CONQUERING THE B2B E-COMMERCE CHALLENGE

EXECUTIVE SUMMARY

Readers of this paper will gain an understanding of how business-to-business (B2B) e-commerce is evolving because of the changing nature of buyers and because of the pervasive impact of the global online ecosystem. Even though analysts are closely watching B2B e-commerce and believe the potential market is significantly larger than the B2C economy, B2B e-commerce has been slower to evolve, in large measure because of fears concerning the disruption or cannibalization of traditional sales channels.

Included is a discussion of current best practices in B2B e-commerce, techniques for managing channel conflict as well as key considerations for any business looking to add a “direct-to-business buyer” sales channel. The critical question for most businesses should be how to effectively manage the change in a complex, multi-channel sales and marketing distribution model.

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"Maybe next year," often has been said in reference to B2B e-commerce over the last 15 years. As in, "Maybe next year it will take off." Or, "Maybe next year we can get the sales group behind it." Or, most commonly, "Maybe next year we’ll think about it."

Unlike the intensely developed and increasingly ubiquitous (and standardized) shopping experiences that online consumers have come to expect – and demand – buyers in the B2B space have struggled with a hodgepodge of homegrown sites or implementations that have not been upgraded in years. In many cases, manufacturers offer buyers no online purchasing option at all for fear of causing conflict across its other sales channels. Given these factors, the marvel of B2B e-commerce is not how evolved it is, but simply that it’s happening at any measurable levels at all.

It’s certainly not the size of the opportunity that’s keeping companies from developing robust B2B e-commerce platforms. A wealth of statistics underscore just how large the potential B2B marketplace is and how much demand is going unmet for direct-to-business buyer channels:

- Goldman Sachs predicts nearly $1 trillion in e-commerce transactions by 2013.¹
- As early as 2009, research by BMWI pegged B2B e-commerce as 90% of global e-commerce spend.²
- Organizational buyers are becoming more "consumer like," recent studies suggest nearly 60 percent prefer to buy direct, instead of from the channel.³

Fortunately, the times are changing. Business buyers are increasingly demanding the same quality of experience and sophistication they enjoy as consumers. They are looking for richness of the online purchasing environment and the flexibility to make purchases across multiple platforms and sessions.

"The way I interact with a large corporation in a B2B relationship has to keep pace with the way I can view product and research on sites like Amazon.com."

- Andrew Christmann, Gartner Blog Respondent

place, adjust and cancel orders in real-time. They expect to access technical data and comparison information and to have dynamic, up-to-the-minute visibility in terms of inventory, shipping status, payment status and more. And, they expect to be able to use these features with ease while sitting at their office PC, on their tablet at home or on their smartphone while on vacation.

The reasons that B2B has lagged behind its B2C counterpart are numerous, but can be placed into two broad categories: management resistance and technological concerns. As illustrated below in a 2011 survey in BtoB magazine, B2B managers the world over cite “lack of resources,” “budget constraints” or the complexity of selling their products (fig. 1).

For many companies, these reasons are symptoms of the tensions in their organizations. On the one hand, business leaders and P&L owners are under relentless pressure to grow their business. On the other, is the expectation that growth be accomplished with minimal effect on profitability.

As a result, the yearning for a direct sales channel is at odds with the concern that it will cause more harm than it’s worth. This concern about disruption and cannibalization of existing channels – inside sales, distributors, value-added resellers (VARs) and others – surely explains why so many management teams are hesitant to fully embrace B2B e-commerce.

Obstacles to B2B E-Commerce

![Figure 1: Source: BtoB: B2B E-Commerce Barometer, August 2011](image)

Many businesses, however, are rethinking their positions regarding direct e-commerce sales. In response to the tension between growth and protecting profitability, organizations must identify a clear internal e-commerce champion to drive more clarity, strategic focus and prioritization, as well as engage outside expertise to quickly deliver the necessary go-to market tactics.

