



UPS 2015 Industrial Buying Dynamics study - Evolution of the Europe distributor value proposition

**Study of the behaviors, preferences and perceptions of industrial products
buyers in Europe**



Foreword

The UPS Industrial Buying Dynamics Study is one of the few detailed studies available on the relationships between industrial customers and distributors. Based on interviews of 719 purchasing professionals across four markets in Europe, conducted by the independent market information firm TNS, the study provides an understanding of what drives decisions among those who purchase or influence the purchase of industrial supplies. It reveals that the European industrial distributor landscape is changing at a rapid pace. This change is fueled from the growth of industrial e-Commerce, which consequently, has contributed to the increase in direct purchasing from manufacturers. These new trends create tremendous opportunities for industrial actors flexible enough to seize them, but they also provide formidable challenges for those who are unwilling or unable to react.

Introduction

Throughout Europe, the industrial distributor has long been a traditional conduit for industrial customers to sell their products to the end user. Because industrial distributors do not manufacture their own products, they must rely on quality of service to differentiate themselves within the highly competitive marketplace. Currently, there are several market forces evolving and disrupting the traditional method of operation for industrial distributors. One such example is the accelerated growth in B2B e-Commerce, which is now twice the size of B2C e-Commerce¹. Further, end-customer expectations and demands are evolving with a greater emphasis on speed and service. Thus, the combination of B2B e-Commerce growth and increased expectations from the end-customer are driving industrial distributors to respond with superior customer service, technological advancements and efficiencies to keep pace with the evolving market landscape.

UK specific survey insights:

The research indicates that UK customers are starting to recognise the benefits of industrial e-commerce. With 51% of UK customers choosing to research a new supplier online, the importance of a SEO (search engine optimisation) cannot be overlooked by industrial distributors seeking to successfully compete in the market place. UK customers also spend most of their purchase budget online with further growth still expected, so it is vital that industrial distributors ensure that their websites are user friendly in order to maintain customer loyalty. Industrial distributors must also be aware of the serious threat from manufacturers and 3rd party websites. With 52% of customers 'very' or 'somewhat likely' to convert to a manufacturer for supply, it is vital that industrial distributors gain a competitive edge by meeting and exceeding the expectations of the increasingly demanding industrial customer.

¹ Source : Forrester



How industrial e-Commerce changes business relationships

The methods used by industrial customers to source distributors are similar between China, US and Europe. However, each method is weighted differently by country. In Europe, the primary method for sourcing industrial suppliers are distributor websites.

Top methods used to research new distributors

Europe	US	China
Distributor website 51%	'Word of mouth' or personal references 60%	Trade Shows 60%
Trade Shows 44%	Distributor website 54%	Internet (blogs, social media, forums, etc.) 54%
Company sales rep 43%	Company sales rep 51%	Distributor website 51%
'Word of mouth' or personal references 43%	User review and recommendations 45%	User review and recommendations 50%
User review and recommendations 37%	Trade Shows 37%	'Word of mouth' or personal references 47%

Q: Select the top sources you use most frequently to research a new distributor.

As distributors look to export to China and the US, relationship building becomes more critical. The US purchaser is reliant on recommendations or reviews (online or otherwise) and those in China are heavily reliant on trade shows. These findings emphasise the personal aspects of relationship building for both the distributor and the purchaser.

