Going direct in the digital age

ORGANIC

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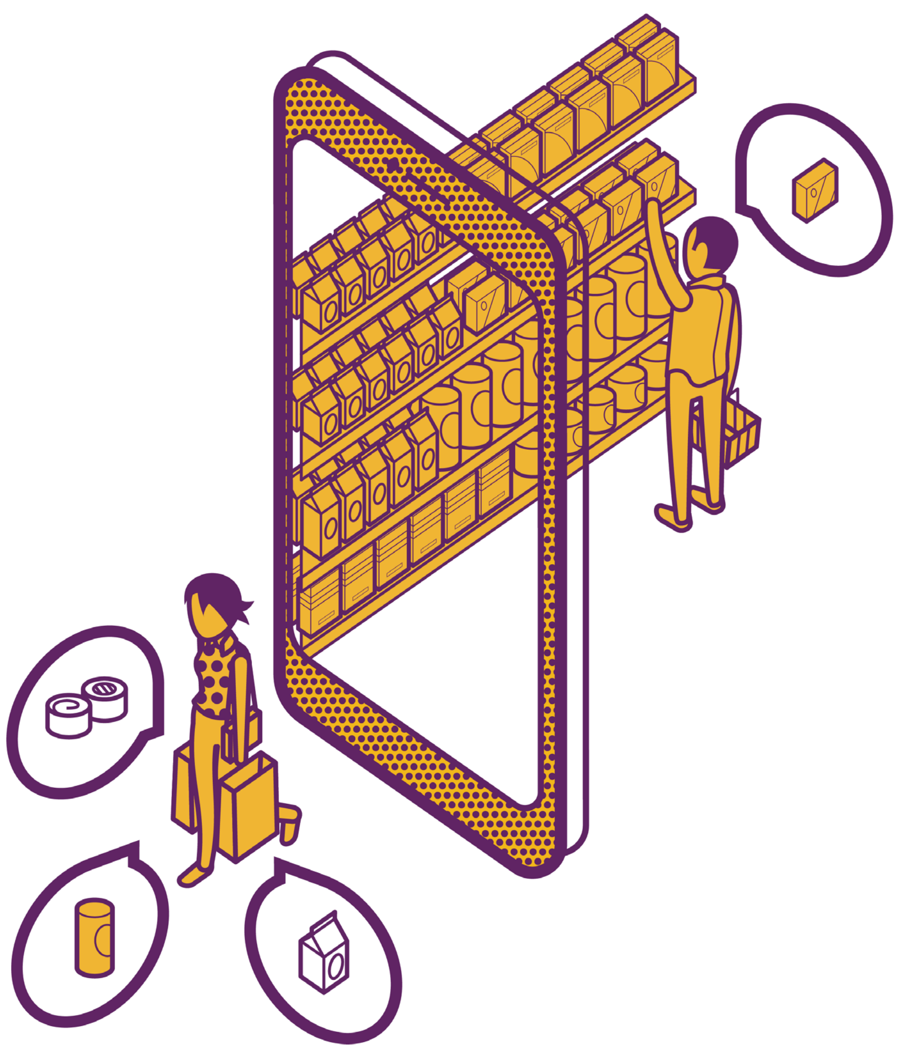
Introduction.

As the retail landscape continues to evolve, the direct to consumer (D2C) business model is burgeoning. The traditional retail model has always seen brands using intermediaries to sell their products to customers via retailers, high street stores and distributors, but D2C means brands are now bypassing these intermediaries to take greater control and form a direct relationship with consumers.

From 2016 to 2019, D2C ecommerce grew at three to six times the rate of overall ecommerce sales. In 2020, US D2C sales are forecast to grow by 24.3% (compared to 13.2% for overall ecommerce sales) as more and more brands seek to form direct customer relationships via their own platforms, social selling, and platforms such as Amazon and eBay.[1]

As multiple D2C success stories have demonstrated, both emerging and established brands can benefit from this model. Indeed, the advantages of a D2C channel are all the more apparent owing to the impact of COVID-19, brick-and-mortar store closures and potentially lasting changes in consumer behaviour.

This white paper will explore the D2C opportunity in detail, examining the steps brands can take to directly reach their customers in a changing retail environment where digital prevails.



1. https://www.emarketer.com/newsroom/index.php/us-direct-to-consumer-ecommerce-sales-will-rise-to-nearly-18-billion-in-2020/

The rise of D2C.

