mdm white paper

Credit Where It's Due

B2B Point-of-Purchase Buying Habits Are Evolving. Data Now Points to a Need for More Quick, Easy, and Trusted Credit-Approval Options to Reflect Post-Pandemic Realities in the Distribution Industry.

CREDIT KEY

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Introduction

Since the start of the COVID-19 pandemic in Spring 2020, distribution companies have consistently found themselves at a crossroads between crisis and opportunity. And while the pandemic's most worrisome threats could soon be a memory, the industry's new normal is unlikely to revert to pre-COVID settings — especially when it comes to purchasing behavior.

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A growing number of B2B consumers also are looking for additional, flexible financing options to either support continued growth or to merely right their financial ship until conditions improve.

In the B2C buying experience, consumers want to buy products with a click of a mouse or tap of a finger — all while avoiding unnecessary paperwork and human interactions that could delay instant-purchase gratification. The same is true when applying for lines of credit to get the supplies they need for their businesses.

Quickly securing lines of credit will be vital to B2B companies moving forward, as it may help suppliers and vendors stay stocked during both times of sustained growth and times of supply crisis and inflation.

Background

Recent data show the importance of choice in payment methods, which has ushered in a large-scale change in B2B selling and buying experiences. Quick and flexible credit-approval options are a welcomed sight, but there is equal evidence that they are also becoming a necessity, especially for smaller- and medium-size companies. Many distributors are re-learning how they buy, and the days of net terms and payment by check appear to be over.

When most businesses extend net terms to their buyers, small businesses often pay with credit cards — and many end up paying late, turning their net 30 into a net 60 or even longer for them. While some distributors may see this as an accounts-receivable issue, they also can see it as an opportunity. Small-business buyers are continually asking for longer terms. E-commerce lenders have seen that when small businesses are given an option of term, more than 80% choose a term length longer than 90 days. Additionally, 82% of small businesses reportedly fail due to cash flow issues. The vendors that can help distributors manage those issues will increase loyalty, conversions, and average order value.

Distributors and manufacturers of all sizes are realizing they are not banks, so why would they build their own slow credit process and put their sales revenues at risk?

Over the past two years, there has been a growing need for automation, as many employees have worked remotely. Companies are looking for ways to make their employees and businesses more productive and take on less risk. One trend has been in accounts receivable. Distributors and manufacturers of all sizes are realizing they are not banks, so why would they build their own slow credit process and put their sales revenues at risk? Instead, they are looking for e-commerce specialists and B2B lenders that can offer tangible solutions, allowing companies to focus on their true goals: offering superior products and services to their target markets.

Key Insights

Companies who rely on B2B e-commerce to succeed want quicker and easier ways to expand their buying power and flexibility through accessible lines of credit. Many are already equipped to do so. Data compiled by Credit Key during the third quarter of 2021 bears this out, as businesses across all sectors already have in-depth experience using credit to purchase essential equipment.