Online resources used to research a new distributor by country

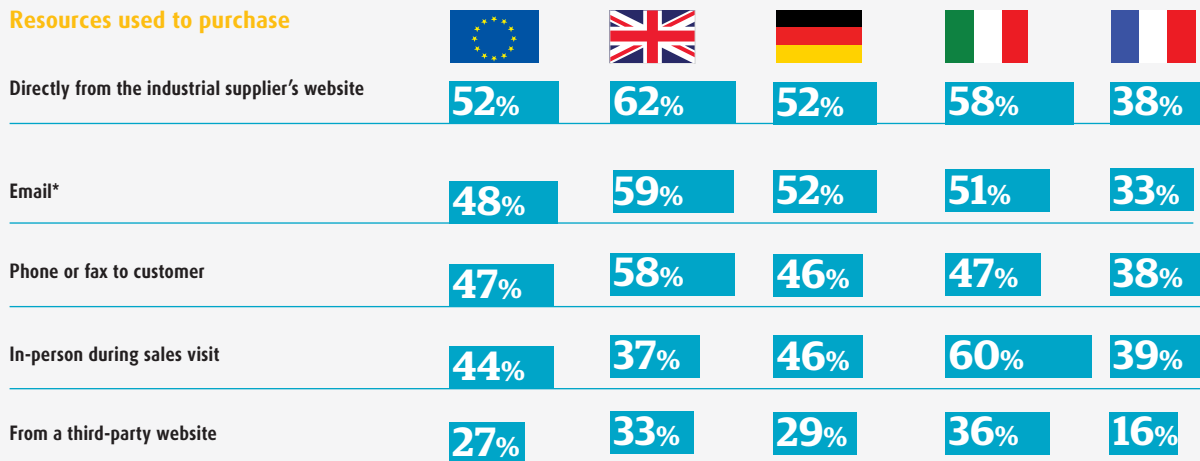
	UK	France	Italy	Germany
Distributor website	51%	49%	53%	54%
Internet (blogs, social media, forums, etc.)	34%	29%	46%	28%
Web product videos	19%	16%	32%	24%

Q: Select the top sources you use most frequently to research a new distributor.

While the distributor website is the primary and preferred method for sourcing new products in Europe, some variation exists in the prevalence of online usage by country. For example, Italian consumers appear to be taking the lead in utilising blogs, social media and web videos to determine their product choice.

With the increasing ubiquity of on-line channels such as business-to-business on-line platforms, blogs, forums and company websites, industrial customers have greater access to information than ever before.

Resources used to purchase



Q: Select the top methods you use to purchase industrial supplies?

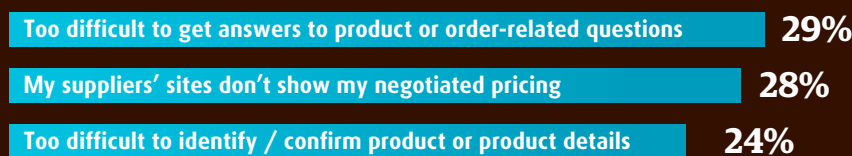
Online channels are not only the primary tool for sourcing industrial distributors in Europe, they are also the leading method to carry out the actual purchase in the UK and Germany, and second most important in Italy and France.

The heightened use of various on-line channels to research and purchase from distributors has a big impact on customer loyalty, with 75% of European respondents indicating that they would switch to a supplier with a more user-friendly website. While this poses a risk of losing business to a competitor, it also represents a significant opportunity for growth. When it comes to spending, findings have shown that 42% of respondents spend more than 50% of their annual purchasing budget online. Furthermore, 85% of respondents in Europe expect an increase in their on-line spending in the coming years.

Globally, consumers also anticipate increased use of mobile touch points and the use of smartphones in their purchase journey. This trend stresses the importance of optimising websites and apps to render properly on all mobile devices and, equally important, contain comprehensive information that is easily accessible within the mobile platform. In this regard, there is certainly room for improvement as more than one-third of buyers (34%) are dissatisfied with their distributor's websites.

The UK takes the lead in Europe where 54% of consumers currently spend more than 50% of their budget online.

Reasons for not using distributor website



Why don't you purchase industrial supplies online?

