



UPS Industrial Buyer Insights APAC Executive Summary



November 3, 2015



Agenda

- Business Issues
- Research Objectives
- Methodology
- What factors drive distributor selection and what are the current needs?
- How is the market changing and how can distributors diminish the threat?
- Insights, Implications, and Potential Actions



Leading the industrial supply market to optimize logistics continues to be a growth opportunity for UPS



Within APAC, the industrial distribution segment has not been a main focus for UPS, and each country has unique challenges.

- The distribution market in **China** is made up largely of mid-size or large distributors, and the logistics market is fragmented, with many local players forcing price competition. Government regulations and limited transportation infrastructure can restrict the ability to distribute supplies, affecting the efficiency and cost of product delivery.
- **Japan** is among the world's largest and most technologically advanced producers of industrial supplies. Considered the creators of “just in time” inventory management, Japan is focused on efficiency and lean management practices.
- Though the economy in **S. Korea** experienced substantial growth for several decades, a slowdown has occurred, making purchasers more cautious and deal-sensitive.

To help distributors grow share and revenue within APAC markets, this study will identify gaps and solutions that will help distributors win the hearts of customers.

Research Objectives

How can distributors differentiate to drive share and product revenue from the industrial B2B segment?



What factors drive distributor selection and what are the current needs?



How is the market changing and how can distributors diminish the threat?



Methodology

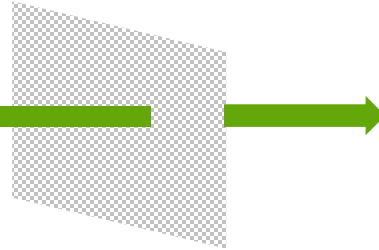
Sample Frame

B2B Panel



- Online research was conducted with TNS May 11-May 22, 2015
- Trusted B2B panels were used (AIP, Empanel, and GMI)
- UPS was not identified for this research

Screeners



- Industry screen
- Past participation
- Age 21-70
- Supply purchaser
- Involved/influence in purchasing supplies

Completes



602

40% mean completion rate

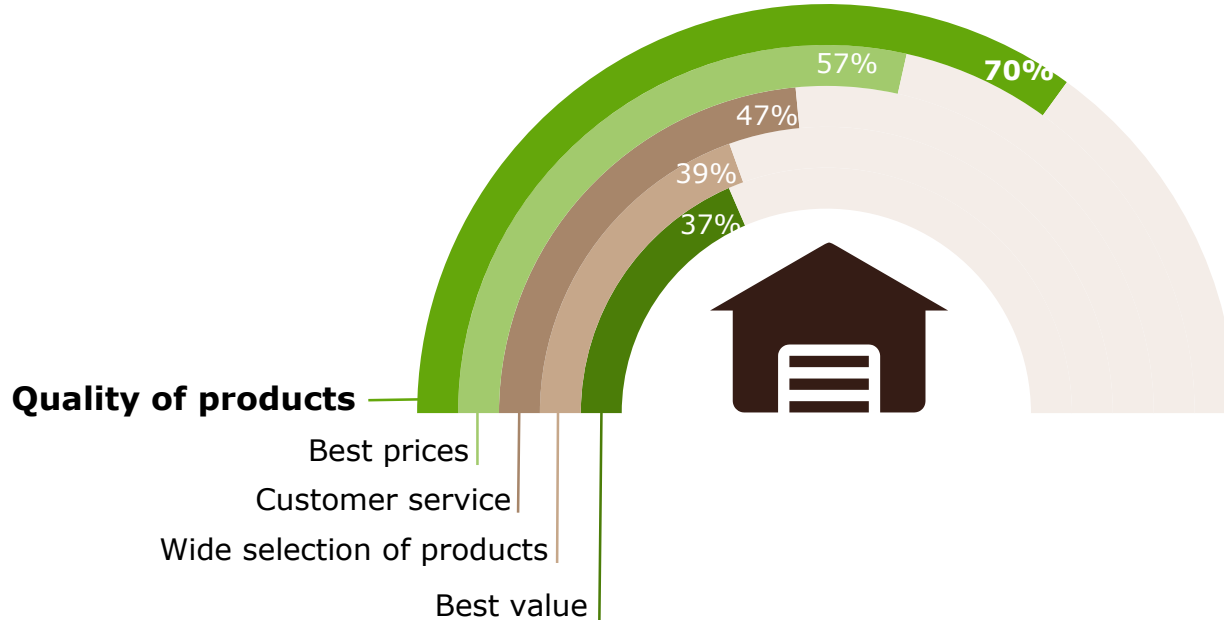


What factors drive distributor selection and what are the current needs?