4 Source: BtoB, B2B E-Commerce Barometer, August 2011
While this is new behavior in the B2B space, this development mirrors what occurred in the B2C marketplace over the last decade. Software publishers, for example, which were among the first to discover the power of building direct-to-consumer relationships, are once again the market leaders in building direct relationships, this time with their business-to-business clients. They are doing so even while maintaining good relations with retail and channel partners and building one-to-one relationships with their customers.

This shift is not limited to the software industry, of course. What was once taboo for many companies – creating a direct-to-business buyer channel that would compete with traditional sales channels – has become not just tolerated, but steadily embraced as companies look for ways to increase revenue and alleviate margin pressure in tough economic times. In addition to focusing on revenue and margin, organizations are beginning to see the emerging benefits of building a symbiotic B2B sales channel ecosystem in terms of cutting costs and simplifying their multi-channel business models.

While the B2B e-commerce evolution is inescapable, many companies are delaying their adoption to operate “under the radar,” and employing a “wait and see” approach. Whether this is to avoid provoking a backlash from strategic revenue channels or internal culture upheaval, or there is a general uncertainty on the strategic fit, the emerging consensus is that such changes are inevitable.

Inevitable, perhaps, but not easy. Direct-to-business buyer channels, whether online or in the real world, have long been a source of irritation and animosity for inside sales forces, distributors, resellers and other channel partners. Not surprisingly, those who feel threatened by a direct channel often resort to aggressive tactics to undercut or even sabotage its success. Business leaders are right to see these behaviors as the most important hurdles to overcome in changing their distribution models.

In the larger context, however, efforts at such sabotage are almost certainly destined to be seen as rearguard actions by a business model that is, in fact, in full retreat. While individual B2B projects may be vulnerable to such attacks, there is a growing body of evidence that indicates the tide of history is on the side of the innovators. Even more encouragingly, there is every reason to believe that a “new normal” will emerge in B2B e-commerce in which direct and indirect channels exist in harmony and improve not just the bottom line, but also customer satisfaction. When it comes to customer acquisition and retention, for example, there is little doubt that a multi-channel approach combining direct and indirect methods will prevail.
BREAKING DOWN BARRIERS TO BUILD A DIRECT CONNECTION

Business-to-business e-commerce defies easy description or characterization. B2B companies all possess unique collections of sales channels, relationships, sales and marketing organizations and business objectives. The range of variables is much greater than in a typical business-to-consumer company which – for all of its complexity and variety – is focused on a single sale and customer relationship.

A typical B2B distribution model can encompass as many as half a dozen channels – distributors, resellers, retailers, in-house sales, dedicated agents and representatives, and independent agents. And, in many cases, can have as many layers – the publisher or manufacturer may distribute to a bevy of national and international distributors, who supply regional distributors, who provide product to independent sales agents, who service accounts that may have their own distribution systems to service the end buyer. A single complex sale could require numerous independent decisions about pricing, rebates, incentives, volume discounts, service agreements and more; only to then be repeated by division or region for a multinational organization.

This complexity evolved for a reason, of course. Historically, most manufacturers have not been able to afford the overhead of a vertically integrated sales and distribution network that stretched from the factory floor to the shopkeeper’s shelves. Distributors, VARs, sales reps, and installers gave manufacturers and other B2B companies affordable distribution mechanisms that – if properly incented and managed – delivered most of the benefits of a fully integrated distribution chain at a fraction of the cost.

Complexity, however, comes with a price. B2B companies know that their multi-channel distribution models are expensive, bulky and, in many cases, unwieldy to manage. Perhaps most importantly, the B2B models in use represent an information barrier between a company and its customers.

To be successful in the B2B market, companies need to know their customers as intimately and as attentively as any B2C enterprise. Instead, most rely on VARs, distributors, agents, reps and others to manage that knowledge. Sometimes, that reliance is well founded and the intermediaries provide an accurate and valuable conduit for information. In other cases, however, B2B companies know too well what happens when a VAR changes its business focus, goes out of business or fails to follow up with a customer.