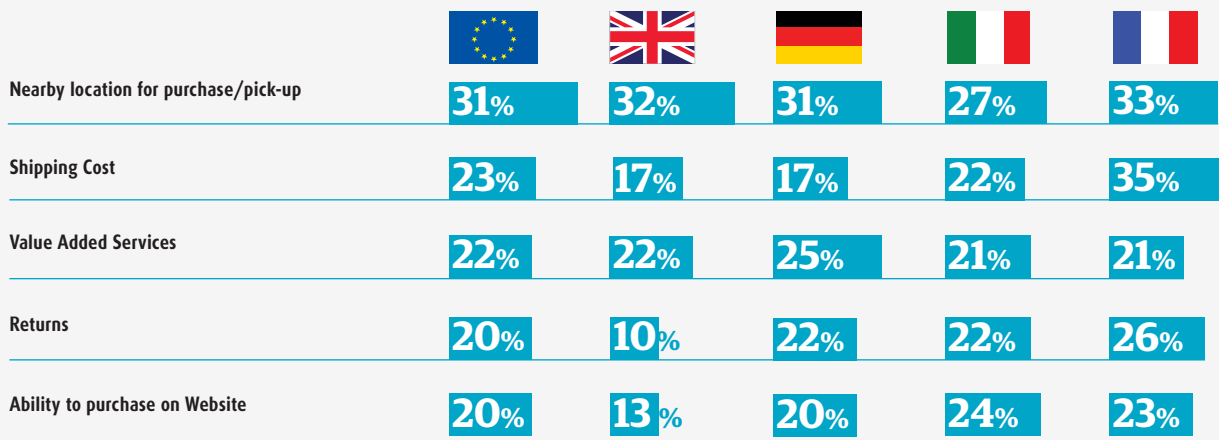


Trends and challenges affecting distributors

Industrial consumers have strong expectations on key criteria such as product quality, availability, on-time delivery and price. While this survey has shown that distributors are performing well across many areas of business, opportunities for improvement still exist. For example, having a nearby physical location

where consumers can pick up their orders, as well as receive the provision of value-added services such as repairs, training, or technical support, would greatly improve the customer experience.

Most challenging aspects of performance of industrial distributors



Q: In which areas is your current distributor's performance unsatisfactory?

Findings show that UK industrial distributors perform better than other countries on returns and online purchasing, suggesting UK industrial distributors are utilising e-Commerce more so than other countries in Europe.

Once a relationship has been established, it's crucial to sustain and nurture it throughout the pre-purchase, purchase and post-purchase

cycles. Execution of this rests on customer service representatives being properly trained in order to provide knowledgeable support and to answer product-related questions. Post-purchase support should include issue resolution and technical assistance, as well as help with returns if the product is deemed unsuitable. Survey findings indicate that certain countries are better at overcoming service related challenges than others. However, a holistic service approach is considered important for all countries to maintain customer relationships.

As the survey shows, e-Commerce is the most important purchase channel in Europe for industrial consumers. However survey findings reveal distinct challenges for both large and medium distributors that can prohibit a consumer purchasing online or offline. The most common challenges for distributors of all sizes were: high prices, resolving customer service issues and post-sales support, but there are also different challenges depending on the distributor's size. Large distributors, for example, should focus on fulfilling the consumers need for a wide range of products with a consistent inventory. Whilst medium or niche distributors

have the challenge of meeting the consumers demand for knowable assistance and offering consistent prices.

The onus is on industrial distributors to provide solutions to these challenges. For maximum efficacy, industrial distributors should develop strategic partnerships to strengthen their capabilities, such as e-Commerce solutions and flexible logistics networks. Understanding these challenges and developing viable solutions will be key to maintain customer loyalty and to improve sales, either online or offline.

Challenges differ depending on the size of European distributors



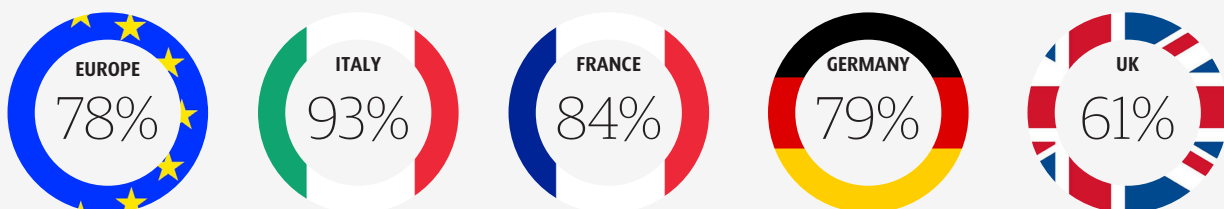
Q: Select the top five most challenging aspects of purchasing from distributors. Then rank these from one to five.

