



UPS Europe 2017 Industrial Buying Dynamics Study

How Online Commerce Is Disrupting Industrial Supply

Industrial buyer behaviours, preferences and perceptions in Europe

Foreword

The UPS Industrial Buying Dynamics Study is one of the few detailed studies available on the relationship between industrial buyers and suppliers. This study provides a unique understanding of how industrial buyers identify suppliers such as industrial distributors, manufacturers and e-marketplaces, their satisfaction with existing suppliers and their propensity to change suppliers in search of improved value and service. Interviews were carried out with purchasing professionals and the study provides a detailed view across countries and sectors.

Introduction

The UPS Industrial Buying Dynamics Study reveals interesting details on the reshaping of the industrial purchasing world. The results of the series of industrial buying surveys which UPS has conducted since 2013 show that industrial buyers are purchasing more and more online.

The system whereby intermediaries broker the sale and distribution of industrial products between manufacturers and end-users is facing disruption. The two key drivers for this change in buying behaviour are the

rise of e-marketplaces (such as Amazon Business, ThomasNet.com, IndiaMart and Alibaba) and direct-from-manufacturer sales.

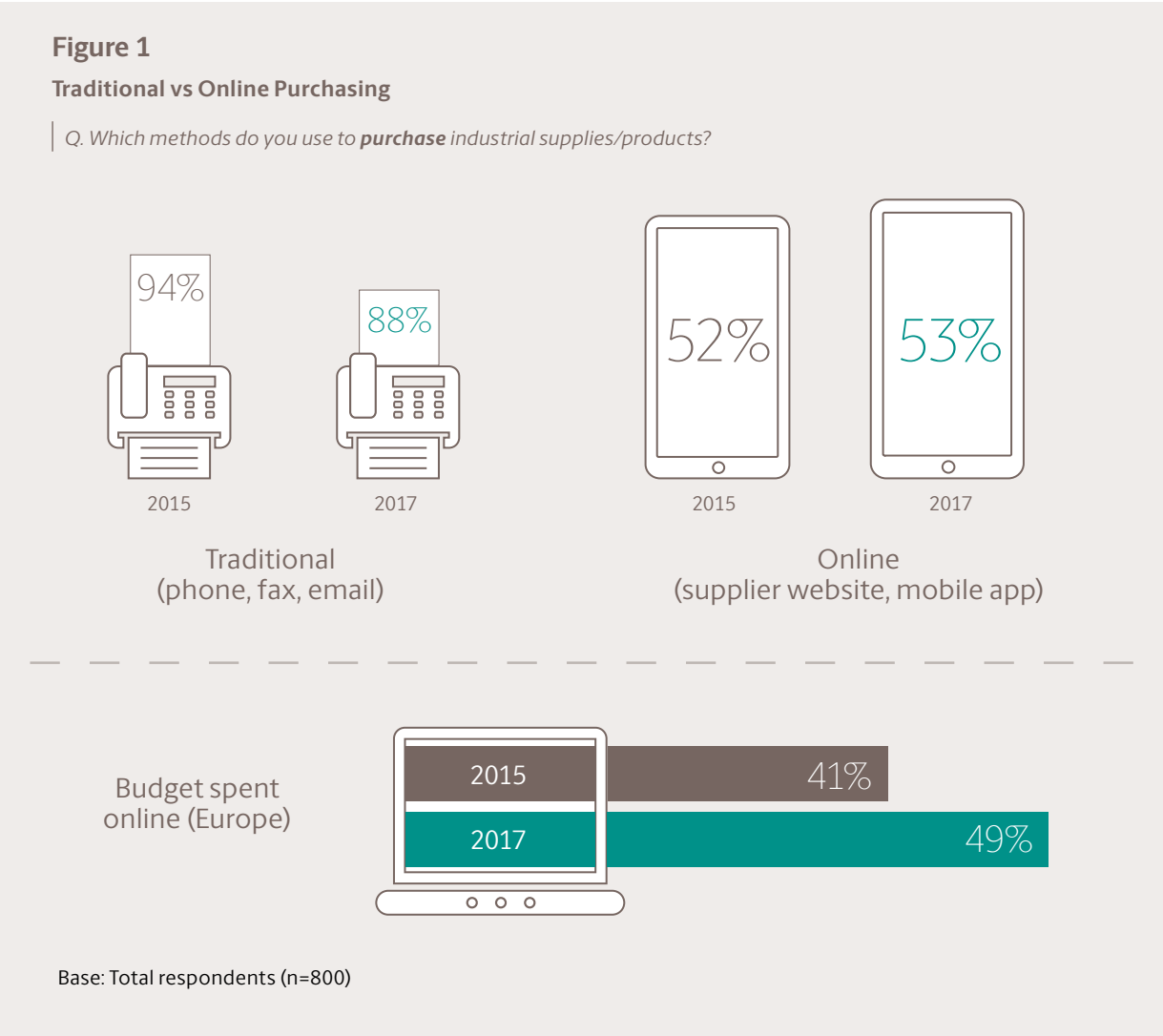
The survey results also show that industrial buyers have a high propensity towards switching suppliers. If price and quality remain the most important drivers of supplier choice, the differences will be made on services such as insurance, exporting capabilities and, most importantly, post-sales service, a key differentiator in the future of the manufacturing world.

