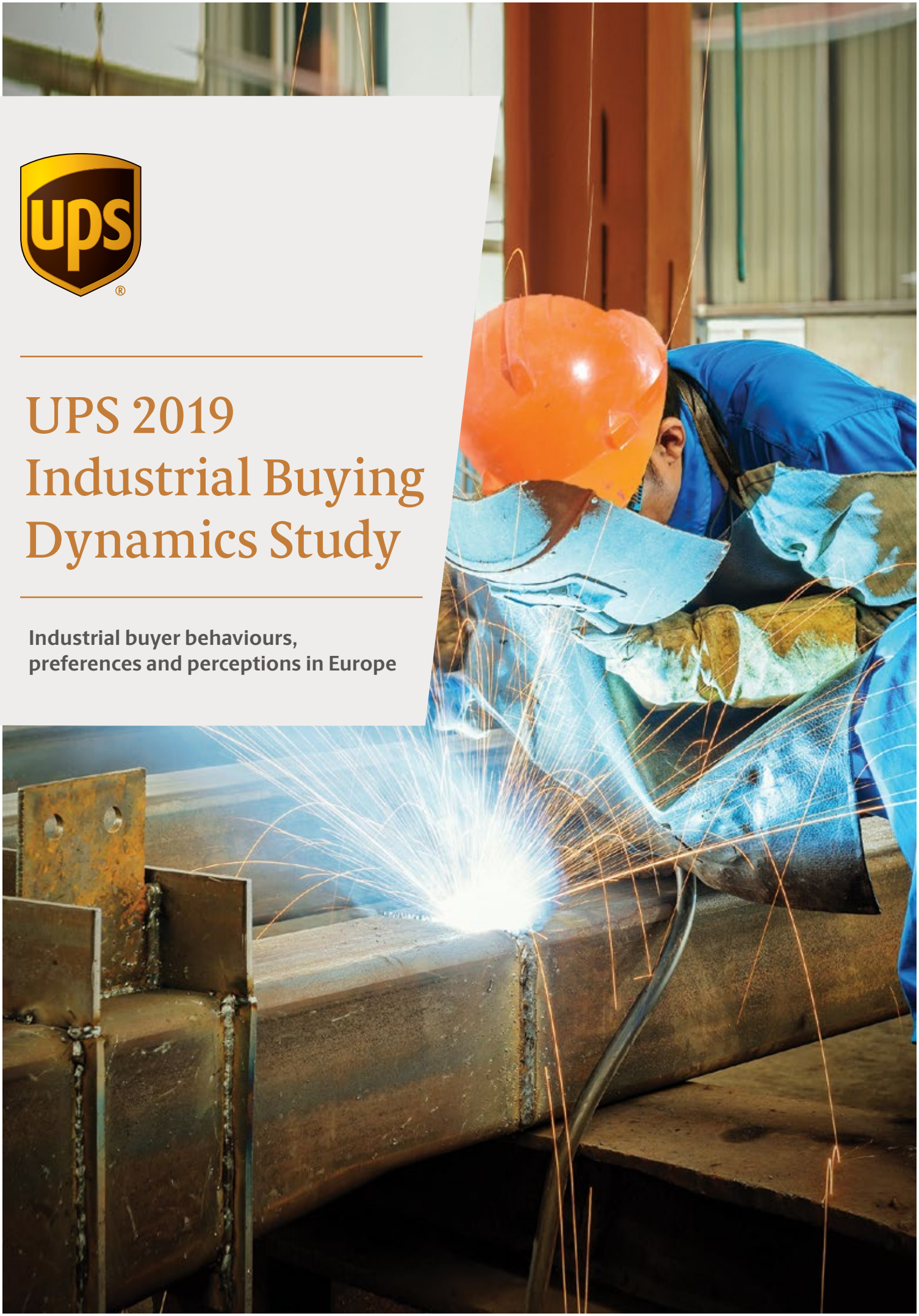
UPS 2019 Industrial Buying Dynamics Study

Industrial buyer behaviours, preferences and perceptions in Europe



Foreword

Across global industries, new technologies and shifting demographics are changing the way we all conduct business. Industrial buying is no different. In the third European edition of the UPS Industrial Buying Dynamics study, we explore industrial buying trends, how they shape the buying landscape and the forces that underpin them.

Our findings are informed by insights into the expectations and behaviours of business-to-business (B2B) buyers, and are reflected in the conversations we have with our customers every day.

The study is based on 2,500 interviews with global purchasing professionals. This edition focuses on four major European markets (France, Germany, Italy and the UK), with comparisons to the US and China.

This year's study identifies a strong move to online buying, shifts in demographics with millennials beginning to disrupt the marketplace, and the increasing importance of differentiating factors such as ease of returns and post-sales services.

A digital shift

Changes which have been underway since we first conducted the study in Europe in 2015 have reached an inflection point: the person-to-person salesforce-based mode of doing business is giving way to online interactions. Reflecting the shifts seen in retail commerce, this digitization is driving buyers to purchase directly from manufacturers and online marketplaces, to the detriment of traditional distributors.

Changing demographics

Our demographic data on age-based intentions has revealed how the millennial generation is poised to reshape the industry. Millennials are digital natives, they are more likely to source internationally, and are quicker to change supplier for a better customer experience and value-added offering. This is the mind-set of the dominant decision-makers of the near future.

Differentiating factors

Against this backdrop of an industry in flux, differentiating factors are increasingly important. Industrial buyers' expectations for post-sales services are growing with an emphasis on returns as well as swift repairs and maintenance.

This study will offer valuable insights into your customers' expectations, preferences and perceptions, helping you to thrive in an increasingly competitive and complex business environment.

