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D2C: The Upside of Going Direct



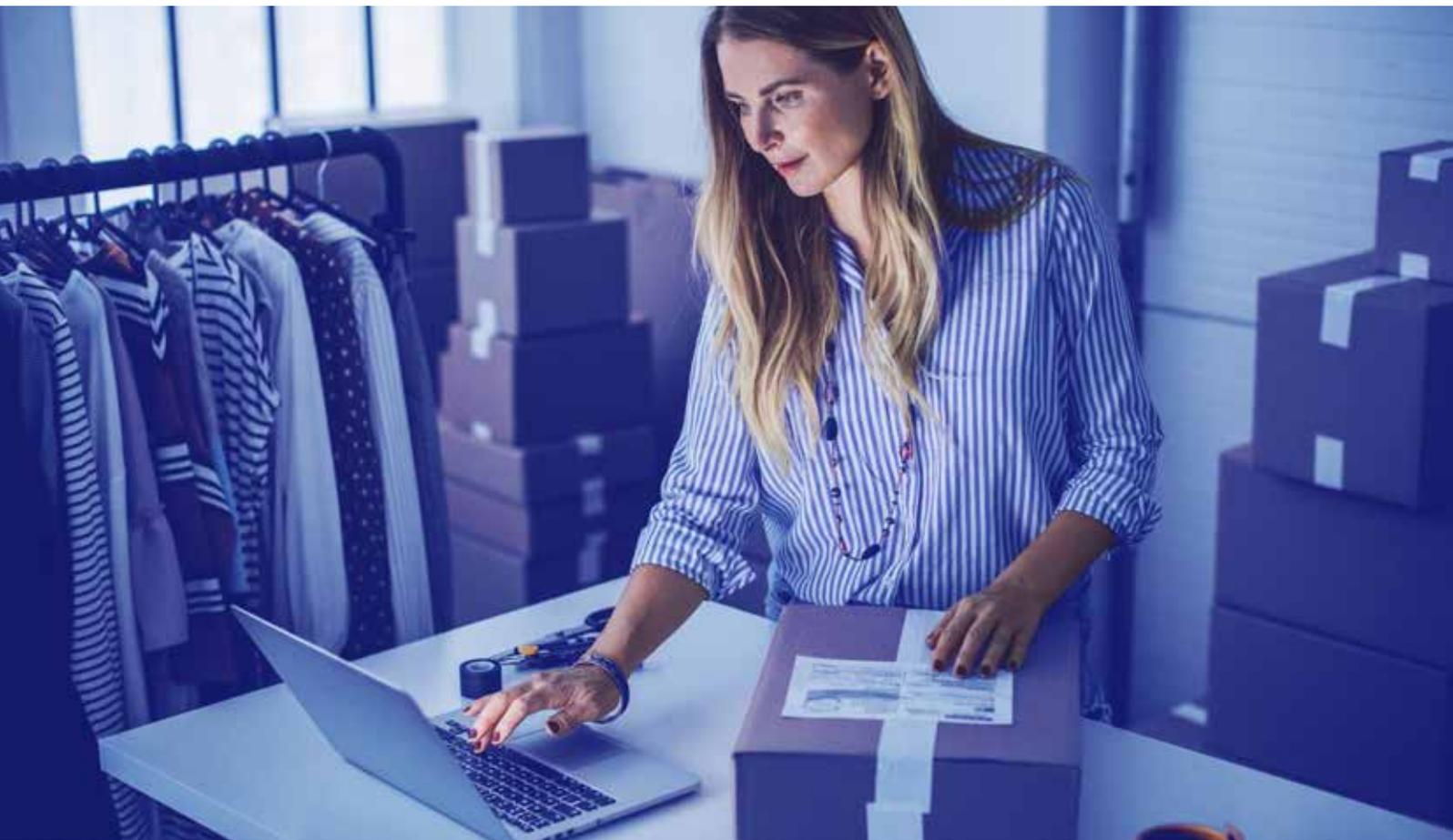
D2C: The Upside of Going Direct

Today's world is hyper-connected and requires companies to deliver exceptional customer experiences both online and offline. For manufacturers to remain competitive, they must have complete control of their brands — from initial product ideation to consumer delight — in order to provide brand consistency, collect customer feedback and monitor buying behavior.



