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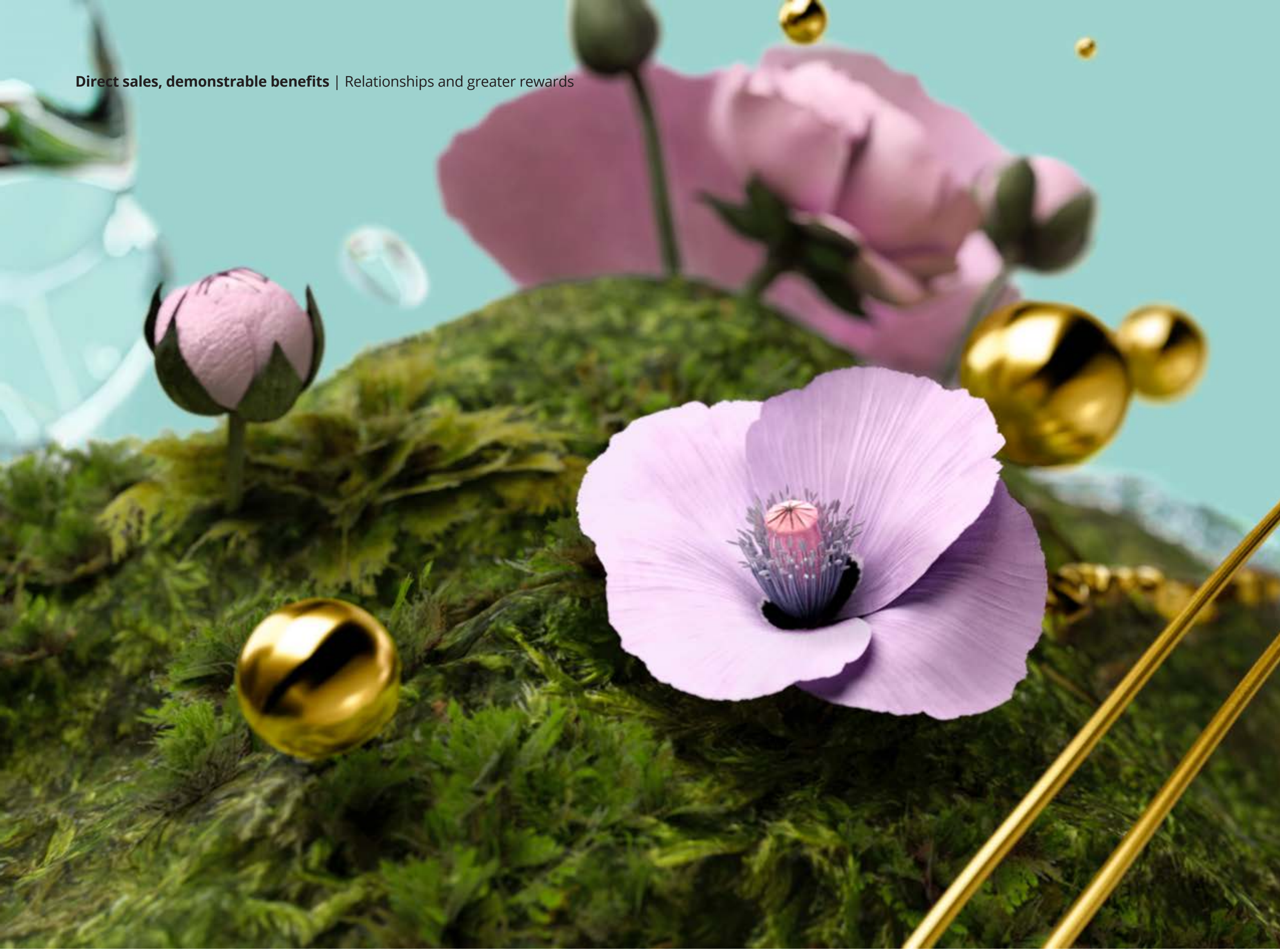
Digital

Direct sales, demonstrable benefits

When buyers deal with brands, the result is relationships—and greater rewards



Not long ago, buying consumer goods "straight from the source" meant either that you lived near the manufacturer—or that you were willing to pay a premium. Bringing goods to where people bought them was what retailers were for. Now digital commerce, mass customization, and advanced delivery methods have reduced many of the physical barriers to direct-to-consumer (D2C) buying, and partly as a result, consumers' demand for buying things that way is on the rise.