Abhijit Saha

VP of Marketing and Strategy, UPS Europe

European Study, 2019

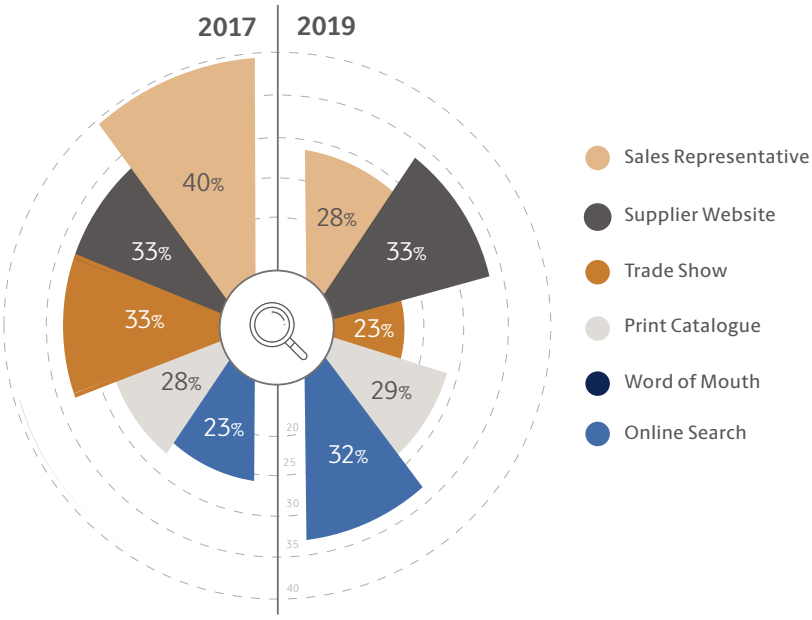
A Shift to Digital – The Death of the Salesman?

As digital technology has become ubiquitous in our daily lives, so too has it permeated the B2B customer journey, starting at the pre-purchase stage. Only two years ago, industrial buyers were still most likely to use sales representatives to research products. In 2019, sales representatives have fallen to fourth place in the ranking, as almost half of buyers now primarily use online search or company websites to research products.

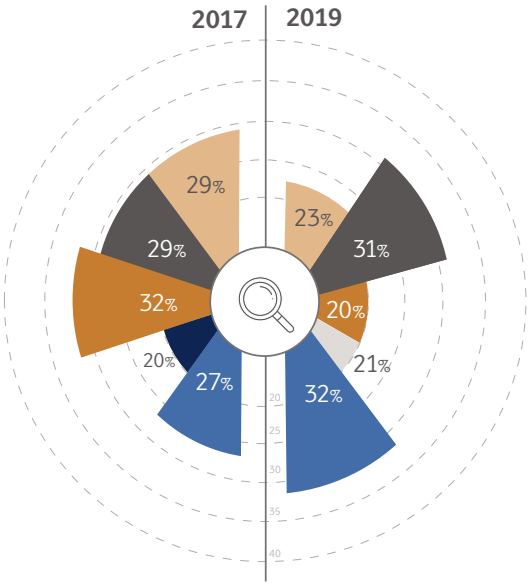
There is a similar pattern in researching suppliers: trade shows were still the most used channel for supplier research in 2017, but they have now fallen to fifth place in the rankings, ceding primacy to online search and supplier websites. Human contact and personal relationships are giving way to digital interaction.

Physical gives way to digital

Top methods used to research new products
(% who listed method in their top three)

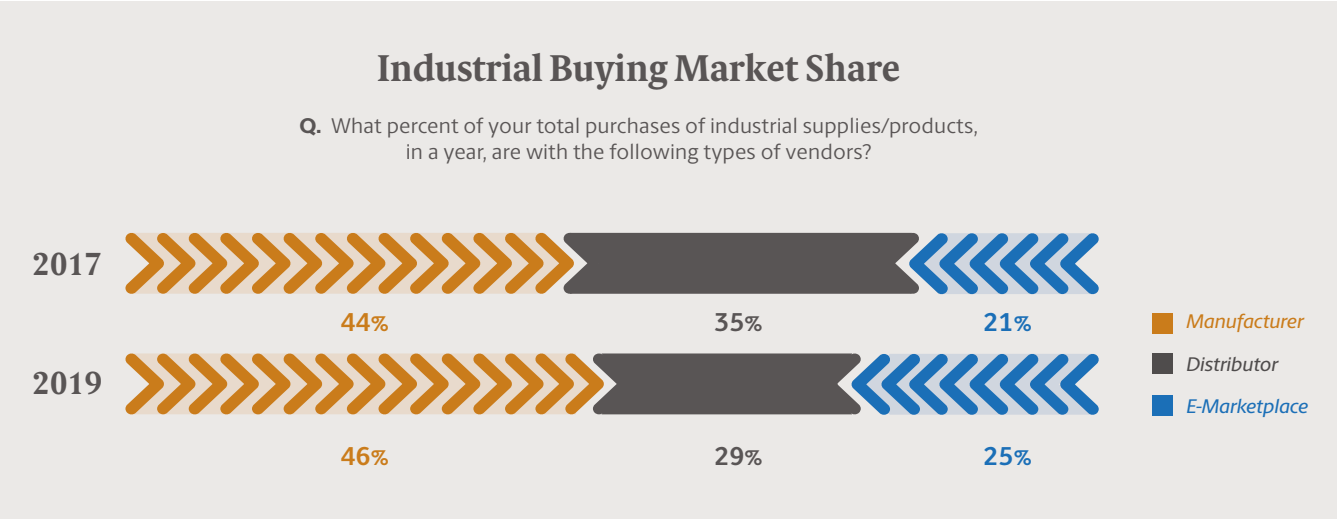


Top methods used to research new suppliers
(% who listed method in their top three)



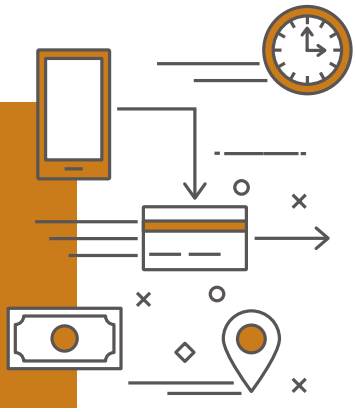
This shift is also reflected when it comes to the purchasing stage. Three quarters of respondents purchase products through online channels, whether via supplier websites, e-marketplaces or mobile apps and 48% buy through electronic data interchange (EDI) systems. These digital channels have opened up new opportunities for manufacturers to sell directly to their industrial customers, and have fuelled the growth of industrial product offers in e-marketplaces such as Amazon Business and Alibaba.