A man with a beard and short hair, wearing a dark long-sleeved shirt and green overalls with red accents, stands in a warehouse. He is holding a black clipboard in his left hand and looking towards the camera with a slight smile. The background shows shelves filled with cardboard boxes and a stone wall.

The Changing Pattern of Industrial Purchasing

Digitisation is taking over traditional selling patterns such as phone calls or sales visits. In Europe buyers spend half (49%) of their overall budget online, an 8 percentage point increase since 2015.

Data shows that buyers in the US and China have also increased their online spend, increasing from 47% in 2015 to 52% in 2017 in the US, and from 37% in 2015 to 43% in 2017 in China.



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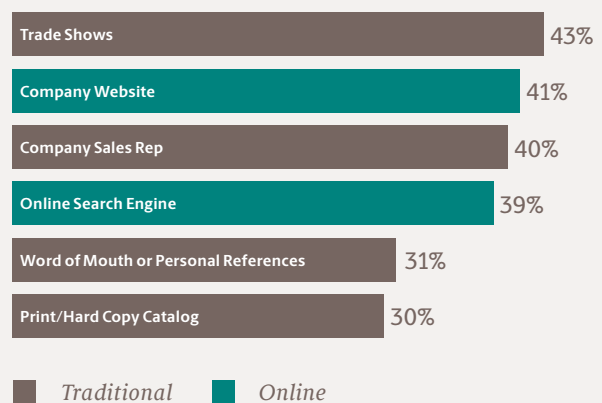
The change in the use of purchase channels is all the more striking given the relative rigidity of industrial buying behaviour. A total of 32% of respondents stated that they are only permitted to buy from specific suppliers, and 21% said they could only buy from a limited list of product types. In the absence of these limitations on supplier choice – something that is likely to happen over time as the industrial buying market matures and embraces more global buying – the change in purchase patterns is likely to accelerate.

While online is the force of disruption in industrial buying, traditional research and information channels are still important. The UPS 2017 Industrial Buying Dynamics Study demonstrates that trade shows remain the most preferred research method for buyers looking for new suppliers, with company sales representatives, word of mouth recommendations and printed catalogues all used as well.

Figure 2

Resources for Researching a New Supplier

*Q. Which of the following sources do you typically use to find out more information about a **new industrial product supplier**?*



Base: Total respondents (n=800)

A close-up photograph of a man with short brown hair, wearing a dark blue shirt, looking intently at a piece of metal being worked on by a lathe machine. The background is a blurred industrial setting with various metal parts and machinery. The lighting is bright and focused on the man and the machine.

**The Impact of Direct-
from-Manufacturers
and e-Marketplace
Purchasing**

Over the last few years, traditional industrial distributors have been losing market share to e-marketplace and direct-from-manufacturer (DfM) sales. In Europe today, 92% of industrial buyers are purchasing DfM in comparison to 65% in 2015. They are also spending most of their budget through this channel, accounting for 44% of buyer spend, compared to just 31% in the US and 35% in China.