Quality and good pricing are universal requirements in selecting a distributor, followed by support and selection.

Top 5 factors in the distributor selection process



Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)

Q11. Select the top 5 factor(s) you rely on most frequently when deciding which distributors to purchase from under "Top 5 factor(s)".

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Support and relationship building are also key, though exact needs vary across countries.



*Where country flag is shown, this country over-indexes

Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)

Q11. Select the top 5 factor(s) you rely on most frequently when deciding which distributors to purchase from under "Top 5 factor(s)".

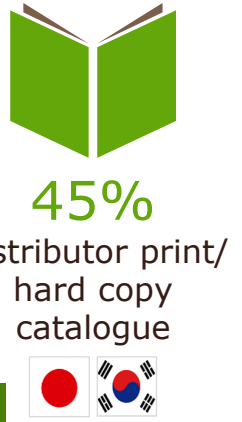
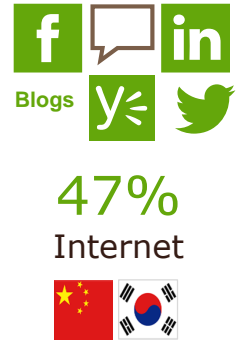
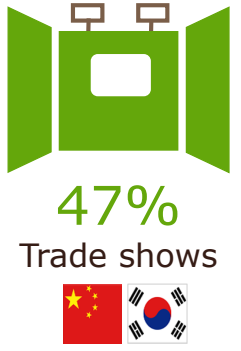
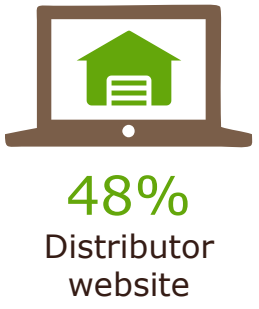
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UPS Marketing Research – UPS Industrial Buyer Insights: China Executive Summary



To select a new distributor, a variety of methods are used including personal and online sources. Each country within the region indicates reliance on some unique methods.

Top research methods used for selecting a new distributor



User reviews/recommendations and word of mouth are also important methods in China and South Korea



*Where country flag is shown, this country over-indexes
 Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
 Q10. Select the top 5 sources you use most frequently to research a new distributor under "Top 5 used".

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Large distributors have an edge in preference over mid-size distributors. Those in Japan equally prefer mid-size distributors.

Preferred Distributor Size

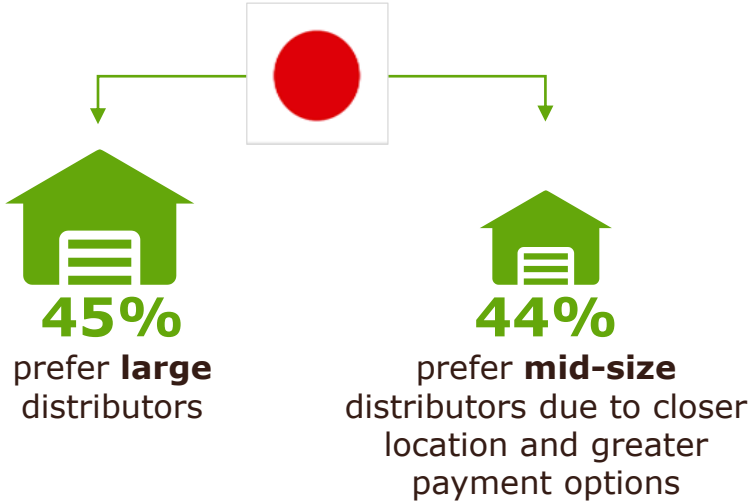
In APAC...



54%
prefer **large** distributors

39%
prefer **mid-size** distributors

Though in Japan...



