# EMBRACING CHANGE

## The quest to expand profitability drives e-commerce transformation

**Over the past few years, the hunt for new markets and revenue streams has ramped up for B2B organizations. Executives are navigating a new economy where customers are empowered with information, and Covid-19 has become a common yet increasingly accepted business risk. Fresh challenges also loom in the form of inflation, supply-chain snarls, and a possible recession. Many are seeking out new e-commerce capabilities to weather these new realities; B2B organizations of all types face dwindling profit margins, ballooning IT costs, a shortage of skilled workers, and supply chain disruptions—and finding the right digital commerce platform for this new era is critical to survival.**

To understand how organizations are staying ahead of changing consumer behavior, Oxford Economics and SAP surveyed 500 Chief Digital Officers, digital commerce leads, and other senior commerce executives during the second quarter of 2022. The survey sample included 250 executives from B2B organizations in the high tech, automotive, life sciences, industrial manufacturing, and wholesale distribution sectors.

Our research shows that B2B firms put a premium on expanding margins and profitability. They are transforming business models and investing in e-commerce technologies—as well as data analytics—to improve customer experiences. Digital executives seek platforms that are agile, extensible, deep, and complete, with seamless interoperability with existing systems.

While upfront costs may seem high to conservative investors, returns on e-commerce investments are already beginning to emerge. Revenues and profitability have both drastically increased from where they were in 2019 at the digital and overall company levels, indicating that e-commerce transformation could be an essential part of thriving in today's economic landscape.

Common pain points exist, but key differences among B2B organizations emerge at the sub-industry level. For example:

- **Automotive, high tech, and life sciences** companies are focused on entering new markets and generating new revenue as well as increasing margins and profitability.
- **Industrial manufacturing and wholesale distribution** respondents are far more likely than others to say improving business agility and efficiency is a top focus.
- **Wholesale distribution** companies are more focused on delivering improved customer experiences.

The companies equipped with the best e-commerce platforms and business models should have a meaningful competitive advantage in the face of these obstacles.

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# In search of higher margins

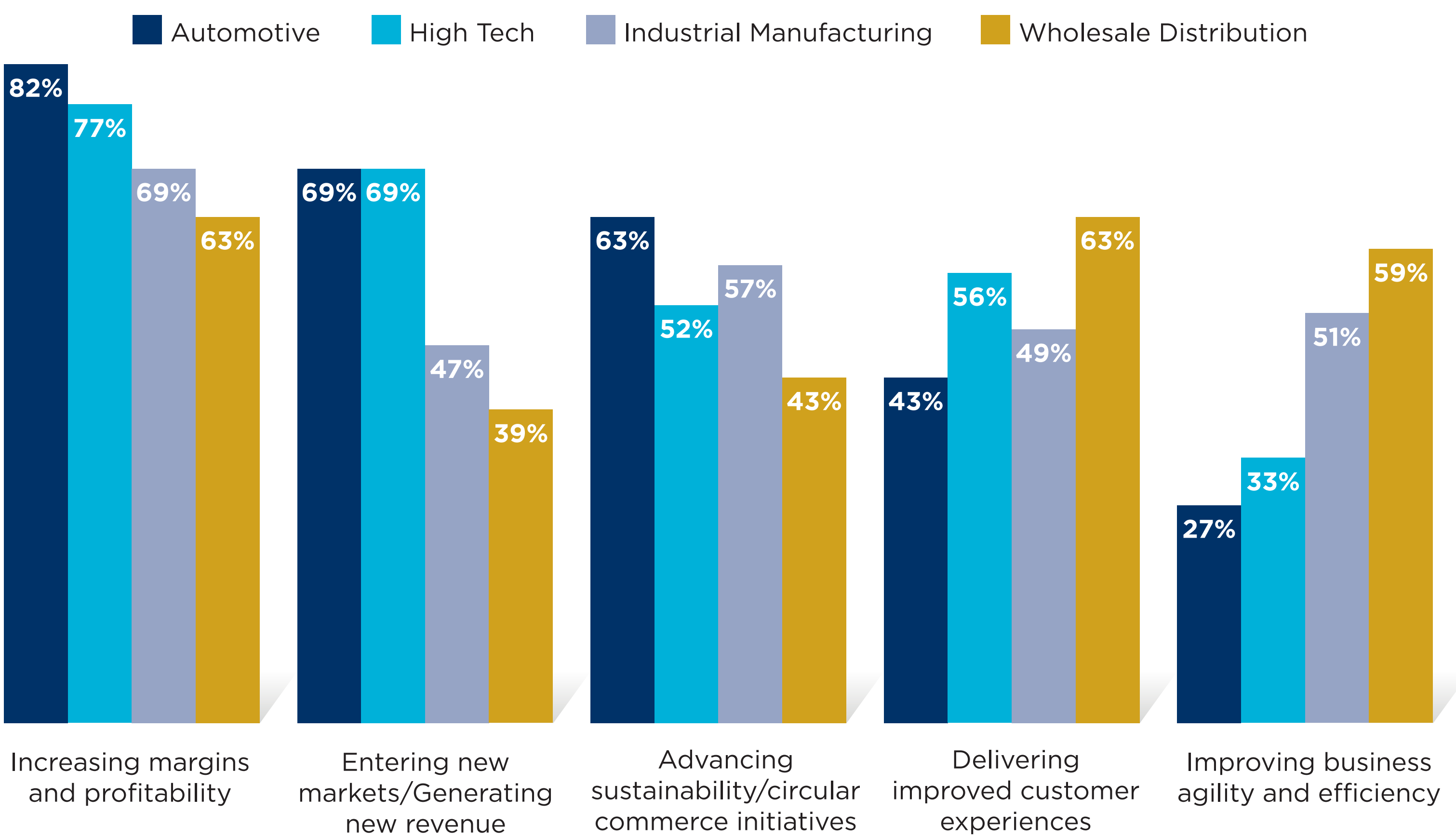
Today, the minds of B2B executives are fixated on growing historically tight margins though e-commerce transformation. Increasing profitability and entering new markets/generating new revenue are top strategic priorities (75% and 58%, respectively). The margin dilemma is a greater issue for some B2B sub-sectors—specifically industrial manufacturers, who require expensive raw materials. They are more likely than other B2B firms to say margin pressures are a challenge to profitability today (33% vs. 27% survey average) and are less likely to overperform against company profitability and margin targets (31% vs. 43%).

