



THE E-COMMERCE (R)EVOLUTION

DIGITAL TRANSFORMATION REPORT 2018-19



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CONTENTS

1. E-commerce 1.0 > 2.0 > 3.0	4
2. E-commerce 2.0: What's driving e-commerce upgrades?	8
3. The race to answer customer demand	9
4. Why are we stuck on e-commerce 2.0?	11
5. Changing business models	13
6. Globalization: opening up to new markets	18
7. The e-commerce (r)evolution: Looking to the future	22

FOREWORD

Welcome to the 2018–19 Digital Transformation Report — the third annual report in what we hope will become a long tradition.

Last year's report was focused on learning as much as possible about the rate of digital transformation in B2B organizations around the world. Where were these businesses on their path to digital transformation? What was motivating them? What were they struggling with, and how were they overcoming their obstacles?

We learned that 63% of businesses had a digital transformation strategy in place, though a mere 4% could say they had actually completed their transformation. We also learned that e-commerce was playing a vital role in the process of digital transformation for 73% of respondents.

2018: THE E-COMMERCE (R)EVOLUTION

This year, we wanted to dive even deeper into the role of e-commerce in digital transformation. We commissioned Sapio Research to survey 559 individuals in businesses all over the world from industries ranging from food and beverage and automotive to construction, healthcare,

electronics and packaging. We wanted to hone in on e-commerce in the B2B world in particular. Respondents had to be working for organizations that sold their products to other businesses. This year we also included retailers.

We learned that in just a year, the number of businesses using e-commerce to support their digital transformation has risen from 73% to 87%. There were many more revealing results, and they immediately offered a clear theme for this report: e-commerce (r) evolution.

In the pages ahead, we break down the e-commerce (r)evolution into three main topics. We'll begin with **e-commerce 1.0, 2.0 and 3.0**; what's the current state of e-commerce adoption, which key factors are driving businesses to pursue e-commerce as a sales channel, and where is e-commerce headed? Then we'll look at **changing business models** and the impact that selling direct-to-consumer is having on traditional supply chains. Finally, we take a macro economic view of the market place and identify the role that that e-commerce plays in opening up **new national and international markets**.

E-COMMERCE 1.0 > 2.0 > 3.0

Sales have come a long way since the 1990s and the growth of the internet. We saw e-commerce change the way we buy and sell with the advent of online sales in 90s, with innovative businesses like Amazon, eBay, Alibaba and Paypal transforming the way we viewed commerce.

E-commerce 1.0

As online sales became the mainstay in the consumer marketplace, B2B organizations began to wake up to the idea that selling online would deliver great efficiencies and help meet growing customer demand for the ability to buy whenever and from wherever. Traditionally B2B organizations only offered an offline sales process using sales reps and even physical stores. They believed that sales reps understood the customer better and the complexity of their buying needs. As technology evolved to be able manage the idiosyncrasies of different customer buying behaviors so did B2B online web stores and e-commerce 1.0 was born. B2B organizations had joined the revolution.

E-commerce 2.0

As the volume of online sales grew, so did the customer demand for more sophisticated e-commerce functionality. Customers wanted more information than first generation web stores could provide. They wanted to be able to view their order history, invoices, pricing schedules and even receive advice and product recommendations

based on their buying history: information that would help them make better buying decisions. Organizations recognized that they needed to improve the customer experience online to mirror the level of support provided offline if they're to retain loyal customers, but also to support growth in new markets.

E-commerce 3.0

Trading online has removed international boundaries and many companies have begun to operate in new markets and new territories. As a result, e-commerce has become a critical part of many organizations' strategy for business growth and plays a key part in businesses infrastructure. The ability to integrate front-end, external facing systems, such as web stores, with internal infrastructures and data has bought about a new (r)evolution in e-commerce. This integration is driving broader business benefits – from revenue growth and profitability, to business efficiencies.

**So how are B2B companies adapting to e-commerce 3.0?
What are their biggest challenges, and where are they already succeeding?**

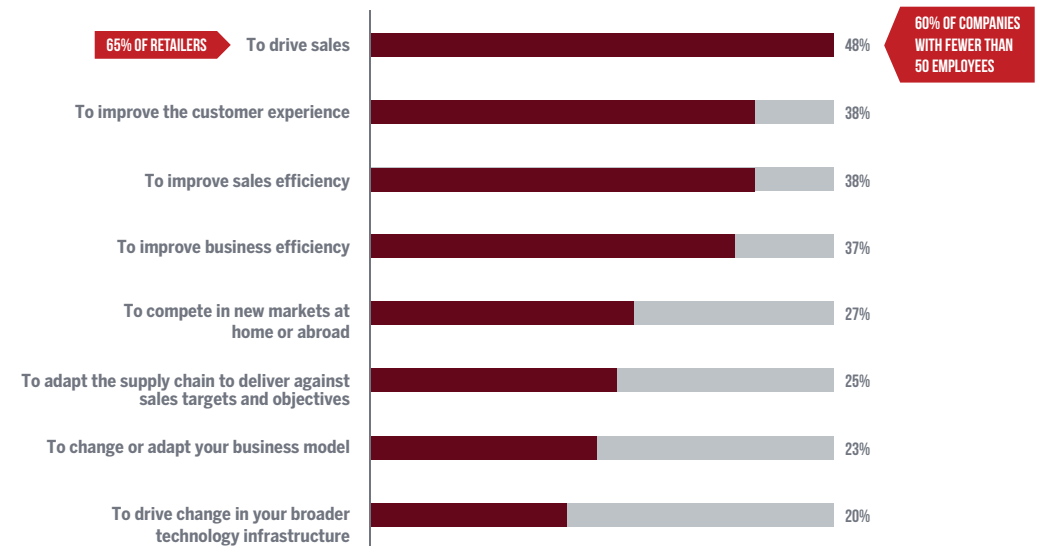


KEY E-COMMERCE PRIORITIES FOR B2B

According to the survey, many B2B companies are still focused on delivering e-commerce 1.0 or 2.0 to their customers.

While 84% indicated they're currently implementing or have operated a web store, of those – nearly half are using it to simply drive online sales and 38% stated that they're using it to improve sales efficiency - a trait of e-commerce 1.0. Not necessarily surprising is that **driving online sales was even more important for retailers, with 65% indicating that it was a top priority.**

WHAT ARE THE THREE KEY PRIORITIES FOR YOUR B2B E-COMMERCE SOLUTION?