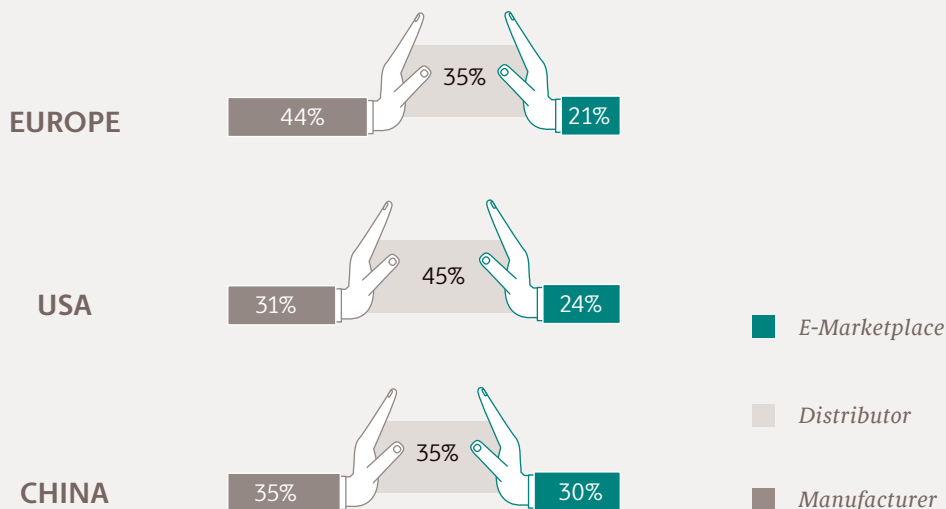
Over the last few years, traditional industrial distributors have been losing market share to e-marketplace and DfM sales

Results from the survey show that in Europe 75% of industrial buyers are purchasing through e-marketplaces (75% in the US and 94% in China). However, the share of spend is relatively low, accounting for 21% in Europe, 24% in the US and 30% in China.

Figure 3

Supplier Share

Q. What percent of your total purchases of industrial supplies/products, in a year, are with the following types of suppliers?



Base: Europe (n=800), U.S. (n=1500), China (n=200)

When asking about their future purchasing intentions a third of non-users said they are either very or extremely likely to start buying directly from the manufacturer in the next three to five years, and 27% said the same about buying from e-marketplaces.

At the same time, 57% of the respondents said they would increase their existing rate of buying from e-marketplaces and DfM. The results suggest that today's 44% of total spend in DfM sales and 21% of total spend in e-marketplaces are both set to grow.

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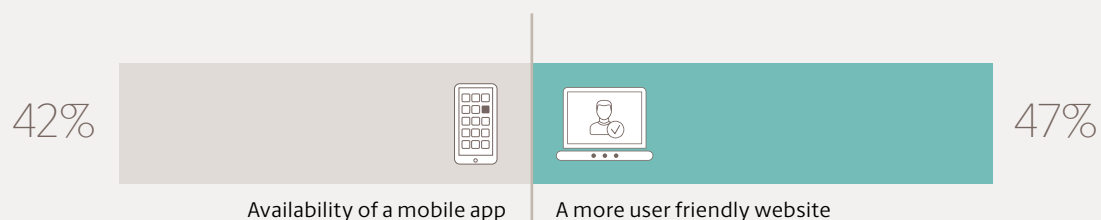
The implications of these findings are important for the industrial value chain in Europe. Traditional industrial distributors are squeezed by the growth of purchasing directly from the manufacturer and the purchase from e-marketplaces.

The study also shows that online and mobile capabilities are important factors for deciding to shift to a new supplier. Almost half of industrial buyers in Europe said that a 'more user friendly website' would be likely to make them shift business to a new supplier in the next three to five years, and 42% said that the availability of a mobile app would have the same effect. The results suggest that suppliers need to continue to invest in online and mobile capabilities in order to stay in the game.

Figure 4

Shift Business for Digital Capabilities

Q. In the next 3-5 years, how likely are you to shift business to a new supplier due to...? (Extremely/Very likely)



Base: Total respondents (n=800)