But there's more to D2C than taking and fulfilling orders. It also requires building mutually rewarding customer relationships that emulate or even surpass the ones many retailers have with their customers. That means it's time to take a fresh look not only at whether D2C can work for you, but also what's necessary to make your company capable of doing it well. Companies that set out to explore this sales channel with old ways of doing business may find the barriers they face now are internal.

Why a new approach—and why now?

Where is D2C activity heating up? In a recent Deloitte study, more than one-fifth of consumers said they had purchased merchandise online direct from a brand in categories that ranged from health and beauty to footwear and consumer electronics. For apparel and toys and hobbies, more than one-quarter had done so. One major petroleum company has even established a D2C channel to sell consumers motor oil.

Consumers are expecting more than packages on their doorsteps. Almost two-thirds of them say they feel they have relationships with the brands they buy from, and three-quarters expect a brand not only to satisfy their requests, but to know why they bought what they did.

Clearly, this takes sellers beyond the requirements of one-and-done transactions. Consumers want a brand to know them well enough to provide relevant choices. They want the buying experience to offer not only selection and price, but also ease and consistency. To almost three-quarters of those surveyed, a brand relationship needs to include two-way communication and feedback that a brand uses to solve issues.[1]

The attraction of remote and contact-less buying during the pandemic accelerated this buying behavior, but like so many other outcomes of COVID-19, this one is not likely to revert to 2019 norms. The demand from consumers is one source of urgency in pursuing this change as a permanent capability. The other is that competitors are already moving to meet that demand.

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Flipping the focus

To serve D2C customers the ways they want, sellers need to reexamine their capabilities. Without a retailer or other distribution partners between it and the customer, a company gets to own the customer relationship. That brings benefits but also confers responsibilities.

Where once companies and even divisions within companies were product-centric—starting with what they had to sell and then finding ways to sell it—many are finding it more advantageous to be customer-centric, which means the relationship comes first and the aim is to deliver customer experiences and products that strengthen it. That means everything from the marketing email to the web experience, customer service, and shipping needs to contribute to the way the customer feels about doing business with the seller, not merely supporting the product, but each providing its own measure of value.

Does that influence the shopping experience? Of course. But it also calls for fresh thinking in areas such as supply chain, operations, cyber capabilities, security, and privacy. Customer relationships are forged on data and the ways to use it. The structures within a company that translate data-driven insights into interactions (including, but not limited to, transactions) may not exist in organizations that have historically relied on wholesale distribution models, which means embracing D2C selling calls for organizational change. A good early question to ask is: What does it feel like, from the outside, to do business with us? The people who buy by the truckload and the people who buy by the unit expect a different feel and a different kind of "storefront."

Even manufacturers that depend principally on traditional distribution networks, with retail points of sale, may already have some experience with D2C. It's not uncommon for a brand to set up its own e-commerce site as an alternative channel, even when customers can find the same products through e-tailers or on store shelves. But the new generation of D2C is about more than a sideline. It's a realignment not only of the method of the distribution, but of the two-way relationship that makes sales happen. And in that realigned relationship, there may be new avenues for growth—such as the ability to offer unique or even exclusive products precisely because you know so much more about the individual customer and his or her wants. Naturally, such products can command premium prices as well.