As with last year there is evidence that companies are prioritizing the broader benefits of e-commerce 2.0, with 38% listing improving the customer experience as a key objective of their web store.

There is a growing understanding however of how e-commerce can develop the business internally. Whether that's improving **sales efficiency (38%)** or **business efficiency (37%)** or to change and adapt business models – a priority for a quarter of respondents.

And while it is lower on the priority list (in fact it's at the bottom), there is a clear indication that organizations believe that e-commerce 3.0 has a part to play in the evolution of business strategy, with a fifth using their platform to drive changes in their broader technology infrastructure. **The good news is that the vast majority of organizations who are using an e-commerce solution have been successful in achieving the many business objectives that they set for their implementation. This suggests that they are on the path toward a more transformative approach to e-commerce.**

■ HAVE YOU ACHIEVED YOUR MAIN OBJECTIVES FOR IMPLEMENTING A B2B E-COMMERCE SOLUTION?





MOST BUSINESSES ARE ACHIEVING THEIR BUSINESS OBJECTIVES WITH E-COMMERCE

Over 90% of organizations are successfully meeting the objectives they set out when implementing the solution. Whether that was to free up the sales team, increase the volume of sales, improve the customer experience or improve organizational efficiencies, companies are confident that they're achieving their technology goals. Reducing the cost of sales appears to be the most challenging objective to reach, though with an 81% success rate, it seems to be going very well. *



* See chart on page 8 for a full overview of these statistics.

INCREASED COMPETITION AND CHALLENGING MARKETPLACES REMAIN AN OBSTACLE FOR SOME

What about those who aren't yet achieving their e-commerce objectives? Over a quarter of respondents who said they hadn't achieved their objectives indicated that their greatest obstacles are increased competition (29%) and a challenging marketplace (26%).

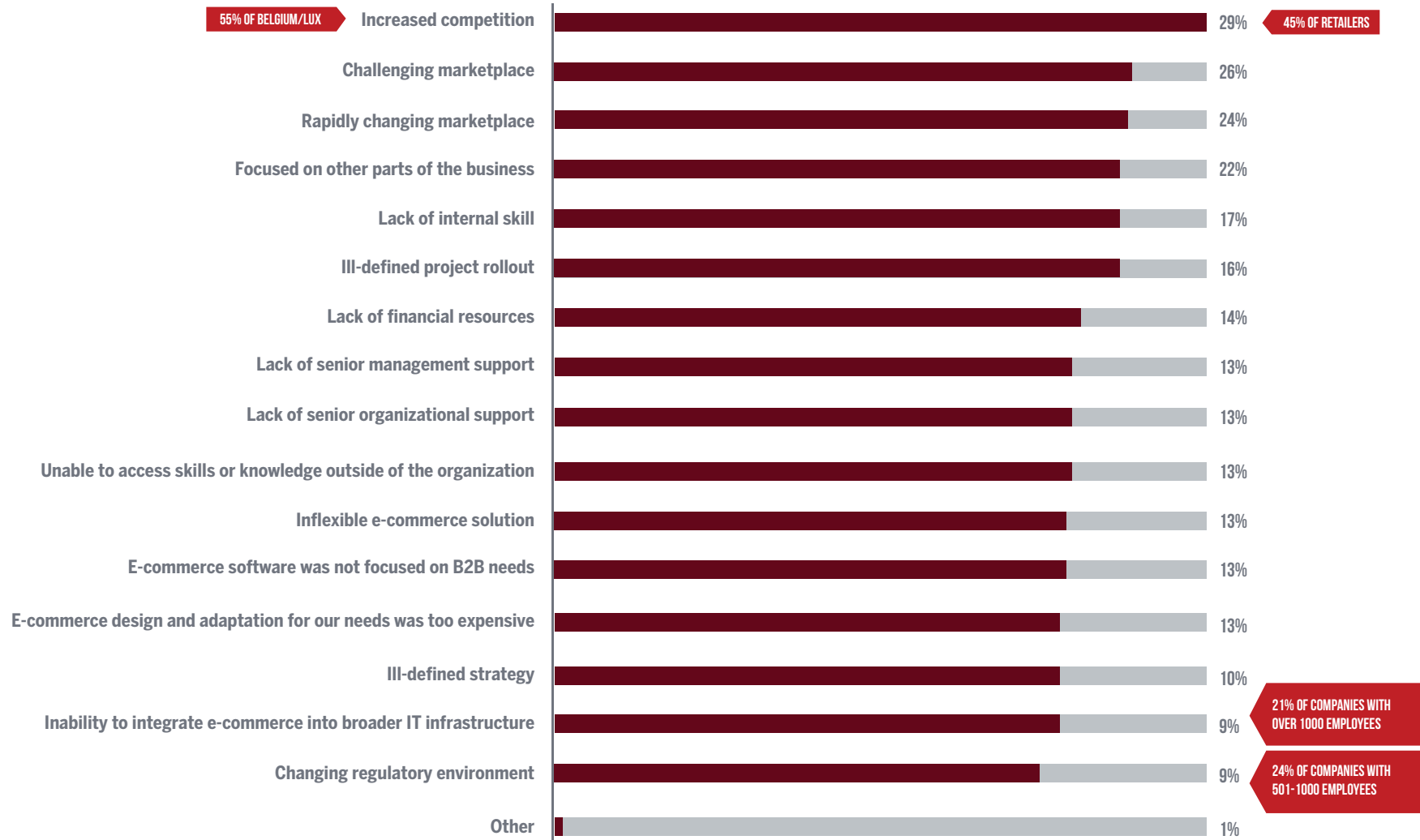
Of course, it is of little surprise that these struggles are coming out on top. E-commerce is advantageous because it opens up new sales channels and a worldwide prospect pool. With everyone out to get their share of online profits, however, the competition is naturally steep.

The takeaway?

As more businesses adopt and develop e-commerce platforms, it will no longer be enough just to have a web store.

Offering an attractive, high-quality web store with a stellar customer experience is becoming essential for those companies that truly want to differentiate themselves in their markets.

