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Amazon Business Shakes Up Building Product Manufacturers

By Russ Young

As Amazon Business continues to make headway in the building products distribution industry, we're beginning to see the Amazon effect disrupt the purchase and delivery of building products to the job site.

Building Product Manufacturers (BPMs) ought to be thinking about Amazon's impact on the way business is being done: whether BPMs are pure business-to-business (B2B), pure business-to-consumer (B2C) or a hybrid. Amazon's technology has enabled companies to reach further into the value chain than ever before. BPMs may wish to embrace or avoid Amazon, but they cannot ignore it. Other industries give us insight into how to succeed (and how to fail) as BPMs choose to compete or cooperate with Amazon.

What started out in 1995 as an online book seller and then subsequently brought giants like Borders and Books-a-Million to their knees has since turned into a B2B powerhouse that has companies across all industries worried about what's around the next corner.

We're talking about Amazon, of course, and more specifically its B2B arm — "Amazon Business." Rebranded from "Amazon Supply" seven years ago, Amazon Business "combines positive attributes of Amazon's consumer marketplace," such as broad selection and delivery convenience with the products and benefits that are "tailored for businesses, government organizations and the education sector," Bank of America analyst Justin Post said.

In the past, BPMs could argue that being a B2B company meant not having a sophisticated online presence beyond a content-rich website; today that statement might not hold true anymore. Amazon's success in providing B2B solutions should make BPMs question their online presence. The proof is in the numbers: According to Amazon, its B2B division has more than $10 billion in annual sales. In the U.S. alone, it serves nearly 80% of the 100 largest enrollment education organizations, 55 of the Fortune 100 firms, and more than half of the 100 largest hospital systems.

"Amazon Business also offers access to nearly 150,000 U.S. business sellers — hundreds of thousands globally — and hundreds of millions of products," the company pointed out in a recent blog. These and other milestones are making more companies sit up and take notice of Amazon, which for years focused primarily on the B2C market. Having established its Prime (one- and two-day shipping) program within that sector, it's now applying the same strategies in the B2B market.

Analysts are recognizing the potential. Robert W. Baird & Co. Inc., for example, envisions Amazon Business' sales volume exceeding $25 billion by 2021.[1] "The program uses Amazon's existing warehouse and delivery network built for its retail customers," Bloomberg's Spencer Soper writes. "And it follows the retail model of offering one-site shopping for hundreds of millions of goods, with computer keyboards, janitorial supplies, office supplies and breakroom snacks among the top categories."

With nearly 50% of Fortune 100 companies already buying from Amazon Business, BPMs need to take a closer look at what that means to them, and what they need to do to compete effectively in a world where customer preferences and needs are changing almost daily.

Amazon is aware of this and is continually reinventing itself to meet those changing needs. For example, in 2018 it rolled out a new mobile feature that lets customers point their camera at the item in question. Amazon then scans it, matches it and directs the buyer to matching items from its product catalog. Currently capable of identifying over 100 types of fasteners, Part Finder was built using technology developed by Partpic, a company Amazon acquired in 2016, according to TechCrunch.

More recently, the company introduced a new "Amazon Day for Business" program, which lets buyers on Amazon Business consolidate shipments and choose to receive deliveries on the same day each week. These are just some of the trends that are pushing BPMs to think hard about whether they want to embrace Amazon or go up against the giant. Regardless of which tack they choose, BPMs can't ignore the e-tailing behemoth.

Other industries have already provided insight into how to succeed — and how to fail — as they choose to compete or cooperate with Amazon. Macy's, Costco, Barnes & Noble, Foot Locker and "literally every grocery store on earth" make up just a handful of the companies that the e-tailer is slowly suffocating and putting out of business, according to ***Investopedia***.

[1] Spencer Soper. "Amazon Says Business Sales on Pace For $10 Billion Annually." Bloomberg. September 11, 2018.

High Hurdles to Jump

While everyone clearly agrees that having an e-commerce presence is both interesting and appealing, most B2B companies (BPMs included) are struggling with their online presence. And as e-commerce has grown (to the tune of more than $1 trillion this year for B2B alone, according to Forrester), the need for a customer-centric web presence that facilitates everything from research to ordering to delivery tracking has grown exponentially.

The hurdles are especially high for the BPM industry, which is dealing with more than its fair share of e-commerce-related pain points right now. Most of the time, BPMs maintain direct contact (i.e., "feedback") with their direct customers that include large general contractors or distributors (Home Depot, Lowe's, Oldcastle, etc.). Unfortunately, this direct connection doesn't translate well online, where customers of customers (e.g., subcontractors) are generally the ones who create the "pull" for products. A BPM's online presence simply doesn't cater to these subcontractors.

Finally, within the value chain, there are other heavy influencers of customer purchases. Engineering and architecture firms, for example, generate "push" for product sales via their specifications. Again, BPMs have yet to develop an effective online presence that aids all stakeholders within the value chain with these and other customer-facing tasks. Combined, these challenges tend to make e-commerce especially onerous for the typical BPM.

