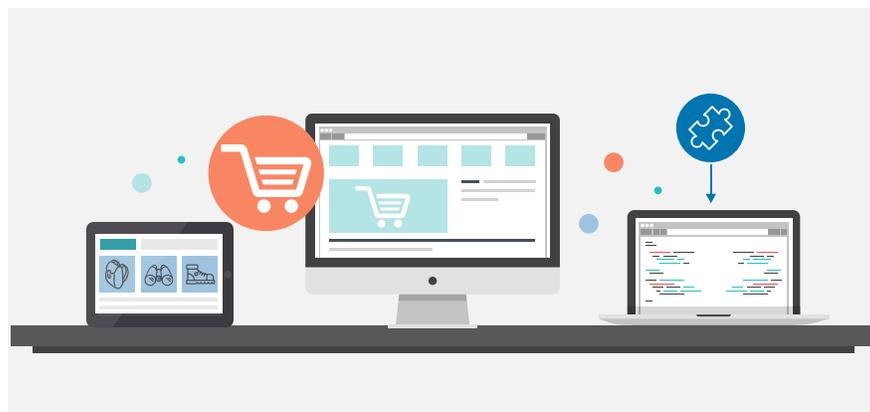


WHITEPAPER

Choosing the Right B2B eCommerce Model for Your Business



B2B eCommerce: a critical pillar of the wholesale sales strategy.

In recent years, wholesale brands have experienced a dramatic shift in the way they do business. Until recently, wholesale sales has been predominantly focused on the field sales channel. However, with the advent of wholesale commerce technology, brands have not only been able to optimize the field sales experience by leveraging technology like sales order management applications, but also are implementing an omni-channel strategy with a focus on B2B eCommerce capabilities.

Adopting B2B eCommerce is no longer a nice-to-have for only the most cutting edge brands, it's now a critical pillar of the wholesale sales strategy. According to Forrester's 2013 research report, "B2B companies that wait too long to implement eCommerce assume a big risk. Every day that B2B companies fail to offer a compelling B2B eCommerce experience, they fall further behind more advanced competitors."

Now that it's impossible to avoid the eventual presence of B2B eCommerce as part of wholesale's omni-channel strategy, brands are facing questions about the best approach to adopt for their business. This decision typically is whether to implement the Direct model, the Marketplace model, or a hybrid of both.

The Direct & Marketplace B2B eCommerce Models

B2B eCommerce platforms fall into two distinct models - Direct or Marketplace. The Direct model provides you with a portal that offers only your products and lets you control which of your retailers have access. The Marketplace model, which, as the name suggests, aggregates multiple retailers into a

central location where they can order your products along with other brands.



While Direct models may differ in their level of sophistication and implementation, they have in common that the brand itself is still the owner of the complete customer experience. This means that they are responsible for the online experience as well as the transactional and fulfillment processes, such as payment processing, shipping, and order tracking. Marketplace models, however, fall into two camps.

Simple marketplaces entail a centralized location for retailers to buy from multiple brands, but still require that the brand is responsible for processing payments and the logistics related to order fulfillment. Others are more full-service, where they handle payment processing, inventory warehousing, fulfillment, and shipping for the brands. In exchange, the brand pays a percentage of each order placed.

Marketplace models often lead to increased brand visibility, and complex Marketplace models are attractive to brands that are interested in reaching the

In a marketplace, small brands often must compete on price.

long tail without having to deal with the ramifications of servicing lower yield customers. However, the ability to build brand equity and develop strong customer relationships is limited when selling through a marketplace.

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In contrast, while the Direct model requires the brand to assume the responsibility of owning and maintaining the customer experience and lacks the positive network effects of its Marketplace counterpart, it does allow for the cultivation of higher quality customer relationships and the building of long-term brand equity.

The Marketplace Model: Increased Visibility, Fierce Competition

Discoverability & Competition

There's often a belief amongst smaller wholesalers that leveraging the Marketplace model will lead to increased visibility for their brand. In many scenarios, this is true. However, competition in a marketplace highly favors larger brands.

In a marketplace, all brands, regardless of their size, are stacked up against each other and the ability to stand out in a sea of competitors is limited. In a scenario

where retailers are browsing a marketplace looking to buy, big brands have a major competitive advantage against their smaller competitors simply because of brand recognition.