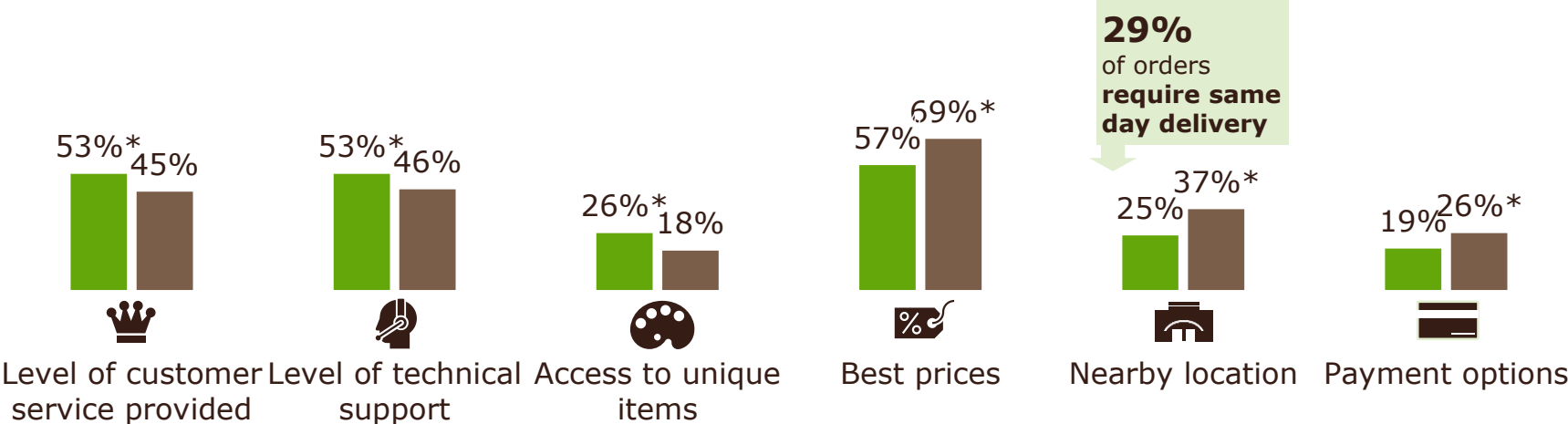
Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q13. From which type of distributor do you MOST prefer to purchase industrial supplies?

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Large distributors are preferred for their high level of support and access to unique items, while mid-size distributors are used for their pricing and nearby location.

Purchase criteria



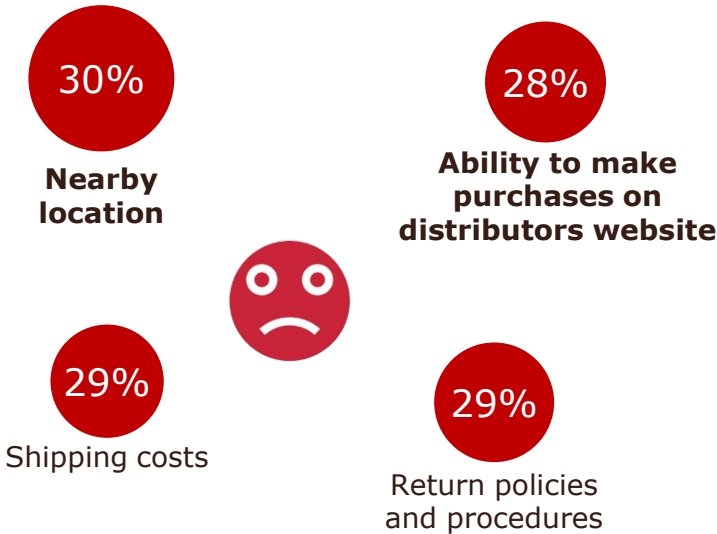
■ Large Distributors ■ Mid-size Distributors

*Significantly higher than alternative at 95%
 Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
 Q14. Select the top 5 factor(s) that are most important to you when purchasing industrial supplies from [SHOW RESPONSE SELECTED IN Q13] under "Top 5 factor(s)".
 Q30. For what percent of your orders do you need same day delivery for at least part of an order?