IF YOU HAVEN'T ACHIEVED YOUR OBJECTIVES FOLLOWING THE IMPLEMENTATION OF YOUR E-COMMERCE SOLUTION, WHY NOT?



E-COMMERCE 2.0: WHAT'S DRIVING E-COMMERCE UPGRADES?

Which companies are making the move to the next e-commerce evolution and beyond? And what's holding the others back?

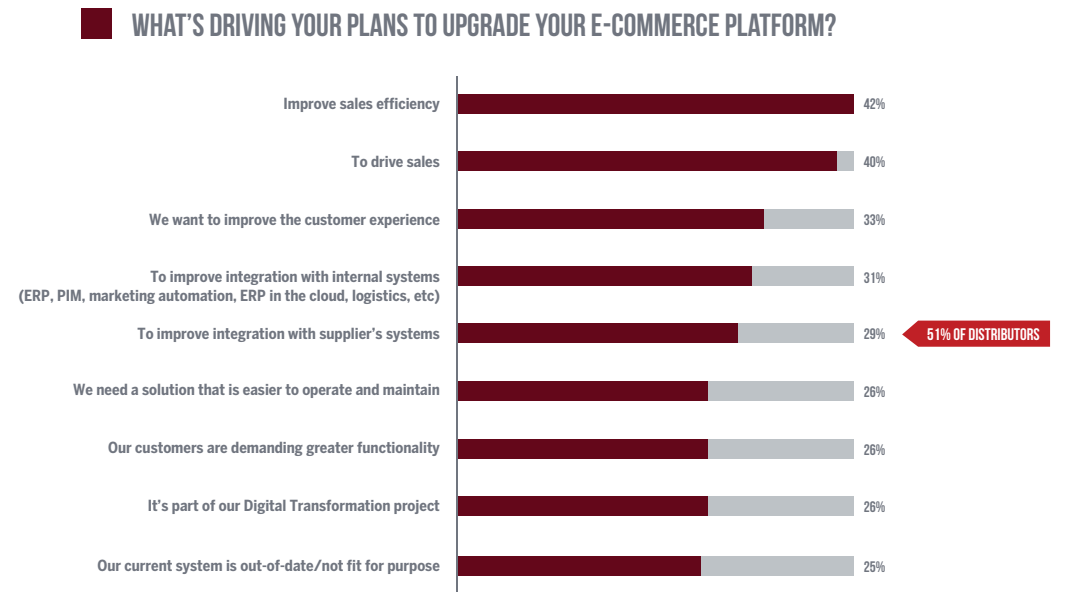
To understand this, we asked businesses who currently have plans to upgrade their e-commerce solution what the driving factors were behind the decision to upgrade.

Again, sales results came out on top. Improving sales efficiency is a motivating factor for 42% of respondents, with driving sales coming in at a close second with 40%. This draws a stark contrast with the mere 25% who said they wanted to upgrade their e-commerce platform because their current system was out of date or no longer fit for purpose.

Most businesses aren't upgrading their e-commerce platforms because they have to, but rather because they want to. Why? More sales.

There were some outliers in this, which suggests that reasons for upgrading may depend on industry. More than half of the distributors surveyed said they were upgrading because they wanted to improve integration with their supplier's systems.

This, compared with 29% from other industries, tells us that **distributors are likely using e-commerce to fill more specific needs within their supply chain, rather than to drive sales or improve sales efficiency.**



THE RACE TO ANSWER TO CUSTOMER DEMAND

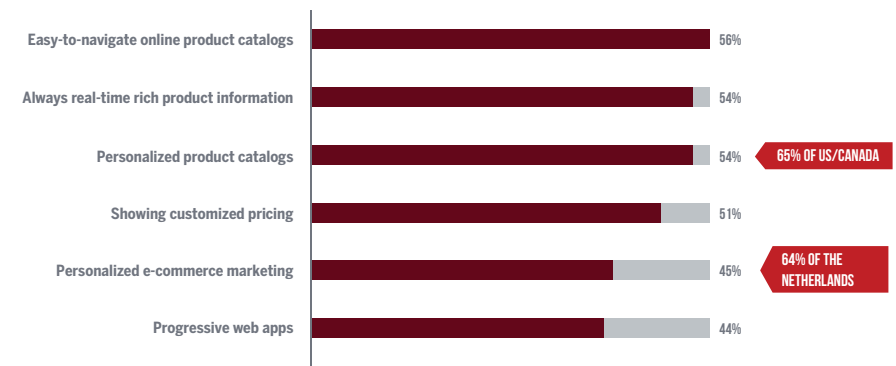
GREATER FUNCTIONALITY

A third of respondents said that improving the customer experience was driving their plan to upgrade their e-commerce platform. Of those, most said they were looking to introduce easy-to-navigate online product catalogs, followed closed by always real-time rich product information and personalized product catalogs. This implies that these businesses are not yet offering these features, further supporting the conclusion that many businesses are still working on expanding basic e-commerce functionality.

For most, **it appears that businesses are aiming to address their customer demand for greater functionality with improved product information, rather than personalization.**

This differed across regions, however, with 65% of respondents from the U.S. and Canada (54% in total) indicating they're looking to introduce personalized product catalogs to fulfill customer demand for greater functionality. Dutch respondents also stood out, with 64% saying they wanted to implement personalized e-commerce marketing.

WHICH OF THE FOLLOWING FEATURES ARE YOU LOOKING TO INTRODUCE TO HELP ADDRESS YOUR CUSTOMERS DEMANDS FOR GREATER FUNCTIONALITY?



This is far above 45% of the total audience who found the feature to be important in responding to customer demand. These could be indicators that these regions are comparatively further ahead in their e-commerce evolution.