A direct-sales channel can help a company unlock traditional B2B relationships and build one-to-one communications with its customers. That direct connection translates into customers who make more purchases, who can better match their needs to the company’s product line, and who will return the following year to buy more.
While the complexity and large investment in these distribution pipelines have been barriers to building direct, online channels, they have not stopped companies from trying. In the ’90s and in the first decade of the 21st century, any number of projects was launched by individual companies and a few consortia to create either a direct-buyer channel or, at least, to provide some automation of existing sales and sales support functions. During this same period, a few recognized solution providers emerged and provided toolkits that, while useful, did not offer the interactive and guided user experience B2B buyers increasingly wanted.

It is impossible to accurately estimate the number of hours of labor that went into specifying, designing, coding, testing and installing these applications, but it is a certainty that much of the effort was duplicative in function as company after company implemented online order forms, inventory management systems, order management systems, product configurators and more. Some were done well, but many more were not. Even as the IT community professed to embrace standardization and plain vanilla configurations purchased from a handful of big software vendors, B2B sales organizations continued to insist on customized, one-off packages because – as each organization declared – “we’re different.”

**A Tale of Two Web Sites: Autodesk Then and Now**

Figure 2: These side-by-side screen shots show the evolution of Autodesk’s direct B2B website. More than just style changes, the changes reflect key learnings from B2C e-commerce, advances in software and platform diversification.
The results, not surprisingly, were less than pleasing to developers, to the sales organization or to customers. Development cycles were painfully long, interface standards were poorly observed and implementation was difficult. Due to the homegrown nature and massive customization of the deployments, these applications became so complex that development was slow and the return on initial investment was painfully low. As a result, budget for revisions and upgrades were generally hard to come by and the maintenance and support for the applications tended to devolve into patches and add-ons that reduced stability and increased complexity. With so much working against them, it is little wonder many B2B applications represented something of a technological time warp. Some companies, such as Autodesk, have been leading the B2B transformation. As shown in the example (fig. 2), their current site is a model for how to effectively draw on B2C best practices and apply them to the B2B environment.

By contrast, the evolution of the business-to-consumer e-commerce experience has been profoundly dynamic and proceeded at breakneck pace. With the whip of competition spurring them on, retailers and other businesses serving consumers have relentlessly tested, revised, emulated and improved their e-commerce experiences over the last 15 years to make them as rich and frictionless as possible. As a result, the amount of online information available to the consumer, the level of customer service, the customization and personalization of offerings rivals – and in some ways exceeds – what consumers experience in traditional bricks and mortar venues. Some companies have used their e-commerce prowess to blend the personalized, intimate service of the neighborhood shopkeeper with the global supply chain and logistics of the largest multinational. As a result, it’s no surprise that B2C e-commerce has been growing by strong double-digit margins for years, a trend that’s expected to continue for years yet to come.

B2B buyers are also consumers, and they have become increasingly frustrated by the growing gap between what they experience as consumers and what they endure on the job. Where their consumer experiences are easy and smooth, accessible at a time, place and device of their choosing, their workday experiences may require them to conform their behavior to the requirements and restrictions of an application, VPN or local network.

Not surprisingly, some B2B customers, and even some B2B employees, are rebelling against these limitations. A recent survey by IDC (fig. 3), for example, found that almost every respondent – some 95 percent – said that he or she had personally purchased a device – PC, laptop, tablet, smartphone – and used it to help with their work.

Devices Purchased by Employee and Used in Work

![Diagram showing devices purchased by employee and used in work](image)

Figure 3: Source: IDC, IT Consumerization Survey, March 2011
Because of this market dynamic, businesses are realizing a kinetic shift towards more direct internal business processes, as well as having to concentrate on the end-user experience later in the development process. A compelling example on how business users are using B2C technologies to drive innovation in B2B can be illustrated by innovations in auto claims processing. One auto insurer, their claims processing partner, and the affiliated system of repair shops were looking to gain efficiency in information flow and decrease the time of booking between their claims processing and the local commercial truck repair and body shops. The claims processor developed technologies to enable the claim to be made on the spot through pictures via the commercial vehicle operator’s mobile device, allowing the processor to respond back remotely to invoke a video call via that mobile device and assess the damage. At that point, the claims processor would geolocate, quote, and book the business to the nearest commercial vehicle repair partner.