As a result, the traditional intermediaries who broker the sale and distribution of industrial products between manufacturers and end-users continue to face acute disruption. In 2019, professional buyers in Europe told us that the share of all industrial buying going directly to traditional distributors fell sharply compared to 2017, and while 'direct from manufacturer' (DfM) buying was up, buying through e-marketplaces was up even more.



Similar to Europe, in China buyers also source the most directly from manufacturers (41%), followed by distributors (35%) and e-marketplaces (27%). Buyers in the US still prefer to source through distributors (38%), but this channel is losing market share to DfM (34%) and e-marketplaces (27%).

Three quarters of respondents buy B2B through some kind of online channel, whether supplier websites, e-marketplaces or mobile apps and 48% buy through electronic data interchange (EDI) systems.



What Buyers Want

We asked European buyers to rank critical factors in supplier selection and also supplier performance against those factors. Price and value was clearly the key driver with 58% of buyers putting it top of their criteria, but product quality was closely behind. The other standout selection factor was product availability. Manufacturers have the most control over these three factors, positioning them best to meet the requirements. DfM channels were ranked highest by buyers on all three criteria, which is reflected in their superior market share.

There is also a secondary group of decision-factors in industrial buying, and these relate to ease of transaction (ease of shipping, shipment tracking and ease of ordering). The responses show that when it comes to delivering convenience in the customer experience, e-marketplaces are clearly in the lead. The rapid growth of this purchasing channel in Europe suggests that mastering these factors is key to securing more market share. In both China and the US the DfM channel ranks best on product quality and availability, but e-marketplaces rank best on price, as well as the 'ease of use' factors.

DfM channels performed best on the top three selection factors:

PRICE

PRODUCT QUALITY

PRODUCT AVAILABILITY

But when it comes to delivering frictionless buying experiences e-marketplaces are clearly in the lead.

EASE OF SHIPPING

SHIPMENT TRACKING

EASE OF ORDERING

How European Buyers Choose Suppliers

Q. Which type of supplier do you feel delivers excellence in the following areas?

	PRICE/ VALUE	PRODUCT QUALITY	PRODUCT AVAILABILITY
Large distributor	35%	34%	38%
Medium distributor	26%	31%	26%
Small distributor	17%	23%	13%
E-Marketplace	34%	26%	35%
Direct from Manufacturer	40%	49%	40%

	EASE OF SHIPPING	EASE OF PLACING ORDERS	SHIPMENT TRACKING
Large distributor	35%	30%	35%
Medium distributor	26%	26%	25%
Small distributor	17%	15%	14%
E-Marketplace	36%	41%	37%
Direct from Manufacturer	34%	32%	34%

Yet the relentless rise of online buying should not obscure the fact that personal contact remains an important buying factor in Europe. Roughly 60% of European industrial buyers still purchase through personal interactions, whether in person at a supplier or manufacturer location, through a visiting sales representative, or through telephone calls or emails.

In all these cases, almost half of buyers (44%-48%) say that the reason for buying offline is that it is easier to get answers to questions from a human being than from an online service. E-marketplaces score worse than all other channels on customer service. Migrating human interaction skills to online services continues to prove challenging, suggesting that suppliers are still climbing the automation learning curve.

It's too early to mourn the death of the person-to-person salesforce-based mode of doing business, but the days in which it alone defined B2B transactions have passed.

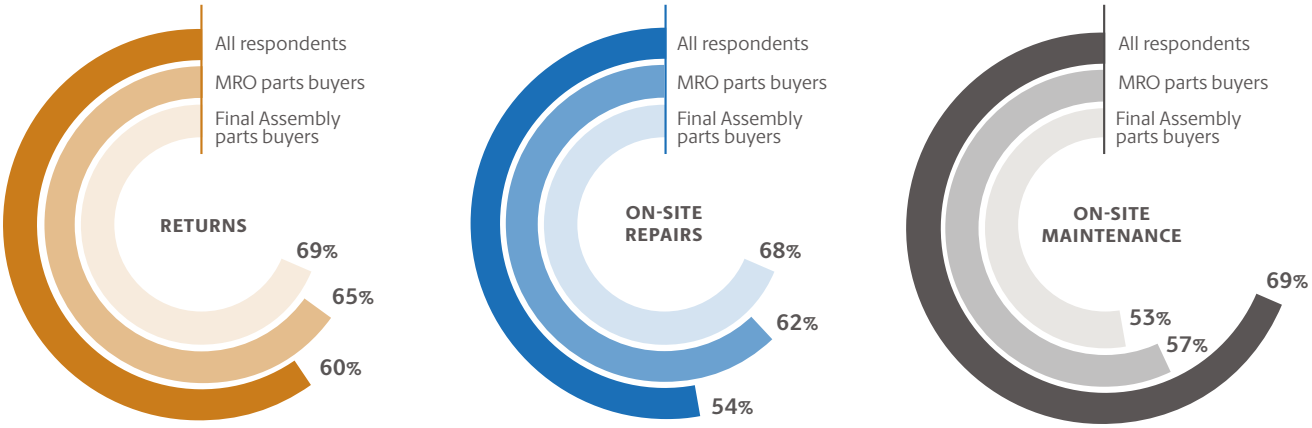
Logistics Means Service

Over the life of the UPS Industrial Buying Dynamics study we have seen industrial buyers place increasing emphasis on the service component in purchasing. In 2017, the most important post-sale service was the availability and quality of returns, and returns are still top of the agenda in 2019. Three fifths (60%) of all respondents see returns as a very or extremely important post sale service that suppliers should offer, but that rises in the case of purchasing MRO (maintenance, repair and operations) parts and final assembly parts that tend to be of higher value and criticality.