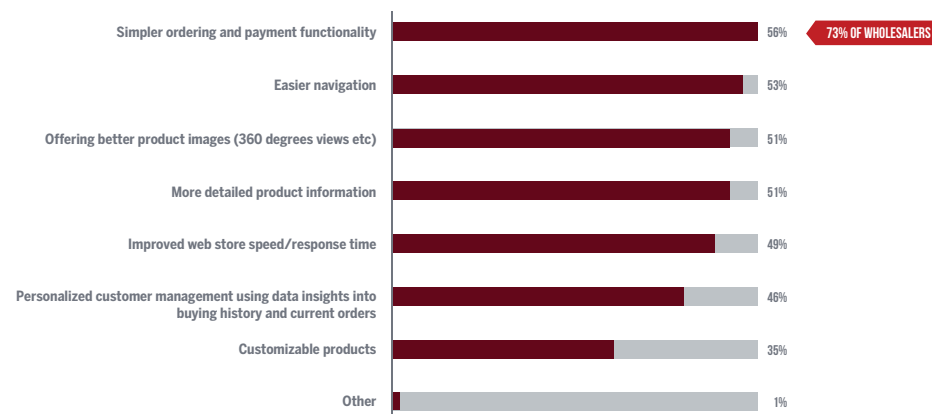
CUSTOMER EXPERIENCE

About a quarter of those surveyed want to improve their customer experience, with the highest percentage (56%) indicating they want to meet this demand by simplifying order and payment functionality.

About three quarters of wholesalers indicated that this was an important feature they wanted to improve for their customer experience, which comes as no surprise given the complex nature of their orders (bulk orders, kitting/BOM, etc.).

Other important priorities are related to user experience, such as better product images, easier navigation and improved web store speed and response time, all of which are strongly in line with e-commerce 2.0.

WHICH OF THE FOLLOWING FEATURES ARE YOU LOOKING TO INTRODUCE TO HELP IMPROVE YOUR CUSTOMERS EXPERIENCE?

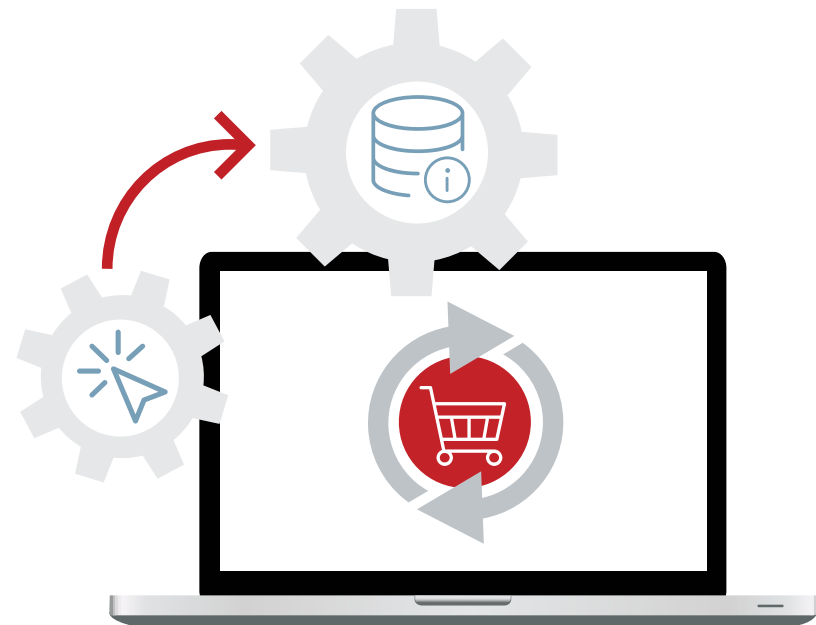


WHY ARE WE STUCK ON E-COMMERCE 2.0?

Businesses are clearly focused on making progress in their e-commerce efforts. They are upgrading their e-commerce platforms, and actively looking for solutions that will help them meet customer demand for improved functionality and a better online shopping experience.

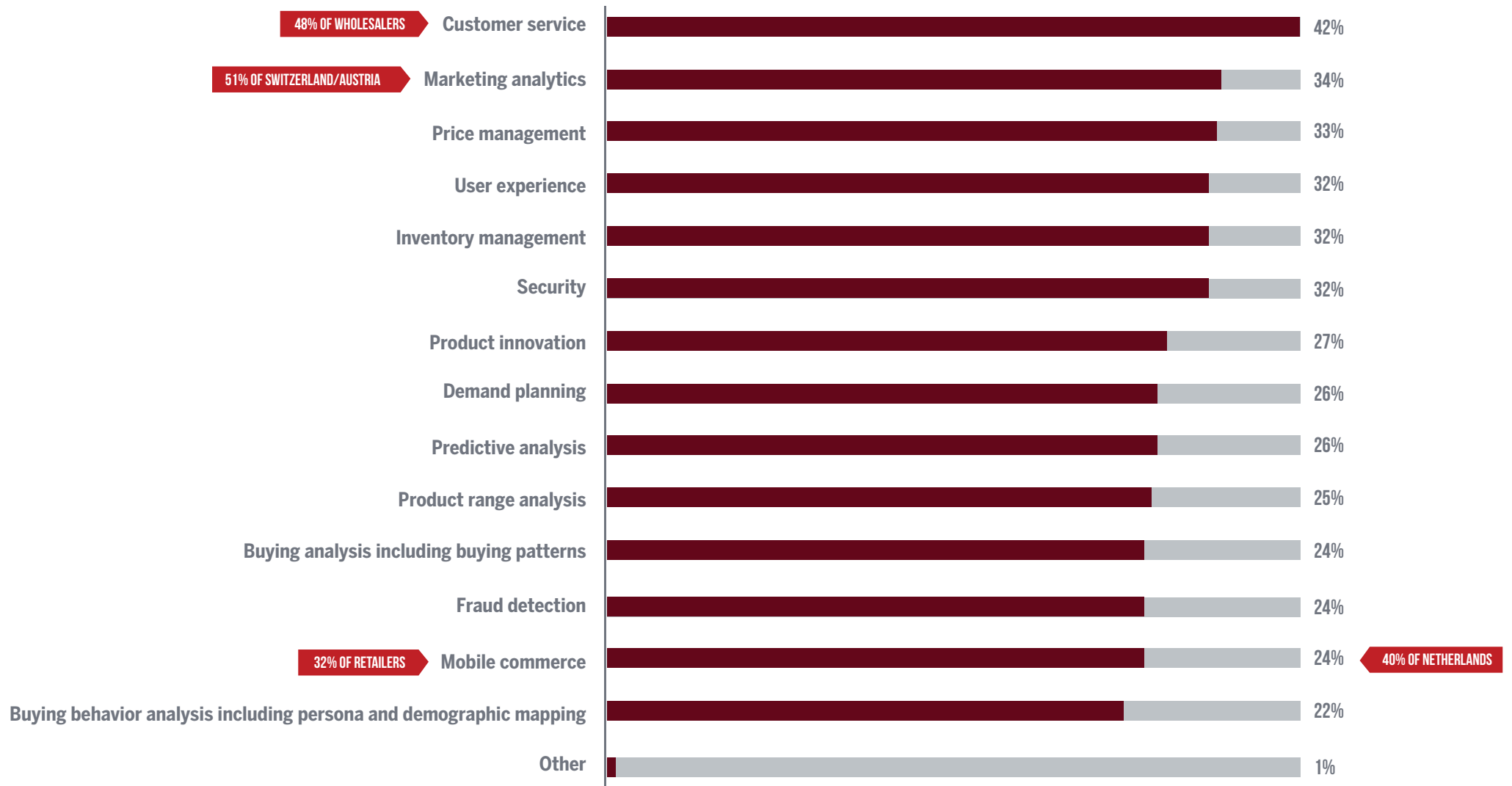
However, with such focus on the front-end solution in terms of delivering a great customer experience, businesses are perhaps missing out on the benefits of broader infrastructure integration and e-commerce 3.0.