Among companies that have made half-moves toward D2C and those that have made large, first-mover commitments, there are lessons for those that follow. A theme among those who have yet to make D2C thrive, and indeed among those who have had to go back to square one to make a second attempt at it, is that in many cases companies tried to change their operations on the margins but did not put all the pieces together.

That means D2C takes a full-spectrum commitment. But it doesn't mean this isn't an all-or-nothing proposition. Many of the leading D2C sellers maintain robust distribution through channel partners and retailers in parallel with their direct operations. What they're finding is that the arrangement leads not to contradiction, but to mutual reinforcement that helps make both channels stronger.

For a hotly anticipated home entertainment launch, there could be no do-overs

A large entertainment company had sold its hardware at retail locations through several product generations. For its new launch, it opted to use D2C instead. This meant physical and digital retooling of many functions. It also meant that the company was taking control—and responsibility—for how well the rollout went. If customers were unhappy, there would be no retailer between their ire and the company's reputation.

Deloitte helped the brand create an internal D2C organization, stand up an online store, and realign its supply chain arrangements to handle the new sales and distribution method. Because fans were expected to drive heavy demand at launch, the system included an automated queuing function that gave people confidence they would receive their equipment on launch day without having to constantly refresh the sales website. As delighted as they were with the new product, they were almost as happy over this use of technology to show consideration for their passions.

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Why might direct-to-consumer be right for you?

When you build your own direct sales channel, the margin it generates is yours to capture, without percentages falling off at different stages of a multi-point distribution chain. In most cases that advantage can easily outpace the cost of creating and operating the direct channel.

Working directly with consumers means you don't just reap profit from their buying behavior; you participate in it. The data that generates is yours to collect and put to use, if you have the capacity and the know-how. And aggregating, analyzing, and drawing actionable insights from customer data is the key to cementing loyal relationships, anticipating consumer trends, and speeding time to market.