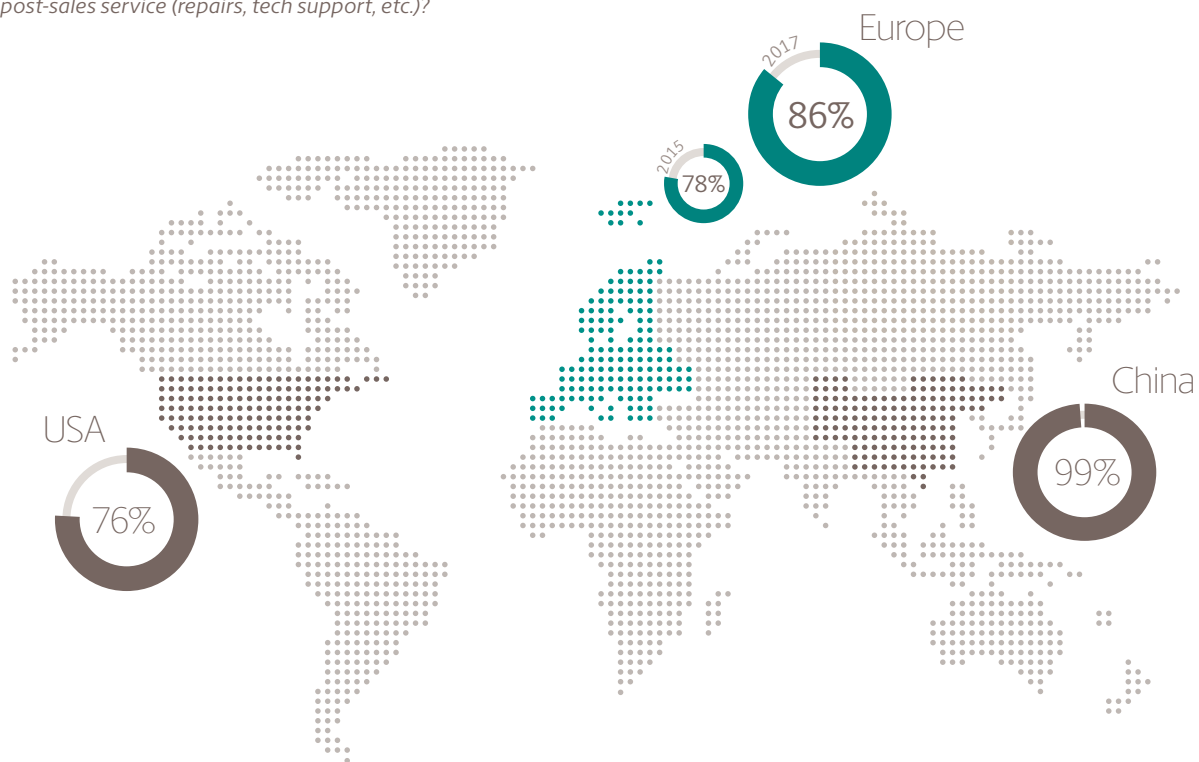
Service Becomes a Key Differentiator

Industrial buyer expectations of post-sales support in Europe are increasing. In 2015, 78% of survey respondents said they expected on-site post-sales services from industrial suppliers; in 2017 that has risen to 86%, driven particularly by significant rises in expectations amongst UK and German respondents. European expectations of post-sales support are running ahead of expectations in the US where 76% expect on-site support, although in China a remarkable 99% of industrial buyers expect on-site support.

Figure 5

Global Post-Sales Service Demands

Q. Do you expect your industrial supplier to provide on-site post-sales service (repairs, tech support, etc.)?



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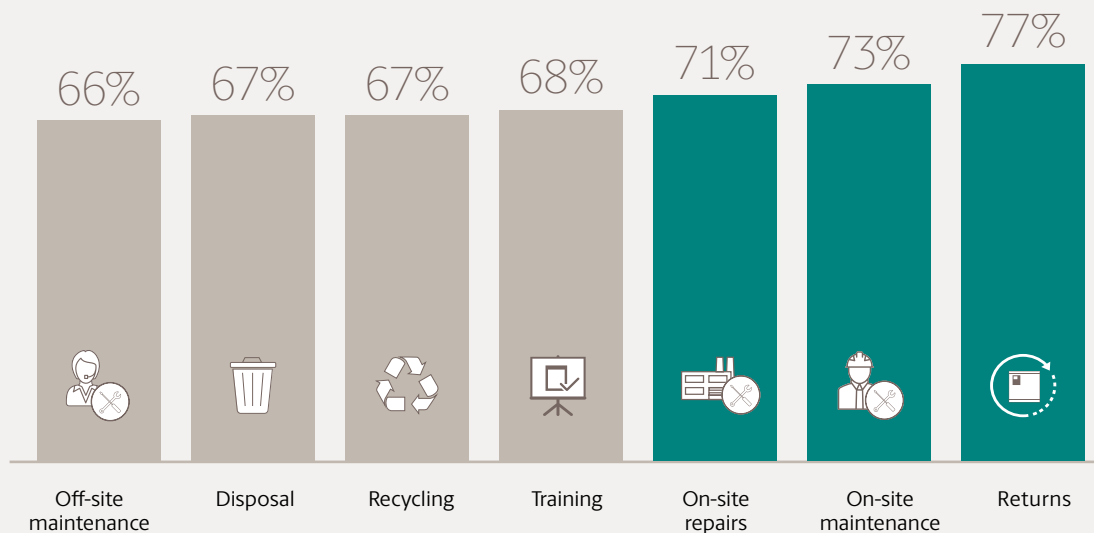
In a world where sources of industrial supply have proliferated, the service offer from suppliers has become a critical differentiator between competitors. The UPS 2017 Industrial Buying Dynamics Study shows that while an effective returns process is the most important post-sales service, buyers also expect a much wider range of services, with on-site maintenance and repairs cited by over 70% of respondents.