60% of all respondents see **returns** as a very or **extremely important post sale service** that suppliers should offer

Leading Service Factors

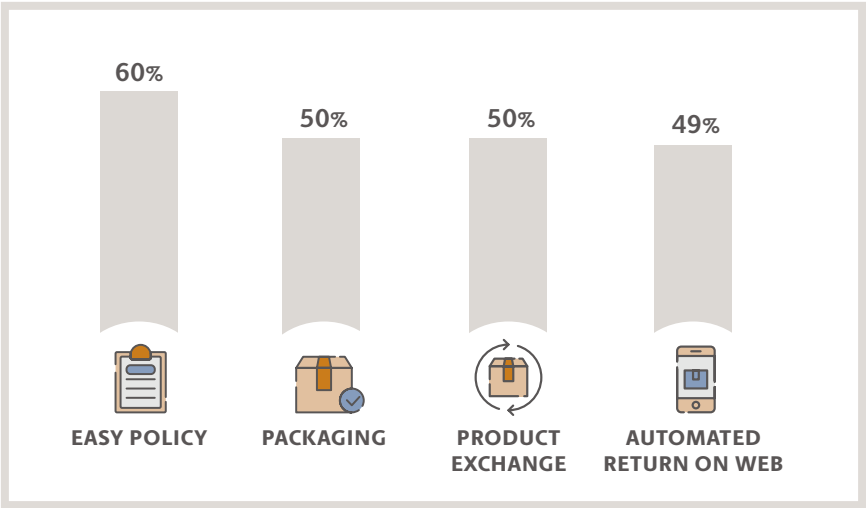
Q. How important is it to you that your industrial supplier provides the following post-sales services? (Extremely/Very important)



When we asked Europe's industrial buyers about the importance of different return factors, ease of policy was clearly the most valued factor, by 60% of buyers. Buyers appear to place a high value on the knowledge that returns will not be hampered by small-print exclusions. This result mirrors others in the 2019 study, where the 'ease' factors in ordering and payment appear to be of increasing importance. The other top return factors of appropriate packaging (which usually means re-usable delivery packaging), product exchange, and automated return through the online channel, all reflect the premium increasingly placed on convenience.

Buyers Value Convenient Returns

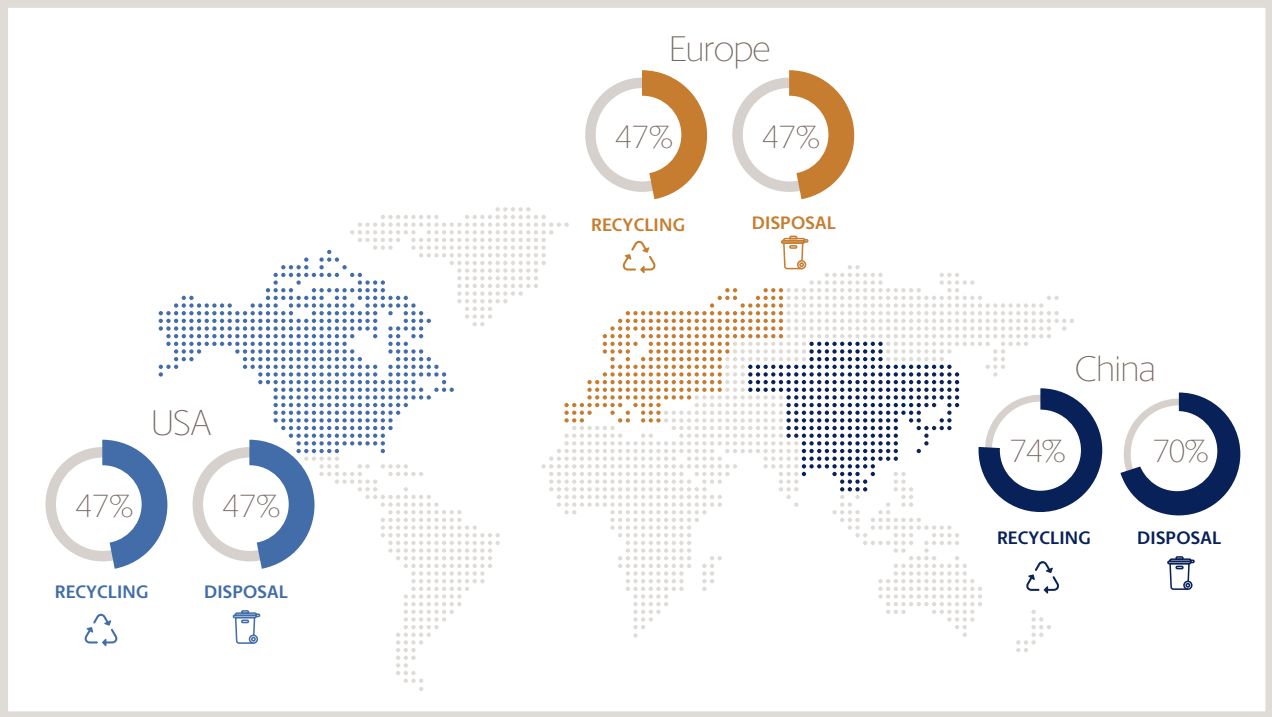
Q. When specifically thinking about returns services, how important are the following? (Extremely/Very important)



Expectations of on-site service have also been rising since the start of the UPS study. In 2019, we asked buyers to rate the importance of these factors, and overall respondents were most likely to rank on-site repairs and maintenance as the second and third most important factors in their industrial supply relationships. But we also note that sustainability-related factors are prioritised by buyers. Both disposal and recycling were cited as either very important or extremely important by 47% of respondents in Europe. These issues are rated exactly the same in the US, but significantly higher in China, reflecting the Chinese government's continued crackdown on polluting industries.