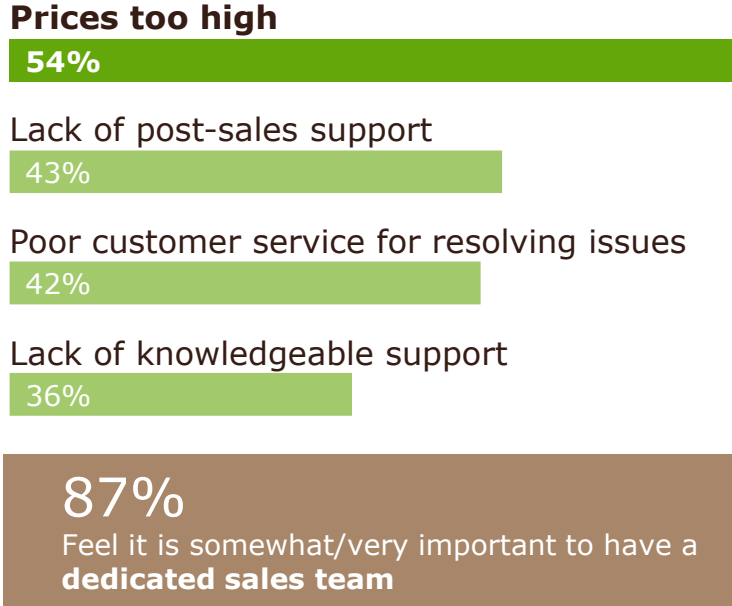


A high level of service is critical to selecting a distributor, but is also a main challenge. Many feel a dedicated sales team is required.

Areas of poor performance



Challenges with Distributors

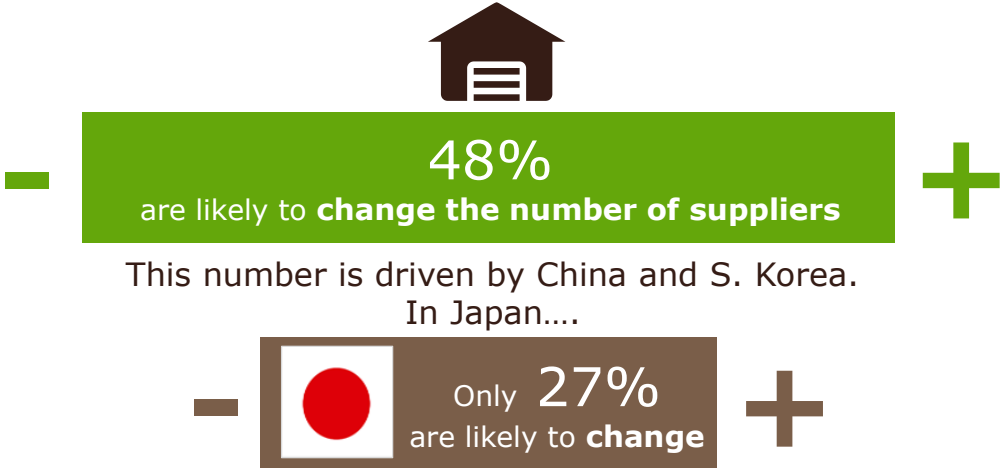


Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q15. How well do your current distributors perform on...?
Q12. Select the top 5 most challenging aspects of purchasing from distributors today under "Top 5 aspect(s)".

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Numerous in China and S. Korea anticipate a shift in the number of suppliers they use, while those in Japan are less likely to make a change.



Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q22. How do you see the number of suppliers you use changing in the next 3-5 years?

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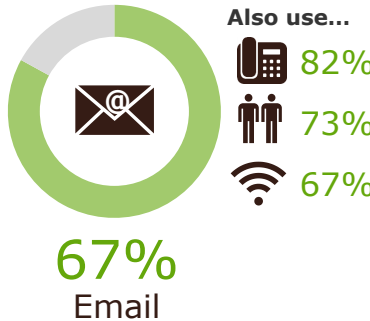
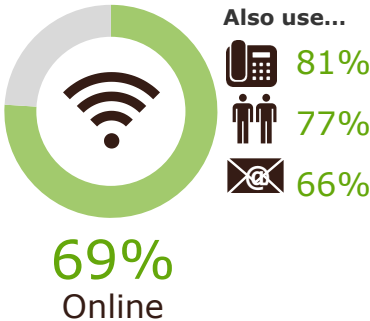
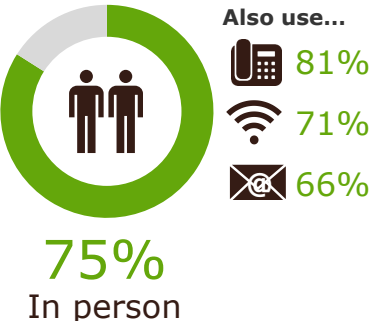
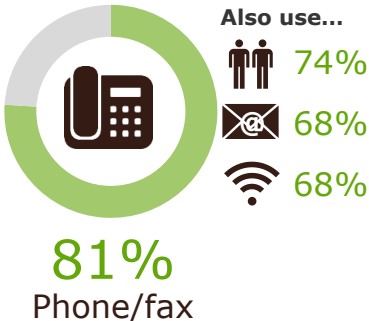


How is the market changing and how can distributors diminish the threat?