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Figure 6

Post-Sales Service Expectations

Q. Would you expect your industrial supplier to provide the following post-sales services?



Base: Total respondents (n=800)

■ Top 3 post-sales expectations

The necessity of on-site maintenance and returns brings about logistics challenges for suppliers that may go beyond their traditional operational skill-set. The survey shows that 60% of buyers typically need delivery for all orders within 48 hours or less, with small differences between sectors.

Figure 7

Delivery Speed Expectations

Q. How fast do you typically need your product to be delivered?



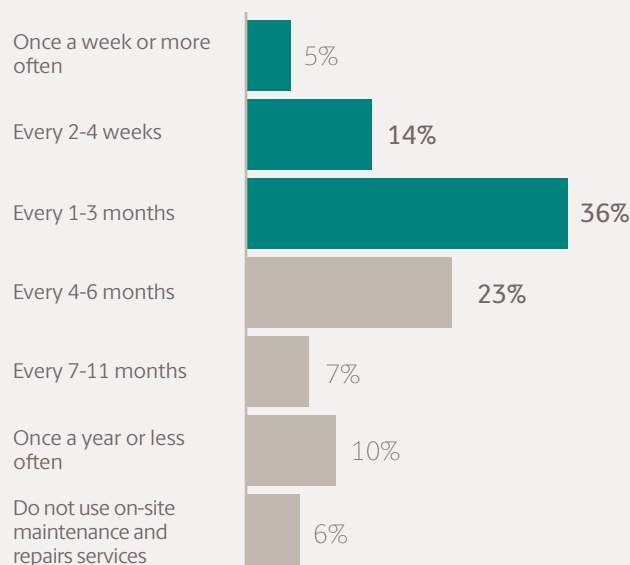
Base: Total respondents (n=800)

Over half of buyers need on-site service at least every three months, and nearly a fifth of buyers say they need on-site service at least every month. Only a quarter of buyers say they actually receive on-site service within 24 hours, although that rises to 80% for a response time of 48 hours.

Figure 8

Frequency of Post-Sales Needs

Q. How many times per year do you need on-site maintenance and repair services?

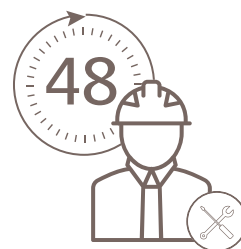


■ Service needed at least every 3 months

Figure 9

Post-sales response time

Q. What response time do you typically receive for on-site maintenance and repair services?



80% of buyers receive on-site service **WITHIN 48 HOURS**



CASE STUDY

Solving the Logistics of Service

Sealed Air, a leading producer of materials and manufacturing equipment for food safety, facility hygiene and packaging was recently facing challenges managing on-site service in Europe for their TASKI® floor cleaning machines. They were managing their own supply chain through a network of 19 warehouses, supporting over 500 field engineers providing after-sales services. But service response time was slipping below buyer expectations, and it was costly. By using a solution that combined UPS Express shipping services with the UPS Access Point™ network to deliver parts to field engineers, the company was able to save money and improve response times.

The UPS Access Point network features over 15,000 locations across Europe where buyers can collect or drop off parcels. Meanwhile, UPS was able to consolidate the company's network of warehouses into a single, centralised distribution centre. The new service infrastructure allows field technicians to order a part up until 1pm, and have it in hand early the next morning. Engineers in Europe are typically able to find a UPS Access Point location within a few kilometres of their home or buyer, meaning that the time spent by engineers collecting spare parts has been reduced by approximately 30 minutes per service order. This allowed Sealed Air engineers to complete more service trips on a weekly basis, reduce the number of warehouses and inventory levels and to bring their post sales offering back on track.