What, then, can a small brand do to compete in a marketplace and stand out from other brands? One strategy small brands try to use is to leverage unique marketing strategies to out-position their competitors, but a marketplace's rigid templates are often unable to accommodate particular font treatments, colors, videos, and other brand-specific assets.

Without the ability to easily differentiate, small brands often turn to competing on price, which is almost always a losing battle.

The Pricing Game

Many small brands respond to the pressure of being transparently compared against competitors, particularly larger ones, based on product features. However, price is often an indicator of product quality and by slashing margins smaller brands have less capacity to invest in innovation and marketing. This situation leaves them at an increased disadvantage to larger brands that can compete on the strength of their brand and the perceived quality of their products. In addition, the effectiveness of price reductions is further diminished as other brands enter the marketplace and pursue a similar pricing strategy.

Devaluing your product by competing aggressively on price is a scenario that no brand wants to optimize for, but is often considered a necessary evil in the Marketplace model.

The Direct B2B eCommerce portal is a place for your brand to shine.

Scale

Brands that lack efficiencies of scale may find that complex Marketplace models allow for a superior customer service experience for their buyers, as many smaller brands have not established fulfillment processes that are as sophisticated and cost-efficient as those of a marketplace. While brands should consistently be working to improve their shipping and fulfillment processes in-house, it can be worthwhile to take advantage of the scale of complex Marketplace models while these capabilities are being built.

New Customer Acquisition

The best, highest value customer relationships your brand has are ones that order frequently, merchandise your products well and correspondingly have a high lifetime value(LTV). Your goal is to find more of these star customers. Customers that discover you on a marketplace website are taking a chance on you and your brand and, accordingly, are placing smaller orders. It's a transactional relationship very different from your core customer relationship.

New customers acquired from marketplaces require close monitoring to ensure that they are successful and economically viable for your business to support. Any customers that cannot be nurtured into strong, high quality relationships may require a disproportionate level of investment to support, relative to the amount of sales they generate.

Brand Equity

Brand equity and loyalty are engendered as a positive output of the full range of experiences and interactions your customer has with your company.

In a scenario where your products are showcased in a marketplace, the brand equity that is being built by the customer is actually the brand equity of the marketplace provider. It's their template, user experience, and in the case that the marketplace owns fulfillment, it's their customer service team. Although you may be able to reach new customers and generate additional sales without control of the customer experience, your ability to use B2B eCommerce for brand building is reduced in a Marketplace model.

If your marketplace provider is a well respected forum for high-quality products, and has an exceptional user interface, it is possible that your brand can benefit by association. However, it is important to continue building standalone brand equity for your company in tandem. Complete reliance on marketplaces is not a long term strategy.

“NEW CUSTOMERS ACQUIRED FROM MARKETPLACES REQUIRE CLOSE MONITORING TO ENSURE THAT THEY ARE SUCCESSFUL AND ECONOMICALLY VIABLE FOR YOUR BUSINESS TO SUPPORT.”

The Direct Model: Full Service, Ultimate Brand Control

Distraction-Free Buying

Your B2B eCommerce portal is a place for your brand to shine. It gives you a platform to highlight the value of your offering, to provide answers to questions your retailers might have without having to bother them or

The Direct model: a focus on longer-term, stronger customer relationships.

your back office with phone calls or emails, and to, quite simply, give your retailers a seamless experience to order and re-order on their own time.

Your brand as the star of a one-man show means that you are not forced to make pricing and positioning decisions that are specifically driven by a direct comparison to your competitors' offering. It gives you the chance to price your goods at a premium and opens up the opportunity to compete on customer service.

Full Service & Ownership

While in the Direct model you are relying on a third party provider for the hosted eCommerce portal itself, your brand is fully responsible for serving your customers. This ranges from maintaining the brand experience on your B2B eCommerce portal itself with the proper marketing assets and product images, processing (and chasing down) payments, and fulfillment of all orders.

While there are of course benefits to owning every interaction with your customer base, such as building long term trust and sophisticated fulfillment capabilities in house, it is the case that some smaller brands struggle with keeping up with the operational requirements to fully serve their retailers.