While a variety of channels are used for purchasing, methods involving personal interaction are most often used and preferred.

The top methods used for purchasing



52% to designated account rep

46% during sales visit

47% directly from supplier's website

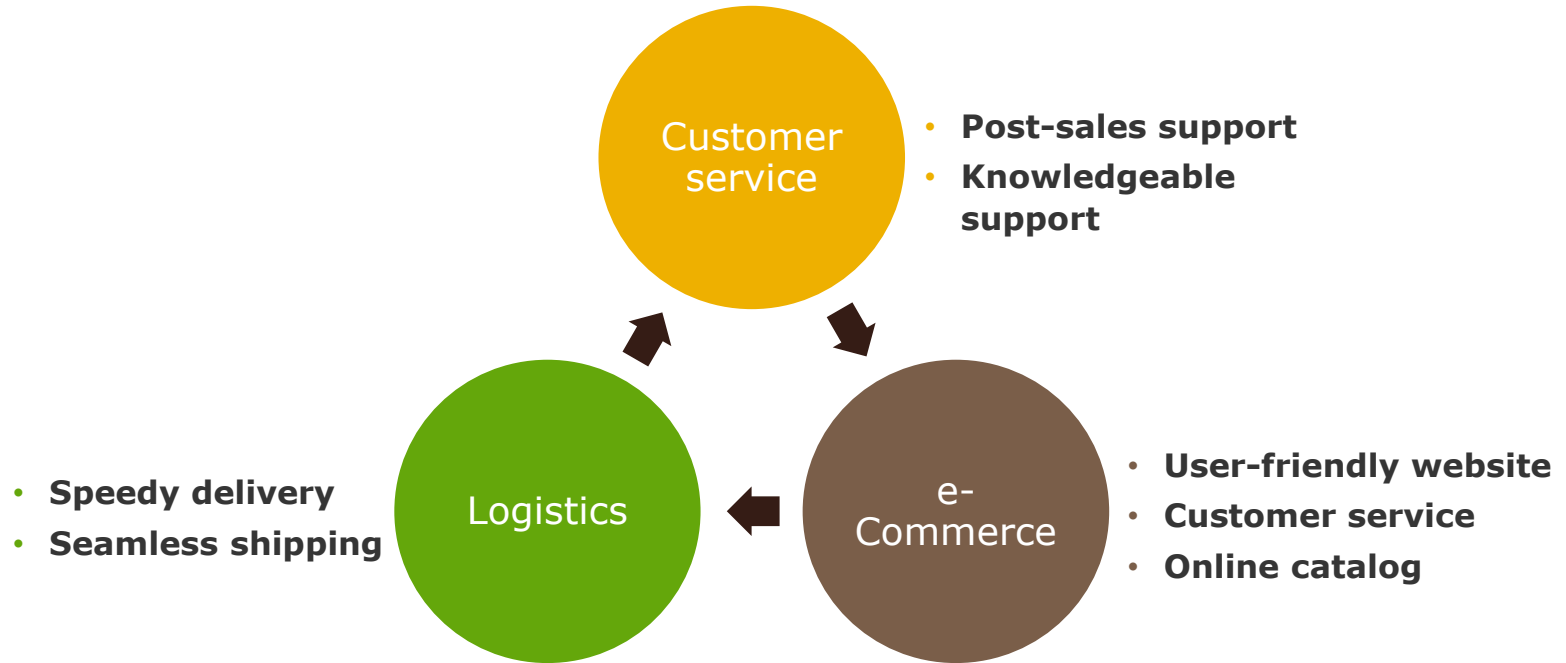
46% to designated account rep

Within most channels of purchase, **contact with an account representative** is preferred.