Importance of Sustainability-related services

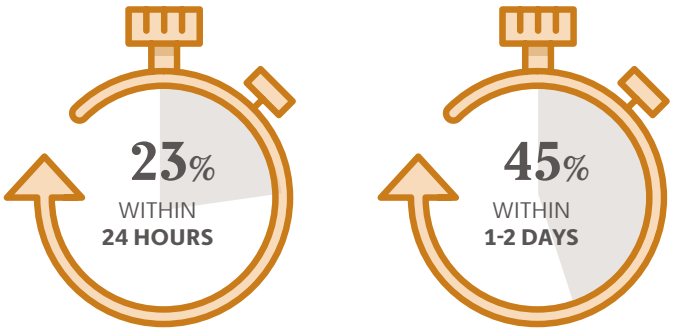
Q. How important is it to you that your industrial supplier provides the following post-sales services? (Extremely/Very important)



Almost nine out of ten buyers use on-site services from their suppliers, and of those who do, a quarter needs service at least every month. Speed of response is key. Almost a quarter of respondents (23%) expect suppliers to respond within 24 hours, and 45% expect a response within 48 hours or less. It is clear that service remains a leading differentiator in Europe's industrial buying industry.

Service Should Be Fast

Q. What response time do you typically receive for on-site support?



In 2019, we asked buyers to rank the most important factors for selecting an industrial supplier. Logistics-related issues were considered to be secondary to factors like price and quality, but were still cited as decisive factors by significant portions of respondents.

Among logistics factors, shipping speed was most likely to be cited (30% of respondents, with 46% of respondents expecting domestic shipping within two days, and 31% expecting the same of international shipping), but ease of shipping was cited by almost a quarter of respondents (23%) and even more by millennials (28%). And in an echo of the results on returns, sustainability was cited by 21% of respondents. We conclude that the ease factors that make for frictionless buying and sustainability will increasingly influence buying behaviour in the future.

Logistics Factors In Supplier Selection

Q. When selecting an industrial product supplier, which factors do you consider?

The Millennial Impact

Millennials are projected to make up 35% of the global workforce by 2020. Born between the early 1980s and the early 2000s, they continue to enter the workforce, but they are also now entering mid-level and higher positions. In this year's study millennials make up 38% of the survey sample, 10 percentage points more than two years ago. 55% of those are now in positions where they have sole decision making power in selecting suppliers. To gain insight into how the demographic shift is affecting industrial buying we have contrasted the responses of millennials with those of baby boomers. The attitudes of millennials will define the future: these are the customers that industrial suppliers will have to satisfy in the coming decades.

Millennials are more **internationally-minded** than their older counterparts. They are also less likely to see **cross border** buying as problematic.

GENERATIONAL *definitions*

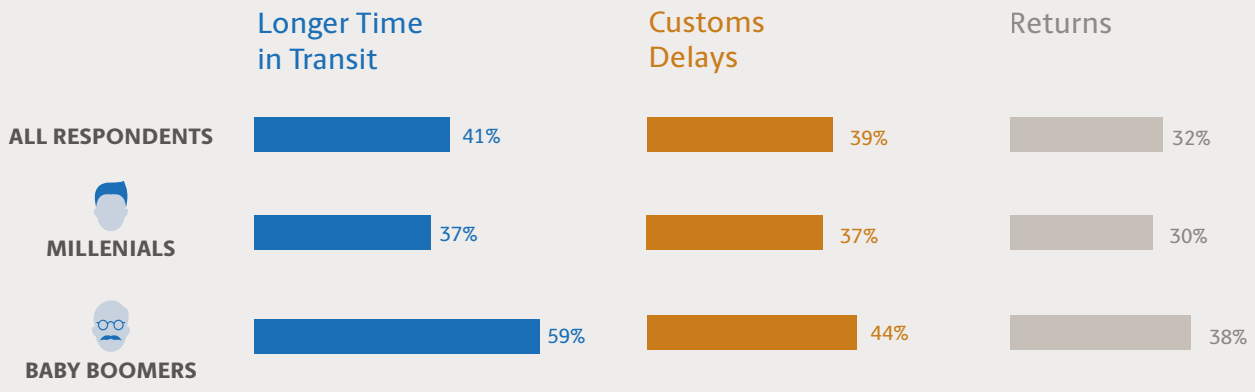
In this iteration of the UPS Industrial Buying Dynamics study, we have defined millennials **(38% of the survey sample)** as 18-37 years old, with Generation X **(42% of the survey sample)** as 38-53 years old, and baby boomers **(21% of the survey sample)** as 54 and older.

The clearest generational shift is that millennials are more internationally-minded than their older counterparts. This applies not only to European millennials, but also to those in the US and China. While 31% of all survey respondents (including those in the US and China) are likely to buy internationally, that rises to 48% for the millennial group, compared to only 13% for baby boomers. Cross-border buying will grow as millennials come to dominate business decision-making.

Although millennials are also less likely to see cross-border buying as problematic, compared to the older baby boomer generation, there are still barriers that suppliers need to surmount if they are to build their cross-border revenues. Over 30% of respondents – including millennials – still see challenges across a range of cross-border buying issues. But on most issues, millennials are somewhat less risk-averse in international sourcing than their older colleagues, giving a strong indication that future international growth is there for the taking.

Is Cross Border Buying Difficult?

Q. What challenges do you have when buying online from other countries?



Sample 2500 (Europe, U.S. & China)

REACHING THE *International Buyer* OF THE FUTURE

Matching the overall trend across generations, millennials in Europe, China and the US rank supplier websites and online search as the top two methods of researching new suppliers. However, in the US social media has become the 3rd most common way of researching new suppliers among millennials, while trade shows take up that spot in China and Europe. But even in China, 44% of millennial industrial buyers now use social media to research new suppliers. In Europe this channel is far less developed with only 19% utilizing it.