One reason may be that companies are still not using the data they collect from e-commerce platforms to improve key business drivers. In fact, **less than half of those who are implementing or have operated a web store are using data from their e-commerce platform to support or manage key business drivers.** The only exception here is that 51% of Swiss and Austrian respondents are making use of marketing analytics (34% in total).*



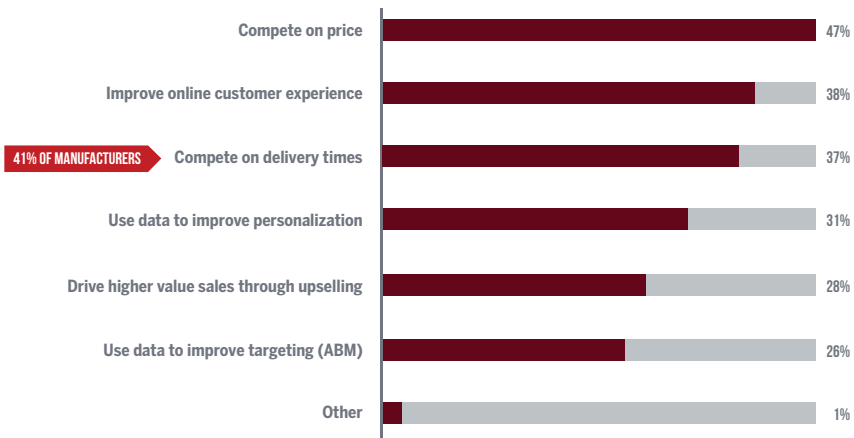
* See the chart on page 13 for a full overview of these statistics.

DO YOU USE DATA FROM YOUR E-COMMERCE PLATFORM TO SUPPORT OR MANAGE ANY OF THE FOLLOWING:



For almost half of all respondents, competing on price is still the key response to tackling competition rather than enhancing the proposition. One could reasonably argue that **as long as businesses are focused on keeping up rather than forging a new path, B2B e-commerce will continue to evolve slowly rather than revolutionize the way these businesses achieve success.**

■ HOW ARE YOU INTENDING TO COMBAT THREATS FROM ONLINE MARKETPLACES OR INTERNATIONAL COMPETITORS?



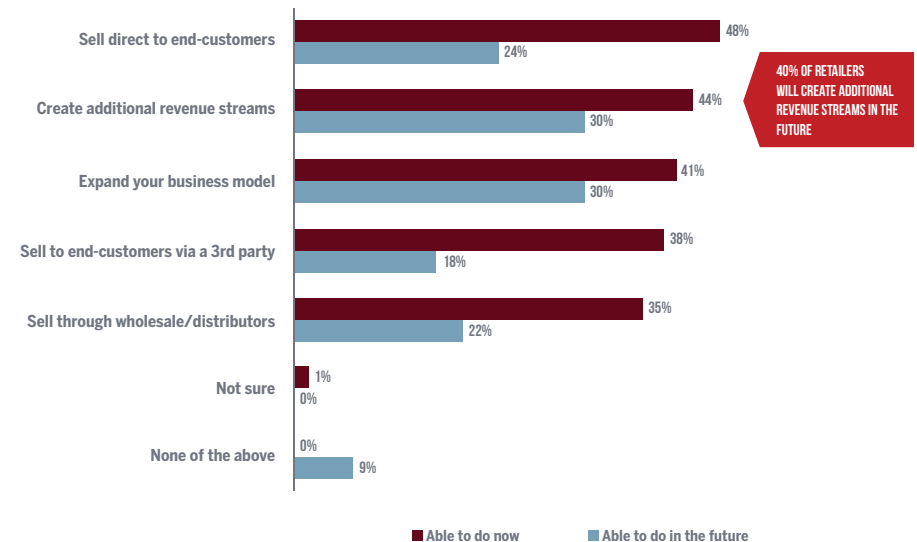
CHANGING BUSINESS MODELS

It's not just e-commerce platforms that are evolving. Business models are also undergoing a slow, yet potentially disruptive transformation.

E-commerce is putting businesses in a position to do things they've never done before, such as selling directly to end customers and creating additional revenue streams. Almost half of the businesses we surveyed are already benefitting from e-commerce, and in some regions and industries it's more than half.

Many of those who are not yet reaping the benefits are optimistic that they will in the future as a result of changing their e-commerce platform. For example, 40% of retailers (44% in total) expect it will result in the creation of additional revenue streams. **This attitude and trust in the evolution of e-commerce technology should see the platform taking an integrated and central role in businesses' growth strategy in the future.**

AS A RESULT OF INTRODUCING YOUR B2B E-COMMERCE PLATFORM WHICH OF THE FOLLOWING ARE YOU ABLE TO DO THAT YOU HAD NOT BEEN ABLE TO DO PREVIOUSLY?