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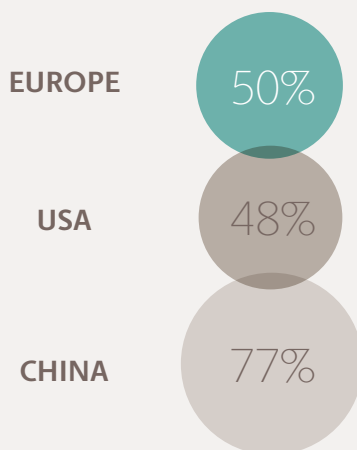


Supplier Challenges in 2017

Industrial suppliers – whether they be traditional distributors, manufacturers selling direct to buyers, or e-marketplaces – all face challenges in building or protecting revenue in an increasingly diverse and challenging market.

Figure 10
Importance of Insurance

Q. In the next 3-5 years, how likely are you to shift business to a new supplier due to insurance on purchases? (Extremely/Very likely)



Base: Europe (n=800), U.S. (n=1500), China (n=200)

Suppliers have to pay increasing attention to their service offer. The UPS 2017 Industrial Buying Dynamics Study shows that industrial buyers have increasing expectations for service, specifically in areas such as returns, speed of delivery, and on-site repairs and maintenance. In particular, buyer sensitivity to the speed and reliability of service has increased. This is reflected in the rising importance of insurance as part of the supplier offer: buyers who need to source machinery or parts very rapidly to keep their operations running are highly likely to need insurance for loss of deliveries and interruption of business. The UPS Study shows that insurance is a key driver for switching business to new suppliers, and that many European industrial buyers are

unhappy with the availability of insurance from their suppliers. Half of all European buyers in the Study said that a better insurance offer would make them likely to switch business (a slightly higher propensity to shift business than in the US).

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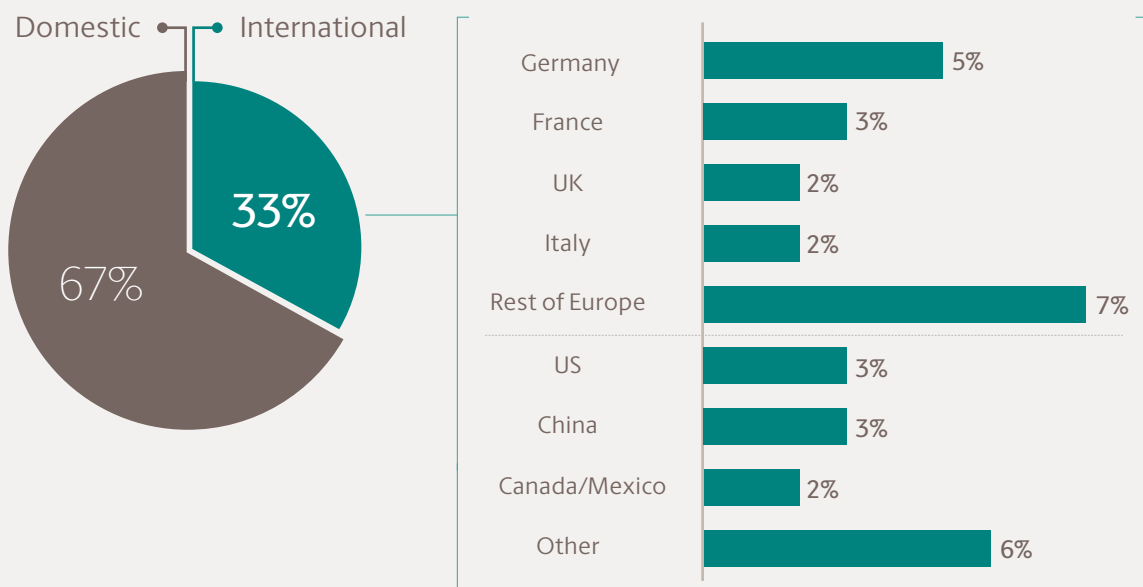
The Industrial Buying Dynamics Study also shows that cross-border sales continue to grow as part of the overall growth of e-commerce. Outside of domestic sales, European industrial buyers are sourcing primarily from other European countries; the US and China are the next most important sources for buyers. In one product group – Original Equipment Manufacturers (OEM) – 45% of respondents are sourcing cross-border, while all other product groups average about 30% cross-border buying.

