000	8.6%
December	\$1,226,812,000	\$1,163,541,000	5.6%
Total B2B Sales	\$14,856,969,000	\$12,981,156,000	14.5%

Digital Commerce 360 B2B estimate based on January through November data from the Commerce Department.
Source: U.S. Department of Commerce.

In a study last year based on a survey of 14,000 B2B buyers, Forrester Research found that young buyers far more than their older peers preferred digital and self-service purchasing methods over traditional in-person options.

Among B2B buyers, those born in 1981 or later “now hold the keys to decision-making for the majority of purchases,” Forrester says. It defines young buyers as millennials and Generation Z and older buyers as baby boomers. Millennial and Gen Z buyers are much more digital in their channel usage than their older counterparts. For example, 35% of young buyers say they will use an enterprise app to make corporate purchases.

But 24% of older B2B buyers prefer placing orders with an inside sales representative, compared with just 19% of millennial and Gen Z buyers.

TOTAL U.S. MANUFACTURING AND DISTRIBUTOR SALES GAIN MOMENTUM

SALES (IN TRILLIONS)



GROWTH



Digital Commerce 360 B2B estimate based on January through November data from the Commerce Department. Source: U.S. Department of Commerce.

WHY IT'S ESSENTIAL TO PRIORITIZE DIGITAL TRANSFORMATION FOR B2B BUSINESS

An executive conversation with **Jason Magee**, managing partner, Human Element



The one-on-one customer–sales representative relationship has been the backbone of B2B companies' success for years. But as customers' demands for digital shopping experiences grow, so does the need for B2B companies to prioritize providing ecommerce capabilities. However, with other pressing needs, many B2B companies haven't given ecommerce the attention it warrants. To discuss why a digital transformation and ongoing digital maintenance is essential for the future success of any B2B business, Digital Commerce 360 B2B spoke with Jason Magee, managing partner at Human Element.

To stay competitive, what ecommerce technologies do B2B companies need to prioritize?

To optimize ecommerce capabilities, B2B businesses should focus on ERP integration for real-time pricing and inventory updates, along with customer-specific pricing and product catalogs. Implementing features like discounts and sales, as well as re-order options and control over shipping choices, enhances the baseline commerce experience.

Additionally, as Google Analytics 4 replaces historical data, B2B companies need to take control of their own data by establishing a data warehouse to ensure they can mine and utilize their historical data effectively to stay competitive with larger players in the market.

What challenges do they face upgrading their existing ecommerce technologies to more modern capabilities?

B2B companies that want to launch or improve their digital storefront often face internal pushback and resistance to change. And these projects are never finished; they involve continuous iterations rather than a defined completion point. So limited experience with software projects and that dynamic nature of these projects can hinder progress.

Additionally, a lack of internal resources dedicated to the project and issues related to managing and utilizing data internally often pose additional obstacles.

What does a successful digital transformation project look like?

Successful digital transformation projects rely on setting attainable project goals and technology objectives. B2B companies need a practical strategy to get their storefront up-and-running — but they must also understand that customer acquisition may take time.

They also need to acknowledge what they don't know and be open to change. Setting realistic expectations for the launch — including resource allocation, cost and ongoing maintenance — is absolutely necessary for success. And, if possible, they should dedicate the right amount of resources to the project and be prepared for potential adjustments throughout the entire journey.

How can B2B companies put these strategies into place?


They can partner with a technology provider that can guide them on their digital transformation journey. Human Element, for example, evaluates the current stage of a company's digital transformation and assists in creating practical requirements, budgets and timelines. There is no instant solution; success comes from making incremental improvements over time.


B2B buyers all use modern technology and companies need to be able to provide a familiar experience. The online B2B channel is your face to the world. Don't ignore it or treat it as a secondary channel. It should be primary.


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Fastenal Co., an industrial and construction products distributor, is typical of the large public distribution companies seeing more digital purchasing across the board because of fast-changing customer demand.

Fastenal is on a mission to grow digital commerce. But for Fastenal, the online road takes many forms and is not as linear a path as building and maintaining a single ecommerce site.

Fastenal is building out its digital channels through many facets, including internet vending machines, ecommerce, and electronic data interchange. It is the day when electronic sales account for half of all revenue.

A big priority for the company moving into 2023 is building out what it calls its digital footprint.

“Ecommerce, the next piece of our, what we call, digital footprint, daily sales rose 48% in the fourth quarter,” president and CEO Dan Florness said. “Again, incredible traction in that area. We have really seen traction move in the last three years, partly a function of COVID. And I think a lot of people are seeing those kinds of patterns, but also, we have gotten better as an organization and our ability to execute on ecommerce, and that’s times through the numbers as well.”