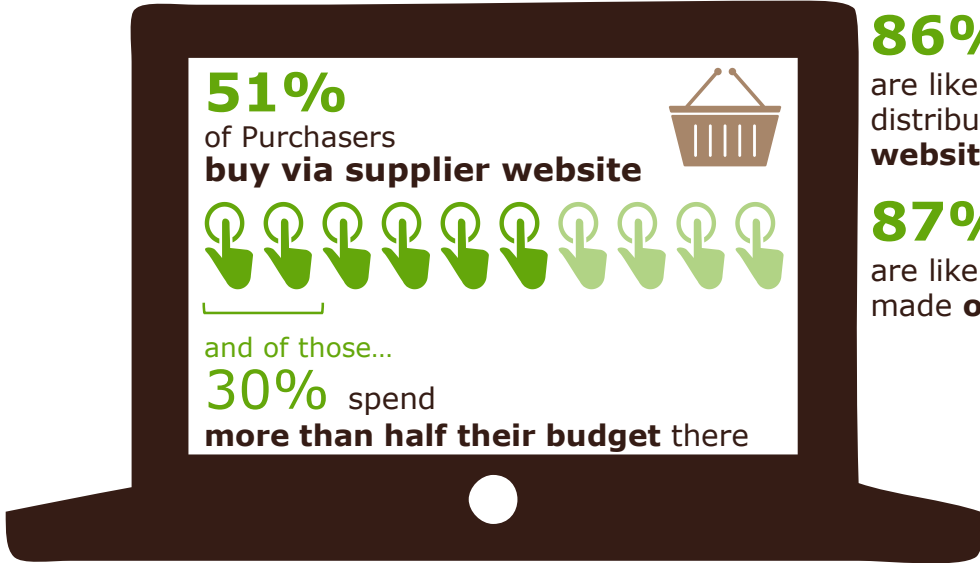
Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
 Q16. Select the top 5 method(s) you use most frequently to purchase industrial supplies under "Top 5 used". Then indicate up to 5 preferred methods under "Top 5 preferred". Your most preferred may be different from what you currently use.



With a wide variety of sources being used, it is imperative that distributors ensure a consistent experience across channels and delivery.



The distributor website is being used to some extent, with many expecting to increase usage and shift spend towards distributors with user-friendly sites.



86% are likely to **shift spend** to distributor with **user-friendly website**

87% are likely to **increase purchases** made **online** or via **mobile**

Though Japan is less likely to order through online (41%), those who are already/intend to purchase online are likely to shift spend and increase online purchases

Those who **don't purchase online** (n=123) find that...

46% ...it's too difficult to **identify / confirm** product or product details

41% ...it's too difficult to **get answers** to product or order-related questions

Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q16. Select the top 5 method(s) you use most frequently to purchase industrial supplies under "Top 5 used".
Q17. Why don't you purchase industrial supplies online?
Q18. Approximately what percent of your annual industrial supplies budget is spent through suppliers' websites?
Q21. If another distributor had a website that you found more user-friendly, how likely would you be to shift more of your spending to that distributor?
Q24. In the next 3-5 years, how likely are you to...?

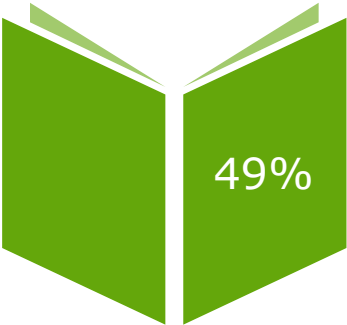


However, purchasers continue to rely on hard copy catalogs due to information clarity and convenience indicating improvement areas for web design.

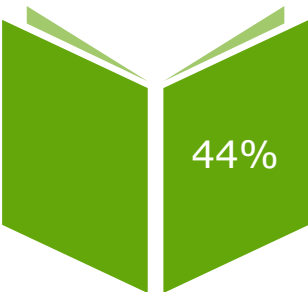
50% (n=301)

use print/hard copy catalog to research new products because...

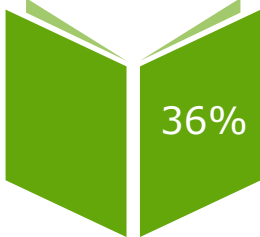
It's easier to identify/
confirm the products I
need



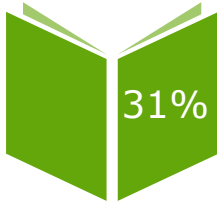
I like the convenience
of catalog(s)



The product images
and visual detail are
more accurate than any
other method



Habit; I am used to
researching products
this way



Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q9. Select the top 5 method(s) you use most frequently to research a new product under "Top 5 used".
Q37. Why do you research new products via print/hard copy catalogs?