D2C has experienced tremendous growth in the last three years, but the model itself is not new. **The past decade has seen the emergence of more than 500 D2C start-ups** which have collectively raised over $3 billion in venture capital. Perhaps most well-known among them is California-based personal grooming brand Dollar Shave Club, which delivers its products direct to customers via mail and was acquired by Unilever for $1 billion in 2016.

Entirely digital and self-sufficient, digitally native vertical brands (DNVBs) such as Dollar Shave Club dominate the D2C landscape. Other examples include detox brand Bootea and monthly beauty subscription service Birchbox.

However, it is not just DNVBs which are taking advantage of the D2C approach; brands such as Apple and Disney have combined traditional sales and distribution channels with D2C channels to great effect.

Nike is yet another example of an established brand that has reaped the benefits of a D2C strategy. The sportswear giant commenced its 'Customer Direct Offense' in 2017, ramping up its innovation pipeline, editing its product catalogue to

offer an improved selection of its best-performing styles, and enhancing its digital efforts with mobile as the primary channel. Nike has since seen its stock increase by more than 73%, while revenues soared to $10.7 billion with digital up 42%.[2]

There are a number of factors which have contributed to the rise of the D2C business model:

- Fragmented markets and the decline of the high street
- Consumer choice fatigue
- An increasingly complex consumer journey
- Higher consumer expectations
- Increased competition caused by globalisation of the market

In addition to the above factors, COVID-19 has acted as a further catalyst for change when it comes to brands going down the D2C route, as they work to negotiate the suspension of offline retail, limited distribution and changed consumer behaviour during and after the pandemic.

2. https://footwearnews.com/2019/business/opinion-analysis/nike-dtc-competition-adidas-under-armour-digital-sales-1202845517/

The D2C opportunity.

For brands who are considering a D2C approach, the stage is already set. It's a tried and tested model which has the potential to bring a number of opportunities and benefits:

1. **Increased revenue** - D2C empowers brands to establish and own a direct connection with their customers, boosting engagement and conversion rates through owned ecommerce channels.

2. **Speed** - Brands can quickly establish a presence and scale up business, particularly where higher growth markets are concerned.

3. **Better margins** - There is no longer an obligation to outspend the competition for superior in-store positioning and promotions through pricing or trade spend, or to negotiate pricing with intermediary retailers for slim margins.

4. **Greater market reach** - If they are marketing and selling their products via a D2C approach, brands are not constrained by location or their distributors' reach. They can go global, with total freedom to access the fastest growing markets and the most promising customer segments.

5. **Improved customer understanding** - Digital tools and platforms can be used by brands to obtain comprehensive and highly valuable customer data. This data is the key to gaining a better understanding of customers, their preferences, and path to purchase. Brands can use the data to target high value customer segments, while particular problems or 'pain points' in the customer journey can be addressed.

6. **Strengthened customer relationships** - With valuable customer data at their disposal, brands can use this understanding of their customers and their behaviour to deliver an improved customer experience, forging a deeper connection with their customers and securing greater lifetime value.

7. **Reduced capital expenditure** - As has been shown by so many successful D2C brands, the model does not require the development of brick and mortar stores. While it is of course vital that brands invest in their digital channels, the physical store is an area where brands can significantly limit their capital expenditure.

8. **Product ownership** - The absence of third party intermediaries means brands are free to offer a full assortment line of products without being restricted by retailers.

Making D2C work for your brand.

Bringing a D2C channel into the revenue mix can pay dividends for brands. The opportunities are there for the taking, but these will vary in accordance with the type of brand and its maturity. Emerging or digitally native brands should expect to achieve different results than an established brand which as yet has no D2C channels. Therefore, when looking to go D2C, brands must first establish their aims and develop their D2C strategy accordingly.

To be successful in adopting a D2C approach, brands should consider the following points as part of their strategy:

- **Business model**. Brands need not feel obliged to sell in the same way that they have traditionally sold, or even to sell the same product. Today's consumers are open to new business models and new ways of engaging with brands, evidenced by the rise of thriving subscription-based businesses like Netflix and Birchbox. The subscription ecommerce market was worth $57 million in 2011; by 2016, this had increased to $2.6 billion.[3]

- **Getting to know customers and their community**. Successful D2C brands are building meaningful connections with their customers. It is crucial to gain an understanding of customers' values, their aspirations and the communities they are a part of. For example, Bootea began by partnering with TOWIE stars to effectively engage its target audience and generate sales.