Fastenal reported an increase in 2022 sales to \$6.980 billion. That is up 16% from \$6.010 billion in 2021. Meanwhile, ecommerce sales were \$1.07 billion, compared with \$925.1 million in 2021. Based on \$1 billion in ecommerce sales, Digital Commerce 360 projects that ecommerce accounted for about 15% of all sales.

Fastenal includes in its digital footprint ecommerce sales along with customer transactions processed through its FMI inventory management programs, including FASTtock, FASTbin and its

B2B ECOMMERCE SALES CONTINUE TO GROW AT A HEALTHY CLIP

YEAR	SALES	GROWTH	% OF ALL ELECTRONIC SALES	% OF ALL B2B SALES
2022	\$1,946,002,240	19.0%	16.0%	13.1%
2021	\$1,635,296,000	17.8%	14.9%	12.6%
2020	\$1,388,587,200	10.0%	14.0%	12.2%
2019	\$1,262,352,000	16.7%	13.9%	10.8%

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

FASTVend internet-connected vending machines. The company's digital footprint in the fourth quarter of 2022 represented 52.6% of sales. That is an increase from 46.4% of sales in the fourth quarter of 2021.

Fastenal is growing out its digital footprint in large measure because of customer demand, says Edwards Jones research analyst Jeff Windau.

"Fastenal is having success implementing on-site locations and product vending machines," he says in a research brief. "The pace of customer implementation has been improving since the pandemic lows."

B2B ecommerce morphed from a minor into a mainstream sales channel, forcing many manufacturers and distributors to rethink how to conduct business with growing numbers of digital-first customers. Many organizations that were once hesitant to embrace B2B ecommerce are now getting new initiatives or updating older strategies and ecommerce technology with new cloud-based applications such as headless commerce and new data tools like artificial intelligence.

B2B ecommerce will continue to accelerate in 2023 even as the business economy slows down. But digital commerce is transforming how businesses of all types must now embrace the future. This report looks at the digital opportunities and challenges from the ecommerce perspective of manufacturers and distributors. 🏡

MANUFACTURERS AND DISTRIBUTERS BOTH GREW ONLINE LAST YEAR

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All in, manufacturers grew B2B digital commerce about 15% to \$623.3 billion in 2022 from \$543.3 billion in 2021.

Distributors, meanwhile, grew year over year at a much quicker pace, with ecommerce sales growing 25% in 2022 to \$1.4 trillion from \$1.1 trillion in 2021.

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Among B2B buyers, those born in 1981 or later “now hold the keys to decision-making for the majority of purchases,” Forrester says. It defines young buyers as millennials and Generation Z and older buyers as baby boomers. Millennial and Gen Z buyers are much more digital in their channel usage than their older counterparts. For example, 35% of young buyers say they will use an enterprise app to make corporate purchases.



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Fastenal is building out its digital channels through many facets, including internet vending machines, ecommerce, and electronic data interchange. It has reached the day when electronic sales account for half of all revenue, with first-quarter digital sales at 54% of total sales for the period ended March 31.

TOTAL U.S. DISTRIBUTOR SALES ARE POISED FOR A BIG GROWTH YEAR

YEAR	SALES	ANNUAL GROWTH	3-YEAR COMPOUND ANNUAL GROWTH RATE
2022*	\$8,300,390,000	17.0%	10.9%
2021	\$7,096,985,000	22.4%	6.1%
2020	\$5,798,280,000	-4.8%	1.4%
2019	\$6,088,456,000	2.6%	

*Projection by Digital Commerce 360. Source: U.S. Department of Commerce.

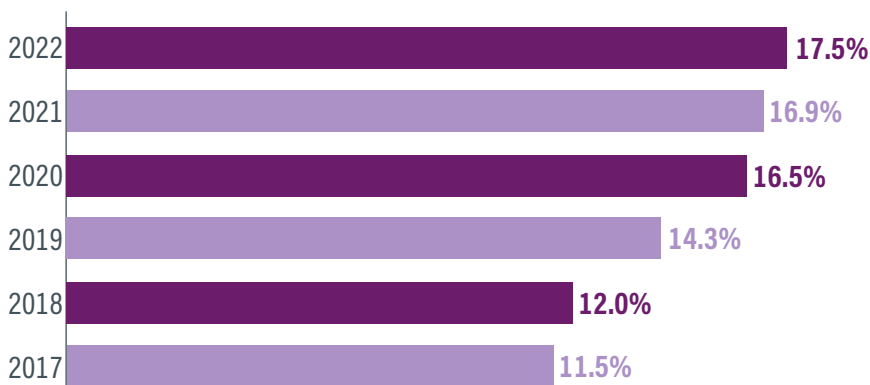
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Fastenal includes in its digital footprint ecommerce sales along with customer transactions processed through its FMI inventory management programs, including FASTtock, FASTbin and its FASTvend internet-connected vending machines. The company’s digital footprint in the fourth quarter of 2022 represented 52.6% of sales. That is an increase from 46.4% of sales in Q4 2021. 🏡

ECOMMERCE SHARE OF U.S. DISTRIBUTOR SALES



Source: U.S. Department of Commerce. The 2021 U.S. B2B Ecommerce Market Report, The 2020 B2B Distributor 300.