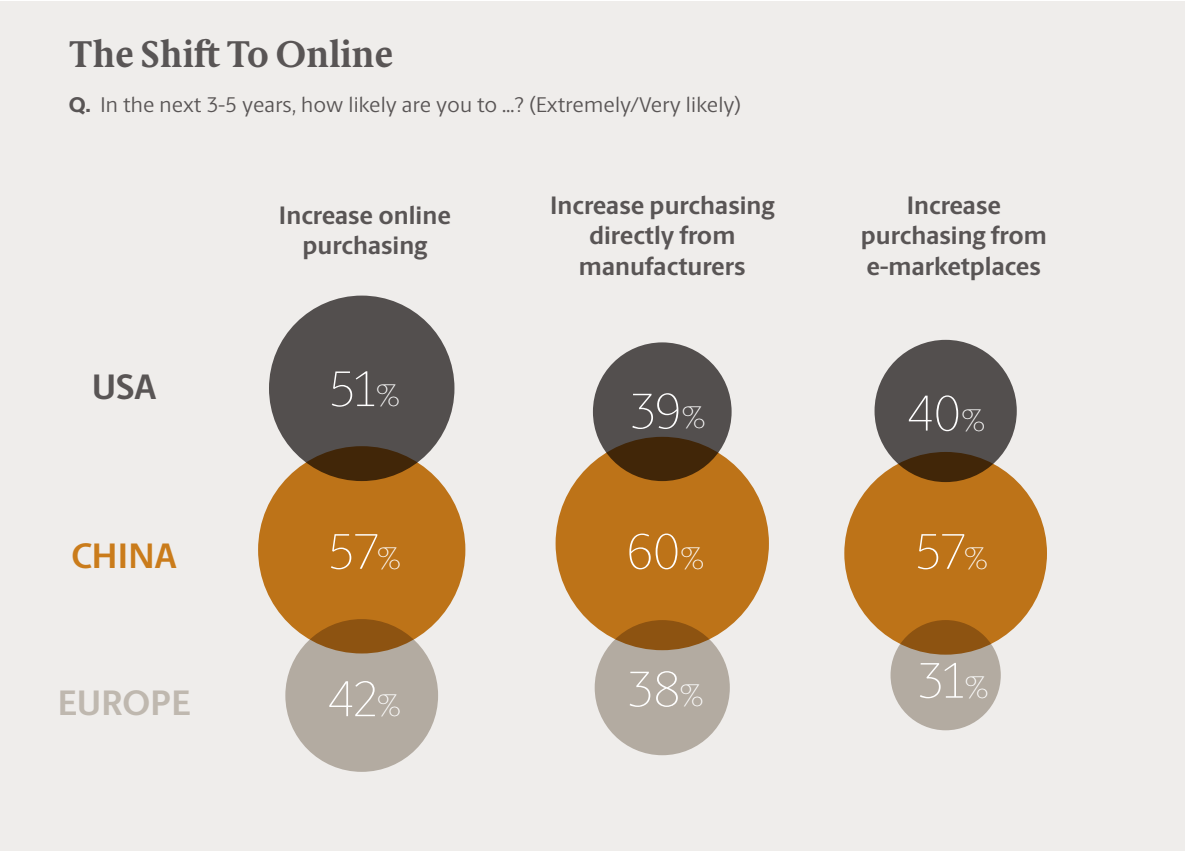
When purchasing, millennials in the US give their largest share of wallet to the DfM channel, rather than distributors like their older colleagues. And while distributors are their second most used channel, they purchase nearly as much through e-marketplaces. Millennials in China and Europe similarly purchase nearly an even share from distributors and e-marketplaces, a share of wallet of roughly 30% each.

The Future Will Be Frictionless

There is little doubt that the shifts under way in the industrial buying industry favour large suppliers over small ones. Larger suppliers have the resources to invest in automation and online channels that smaller suppliers may lack. Over half of respondents in the 2019 study express satisfaction with larger suppliers, whether manufacturers, e-marketplaces, or mid-sized to large distributors. But in the case of small suppliers, satisfaction drops to less than half (44%). Small distributors rank worse than the other channels on all selection criteria, but significantly so on product availability, variety, ease of placing orders and shipment tracking. However the overall satisfaction results are not outstandingly high for any category of supplier, and imply that buyers may continue to shift from existing suppliers in the near future.

We asked buying professionals what their buying plans were, and this disposition to change was confirmed. Just over 30% of all buyers planned to increase buying from e-marketplaces, rising to 38% intending to increase buying direct from manufacturers, and 42% intending to increase buying from online channels overall. These results show a strong continued predisposition to take advantage of new channels and new providers.

Globally, the rate of change is likely to be fastest in China. When all respondents were asked about the most likely changes in their buying patterns in the next three to five years, 57% of Chinese respondents said they were very likely or extremely likely to increase online buying, compared to 51% in the US and 42% in Europe.