IT and sales leaders in the B2B space are starting to catch on. More and more, B2B companies are looking to the web as a way to improve sales, build their brands, create vastly superior business processes and strengthen their partner relations. Many are asking questions like, “How can we improve our partner portal?” “How do we offer an experience for our partners that are on par with what some of the top B2C sellers are giving their customers?” Still others consider, “How do we run promotions, campaigns, product recommendations and reviews, and create self-service sales processes like product configurators, price quote generators and renewal campaigns?”

Many B2B companies are embracing the change and investing in their online strategy. Some research indicates that approximately a quarter of enterprise, small and medium-sized businesses are planning, expanding or have already launched tablet-based pilot programs to improve their customers’ sales experiences.

In the commercial insurance space, for example, one company is using technology to give its customers a better experience at a difficult time: when a claim is filed. Agents are going out into the field armed with the technology to initiate a claim, interact with the claims processor in the main office through voice, data, video and other rich content, and cut a check on the spot (or to initiate a wire transfer to the customer’s account). And, if the customer has any questions or follow up, that same technology makes it possible for the claims processor, agent and customer to interact via video... right on the customer’s video-enabled device.
John Gage of Sun Microsystems is credited with the quote, “Technology is easy; people are hard.” And, as difficult as technological change has been in the B2B e-commerce field, what’s made the pace of change truly glacial is the attitude of many people who have a vested interest in seeing a direct-to-buyer e-commerce channel underperform or even fail.

A company’s inside sales force may see e-commerce as a competitor, one that “cherry-picks” the easiest and highest-margin business. While the company talks excitedly about how the e-commerce system will allow sales people to “focus on major accounts” or to “take on the complex clients,” many sales people will just see the loss of income and addition of more areas to monitor during their workday.

Distributors and resellers may have similar reactions. Direct-to-buyer channels can represent an end-run around years of carefully built relationships, degrading the value of that investment in terms of relationships and knowledge of both the product line and customer preferences. And, while companies may talk about the ability of the direct channel to serve otherwise unreached or unprofitable niche markets, distributors and resellers fear that poorly segmented offerings will simply cannibalize existing sales.

On an individual level, these people may have some reason to be concerned about the effect a successful B2B e-commerce channel could have on their jobs. Giving customers unprecedented access to product information, allowing them to configure custom orders online, and providing the ability to engage in forums, can all directly impact the need for as many sales and support personnel. When every customer can get a price quote in minutes using an online quotation system, how many sales people who perform the same task in a couple of hours does a company need? If a customer can log-in to their company’s dedicated strategic partner store that contains a product catalog specific only to their data centers, map the configuration of those items back to their data center layout and order those items instantly, how many associates does the company need to do the same job next week?

In truth, not as many.

From an enterprise perspective, however, the picture is decidedly less mixed. Online stores as a B2B channel are increasingly demanded by customers who are showing increased willingness – and ability – to find other providers of goods and services as needed. The cost of such a channel is increasingly affordable, particularly through cloud-based e-commerce systems, as global infrastructures continue to improve to provide support, logistics, fulfillment, delivery, installation and maintenance as needed.

John Gage of Sun Microsystems is credited with the quote, “Technology is easy; people are hard.”
Perhaps most compelling from an enterprise perspective is that an online channel gives businesses greater visibility and engagement with its end customers from prospect to post-sales. As the illustration below suggests, at each stage in the customer lifecycle, today’s B2B companies can avail themselves of rich sets of tools to find, acquire and manage their customer bases (fig. 4).

Companies today are thinking in terms of the entire lifecycle of a customer. In order to better amortize the cost of acquisition, B2B companies are seeking to deepen their relationships with customers so as to improve renewal cycles, upgrade purchases, maintenance contracting, replacements and spares provisioning and even decommissioning and disposal work.