Value added services

Having technical, post-sales support available is a vital element that distributors can provide in order to meet service expectations. Repair services, technical assistance and product training are a few examples. The benefits of increased post-sales service levels allow consumers to use and maintain their

products over the long-term and, consequently, demonstrates value while extending the relationship with the distributor further into the life of the product. These relationships also build loyalty which leads to the likelihood for repeat sales.

On-Site Post Sale Support Expected



Q: Do you expect your distributor to provide onsite post sales service (repairs, tech support, etc.)?

On-site services, such as maintenance and repairs, are difficult to implement but are an expected service by most industrial buyers. On-site services require a large number of on-road technicians and engineers, who are often required to perform complex procedures in a time-sensitive environment.

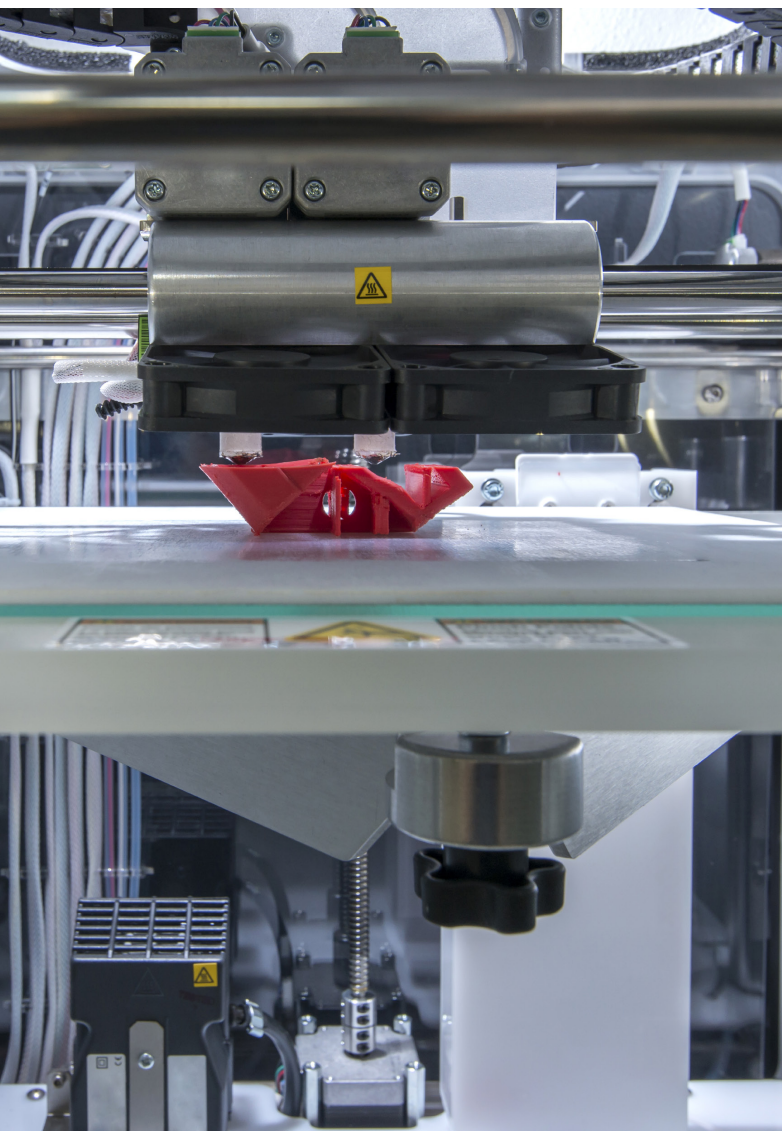
Distributors who offer on-site services can benefit by increasing the efficiency of their technicians and engineers.

Nine-out-of-ten industrial customers in Italy expect on-site, post-sales services.

Additive Manufacturing (3D Printing)

Many industrial actors are increasingly using Additive Manufacturing, also known as 3D Printing, for low volume manufacturing, both early in a product's lifecycle (prototyping) or late in a product's life cycle when demand is inconsistent.