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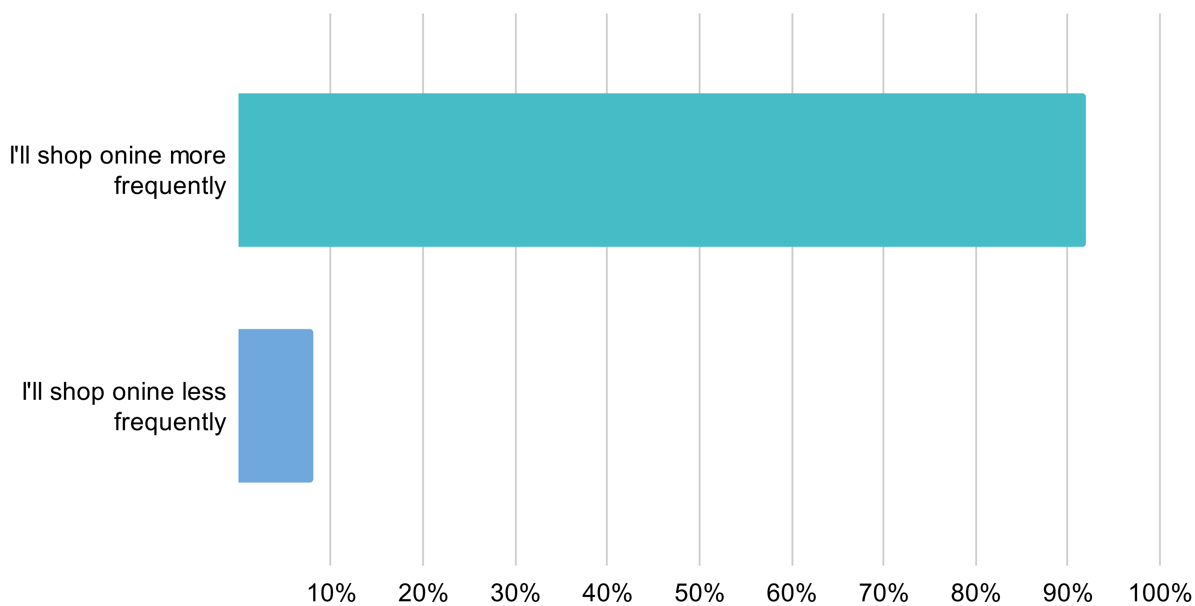
- When asked how important it is to be offered a variety of payment options when purchasing supplies for business, 55.7% of borrowers who responded said it was "highly important," while another 35.1% deemed it "important."
- More than 57% of survey respondents said they used a business credit card for purchases, while another 45.6% reported using a business line of credit. More than 35% said they also use some sort of consumer finance or buy-now, pay-later option.
- When asked what challenges they faced before using services like Credit Key, respondents cited high interest rates (41.8%), limited credit lines (38.2%) and difficulty securing approved financing (32.2%) as the top answers.

Going forward, do you think you'll shop online for equipment and supplies more frequently or less frequently?