These sectoral needs have shaped business model transformation over the past three years. Few B2B respondents had commerce models outside the typical B2B structure before the onset of the global pandemic; less than one in ten engaged in direct-to-consumer (7%) or B2B2C models (6%). Outliers exist, of course—for example, automotive organizations (think Carvana and Vroom) started experimenting with the D2C model well before the pandemic (24%, vs. 3% other B2B organizations)—but as a whole, there has historically been limited B2B model innovation.

Covid-19 quickly changed that. Nearly half of B2B respondents (44%) adopted marketplace business models during the pandemic, and nearly one in four developed D2C models during the same period (22%). This shift to digital commerce will be increasingly important, as nearly half of B2B executives say digital commerce has become the primary channel for selling engagements (46%).

**Fig. 1: A growth mindset takes hold.**

**Q:** Over the next three years, which of the following strategic priorities is your digital commerce organization most focused on? *Rank 1, 2, and 3 responses combined.*



These adjustments are not only driven by margin chasing, but also by the need to better meet changing customer tastes and expectations. Close to half of B2B respondents that have either already changed or plan to change their business models say they made their decision to adopt in hopes of improving the customer experience (45%) or to reach and engage new customers and markets (43%). But again, justifications for transformation is not consistent across all sub-sectors: Wholesale distributors, for example, are much less likely to cite experience (37%) and increasing reach and engagement (27%) as their desired outcome, but instead say increasing convenience for their customers influenced their decision (39%, vs. 30% survey average).

But business model changes cause disruption to how work previously was carried out. These challenges are unique to each B2B sub-sector: High-tech executives struggle to maintain positive, consistent experiences (56% cite this as a top challenge, vs. 44% other B2B respondents), while wholesale distributors find difficulties managing channel conflicts with existing models (61% vs. 40%) and life sciences executives battle integration with existing systems and platforms (55% vs. 42%).