KRAFT HEINZ EXPANDS IN EMERGING MARKETS ON THE BEES B2B MARKETPLACE

Kraft Heinz says the BEES marketplace will help the consumer packaged goods company build its international presence in emerging markets across Latin America.

Buyers for retailers in Latin America will have online access to Kraft Mac & Cheese, Heinz Tomato Ketchup and other Kraft Heinz brands through the international and fast-growing BEES B2B online marketplace from AB InBev.

The Kraft Heinz Co. will start out with sales to merchants in Mexico, Colombia and Peru, followed by expansion into Ecuador, Dominican Republic, Panama and other Latin American countries in an effort to “unlock 1 million potential new points of sale across LATAM,” Kraft Heinz and BEES said in a combined statement.

Kraft Heinz expects its business through BEES to help grow its emerging markets strategy.

TYING INTO AB INBEV'S DISTRIBUTION NETWORK

Rafa Oliveira, Kraft Heinz executive vice president and president of international markets, says the big CPG company expects BEES to be a “game-changer” in its efforts to expand globally. He notes that selling on the BEES marketplace lets Kraft Heinz benefit from AB InBev’s distribution network, “particularly in countries where we have huge potential to grow, while also allowing us to customize our approach on a market-by-market basis serving the needs of regional retailers.”



“BEES will be a game-changer in Kraft Heinz's efforts to expand globally.”

— **Rafa Oliveira**, executive vice president and president of international markets, The Kraft Heinz Co.

Anheuser-Busch InBev developed BEES as an online B2B platform in 2019 to let retailers order from among AB InBev's hundreds of brands, including global beer brands Budweiser, Corona and Stella Artois and many regional and local market brands.

But BEES recently opened its online platform to let other consumer packaged goods companies list their products within the BEES marketplace. BEES says it currently operates in 20 countries, including:

- ▶ Canada
- ▶ The United Kingdom
- ▶ China
- ▶ South Korea
- ▶ Several countries in Africa and Latin America

Overall, BEES notes that it has 3.1 million active monthly users and has processed more than \$32 billion in gross merchandise sales.

BEES DRIVES UP ECOMMERCE SHARE OF AB INBEV'S REVENUE

AB InBev reported \$57.8 billion in revenue last year. It said the digital BEES platform accounted for "approximately 63% of our revenues."

Buyers on BEES can:

- ▶ Browse for products
- ▶ Place orders
- ▶ Earn rewards in applicable markets
- ▶ Arrange deliveries
- ▶ Manage invoices
- ▶ Access market data for supply and demand insights

Nick Caton, chief B2B officer at BEES, says adding CPG companies like Kraft Heinz to the BEES marketplace complements BEES' commitment to "accelerating digital transformation" and helping local retailers thrive in their markets. ✓



"BEES is committed to accelerating digital transformation."

— Nick Caton,
chief B2B officer, BEES

ABOUT DIGITAL COMMERCE 360

Digital Commerce 360, formerly Internet Retailer, has been a global leader in retail and B2B ecommerce research and media for over two decades. Our organization provides daily news, trend analysis, and competitive data to a vast community of executives, retailers, financial firms, manufacturers and more. Our team of experienced journalists and researchers publish a multitude of products each year, including dozens of research reports, newsletters, charts and infographics, webinars, live events, and data on thousands of ecommerce companies through its Digital Commerce 360 Research brand. We also founded groundbreaking ecommerce products and events, including Internet Retailer magazine, the Top 500 Guide, the Internet Retailer Conference & Exhibition (IRCE) and, most recently, the EnvisionB2B Conference & Exhibition.

ABOUT DIGITAL COMMERCE 360 RESEARCH

Digital Commerce 360 Research tracks hundreds of metrics on thousands of online retail companies around the world, including critical data metrics like web sales and traffic, conversion rates, AOV and the technology providers that power their businesses. We publish our analysis of the data in numerous annual reports on timely ecommerce topics like marketplaces, omnichannel, platforms, and many more. In addition, our robust custom research department is skilled at creating personalized projects — including reports, surveys, raw data pulls and more — to support retailers, consultants, financial analysts and technology providers meet their goals.

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