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Furthermore, some purchasers are ordering directly from the manufacturer – another trend that will likely increase.

45%
do not purchase direct
from manufacturer

77%
are **likely to start**



55%
currently purchase direct
from manufacturer

94%
are **likely to
increase**



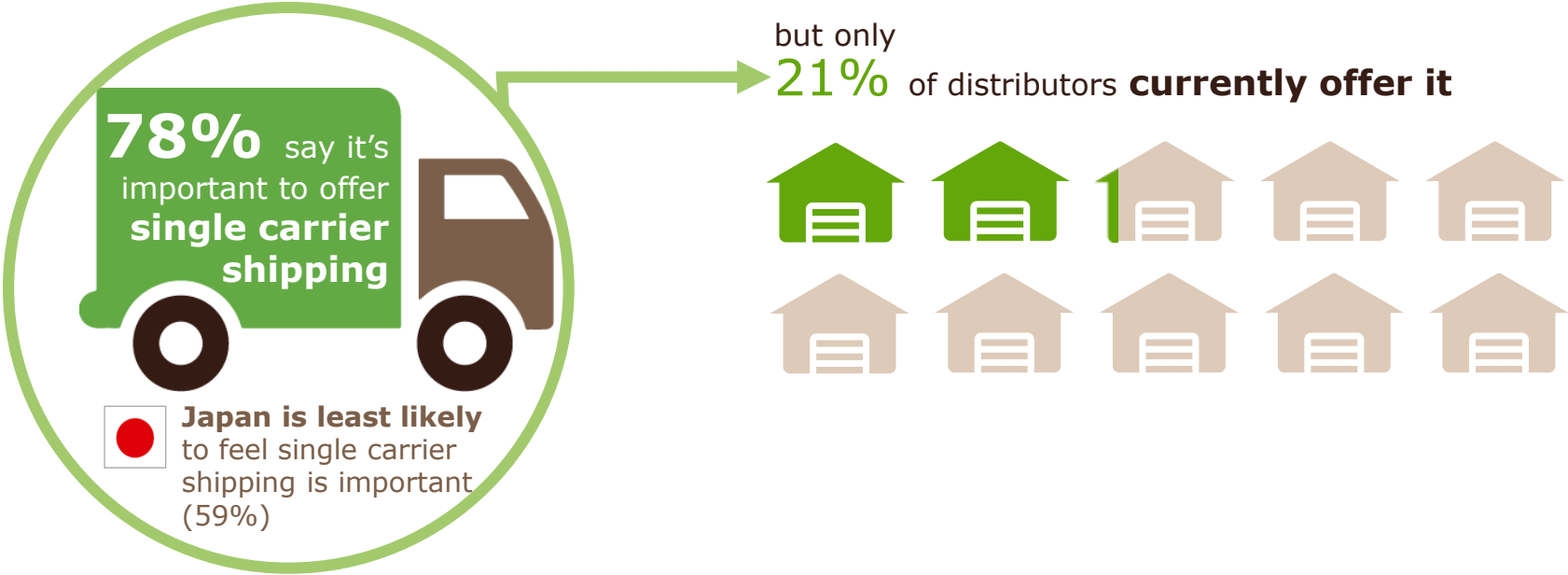
**South Korea is less likely
to purchase direct from
manufacturer (44%)**

Base: APAC (n=602), China (n=201), Japan (n=201), S. Korea (n=200)
Q25. When it comes to buying direct from manufacturers, which of the following best describes your company?
Q26. How likely are you to increase purchasing directly from a manufacturer?
Q27. How likely are you to start purchasing directly from a manufacturer?

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Just over half feel that the offer of single carrier shipping is important, though few currently offer it.



Base: Total Respondents (n=201)
Q28. How important would it be for a distributor to offer a single shipping company to deliver all your small packages and freight using a single provider for scheduling, transportation and billing?
Q29. Do any of your current distributors offer a single shipping company to deliver all your small packages and freight shipments, using a single provider for scheduling, transportation and billing?

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So, where do we go from here?