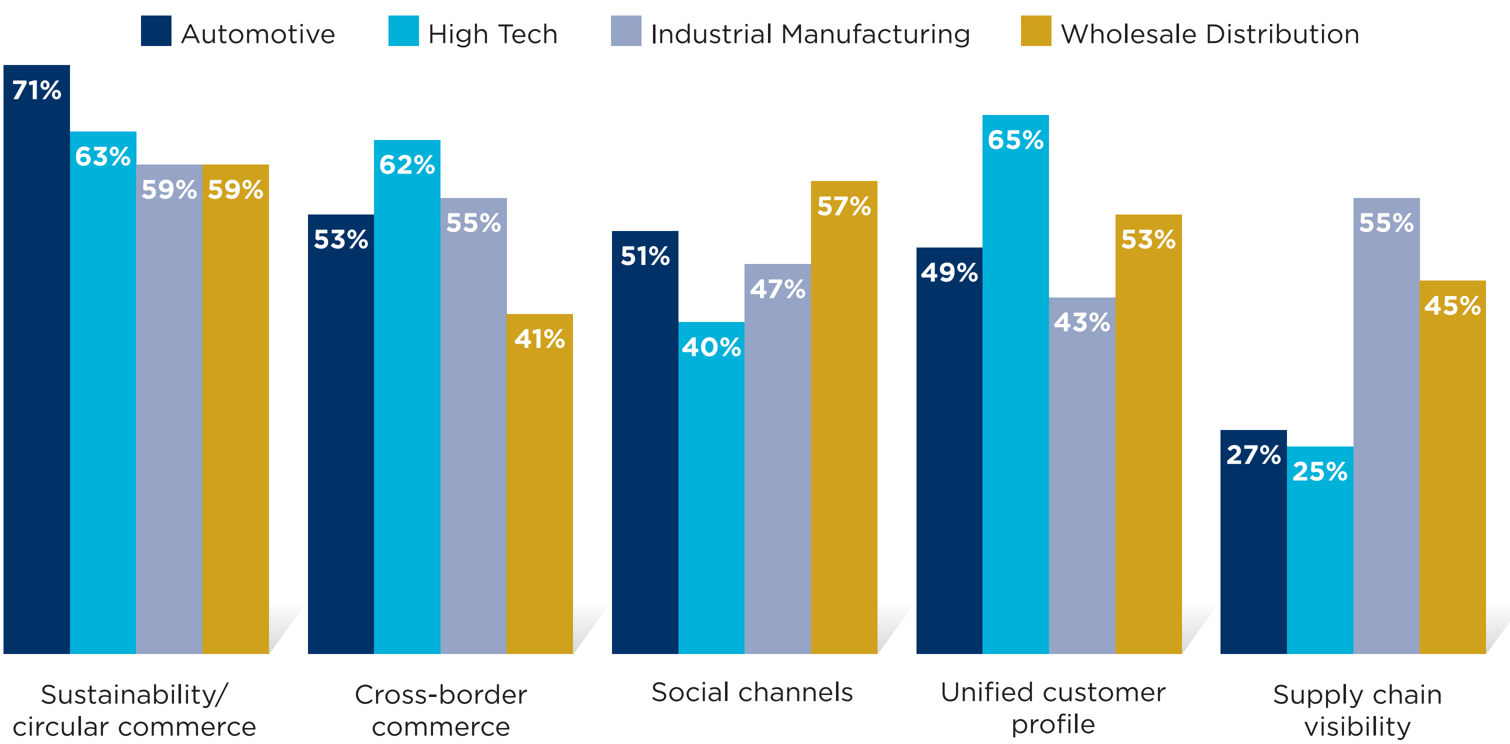
# Building a platform for the future

E-commerce success will depend on the platform each interaction runs on, and executives are looking to innovation to achieve their goals. Cross-border commerce is an innovation hotbed in this global supersector (53% cite its importance vs. 34% for non-B2B organizations), along with investing in unified customer profiles (53%) and social channels (46%).

Sub-sectors will invest in what best fits their industry's needs, though. Wholesale distribution

**Fig. 2: B2B sub-industries pursue different paths to commerce innovation.**

**Q:** Which of the following areas of investment are most important for your organization in its pursuit of commerce innovation?



firms, for example, are less interested in cross-border commerce (41% vs. 56% other B2B organizations), but much more focused on social channel investments (57% vs. 44%). Automotive organizations are investing more in sustainability and circular commerce capabilities (71%—highest among all industries surveyed), while supply chain visibility is highly important for industrial manufacturers and life sciences firms (55% each—highest in the survey).

For the most part, executives appear satisfied with their current e-commerce capabilities. Many feel their platform makes it easy to extend their services and add new features that boost customer experiences (84% somewhat or strongly agree with this statement), and nearly three out of four say current capabilities provide omnichannel experiences that connect digital and physical buying experiences (73%). In fact, 74% say they have no concerns about their platform's ability to scale and meet demand during its highest peaks for today and in the future.