This technology has gained popularity particularly in the aeronautics and automotive industries, where it provides great opportunities for complex parts such as turbine blades or burner tips, allowing for increased quality of industrial goods. Further, some actors identify short term opportunities for repairs and spare parts supply, especially where production lines are no longer available, but are still needed for maintenance (e.g. the railway industry). However, 57% of survey respondents said they have not yet been impacted by 3D Printing.



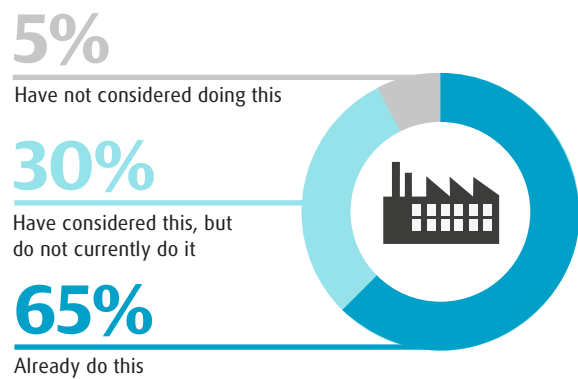
Direct from Manufacturer purchase (DfM)

In the traditional supply chain a distributor facilitates the trade of goods from the manufacturer to the end consumer. Within this study, we find that many buyers currently, or plan to, go directly to the manufacturer for purchase, bypassing the traditional distributor model entirely.

Across Europe the greatest DfM threat resides in Germany and France, as 69% of industrial consumers are currently using DfM at some level in these countries.

DfM Current and Anticipated Usage

% of manufacturers buying DfM



Q: When it comes to buying Direct from Manufacturers, which of the following best describes your company?

% of manufacturers likely to increase purchasing DfM



Q: How likely are you to increase purchasing directly from a manufacturer?

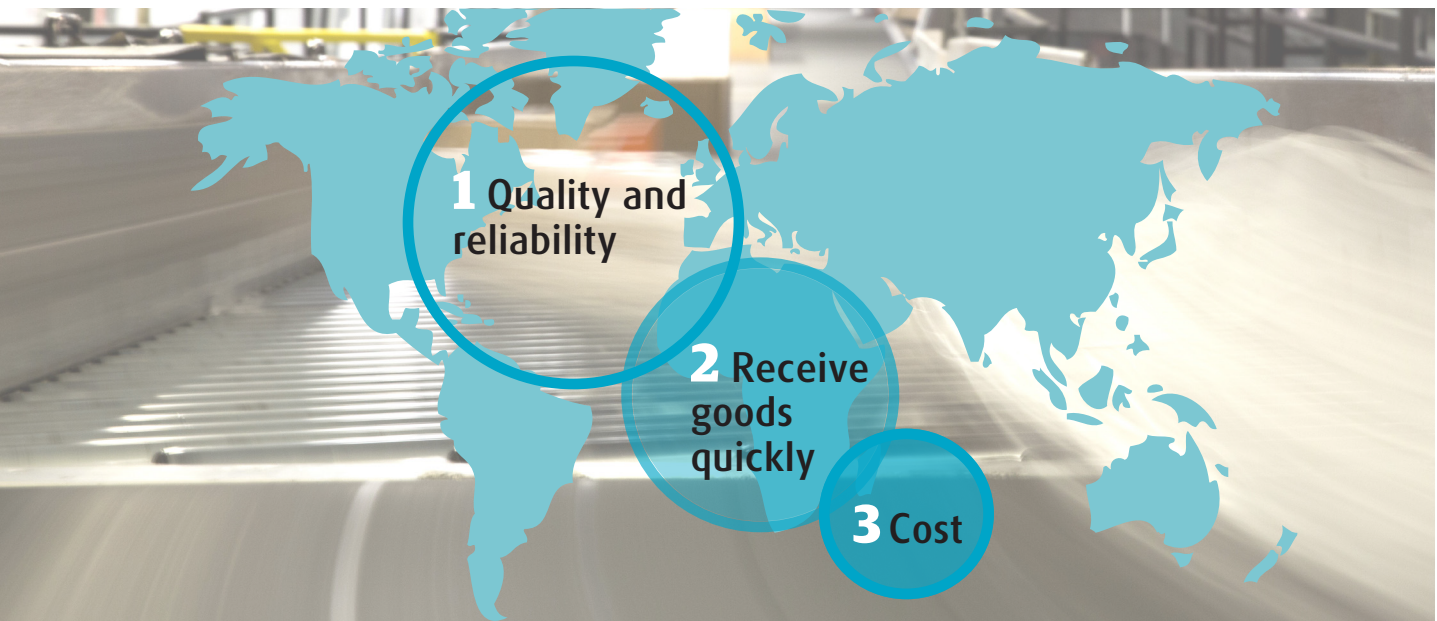
In order to maintain their traditional customer base, distributors must provide added value beyond what the manufacturer is capable of providing. For example, distributors can focus on simplifying the purchase process for customers or providing multiple paths to purchase. They could also focus on providing superior customer service and support, enhance the variety of products they offer and provide technical consultation about products. These factors would incentivise buyers to choose a distributor over a manufacturer.