**CASE STUDY**

Autodesk, a leader in 3D design, engineering and entertainment software, saw renewals improve by 35 percent when it shifted renewals from its traditional reseller channel to a direct online channel. Much of the gain came from smaller accounts that the reseller channel was not managing effectively. Shifting this piece of customer population to the direct channel improved renewal rates and allowed the reseller channel to focus on its larger customers. The reseller was compensated for the loss in potential customers with an annuity-like revenue stream the client implemented. As a result, everyone came out a winner: customers big and small got better service; and the reseller channel was freed up to pursue larger, more lucrative clients without a total loss of potential revenue. Autodesk experienced much better renewal rates, lower channel costs and a great connection with their end-user customers.
Momentum is building around B2B companies moving into the direct, online channel. Looking at just one slice of the IT sector – global application software sales to small and medium businesses – an estimated 15 percent or $32 billion will be sold through the direct channel by 2015.

The reason for this is that direct models are in the best interests of the customers. Similar to what has happened in the B2C space, B2B customers are increasingly demanding a rich and efficient buying experience.

This development is inevitable and desirable. The major obstacle that must be overcome is not the technology, but the people in terms of managing the relationship between direct and channel sales.

Fortunately, there are real-world solutions in use today by B2B companies that are delivering channel harmony and still capturing the benefits of the direct model.

“Going forward, we’ll see complete self-service and agility – as a user you should have the quickest, shortest path to getting whatever you want…”

–Shekar Ayyar, Head of Strategy, VMware

Source: www.pwc.com/globalsoftware100

Figure 5: The buyer is king. Evolving best practices in B2B e-commerce reflect a shift to a customer-centric focus, allowing buyers to purchase in their preferred channel. This strategy drives publishers, manufacturers and the channel to adopt increasingly flexible purchase paths. In the direct model shown by the solid lines, the end buyer interfaces directly with the manufacturer’s website to make, manage and renew their purchases. In the indirect model represented by the dashed lines, the end buyer establishes his relationship with reseller and channel partners on the first sale. Information is passed through to the publisher or manufacturer, who then manages subsequent purchases directly with the end customer. The reseller/channel partner is compensated for each subsequent purchase – reducing the reseller/channel partner cost of sales and increasing the likelihood the end buyer will renew.
Creating channel harmony is a balancing act, one that requires consensus and trust among participants. Trust and consensus are built on transparency so that those participants can get a sense of a company’s full channel ecosystem (and their role therein). They also require a clear understanding of the customer segments the company is targeting and how its product line matches up with those segments.

Taking these basic steps to achieve channel harmony can also yield additional benefits. Having clear visibility into the sales results and performance of each product across all channels allows a company to look for patterns and corollary effects. For example, a company may discover that its best direct sales days are driven by a “halo effect” that coincides with promotional periods by third-party channel participants (particularly big ones such as Amazon or eBay).

With trust and consensus, a number of workable channel rationalization tactics are available:

**Segmentation.** Even with the transparency and information flows made possible by the Internet, product segmentation remains a very useful tool in maintaining channel harmony. The key to segmentation is to use it in ways that complement a company’s channel objectives while reflecting meaningful differentiations within the customer base. Are there certain classes of customers, for example, who value customized versions of a software product? Do some value the attention of a dedicated support team? Some customers may want the flexibility of a “no obligation” contract while others are comfortable locking into a five-year usage agreement in exchange for a lower initial purchase price.

**Meaningful incentive programs.** Incentive programs – commissions, bonuses and other performance inducements – should be structured to motivate the channels in ways that do not undercut the direct online channel. Some companies, for example, incent their third-party channel partners with attractive commissions for renewals even if the customer was first acquired through the direct sales avenue. This approach frees the third-party channel from high cost for the initial customer acquisition, while benefiting the company through a higher renewal rate than could be achieved through the direct channel alone.