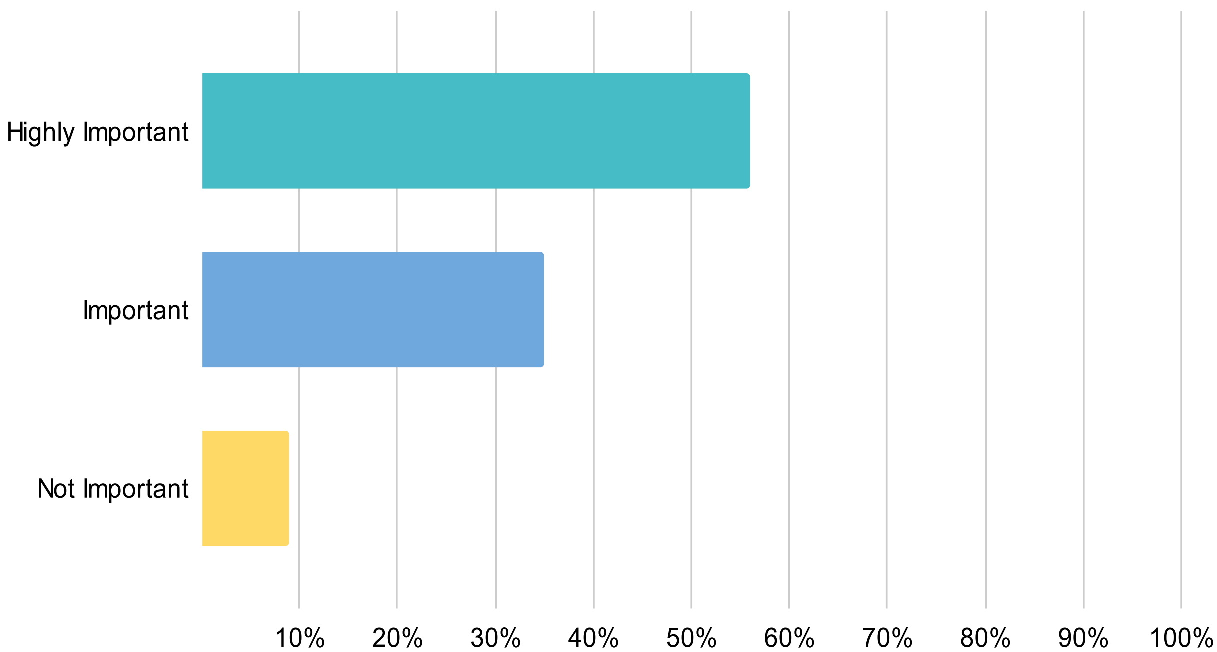


Businesses also want simple processes, the ability to use lines of credit, and to purchase from more than one supplier:

- 30.4% said they want to extend their line to more than one vendor or company, while another 23.2% said the application process for financing needs to be quick and easy. Of those surveyed, just 10% said they "strongly agree" that they are skeptical of new payment and financing options.
- When asked if they are always looking for new financing options that meet their business needs, more than 80% of respondents said they either "strongly agree" or "somewhat agree," showing there is a desire for businesses to easily increase their purchasing power and flexibility.
- When asked how they planned to use new payment/financing options, most respondents said they would alleviate cash flow problems, buy more products or upgrade equipment.

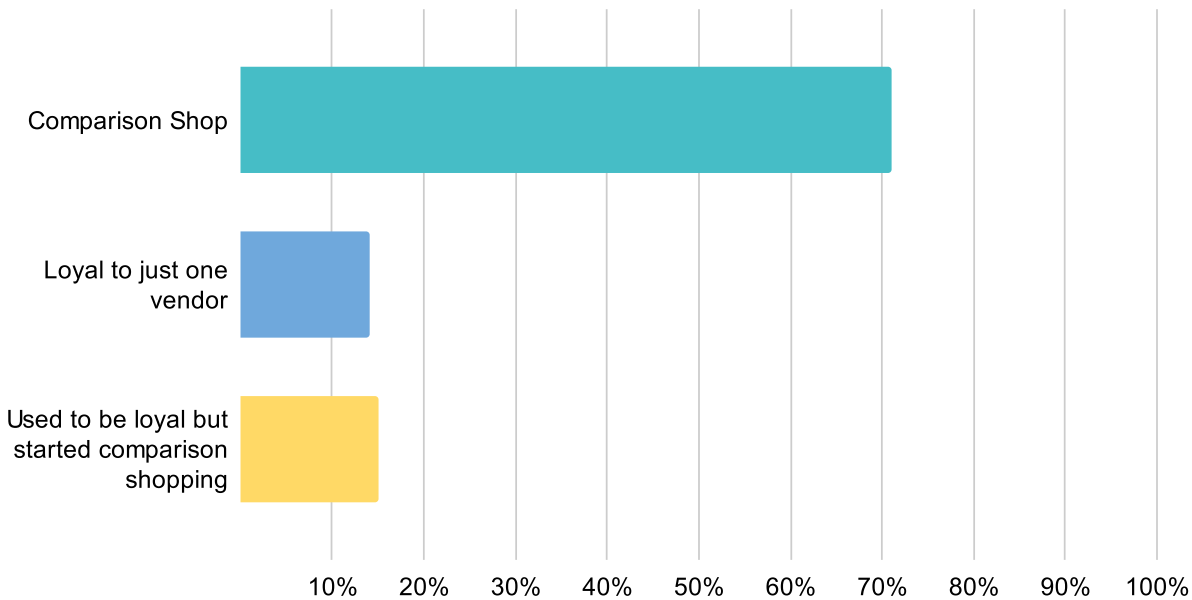
As detailed in Credit Key's "Key Insights in Industrial Distribution" report, B2B customer behavior evolved during the pandemic and is not likely to revert once the worst of the pandemic is behind us. Distributors will need to learn how buyers' circumstances and needs have changed since the pre-pandemic era if they want to grow in an extremely competitive industry. The wholesale distribution industry hasn't just survived the pandemic — it has actually thrived, with many companies reporting record sales and revenues in the shadow of lingering supply chain issues and rising inflation.