Direct-to-Consumer (D2C) is an e-commerce marketing strategy that is disrupting traditional retail, where manufacturers sell their products directly to consumers via digital channels, effectively taking out the retailer middleman.

However, most brand manufacturers will not want to impact their current manufacturer-retailer/distributor relationships (as in with marketplaces like Amazon), because they would risk losing reach and exposure. If this is the case, how can brands safely embrace D2C?



D2C Past: A Brief History

In the past, going direct to manufacturers was the way of life for consumers. For example, when people needed cheese, they just went to their neighborhood cheesemaker. Soon marketplaces were set up to sell a variety of goods, resulting in the manufacturer-consumer relationship being replaced with a retailer-

D2C Present: Going Direct is Outperforming Traditional Commerce

Fast-forward to the digital age, where finding information or transacting on a purchase can be done quickly and easily online. Technological advances gave birth to e-commerce, where the playing field is leveled, and start-ups/small businesses can go head-to-head with big, established players.

More and more brands are turning to D2C because it works:

- / A Brigg report says that 87%¹ of manufacturers rate D2C as highly relevant to both products and consumers, with more than half of them already on their way to going direct
- / Forrester reported that 81% of consumers plan to purchase from D2C brands
- / Forbes predicted that D2C will grow by 71% in few years' time²

One small business that braved going D2C is the company Dollar Shave Club.³ They were able to do the impossible against industry giant Gillette - snatching 52.5%⁴ of market share in 2015, and catching the attention of Unilever, which purchased the company for \$1 billion. Theirs is one of the best e-commerce success stories that brands can take inspiration from.





D2C is also gaining traction with industry giants like Nike. The sports manufacturing behemoth recently introduced a campaign called Consumer Direct Offense.⁵ It's an aggressive approach to accelerate innovation and product creation, which is projected to register 80% growth by 2020.

Amazon's Dominance

44%

of total ecommerce sales

Consumer Demand

52%

of consumers visit manufacturers' websites with intent to buy

Brick and Mortar Retail Channels are Shrinking

9,000

retail stores closed in 2017

Digitally Native Brands are Taking Market Share

-16

percentage point drop in market share for Gillette

See how a D2C approach can outperform traditional commerce strategies:

| Dimension | Traditional | | Digital |
|------------------------|-------------------|---|--------------------------|
| Reach | Finite | → | Unlimited |
| Personalization | Mass market | → | Personalized |
| Loyalty | Basic | → | Advanced |
| Access | Limited, periodic | → | Comprehensive, real-time |
| Pricing | Partial control | → | Full control |
| Speed | Slow | → | Fast |
| Merchandising | Limited control | → | Full control |
| Assortment | Limited | → | Full |
| CAPEX | High | → | Low |
| Overhead | High | → | Low |

*FFC: Harnessing the Power of Going Direct 2018⁶

It's clear that capitalizing on today's available technology to develop a D2C strategy could be beneficial to businesses – both from a financial and operational standpoint.





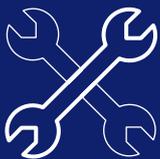
Key Benefits of Going Direct

The D2C model offers competitive advantages over traditional retail strategies. The following are the benefits of adopting a D2C approach:



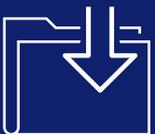
Increased control over brand messaging and consumer engagement

The traditional manufacturer-retailer relationship leaves little room for manufacturers to control their brand. While they do have control over packaging and other marketing activities, once the product is handed over to retailers, manufacturers can no longer influence the sale, build a relationship with consumers or gather data. Manufacturers may spend a lot on advertising, but it's ultimately the retailers that present the product to the consumer.