Key Learnings

- When gathering information regarding new distributors or products, purchasers in the APAC region rely on a mix of personal and online sources.
 - Some differences in the exact resource appear by country:
 - China: trade shows, internet, user reviews/recommendations and word of mouth
 - Japan: less reliant on internet sources, much more focused on sales rep
 - S. Korea: less reliant on in person methods (sales rep or trade show), more reliant on the internet or distributor materials
- In selecting and developing a relationship with a distributor, beyond the necessity of quality products at a good price, purchasers seek out those who provide good support.
 - In part, good support is provided by the sales rep which the vast majority in APAC feel should be dedicated to their account.
 - Additionally, providing good support can build a solid reputation and lead to better reviews/recommendations, which is something that those in China particularly look for.
- With few local distributors available, purchasers prefer to use a large distributor, with the exception of Japan where the preference is split for large and mid-size distributors.
 - Large distributors are preferred for providing superior service and technical support, as well as access to unique items.
 - Mid-size distributors are perceived as having somewhat better prices and more nearby locations, which may lead to faster delivery times.



Key Learnings

- However, purchasers in China and S. Korea indicate an openness to changing the number of suppliers they use.
 - While those in Japan are less likely to shift the number of suppliers they use, they do agree with the region that they are more likely to switch suppliers if offered a more user friendly website.
- To build loyalty and help retain customers, maintaining relationships is critical.
 - Purchases are more likely to be made via an account representative than other, less personal, methods.
 - However, many indicate issues closing the loop with customer service post-sale or when issues arise.
- While personal service is something purchasers look for, a balance of personal and online service is required to grow.
 - Purchasers are already using distributor websites for researching and increasingly use them for purchasing and reviewing new products, as well. They indicate a high likelihood to spend more with a distributor offering a better online experience.
 - Other online sources, such as blogs or review forums, are also widely used and a good place to advertise or interact with purchasers.



Key Learnings

- Additional competition comes in the form of the manufacturer, from whom purchasers are buying directly.
 - Manufacturers are able to provide high levels of technical support regarding their own products. However, distributors can capitalize on their ability to support a variety of products.
 - Manufacturers are also likely to be present at trade shows. This is a key opportunity to interact with purchasers, particularly in China and Japan.
- Overall, in an effort to provide quality products and customer service, distributors must ensure they are working efficiently to remain cost effective.
 - One way of optimizing the distribution process is via single carrier shipping. This is something that many purchasers find important, but few distributors offer.



In a nutshell, distributors positioned with a total solution approach will drive share and product revenue from the industrial B2B market. How, exactly?



Insights, Implications, and Potential Actions

Insights	Implications	Potential Actions
<ul style="list-style-type: none">• Purchasers are looking to diversify their distributor base, even looking outside their current base to online providers. This is less likely in Japan.• Purchasers are looking for dedicated teams to provide a more personal level of service.• Personal relationships help to build loyalty.	<ul style="list-style-type: none">▪ Distributors who do not build personal relationships with their customers may see customers moving more spend to competitors.	<ul style="list-style-type: none">▪ Review distributor differences in Japan to better understand what is working.▪ Distributors should provide more personal service through sales reps and customer service – promote personal interactions over order taking.▪ Close the loop on website purchases with a personal follow-up (email or phone call to ensure all needs were met).
<ul style="list-style-type: none">• Customer service must not only be personal, but also provide technical support. This is an area where international distributors excel.• Purchasers are moving more towards purchasing directly from manufacturers who are more capable of providing tech support for their individual products.	<ul style="list-style-type: none">• Customer service that is unable to provide adequate tech support will dissatisfy customers.	<ul style="list-style-type: none">▪ Consider additional training for customer service to ensure they are able to answer questions post-sale.▪ Accentuate the ability to provide support on a variety of products, instead of just one manufacturer’s product.
<ul style="list-style-type: none">• Speedy delivery is a requirement, with mid-size distributors best equipped to deliver quickly as they have regional coverage and more local operations.• Same day delivery is in high demand, with few delivering.	<ul style="list-style-type: none">• Those distributors who are able to provide products faster will be preferred.	<ul style="list-style-type: none">▪ Mid-size distributors should capitalize on their perceived speed capabilities.▪ Review more ways of delivering efficiently to provide products with speed.▪ Consider integrating systems to ensure that products are in-stock and reduce wait time from order to delivery.