How important is it for you to be given a variety of payment options when purchasing equipment and supplies for your business?



As companies have ramped up technology upgrades, customers have gotten used to convenient, digital purchasing options and eschewed traditional, face-to-face commerce based partly on brand loyalty. With so many business transactions occurring digitally since the pandemic began, customers have found a new appreciation for the e-commerce experience. "As a distributor, providing such a digital experience is no longer optional — even as the 'real world' continues to open back up," Credit Key notes in its insights report.

Prior to purchasing equipment and supplies, do you normally comparison shop or are you loyal to one vendor?



In addition, some smaller and medium-size businesses within the distribution industry may feel disadvantaged compared to their more cash-heavy competitors. For these companies — and for distributors already growing — there is an opportunity to increase the amount of purchasing and financing options as customers and suppliers look to stem the tide. Distributors now are pressured to develop more convenient and streamlined ways of fulfilling customer orders. "…many teams have shifted away from the basic 'first in, first out' approach, and have instead adopted more strategic priority fulfillment processes," the report notes. "This shift has allowed distributors to focus on fulfilling COVID response orders above all else throughout the pandemic. Even once the pandemic ends, though, many distributors will likely continue to take this more strategic approach moving forward."

- About 80% of B2B customers want distributors to offer B2C-styled digital experiences, according to data compiled by Credit Key.
- More than 60% of top distributors already offer e-commerce services on their websites, and nearly all top distributors offer mobile-optimized websites.
- B2B customers often complete up to 80% of the purchasing process before they reach out to a vendor. In addition, 64% of B2B customers want the ability to pay online, and 56% expect "an array of payment processing choices."

Conclusion

According to a McKinsey report from October 2020, "distributors with a strong e-commerce offering and digital presence had been better able to navigate the pandemic from the get-go." B2B customers likely will continue to seek out digital-minded distributors. And while distribution companies can be lauded for their customer service acumen, buyers are less likely to need vendors or reps to hold their hand and guide them through the buying process. Self-service buying in many ways has become the norm.

If the worst of the COVID-19 pandemic is truly behind us, then there is an opportunity for distributors to assist customers who may need lines of credit to get the equipment they need to run at pre-COVID capacities. "Those that do offer installment financing and other forms of financial assistance have already experienced overwhelmingly positive results," Credit Key mentioned in its 2021 insights report on the state of the industrial distribution sector. "For many distributors, offering installment financing has led to a 30% increase in conversion rates, as well as a 58% increase in average order value. Providing these options has a positive impact on purchase frequency and overall customer lifetime value, as well." Continued supply chain and inflation issues still pose risks to B2B buyers and sellers. But based on the available qualitative, quantitative, and anecdotal evidence, distributors and manufacturers of different sizes are likely to continue to utilize and rely on e-commerce lenders and B2B credit specialists through 2022 and into the foreseeable future.

Additional Resources

- "Key Insights in Industrial Distribution"
- "Are B2C Best Practices the Future of B2B E-Commerce?"
- "8 Questions Every Distributor Should Answer Before Building an E-commerce Site"
- "Distributor Finance 2.0: The Hottest Feature of B2B Marketplaces"
- "Fighting for Customer Loyalty in 2022"

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MDM's Award-Winning Products & Services for the Wholesale Distribution Industry

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About Credit Key

Credit Key's patent-protected solutions deliver superior business credit, in seconds, at B2B point of purchase. Their proprietary underwriting and decisioning allows for real-time decisions for lines of credit at point of purchase. Credit Key helps merchants increase revenue, lower costs, improve cash flow and deliver a great customer experience.

Credit Key's standalone module overlays the merchant's shopping cart, keeping users on site. Platforms currently supported: Magento, IBM, Shopify, Demandware, Onestop and custom .Net platforms.