Yet for all their confidence, B2B executives have no plans to stay tethered to current systems. They are always moving to find the next great platform; nearly two-thirds (62%) are in various stages of the transition process—early stage, late stage, or mid-transition—and 26% have already made a platform switch in the past three years. Barely any are firmly entrenched in their legacy platforms (12%).

Where B2B organizations start their e-commerce transition, however, will vary. There is no uniform starting place: just over one-fourth (27%) favor pre-packaged capabilities delivered out of the box with limited customization, and one in five (20%) desire a completely open platform that must integrate with a third-party solution. Automotive executives (37%) are slightly more keen on the pre-packaged approach than their counterparts in other B2B sectors, while wholesale distributors prefer completely open platforms that require integration with third-party solutions (27%).

# Missing opportunities with data

Choosing the right platform is important, but to meet financial goals and tend to customers, B2B companies must leverage technology and data. Current investments in the sector track with these priorities; most (60%) have already fully integrated virtual agents or chatbots into their digital commerce operations, and the sector as a whole is slightly head at integration of IoT technologies (46% vs. 36% for other industries).

**85% of B2B executives feel they can provide full data transparency to customers and practice permissions-based data management.**

Wholesale distribution respondents emerge as leading technology integrators. They are more likely to have fully integrated virtual agents than their B2B peers (71% vs. 61% survey average) and, along with industrial manufacturers, have more fully developed IoT capabilities (55% WD, 47% IM, vs. 41% total). This makes sense, given that both are sectors with large warehouses and connected devices to monitor operations. Wholesale distribution respondents stand out, too, when it comes to integration of AI and ML (35% vs. 25% survey average) as well as sensors (37% vs. 23% survey average).

Since sectors within B2B vary widely in their data needs, it makes sense that companies are focusing on tapping the data sources most important to them.

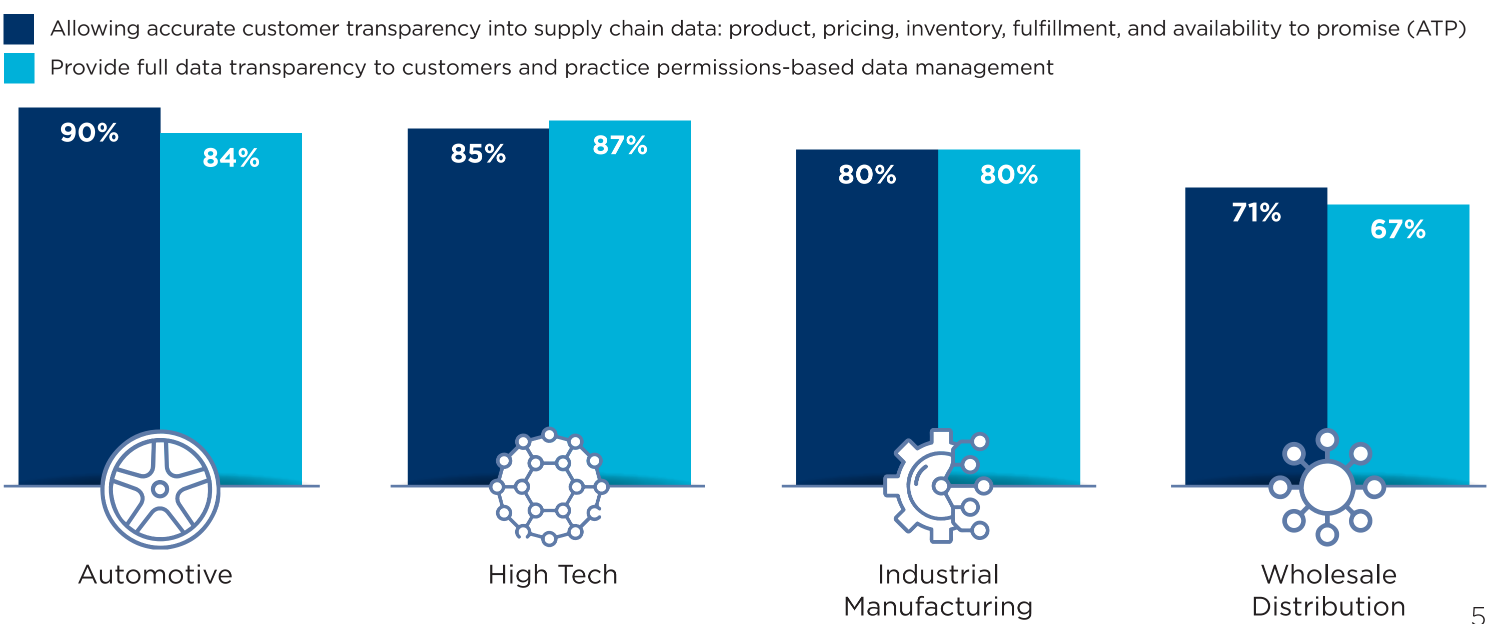
- The **automotive industry** collects in-session data and website behavior data more frequently than others (61% vs. 50% survey average—the highest percentage in the survey), as well as demographic data (53% vs. 46% survey average).
- **High-tech** executives are focused on demographic data (58% vs. 46% survey average—the highest of all B2B industries—though they are on par with the survey average for other types of data.
- **Wholesale distribution** respondents are more likely than others to collect warehouse product availability and inventory data (57% vs. 41% survey average) and offline data (29% vs. 12% survey average)—but they are far less likely to collect demographic data (29% vs. 46% survey average).
- **Life sciences** companies are more likely than most to collect in-session data and website behavior data (55% vs. 50% survey average). They are most likely to gather location data (47% vs. 30% survey average).
- **Industrial manufacturing** respondents collect data much like others in our survey, but they are much less likely to track return history data (20% vs. 34% survey average).