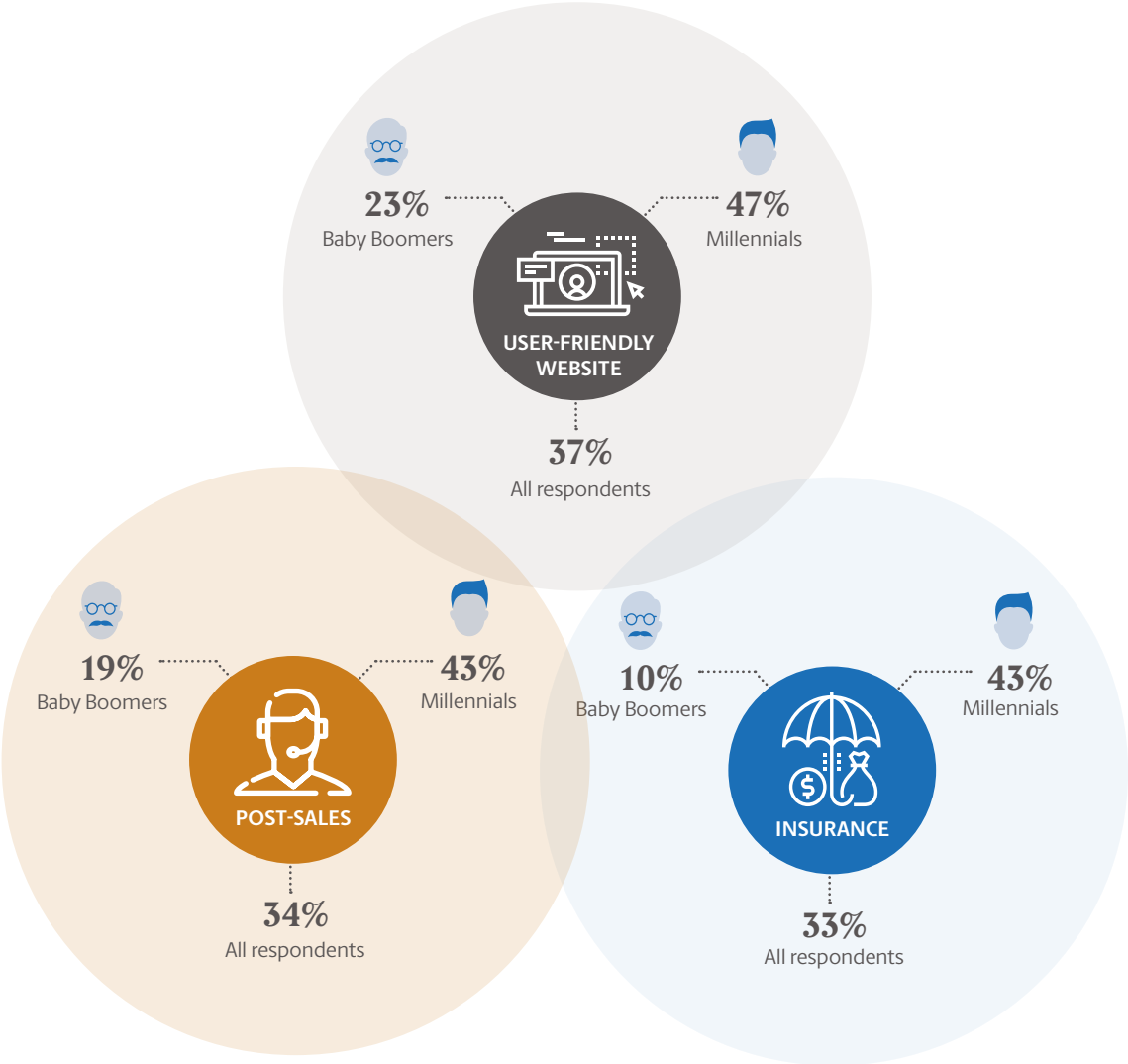


Industrial buyers' preference for ease of use extends to the digital channels through which they are increasingly purchasing, influencing decisions to switch suppliers. For example, 37% of respondents said they were very likely or extremely likely to shift to a new supplier due to website user-friendliness; millennials were much more likely than their older colleagues to be swayed by a superior digital experience, and they were also more likely to be influenced by value-added offerings such as post-sales services and insurance. In other words, millennials are more change-oriented – and that implies a faster rate of change in the near future. Suppliers that go beyond the traditional offering and deliver value and convenience will capitalize.

37% of respondents said they were very likely or extremely likely to **shift to a new supplier** due to **user-friendliness**

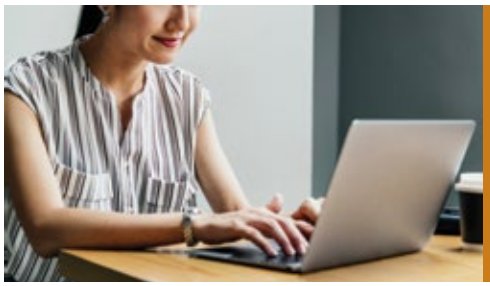
Millennial Buyers Seek Change

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



The increased rate of change is likely to be facilitated by the loosening of buying rules. In 2017, we reported that 32% of European respondents were only permitted to buy from approved suppliers; by 2019 that had dropped to 26%, suggesting that the buying industry is increasingly ready to take a pick-and-choose approach to buying in a market that is becoming increasingly competitive.

This is more evidence of a predisposition to change, in a survey that points strongly to change on multiple fronts. We conclude that the future of industrial buying will be one that increasingly emphasises ease of operation and a frictionless customer experience above many other factors, and that this will be an increasingly important part of the competitive strategy of successful suppliers.