With cross-border sourcing making up such a large proportion of all sales, the need for suppliers to build an effective online presence in all their target markets has never been greater. This means creating a localised buying experience online, but even large suppliers can find it hard to deal with the burden of multi-location, multi-language online commerce. One solution is to work with third party providers that offer web-technology solutions to provide international customers full visibility into the landed costs of their orders. These solutions can also enable a localised shopping and shipping experience by converting prices to local currencies at checkout.

Figure 11

Product Sourcing

Q. From where do you source your product?



Base: Total respondents (n=800)

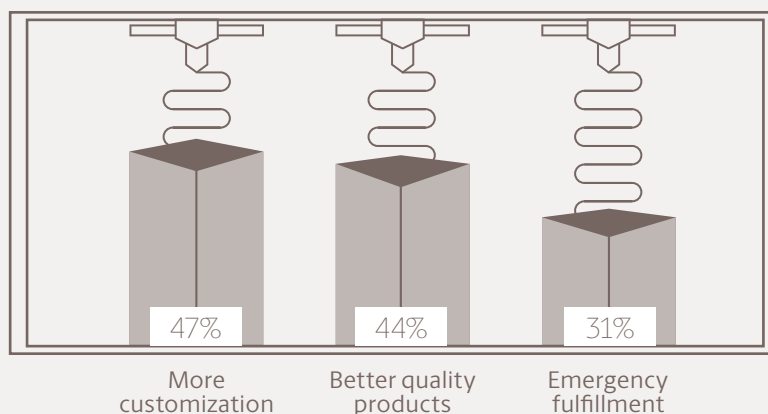
The 2017 UPS Industrial Buying Dynamics Study shows that industrial buyers continue to seek suppliers with 3D printing capacity. Respondents in the UPS study say that they expect 3D printing primarily to provide new opportunities in customization and to deliver better quality products.

Despite the shortcomings of 3D printing as an industrial process –slow and not suited to volume production – it remains an important part of the future strategy of many industrial suppliers, not least because printing on demand can greatly reduce inventory of parts that have low volume sales. More than two out of every five industrial buyers say that the offer of 3D printing capacity is likely to make them move their business to a new supplier.

Figure 12

Expected Benefits of 3D Printing

Q. What benefits would you expect from a supplier who offered 3D printing services?



Base: Total respondents (n=800)

Conclusion



The story of industrial buying in 2017 is a story of disruption, which is likely to expand in the coming years. Whether it is sales from e-marketplaces or direct-from-manufacturer sales, the traditional distributor is under pressure – and the great driver of this change is online information and transaction capability.

All industrial sellers need to adapt to these changes. For many, the challenge will be how to maintain service levels in traditional channels while increasing investment in the newer, faster-growing channels. The UPS 2017 Industrial Buying Dynamics Study shows that traditional marketing through trade shows, sales representatives and printed catalogues are still the most used methods to research new products and find new suppliers. But at the same time online commerce is growing, with e-marketplaces being used as a purchasing channel by 75% of buyers. Furthermore, direct-from-manufacturer sales have continued to rise sharply in the last two years.

These changes in industrial buying behaviours put pressure on traditional distributors who have to work hard to retain buyers and seize new market share. Better online capabilities is one strategy for ensuring continuous customer satisfaction – almost half of industrial buyers say a better website experience would make them change supplier, and almost as many would be influenced by effective mobile buying options.

The big differentiator is service. Expectations of service scope, speed, and regularity are rising. Buyers now expect industrial suppliers to deliver on-site maintenance and repair, training and efficient returns – often on a one-day turnaround basis. This is challenging suppliers to restructure their supply chains to make rapid on-call technical service a reality. Respondents in the UPS study also say they increasingly look for add-on services like insurance, and 3D printing capability.

Service also needs to be integrated in the cross-border capabilities of suppliers – for most product categories 30% or more of sourcing is now cross-border. That only adds another layer of complexity to the challenge faced by all suppliers.

Both manufacturers and industrial distributors will need to consider how best to structure their fulfilment and shipment operations, and whether to insource or outsource them. Although insourcing both fulfilment and shipping offers complete control of the customer experience and service levels, it is complex to put in place. Outsourcing (either sales and/or shipments) is an alternative as it still allows the supplier to maintain a line of control over customer experience, especially on the critical post-sales services.