THE RISE OF DIRECT-TO-END-USER SALES

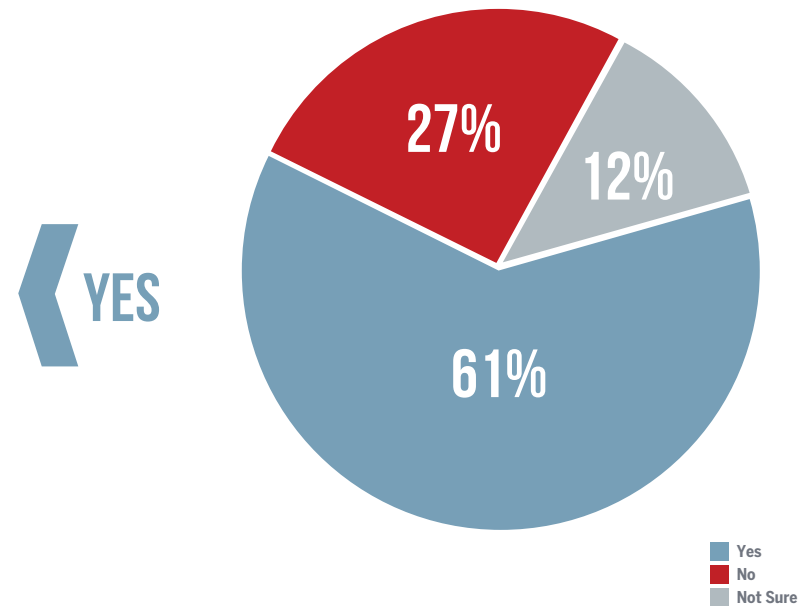
The success of companies' e-commerce adoption that the research identified also gives way to an interesting trend. Forty-eight percent (of which 57% in Switzerland and Austria, 55% in the Netherlands, 53% of wholesalers) claim that they are now able to sell directly to end-customers — something that they could not do before adopting an e-commerce platform.*

Furthermore, 61% have seen evidence that manufacturers, distributors and/or wholesalers in their supply chain are starting to sell direct to end-customers. The rate is higher in some regions, with 73% confirming the trend in the UK and Ireland, and 68% in the U.S. and Canada.

REGION	%
UK / Ireland	73%
US / Canada	68%
Germany	57%
Switzerland / Austria	47%
Belgium / Luxembourg	46%
Netherlands	46%

* See the chart on page 15.

HAVE YOU SEEN EVIDENCE THAT MANUFACTURERS, DISTRIBUTORS, AND/OR WHOLESALERS IN YOUR SUPPLY CHAIN ARE STARTING TO SELL DIRECT TO CONSUMERS?

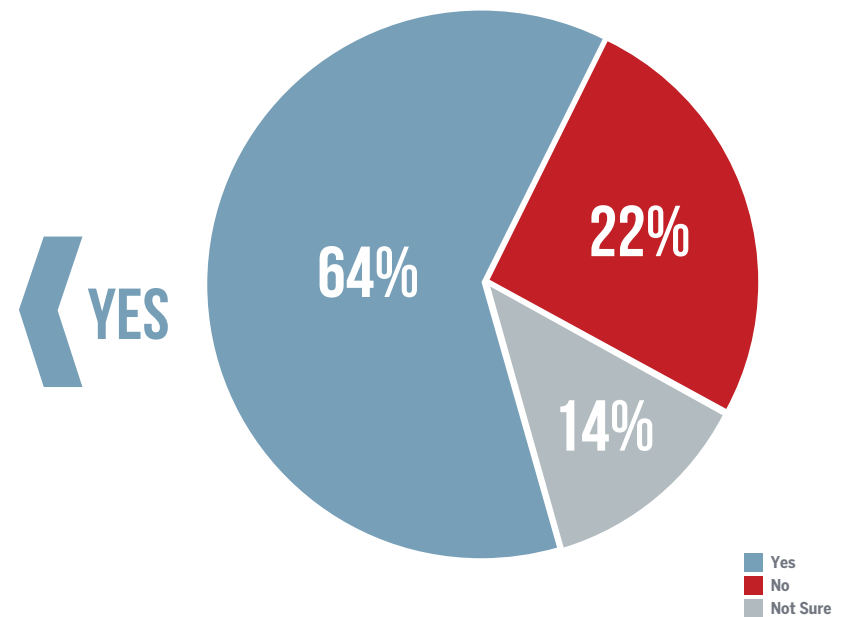




Respondents were also confident that this trend would continue to rise, with 64% reporting that they expect to see manufacturers, distributors and wholesalers in their supply chain starting to sell direct to consumers in the future. Some industries expect to be more highly impacted by this in the future, with 78% from construction, 68% from electronics, 66% from home goods and furnishing, and 65% from packaging firms indicating that they expect to see a rise in direct-to-consumer sales in their supply chain.

INDUSTRY	%
Construction	78%
Healthcare/Medical Supplies	70%
Electronics	68%
Home Goods & Furnishing	66%
Packaging	65%
Fashion & Apparel	62%
Machinery & Supplies	61%
Automotive	59%
Food & Beverage	57%

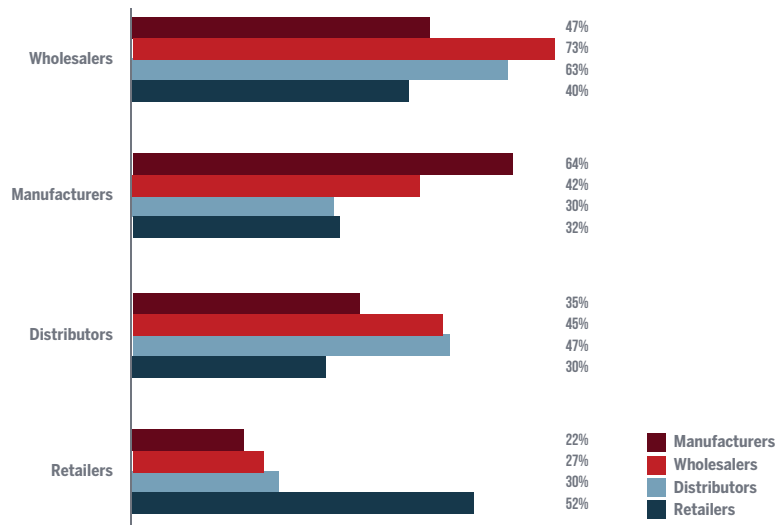
DO YOU EXPECT TO SEE MANUFACTURERS, DISTRIBUTORS AND WHOLESALERS IN YOUR SUPPLY CHAIN STARTING TO SELL DIRECT TO CONSUMERS IN THE FUTURE?