Data collection alone does not accomplish much; it is how organizations use it that makes a difference. Our research shows B2B organizations are succeeding in extracting value from the data they collect—at least in most sectors. B2B executives believe they can provide full data transparency to customers and practice permissions-based data management (85%). They also give themselves high marks for allowing accurate customer transparency into supply chain data (85%). The one exception is in wholesale distribution, which is noticeably behind in these two areas, at 67% and 71%, respectively.

Most B2B organizations are roughly on par with the supersector average in meeting customer satisfaction goals, but they differ in their approaches. Life sciences (87%) and automotive (86%) organizations are more capable when it comes to arming sales and services agents with relevant information and insights to deliver great customer experiences (77% for other B2B industries). The automotive sector (90%), on the other hand, is most likely of all B2B companies (supersector average: 77%) to say they excel at connecting customer interactions across channels and departments—a key step in creating a seamless and relevant customer experience.

**Fig. 3: Creating highly-visible actions across the value chain.**

**Q:** Which of the following describes your organization's ability to leverage data and drive digital commerce experiences in the following areas?



# Conclusion and summary

B2B executives have a lot to juggle as they seek to meet their goals of increasing profitability. To successfully make that transition, we recommend that B2B organizations focus on customer service and in-depth use of data. B2B companies should take the following actions:

- **Increase investment in data analytics.** The customer experience is driven by data. To get the insights needed to optimize that experience and better serve the customer, organizations must collect and analyze data across the business journey.
- **Future-proof the business.** To keep pace with rapid changes in ecommerce innovation, businesses will be compelled to add services, some unimaginable today. It is critical, then, for organizations to build on a platform that offers the extensibility and customization that allows them to enter new markets quickly and will carry business well into the future.
- **Alleviate supply chain disruptions and increase visibility.** B2B organizations live and die by the smooth flow of the supply chain—any stutter can have resounding impact across entire ecosystems. Using an ecommerce platform to seamlessly connect demand with the supply chain to create a one office approach can optimize business processes and grow profit margins.

Current e-commerce platforms may have met the challenges of the past, but change is both unpredictable and inevitable. B2B companies must integrate capabilities that fit today's needs while also building enough runway to launch additional offerings in the future. They must constantly balance the need to improve and personalize the customer experience with business-model innovation and sustainability—and if decision-makers take the right steps, they will find themselves in position to meet and exceed the commerce challenges ahead.

## About the research

SAP and Oxford Economics fielded a survey to 500 business executives in e-commerce positions during the spring of 2022.

The questionnaire went out to 12 industries in 12 countries; one-third of respondents came from organizations with between $500 million and $999 million in annual revenue, one-third from $1 billion to $10 billion in revenue, and one-third from organizations with more than $10 billion. The survey was fielded via Computer Assisted Telephonic Interviews (CATI).

To find out more about our research sponsor, SAP, visit their website here: sap.com/ecommerce

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