Three Key Lessons Learned

You've read the realities and heard where BPMs tend to go wrong when implementing and/or orchestrating e-commerce, but here's the good news: There are some clear lessons to be learned, and takeaways that manufacturers can use, to get things moving in the right direction. Here are three that no BPM can afford to ignore right now:

Lesson 1: Build versus buy. In the early days of B2C e-commerce, we saw many folks trying to build their own e-commerce platform; yet many of them failed. Unless building, owning and operating all the technology of a robust e-commerce platform is part of your company's vision and strategy, lessons learned indicated that utilizing a technology partner will get you there faster, better and cheaper.

Many of the e-commerce technology platforms that focused on B2C functionality have spent the last few years building out B2B functionality that will be a "must-have" for BPMs and other players in this space. These are not limited to, but include the likes of, Magento, Shopify Plus, Episerver and Big Commerce.

Here's the bottom line: If you want to compete with Amazon, you will not win based on technology itself. To compete and win, select a technology partner who understands your business and who can develop a technology road map in support of your customer vision and strategy.

Lesson 2: Consider a multichannel approach. When you want to buy your new Nike shoes, you have several choices. For example:

- Want the full experience with knowledge experts, consumer stories and the like? Then go to nike.com.
- Know exactly what you want and like to shout your shoe order to Alexa from your kitchen? Buy it from amazon.com.
- Want to try it on first? Then go to a Nike store.
- Want to try other brands or want to go someplace close? Go to your local shoe or sporting goods store.

The lesson in all of this is: Think about which channels make the most sense to your business and which ones add the most value to your customers' buying experience. You don't have to decide between Amazon or your own e-commerce offering — or other marketplaces for that matter. BPMs considering a multichannel approach need to think about listening, interacting and servicing everyone in the value chain beyond just their paying customers.

An e-commerce platform might address the needs of your paying customers, but how are the rest of the stakeholders in the value chain going to benefit from your technology offerings? How can you support architects/engineers to specify your product in a way that serves their needs? How can you support subcontractors, who in many cases are the final user of your product, with tools for them to push your product to GCs and architects? Many companies are succeeding with a multichannel offering — would this fit your company vision and strategy?

Lesson 3: Know who owns your data and what you can do with it. Companies using Amazon might have several regrets, including giving up margin, lowered brand experience for the customer, and difficulty differentiating themselves with value-added knowledge.

Also remember that Amazon can typically own your customer data. Want to follow up with your customer via email on an order? You'll probably have to do it through Amazon, so know what you're signing up for.

Amazon has amazing technology that can delight your customers with its ease of use for search, shipping, order fulfillment and payments. However, you want to make sure you know the limitations regarding data transparency, customer outreach, personalizing your experience and showcasing the immense amount of product knowledge that BPMs bring to the table.

Making Headway

In the B2C arena, Amazon has all but annihilated traditional retail by offering a seemingly endless array of products online at very competitive prices. And to cap it off, those products are delivered within hours of ordering, thanks to the company's unbeatable logistics infrastructure.

As Amazon Business continues to make headway in the building products distribution industry, the magnitude of its push is unprecedented. Within FMI's consulting practice, we're beginning to see the Amazon effect disrupt the purchase and delivery of building products to the job site.

In the short term, largely due to a strong economy and 10 years of construction spending growth, building product distributors' sales have remained strong. But as Amazon continues to grow rapidly, and as more B2B sales move online, this situation could quickly change. Add a slowdown in construction spending or disruption in the U.S. and global economy to the equation, and we could see some real threats to BPMs and their supply channels.

It makes sense for BPMs in the distribution channels to act now while sales are strong. Because once the economy takes a turn, it will be more challenging to invest in the appropriate resources to remain competitive with Amazon's business.

Russ Young is a senior consultant and leads FMI's technology partnering program, having worked with tech partnering programs his entire career. Russ also provides experienced consulting to stakeholders in the E&C industry, enabling them to maximize the benefits of technology solutions in their business. He can be reached via email at *ryoung@fminet.com*.

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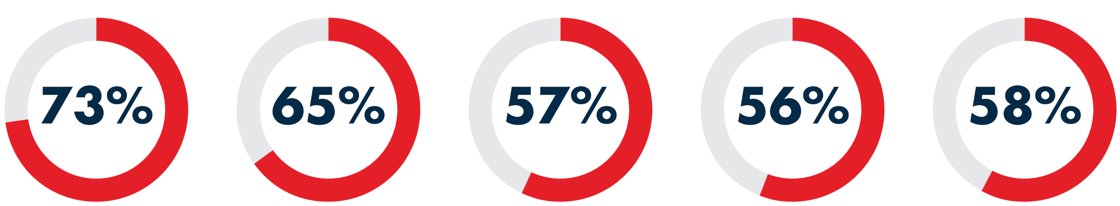
FMI Client Highlights



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