More opportunities to innovate

Most retailers follow a set standard when selling. They often shy away from selling products that are new and have no track record of being a "hot-selling" item. Manufacturers are then restricted to producing what retailers want. D2C allows manufacturers to launch new products at a smaller scale, test with a selected demographic and gather feedback. This way, manufacturers can understand what their customers want, producing what sells, and improving where applicable.



Direct access to customers and their data

Direct contact with customers through each stage of the buying process — including post sales — allows the collection of their email addresses, location, social media profiles, purchasing preferences, etc. Knowing their buying behaviors helps manufacturers optimize their existing products and, possibly, even create new product lines.





Gain higher margins

Manufacturers realize higher margins by eliminating the middlemen (e.g. retailers and distributors) from the picture. A middleman selling their products means they only make profit on the markup from cost to gross sale. D2C allows brands to sell products at the same price as retailers, positively impacting their bottom line.



Stronger brand loyalty

Manufacturers have more autonomy in terms of providing their customers with better service and support with D2C. They can exploit their connection with consumers to establish strong relationships and drive retention through targeted marketing campaigns.



Expanded market opportunities

Manufacturers are no longer restricted by geography when selling D2C. They can go global overnight by just selling to the right customer segments, in the right market.



The Surprising Impact of D2C on Retailer Relationships

Manufacturers may fear that attempting a D2C strategy may alienate their retailers. There is a well-known, though unwarranted, apprehension that having already secured their space with a retailer, manufacturers who go direct will, somehow, compromise their relationship with the retailer and impact their market share.



According to Forrester, research finds that 54%⁷ of manufacturers who sell direct have seen growth in sales via channel partners, as they redirected some of their consumers to retailers for order fulfillment. More notable figures from the research include:

- 14%
 of manufacturers reported that their D2C strategy enabled them to test the success of newer products before offering them to retailers
- ~50%
 of manufacturers said that D2C sales helped improve brand awareness, boosting leads and sales for channel partners
- 27%
 of retailers said they were able to focus on items that yield the highest profitability while letting the manufacturer fulfill orders for lower-volume products

These findings indicate that going direct is a win-win for both manufacturers and their retail partners.

The Challenges of Going Direct

If the numbers show that D2C is the way to go, then how come not all manufacturers are headed that way?

Technology requirements and process improvements

Going direct requires new technology upgrades or implementations and operational processes need to be streamlined. To effectively manage a D2C strategy, new technology platforms and processes are necessary, from product information management, order fulfillment and logistics to customer service.

Order management and customer service

Not only will inbound calls spike when selling direct, but the order management process is vastly different and it needs to be optimized to ensure it can accommodate the influx of orders and returns.

Product information management

Understanding how rich product content contributes to D2C success is just the first part. The next part includes manufacturers having the ability to manage and distribute accurate, complete and consistent across product information across channels. Often, they source product data from multiple sources and rely on manual processes. This leads to inaccuracy and inefficiency.



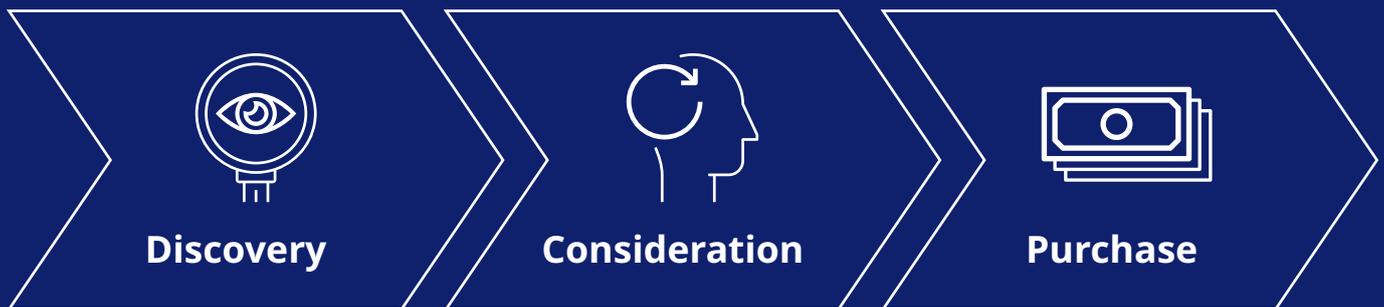
To address this issue, they must have a tried and tested Product Information Management (PIM) solution. A PIM is an automated solution that can help manufacturers simplify and streamline their product content management process – from onboarding to publishing across channels. As a centralized repository, it helps eliminate product data silos and encourages team collaboration.