- **Brands need a niche**. Customers are faced with more choice than ever before and this can lead to choice fatigue. D2C sleep product brand Casper chose to limit this choice, engineering one affordable mattress which was marketed as being 'just right'. The simplistic approach was a success; in the two years following its 2014 launch, the brand made $100 million in sales.

- **Specialising to win in search**. Casper is an excellent example here too. The brand's SEO strategy drives 378,000 site visits per month, having positioned

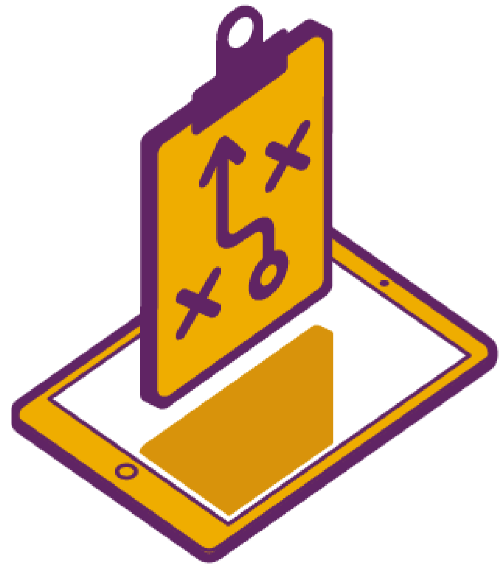
3. https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/thinking-inside-the-subscription-box-new-research-on-ecommerce-consumers

itself as a specialist in its field by creating custom landing pages for every possible keyword people could be using to find the bed for them. By demonstrating its expertise, Casper has been able to win Google's favour.

- **Aim for omni-channel**. The modern consumer journey is not linear. The customer is in charge and brands cannot dictate the channels through which they serve their customers. What brands can do, however, is ensure they are delivering on their brand promise whenever, wherever and however their customers demand it.

- **Getting comfortable with data**. Cost, ROI, conversion rates, cohort analysis and attribution; data will enable brands to understand when and where to deliver on their brand promise, and to know where their customers are. But in exchange for customer data, brands must also be sure to offer true value in return.

- **A marketplace strategy**. The dominance of marketplaces like Amazon and eBay should not be overlooked.



Experts in driving engagement and converting sales, more than 50% of UK online sales happen here. Brands taking the D2C route must navigate these marketplaces and find ways to control their brand experience.

The top three:

- **The right skills**. In-house skills are essential for brands but the right agency can be critical too. The digital landscape is not static. As it evolves, it is vital to have the right people in place.

- **The right technology**. Brands must ensure they are equipped with the right technology stack to match their internal requirements and budget. This too can change as brands scale up, and brands will need to consider how much and when to invest in particular platforms.

- **Get to market fast**. The most successful D2C projects are those which get to market fast - usually in 30, 60 or 90 days - with a simple offering.

Digital tools for going direct.

It is essential to have the right digital platform in place to pursue a successful D2C approach. Shopify makes it easy for brands to establish a direct ecommerce capability, allowing businesses to create a website and use its shopping cart solution to sell, ship and manage products. As a Shopify partner, Organic can bring you the right skills and the right technology to get to market fast and make your brand's vision for a D2C ecommerce site into a reality.

Organic worked with Kraft Heinz to provide an effective response to the COVID-19 crisis, after the brand found itself hampered by logistical issues and supermarket restrictions. Kraft Heinz needed to move quickly to ensure consumer needs for its essential products could be met, and Organic helped to get the brand's first ever D2C channel up and running within just two weeks.

To give Kraft Heinz the capability to deliver food bundles direct to its customers, Organic used Shopify Plus. As a platform that is built with change in mind, its strengths include:

- **Deep checkout customisation to improve user experience**
- **Easy internationalisation for businesses that are scaling globally**
- **Large ecosystem of technology partners and integrations**
- **Scalability and reliability thanks to its cloud-based infrastructure**

Using Shopify Plus meant the backend functionality was ready to go, allowing an enhanced focus on user experience and integrations with payment gateways and other systems. Kraft Heinz benefited from a robust and simple system, supported with excellent tutorials and learning materials which meant Kraft Heinz employees could quickly become familiar with operating the site. The site was built to be extensible too, to ensure adaptability to evolving requirements.

ORGANIC

info@theorganicagency.com

LONDON
Hogarth House
136 High Holborn
London
WC1V 6PX
iPhone: 020 7099 6737

EXETER
Southernhay Studios
Southernhay East
Exeter
EX1 1AP
Phone: 020 3745 2000