**Education and training.** Companies can see a profitable return on educating and training their distributors, VARs and inside sales groups on how the direct and indirect channels can co-exist. Such programs can help participants in indirect channels better understand the functions and features of the direct channel and how it can help, and not hinder, them in their jobs. In fact, many indirect channel participants come to see the direct channel as an asset in terms of information and research.

**Stakeholder engagement.** Engaging the appropriate stakeholders from your organization early and often in conversations about the benefits of channel harmony can make a huge difference in terms of acceptance and evangelism regarding direct channels. Once a sales professional or reseller understands how an e-commerce site can help him close more sales and earn higher commissions, passive resistance can flip to active and enthusiastic support.
Is your organization struggling to implement an effective direct B2B channel? If so, know that you are not alone. Adding a B2B e-commerce channel to your sales ecosystem, and doing so in this ever-changing global channel landscape, can be a daunting and arduous journey. Many companies, however, have been successful in this effort and more will follow. Use the checklist below to assess your organization’s direct channel readiness and help identify potential risks and opportunities.

- **Determine your revenue and reseller landscape.** How does your organization currently manage its channel revenue? What percentage of revenue is due to direct sales, channel sales and third-party agents? Are there different revenue “owners” for North America, EMEA and APAC? Who are your largest resellers? Knowing the answers will help you understand the make-up of your sales ecosystem as it currently stands so you can make initial assessments of the size of the opportunity, the internal participants who need to be involved and the initial challenges you’re likely to encounter.

- **Define where the “power” resides in your organization.** What part of the organization is responsible for each revenue stream? Does e-commerce report to a different department than global sales? How is e-commerce treated now – as a revenue center or marketing function? Just as channel harmony is important, so too is organizational harmony. Properly align your direct B2B operation within your corporate structure to give it the best chance for success.

- **Analyze.** What are your overall sales and marketing objectives? Does your e-commerce program align with and support those objectives? If not, you may need to reconsider your direct B2B strategy.

- **Company perception.** How is the company perceived by channel participants and by end users? Are you seen as a good partner or as unresponsive? What’s your value proposition to both groups? You might get answers that make you uncomfortable, but knowing where you stand with the channel and your end customers is an important element in determining how far you have to go to add a B2B direct channel and if you’ll need to make friends along the way.

- **Know your current technology ecosystem and its future.** Engage your IT department to understand the company’s current technological state of affairs and its plans for the next five years. How is IT currently deploying its resources and does it have the wherewithal to take on this project with current staff and budget? What vendors and technologies do you rely upon day-to-day? The technological state of your organization can be a significant factor in your ability to launch and maintain the initiative.

- **Be aware, be sensitive.** How will the compensation of your sales teams, partners and resellers be affected by a shift in channel sales? Who stands to gain? Who stands to lose? Keep in mind that change can be difficult, particularly when you affect people’s income and their ability to be successful at their jobs. Recognize that while some – or even most – will gain from the addition of a direct channel, not everyone will come out ahead and that the period of transition may be difficult. Anticipate now what can be done to provide “soft landings” for those who need them and how the transition can be shortened and smoothed.
CONCLUSION

B2B e-commerce will inevitably and rapidly penetrate most industries and business models. While it has lagged behind the evolution of B2C digital commerce, the internal and external pressures on companies to better serve their customers, control costs and improve margins will drive the adoption of many of the techniques, technologies and tools that have made B2C e-commerce a rich and seamless experience. Channel conflicts, internal and external resistance and the complexity of the business-to-business environment will prove only temporary obstacles to this adoption.

Most B2B companies are still in the initial stages of developing their e-commerce solutions, but those percentages likely will change rapidly in the next few years. The time is now to begin the process.
Digital River, the revenue growth experts in global cloud commerce, helps companies of all sizes build and manage their online businesses, maximize online revenues, reduce costs and minimize risk. Founded in 1994, the company is headquartered in Minneapolis with offices across the United States, Asia, Europe and South America.

Find out today how Digital River can help your company launch a direct B2B sales channel and maintain harmony with your existing indirect partners.

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