- A PIM solution enables manufacturers to:
- / Improve operational efficiency
 - / Deliver exceptional product experiences
 - / Increase sales
 - / Reduce returns
 - / Encourage brand loyalty



The Cornerstone of D2C Success

Product content is the cornerstone of a successful D2C strategy. To be successful, manufacturers must understand where the consumer is in their journey. Beginning with product discovery, they must offer



Discovery

Awareness is on top of the marketing/sales funnel. To get consumers to notice a product, a frenzy of strategic activities, like campaigns, is set in motion. This usually includes the creation and distribution of ads, blogs, videos, webinars and other marketing content.

Consideration

Product content is very crucial under this stage, as customers have lined up their prospects. To help them choose, they dig deeper for product-specific information. And because they can't physically touch or try on products, they rely heavily on detailed and accurate product content. It's imperative for brands to provide them with educational and rich product content (e.g. images, videos, customer reviews, testimonials, case studies, etc.) with added value. What do they offer that the competition doesn't? (e.g. delivery options, hassle-free return policy, etc.). Doing so minimizes the possibility of product returns.

Purchase

"Bought" doesn't necessarily mean closed sale. In fact, at this stage, a customer can still change their mind and return the product. To reinforce their decision and ensure they won't have "buyer's remorse," supply them with additional information, such as complementary offerings (cross-sell), support and services, promos and deals, how-to guides, etc.

The Future of D2C

With success stories like Dollar Shave Club, more companies have gone direct. While D2C proves to be beneficial to manufacturers, it doesn't hurt to look forward to seeing what's in store for D2C companies.

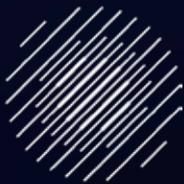
- / Will consumers continue to promote D2C companies?
- / Will retail have its own evolution and turn things around?
- / Is D2C here to stay or is it just temporary?

D2C suddenly being the hype is anything but random. The reason D2C companies are successful now is because they can cater to the unpredictable needs of today's consumers. Whether D2C runs out of style, the important thing is for manufacturers to always consider the needs and wants of consumers — today they're demanding personalized experiences. It is not a question of whether D2C as a business model will continue to succeed; it is a question whether manufacturing companies can continue to use the D2C model effectively and scale well into the future.



Resources:

- ¹ <https://www.bringg.com/blog/industry-trends/cutting-the-middleman-the-growth-of-direct-to-consumer/>
- ² <https://www.forbes.com/sites/forbesinsights/2016/06/07/how-leading-brands-are-winning-the-direct-to-customer-conversation/#4aad00764fbd>
- ³ <https://allgoodtales.com/brand-story-hero-dollar-shave-club/>
- ⁴ <https://www.wsj.com/articles/gillette-bleeding-market-share-cuts-prices-of-razors-1491303601>
- ⁵ <https://news.nike.com/news/nike-consumer-direct-offense>
- ⁶ http://www.fitforcommerce.com/wp-content/uploads/2018/10/FFC_webinar-Harnessing_the_Power_of_Direct-Oct2018-final.pdf
- ⁷ <https://www.fidelitone.com/blog/a-manufacturers-guide-to-direct-to-consumer-d2c-sales>



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About ContentServ

ContentServ enables retailers and brands to develop the groundbreaking product experiences of the future by fully exploiting the potential offered by advanced technologies. Its vision is to make the daily lives of marketers and product teams easier by providing them with a sophisticated, complete, business-focused platform emphasizing time to value.

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