WHO IS THE REAL COMPETITION?

Despite the rise of direct-to-consumer sales, we still see that in most industries the focus is on the competition from within their own part of the chain. Distributors, however, are feeling as threatened by wholesalers as they are by other distributors. This suggests that they are feeling the most pressure from the changing supply chain that has come as a result of the increase in direct to consumer sales.

WHICH OF THE FOLLOWING ARE YOU COMPETING AGAINST FOR DIRECT SALES TO CONSUMERS?

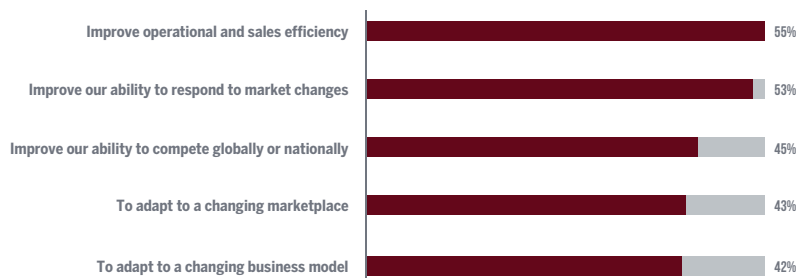




How are businesses responding to this change? We know that of those who are currently running digital transformation projects in their organization (51% of the group surveyed) 53% expect the project to improve their ability to respond to market changes. Furthermore, 43% expect their digital transformation project to help them adapt to a changing marketplace, and 42% will be better able to adapt to a changing business model.

Forty-five percent also confirmed that their e-commerce solution is helping their digital transformation project by allowing them to adapt to new threats presented by changing business models.

WHAT WILL BE THE LIKELY OUTCOME OF YOUR DIGITAL TRANSFORMATION PROJECT?



IN WHICH OF THE FOLLOWING WAYS DOES YOUR E-COMMERCE SOLUTION HELP YOUR DIGITAL TRANSFORMATION PROJECT?



GLOBALIZATION: OPENING UP TO NEW MARKETS

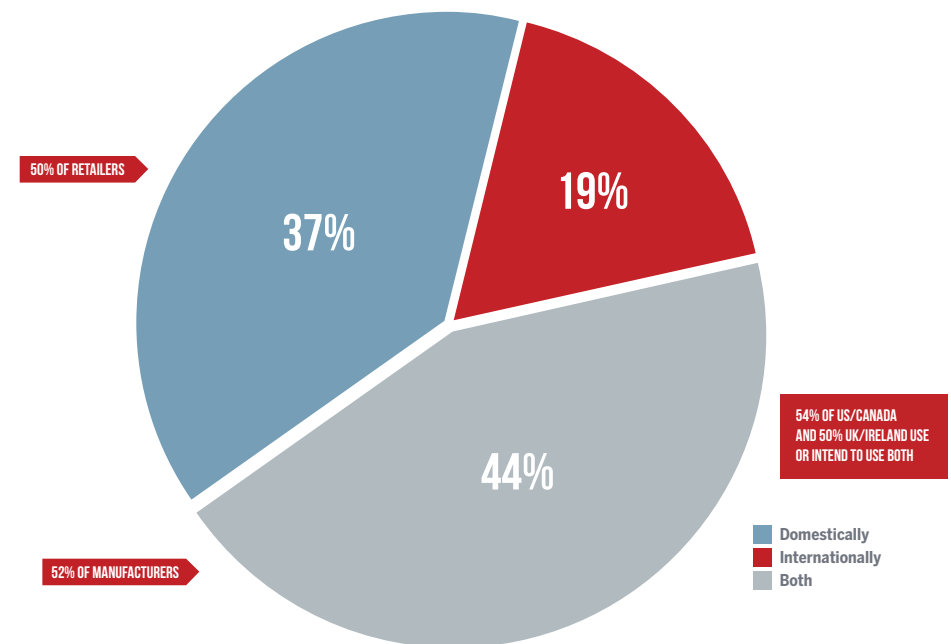
Adapting to evolving supply chains isn't the only challenge businesses are facing. An increasingly global marketplace also appears to be offering its share of threats – and opportunities.

Nearly two thirds of respondents are currently using or intend to use an e-commerce platform to sell internationally.

Interestingly, half of retailers indicated that they use e-commerce to only sell domestically. This is perhaps unexpected given the ease of international sales that e-commerce offers and the relative simplicity of shipping most retail goods.

In contrast, 52% of manufacturers said they are selling both domestically and internationally. **Where manufacturing goods tend to be more complex (e.g. bulk orders, heavy goods not well-suited for international shipping), manufacturers still seem to be more keen to tread into international waters than their retail counterparts.**

DO YOU USE OR ARE YOU INTENDING TO USE YOUR E-COMMERCE PLATFORM TO SELL:

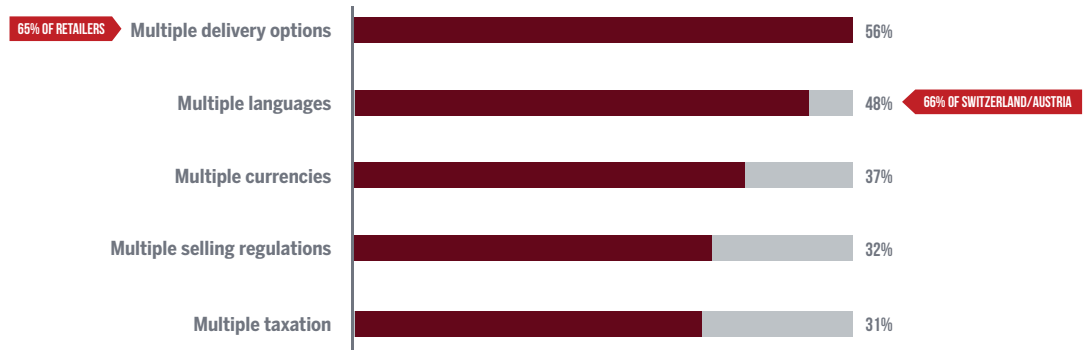




Despite the high number of companies trading online internationally, many of their platforms still don't support essential international commerce features.