The experience of UPS is that those companies that do recognise the changing patterns of industrial distribution will retain buyers and grow in new markets. That means offering user-friendly online channels, investing in infrastructure to speed up their supply chains, and recognising that today service is the main differentiator between failure and success.



Spotlight on France

Traditional sales channel use (such as in person calls, phone calls, and emails to customer service or dedicated representatives) has been falling fast for French industrial buyers, and over the last two years the use of digital channels has risen dramatically, reaching 51% in 2017, up from 38% in 2015. At the same time, nearly half (49%) is spent on web purchases compared to just 39% in 2015.

92% of French buyers now say they are spending at least some of their budget in direct-from-manufacturer sales and 55% of companies say they will increase such buying. French companies are the least likely in Europe to source industrial products from outside France.

French buyers' expectations of on-site service have always been high, compared to European peers, with 88% of companies saying they expect on-site post-sales service.



Spotlight on Germany

German industrial buyers tend to use phone calls and emails to contact dedicated service representatives more than other European buyers. However, the use of traditional sales channels has been steadily declining. The number of people buying through dedicated sales representatives has fallen from 52% in 2015 to 43% in 2017. This change in behavior is also highlighted when it comes to the decrease in in-person buying at supplier locations which fell drastically from 41% in 2015 to 26% in 2017. Simultaneously, purchasing online is becoming more popular. Respondents who purchased online spend 44% of their budget online in 2017,

compared to 40% in 2015. It is also important to note that 77% of German industrial buyers have purchased from e-marketplaces in 2017.

One area where German industrial buyers continue to lead change is in direct-from-manufacturer sales. With 94% of companies making DfM purchases, German companies are above the European average for DfM buying, and are the most likely in Europe to say they will increase it further. German buyers' expectations of on-site post-sales service are also high with 85% of companies saying they expect on-site service.



Spotlight on Italy

Italian buyers are the most likely in Europe to use e-marketplaces for industrial supply needs (85% of respondents). They are also the most likely to do business during an in person sales visit from the supplier (32%).

Italian buyers have been increasing the proportion of budget spent online (38% in 2015 vs 44% in 2017). They are also more likely to initiate a sales relationship online and 67% say they will further increase online spending. Italian buyers have also already

greatly increased direct-from-manufacturer buying, with 95% of respondents saying they do this (compared to 63% two years ago).

Italian buyers' expectations of on-site service have always been high, compared to European peers. It has now risen further, with 96% of companies saying they expect on-site service, ten percentage points above the European average.



Spotlight on the UK

UK industrial buyers are the least likely in Europe to use traditional sales channels (such as in-person calls, phone calls, and emails to customer service or dedicated representatives) and they spend a large share of their budget online (60% in 2017) compared to just 47% in 2015. Surprisingly, UK buyers are the ones that use e-marketplaces the least (67%) when compared to other European countries (75% average).

Companies in the UK are showing the lowest uptake of buying direct-from-manufacturers (only 87% say they do) and they are also the least likely in Europe to say they will increase DfM buying.

Respondents in the UK have increased their expectations of on-site service from suppliers, but they are still the least likely in Europe to expect on-site service (74% of companies, compared to a European average of 86%).



Methodology

In December 2016 Kantar TNS conducted an online survey of 800 industrial supply purchasers in Europe, comprising of 200 in each of the UK, France, Italy and Germany, as well as 1,500 in the US and 200 in China. Respondents included sole or joint decision makers or strong influencers of sourcing and purchasing decisions.

All participants either influence purchasing decisions or make purchases in at least one of five product categories:

EQUIPMENT – Equipment sold in a business-to-business transaction. The buyer of this product type may use it as capital equipment in a service establishment, factory, warehouse or kitting environment. Examples include powered and non-powered tools, machinery, tooling fixtures, refrigeration equipment and restaurant ovens.

FINAL ASSEMBLY OEM PARTS – any parts, components or equipment used in the final assembly of a product.

MRO PARTS – parts related to maintenance, repair and operations including replacement gears, motors and bearings.

CONSUMABLES/RAW MATERIALS – any input items that are used in a manufacturing process or equipment, including fasteners, sealants and adhesives.

JANITORIAL & SANITATION – cleaning supplies, cleaning detergents and solvents, bathroom and hygiene products.



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