Master E-Commerce, Master the Future

AEM Annual Conference

November 2019
Key messages

1  A Customer-centric, tech-driven disruption is here, now

2  E-Commerce is a broader shift than you might think and a necessary first step

3  Business model and organizational changes are the challenges, not technology
Remember what it was like to order a taxi cab?
It all changed with customer-centric, tech-driven disruption!
The same thing is happening in B2B industries
It can all change with customer-centric, tech-enabled business model

- Digitized parts list and photo assisted identification
- Easy side-by-side parts comparison
- Live tracking of parts
- AR instructions with live support
- Auto reorder parts

….many other opportunities
Last year, we discussed delights and pain points in the customer journey.
E-Commerce is a step toward the new horizon of digitization
We see E-Commerce as a transitional play to new business models

Business models with traditional channels:
Dealers, sales reps

B2B E-Commerce:
Integrated procurement, transactional E-Commerce

New business models:
- Auto replenishment of parts
- Predictive maintenance
- Software-as-Service
- Outcome based Service agreements
- AV/AR assisted repairs
E-Commerce is no longer optional in B2B

Source: OSI Results of McKinsey's 2nd biannual, global B2B customer buying research: US & Europe
>50% of B2B buyers want to use eCommerce to make purchases (a ‘digital self serve’ channel),

while less than 30% want to interact with a sales rep face-to-face to complete the transaction
B2B suppliers that deliver outstanding digital experiences are ~2x more likely to be primary suppliers

74% of B2B buyers that interact with a digital “outstanding” supplier use that supplier alone

Source: OSI Results of McKinsey’s 2nd biannual, global B2B customer buying research: US & Europe
Aftermarket executives agree that digital is an uncaptured opportunity

3 out of 5 aftermarket executives claim that their organization can double their value capture for digital parts and services.

87% of aftermarket executives believe that their organizations are low on the state of digitalization to capture opportunities.

Source: 2019 McKinsey Industrial Aftermarket Executive Survey, n=30
How do Ag and Construction players stack up against competitors in E-Commerce?
The Value Capture Mechanism of B2B E-Commerce

Traffic → User Conversion → Avg. Order Value = Revenue
Traffic benchmark well below potential

Monthly website traffic for B2B customers, Average # of unique users visiting company websites (Aug 2019)

- Ag OEMs: 13x
- Construction OEMs: 23x
- Suppliers: 7x
- Online Industrial Distributors: 80x

1. Includes Grainger, Fastenal, MachineryTrader, HR Parts, Wix Filters, Fram, Costex, and Lawson

Source: DOS analysis on the top company websites in each peer group
Omni-channel capabilities improve experience and traffic

- Buy online
- Personalized experience
- Shop online, pick up at dealer
- Search parts online
Best-in-class capabilities drive greater user conversion

<table>
<thead>
<tr>
<th>Identify &amp; research</th>
<th>Consider &amp; evaluate</th>
<th>Buy &amp; order</th>
<th>Use &amp; maintain</th>
<th>Repair &amp; replace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitized part lists and photo-assisted identification</td>
<td>Side-by-side pricing and comparisons</td>
<td>Personalized product recommendations</td>
<td>App-enabled remote monitoring and maintenance</td>
<td>3D virtual mobile repair guides</td>
</tr>
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</table>

Source: Company websites
Opportunity to increase average order value to drive growth

<table>
<thead>
<tr>
<th>Incremental increase in AOV, %</th>
<th>Digital leaders</th>
<th>Industrial distributors</th>
<th>Supplier</th>
<th>Construction OEM</th>
<th>Ag OEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personalization engine</td>
<td>~20</td>
<td>High capabilities</td>
<td></td>
<td>Low capabilities</td>
<td></td>
</tr>
<tr>
<td>Service support</td>
<td>~12</td>
<td>Low capabilities</td>
<td>Medium capabilities</td>
<td>Medium capabilities</td>
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<tr>
<td>Loyalty program</td>
<td>~10</td>
<td>Low capabilities</td>
<td>Medium capabilities</td>
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Source: Periscope Analysis on the top company websites in each peer group, McKinsey pricing and personalization analysis, Company websites.
What’s holding Agricultural and Construction players back?
4 challenges to reinventing your business model

Value chain alignment

Legacy tech infrastructure

Organizational resistance

Opacity in end-to-end supply chain

Other industries have solved for these barriers by bringing key shifts to their business model
Navigate channel complexity to deliver seamless customer experience
Construct a modern tech stack
Organizational resistance

Organization-wide call-to-action
Create transparent, frictionless supply chain
Select B2B manufacturers are also showing the way

- **Seamless buying experience through resellers and other partners’ e-commerce sites**

- **Modern tech stack to enable order customization** for building professionals

- **Commitment from the top with multi-year investments** to establish B2B e-commerce

- **Frictionless supply chain with depth of product inventory** in specialized verticals and **open platform** to other suppliers
How to course correct?

Pause
Accelerate
Rethink