While just over half offer multiple delivery options (more for retailers, coming in at 65%), less than half offer multiple languages and currencies, and only a third support multiple sales taxes and regulations. Again, this supports the theme of a slow and steady e-commerce evolution.

WHICH, IF ANY, OF THE FOLLOWING DOES YOUR E-COMMERCE PLATFORM SUPPORT?





OUTLOOK: RISE IN ONLINE MARKETPLACES AND INTERNATIONAL E-COMMERCE

36% of respondents report that they're seeing an increasing presence in their domestic territories from online marketplaces (e.g. Alibaba, eBay, Amazon Business), and just over a third are seeing an increase in international competitors and social sales channels like Instagram and Facebook. This suggests that in addition to the spread of global e-commerce and the continued rise of e-commerce giants, businesses are taking the threat of social selling more seriously than perhaps they had in the past.

While most regions say that online marketplaces are the primary threat, respondents from the U.S. and Canada rated social sales channels as their primary threat, suggesting that social selling may be gaining more traction in this region than others.

ARE YOU CURRENTLY SEEING A RISE IN INTERNATIONAL COMPETITORS OR ONLINE MARKETPLACES IN YOUR DOMESTIC MARKET?

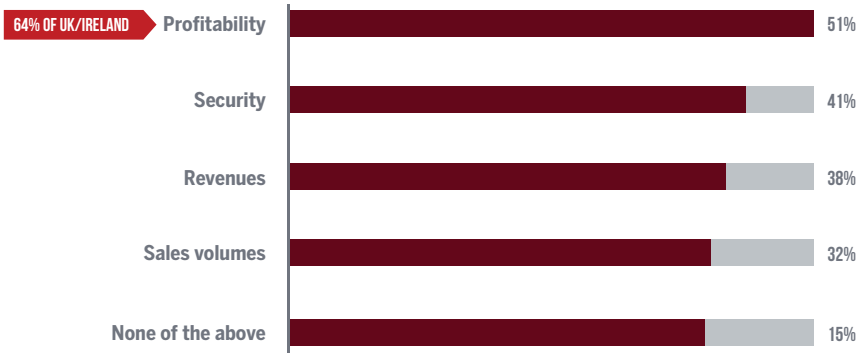




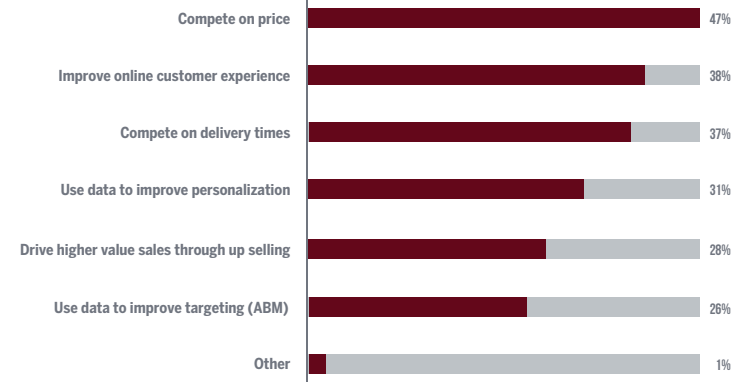
Half of the respondents (64% in UK and Ireland) indicated that they see increasing globalization as a threat to profitability, and 41% see it as a threat to security.

Yet, for those who are implementing or have implemented a web store, competing on price is still the key response to tackling the competition, rather than enhancing their proposition.

THINKING ABOUT YOUR BUSINESS, DO YOU SEE INCREASING GLOBALIZATION AS A THREAT TO ANY OF THE FOLLOWING:



HOW ARE YOU INTENDING TO COMBAT THREATS FROM ONLINE MARKETPLACES OR INTERNATIONAL COMPETITORS?



THE E-COMMERCE (R)EVOLUTION: LOOKING TO THE FUTURE

Overall, the numbers strongly indicate that **while B2B organizations are not at the forefront of e-commerce development, they are actively working to improve their e-commerce offerings.** Most are focusing their e-commerce efforts on boosting sales rather than revolutionizing the way they do business, suggesting that B2B is still primarily busy with e-commerce 2.0.

Even with the slightly more restrained but progressive approach to e-commerce, its impact is still recognized as having an impact on the organization, its business model and industry. The majority are noticing the rise of direct-to-consumer sales in their supply chains. E-commerce, in this case, is both the catalyst and the response, with just under half of respondents indicating that they're using digital transformation to combat rising competitive pressure.

Finally, we confirmed that e-commerce is driving many companies to expand across borders. Traditionally domestically focused regions like the U.S. and U.K. are venturing out to new markets overseas with the help of e-commerce. Social selling is also starting to impact B2B organizations and offer new opportunities for reaching a global audience.

THE E-COMMERCE 3.0 OPPORTUNITY

The research highlights that e-commerce is in a state of evolution, but one that may bring a revolutionary result. As companies move through the e-commerce evolutionary process, the technology's ability to impact and change the business model will grow more and more evident. Companies are already using e-commerce to reach more markets, but with a solution that matches and exceeds customers' expectations. **And there is a growing number of companies, albeit small, that have recognized the potential to integrate their platforms and put e-commerce at the center of their digital transformation.**

For those companies wishing to benefit from the revolution, they need to ensure that they've identified the right route to take. Whether that's simply ensuring that the customer has a feature rich experience wherever they are, or if it's working out how to utilize e-commerce strategically across the business. But by evidencing this journey, companies can give their prospects and customers a clear reason to choose and stay with them.

Where are you in your digital transformation? Get in touch with an e-commerce expert to see how you can take the next steps in your organization's digital revolution.

ABOUT SANA COMMERCE

Sana helps businesses all over the world reach their full potential. We offer the shortcut to e-commerce. How? Through 100% seamless integration with SAP and Microsoft Dynamics. Our e-commerce solution leverages existing business logic and data in powerful and user-friendly web stores. This lets our clients focus on improving their customer experience, streamlining sales processes, and increasing sales volume and frequency.

Sana Commerce is a certified partner of Microsoft Dynamics and SAP. Our innovative approach and strong partner network have made Sana the driving force behind over 1,200 web stores worldwide. Thanks to our extensive experience and expertise, we can offer more than just a product — we also support services such as online marketing, Search Engine Optimization (SEO) advice, hosting and design.

**Future-proof your business and join our e-commerce movement.
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