Personalization

Under the Direct model of B2B eCommerce, upon logging in to your brand's portal, retailers interact with your product line in a way that is tailored specifically for their account, allowing you to implement the following customer-specific settings:

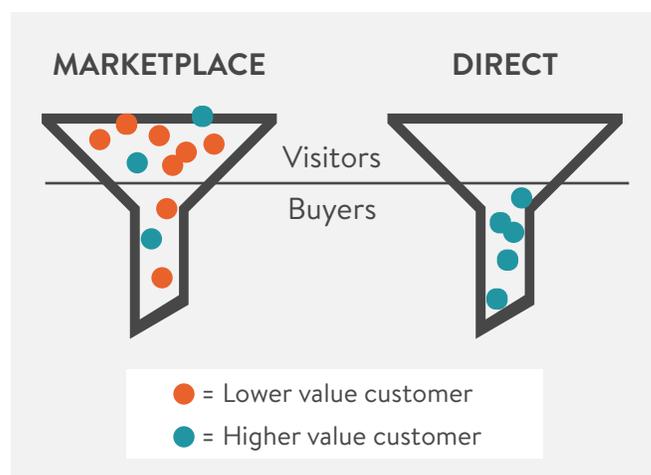
- Set pricing
- Apply discounts and promotions
- Show or hide specific products/manufacturers
- Provide recently ordered items

This granular level of customization allows you to give your retailers the exact experience you want them to have and stays consistent to the the personal service your sales team delivers. While this can be achieved upon login using some Marketplace models, it is the case that the unknown customer who discovers your brand is unable to benefit from this more tailored experience.

Customer Relationships

While the Marketplace model has advantages in the form of customer acquisition, the Direct model is beneficial to strengthen customer relationships and focus on the long term.

The customer who accesses the Direct B2B eCommerce portal is one of high value - it's a retailer that has done long time business with you, has been invited directly to your portal by you and your sales team, or has accessed your portal after getting to know your product line and brand on your website. Given the exposure, experience and personal stake they already have in your brand, they are a more qualified customer that skews higher in terms of average order size, order volume and LTV.



It is not possible for brands to survive solely on the marketplace model alone.

Accordingly, customers buying from Direct models are worth the service investment, as they are high value.

Control over the Brand Experience

One of the biggest upsides to adopting the direct model of B2B eCommerce is that, rather than being forced into the constraints of the marketplace template and help build brand equity for the marketplace provider, the attention is on you - your brand, your products, and the experience you want to create for your retailer.

The brand experience you create really starts from the discovery of your portal - your customers receive a personal invite or come across your portal from your own website, setting off a brand journey that you are controlling from the start.

The portal itself is not only a permanent showcase for your product line, but it's a hub in which you can distribute other important market assets which help drive sales and grow your brand. Assets like merchandising guides help retailers drive sell through in their respective store locations. Promotional videos showcase your products in their best light. Instructional videos clarify questions your customers may have on more technical products and allow retail customers to reach for materials that educate them on the value and specific merits of your product over the competition.

Direct: The Long Term Strategy for Building Your Brand

In the end, the decision to implement particular models of B2B eCommerce depends on the immediate and long term strategic goals of your business.

For smaller brands looking to build their customer base or experiencing challenges in servicing customers at scale, or large brands that can easily win on brand recognition, the risk of experimentation with a complex Marketplace model is low, as long as it doesn't require cumbersome setup and integration.

However, it is not possible for brands to survive solely on the Marketplace model alone. Brands that opt for the marketplace approach need to in tandem continue to build out their own Direct model implementation. The long term positive impact to your business and brand equity from adopting the Direct model are too significant to ignore. Direct B2B eCommerce allows brands to focus on high-value, long-lasting relationships with their retailers, create exceptional brand experiences, and provide outstanding service for the retailer that is tailored to their exact needs.

About Handshake

Founded in 2010 and headquartered in New York City, Handshake is the leading sales order management platform for wholesale, supporting both global distributed sales teams and small to medium sized businesses. Handshake has raised \$9.5 million to date from notable investors including Emergence Capital and SoftTech VC.



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