Seizing business opportunities

The study reveals that 64% of European customers source primarily domestically, but are willing to source internationally (mainly in other European countries) to find the desired quality and reliability. This creates a wide range of revenue opportunities

for those distributors that have an international presence (online or otherwise) and are able to provide consistent post-sales services beyond national borders.

36% of industrial customers source internationally, mainly from Europe for:



Q: From where do you source the industrial goods you purchase? Q: Why do you source good from that location?

Conclusion

The evolution and increased adoption of industrial e-Commerce channels and Direct-from-Manufacturer (DfM) purchasing are creating both new challenges and opportunities within the distribution funnel for industrial supplies. It is necessary for distributors to build strong and authentic relationships with their customers by providing a consistent service experience and adding value beyond what can be experienced with the manufacturer directly.

First and foremost, it is imperative that distributors not only have a performing e-Commerce website, but ensure that their website is user-friendly, informative and optimised for mobile devices. With industrial customers expecting to increase their online spend and current mobile usage, distributors must adopt B2B e-Commerce as a primary sales channel – especially considering the scope by which it is increasing. Logistic providers such as UPS can help distributors to optimise their websites by integrating shipping software that allows customers to see accurate rates, precise delivery dates and track shipment progress, giving an improved overall user experience.

Second, distributors should provide consistent and quality customer support, including guidance to help select products, support in placing orders and post-sale technical assistance. To foster customer relationships and increase loyalty, effective inventory management and optimised supply chain management are key. The use of logistics solutions can also help a distributor maximise the efficiency of their post sales services. For example, UPS Access Point™ locations can be utilised as an alternative delivery point for spare parts, decreasing the amount of time an engineer spends on the road or reducing the hassle of looking for deliveries at a customer's premises.

Furthermore, being aware of and responding to business trends that are shaping the industrial manufacturing market place, such as DfM, 3D printing and the demand for products from non-domestic suppliers is important for maintaining a competitive advantage. In today's world buyers and sellers expect to connect with speed, precision, and ease, regardless of the distance that separates them. Express shipping providers, such as UPS can facilitate business across international borders, provide shipment tracking visibility and make international trade just as easy as doing business across town.

In conclusion, distributors are pressed to maintain and improve satisfaction levels in all stages of the purchasing process. Increased choice will direct consumers to those distributors that provide fluid and consistent customer experiences. By providing convenient paths to purchase, high quality post-sales services, knowledgeable staff and effective logistics to ensure the timely arrival of products, distributors have significant opportunities to stay ahead of the competition, create a loyal customer base and grow market share.

Methodology

TNS conducted an online survey of 719 industrial supplies purchasers in May 2015 in France, Germany, Italy and the United Kingdom. Respondents included sole/joint decision makers of industrial supplies as well as 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. The study was conducted online using trusted business-to-business panels.

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.

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.



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