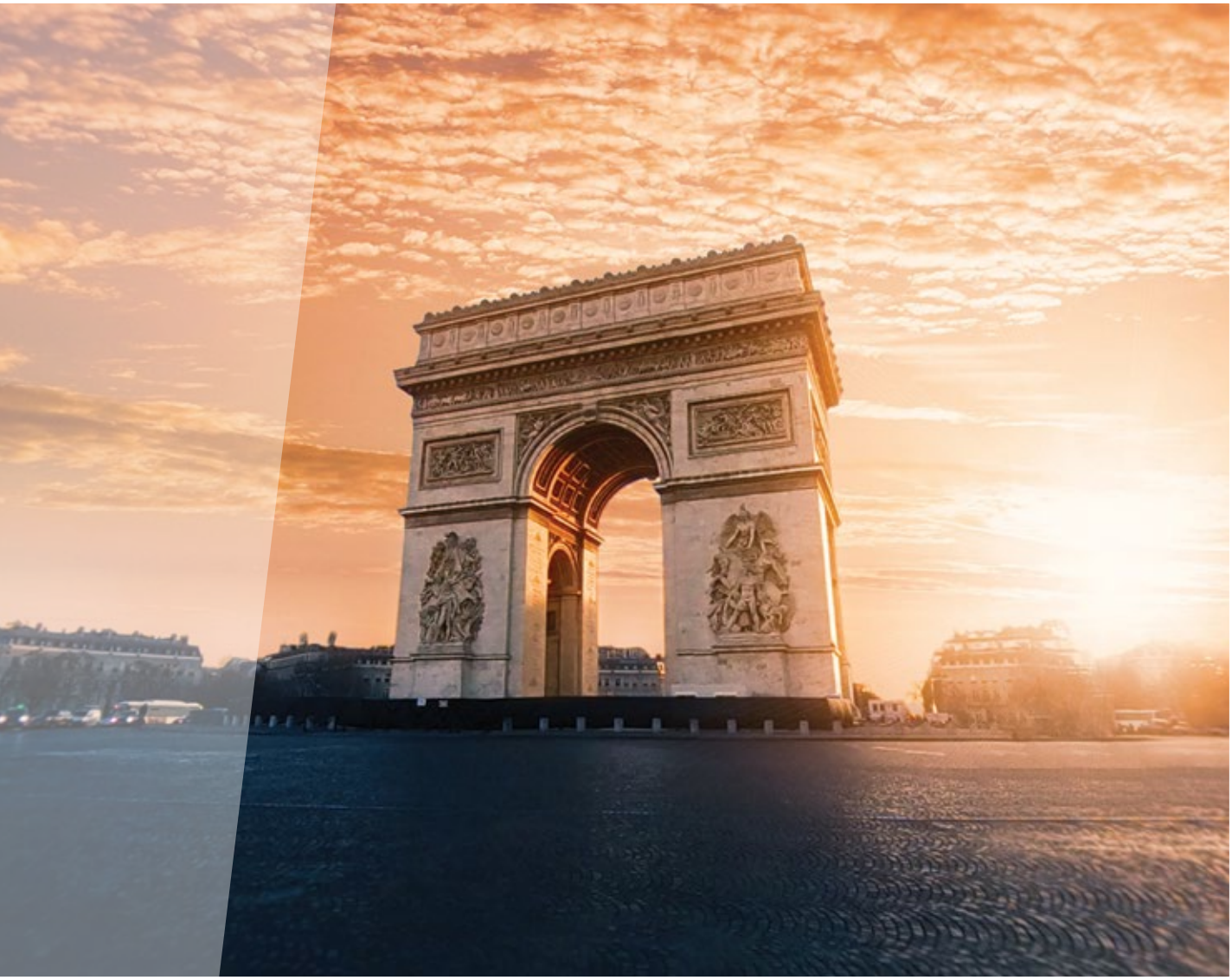
The future of industrial buying will be one that increasingly emphasises **ease of operation** and **frictionless experiences**

European Industrial Supply
Country-By-Country

European markets are converging in terms of industrial purchasing. The similarities between approaches are more striking than the differences.

When we asked industrial buyers what most influenced supplier selection, the responses were very similar in France, Germany, Italy, and the UK. In every case, buyers were most likely to mention price and product quality as the two most important factors, with respondents in Germany being the most price-sensitive of all. In all four markets, buyers are now most likely to source directly from manufacturers, and are most likely to use online channels (either company websites or mobile apps) to buy. When it comes to service, respondents in all four markets agree that returns are the most important part of the supplier service offer. And in every market, we found that millennials are buying significantly more internationally than older age groups.

But country differences have not entirely disappeared, and these differences are likely to be important for suppliers addressing these markets.



France

Industrial buyers in France are the most likely in Europe to buy directly from manufacturers (51% of sales), and the least likely to buy from e-marketplaces (20% of sales) – but French millennials are the most likely age group to buy from online marketplaces, suggesting future growth. While buyers in France agree with other European markets that **returns are the most important part of service**, they are somewhat less likely than others to prioritise on-site services. France is the only surveyed country where industrial buyers are still **more likely to use sales representatives** to research products and suppliers compared to using other channels.

UK

The UK is the most online-oriented of the four European markets in our sample. Buyers in the UK use online sources (websites and search) to research suppliers more than in other European markets, and they use sales representatives less. They use websites and mobile apps to make purchases markedly more than other markets, and their preference for in-person buying is slightly lower. **They are also the buyers most likely to use e-marketplaces**. And while their overall international sourcing is around the European average, **buyers in the UK purchase more from the US than buyers in the other European markets**, and international sourcing from all locations is markedly higher in the millennial group.

Italy

On most scores, industrial buyers in Italy occupy the mid-point of our European range – they are online buyers, with website and mobile app purchases their preferred buying method. Like buyers in Germany, **they use e-marketplaces for around a quarter of their purchases,** with Italian millennials heavier users of e-marketplaces than their older colleagues. **Buyers in Italy do place a higher value on sustainable post-sales solutions,** with 57% ranking disposal solutions as important in purchasing decisions and 49% ranking recycling solutions as important (vs an average of 47% in Europe for both). **Buyers in Italy also value personal relationship selling:** 26% of orders across all age groups are through in-person sales either at a company site or during a sales representative visit, slightly higher than in other European markets.

Germany

Industrial buyers in Germany are the most **price and quality sensitive** in our European sample, with 63% considering price and 60% considering quality as top factors in supplier selection. These are the highest figures in Europe. **Expectations for delivery speed are higher among German buyers compared to average European buyers;** 58% of respondents expect 1-2 days delivery for domestic orders and 37% expect 1-2 days delivery for international orders compared to 46% and 31%, respectively, in Europe. Survey respondents in Germany faced the least amount of restrictions from their employers when selecting suppliers, which could explain their higher supplier satisfaction levels.

Methodology

On behalf of UPS, Burke conducted an online survey of 800 industrial supply purchasers in Europe, comprising of 200 in each of France, Germany, Italy, and the UK, 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.

If you would like to be consulted by UPS, please visit:

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and fill in the contact form

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