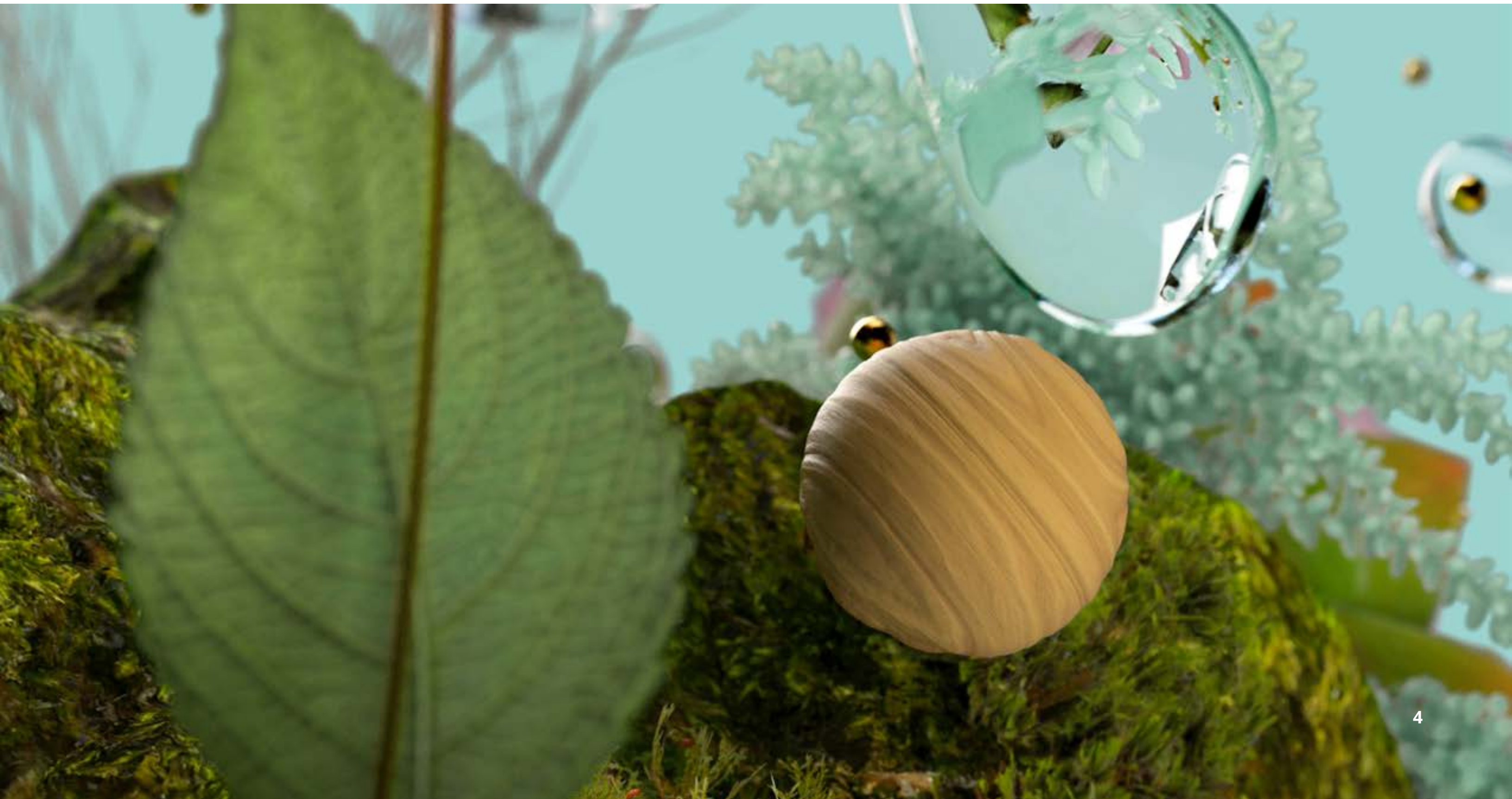
D2C offers flexibility that can benefit both buyer and seller. For large-ticket items, a direct seller can control the offer of a pay-over-time option, which can stimulate more sales. For items people buy repeatedly, a D2C operation can support subscription sales. The result in both cases is more convenience for the buyer and more business for the seller. Other advantages, such as free shipping and easy returns, matter to buyers as well, though they're becoming common enough that they're less differentiating.

Having these direct relationships can also offer a ready window in which to test new products and experiences. With a hands-off distribution network, the only way you can gain access to consumers for their input is to pay for research—or to invest in a rollout that may or may not pan out months and millions of dollars later. When your distribution method has direct consumer interaction built in, your test market is always right outside your door.

Brands that have offered consumers a D2C experience have reaped the benefits :

- Customers with "best" experiences yield 140 percent the revenue of customers who had "worst" experiences.[2]
- Positive brand experiences correspond with five years' more loyalty.[3]
- Providing a consistently positive brand experience reduces costs by a third.[4]
- Consumers who feel both "satisfied" and "emotionally connected" generate 52 percent more value for brands than customers who are "only" satisfied.[5]

All of this is within the grasp of a seller that takes control of its brand relationships via D2C. Through a traditional network, you're at the mercy of others to make it happen.



What does it take to embrace direct-to-consumer?

Moving toward D2C starts as a choice, but it ends up as a transformational project. In most cases, even a seller that has a mature e-commerce site will find it needs to add broad new capabilities to handle D2C at scale.

This is not a project as much as a journey. You begin with the desire to offer consumers a new level of personalized experience, but delivering on that wish takes changes to your business model and core operations that make it workable. You aren't abandoning the retail channel; you're becoming multi-modal, and you need the ability to serve B2B and D2C needs in a complementary way. Your growing D2C capability gives you more than a new way to sell—it also provides a way to safely test new products on a small scale before a large retail rollout.

As the journey continues, your D2C channel needs more than technical capacity. It needs a brand voice that projects your value and resonates with what consumers want. Behind the scenes, another non-technical requirement—human skill—will bring new capabilities to the fore and may alter your talent mix, because running a D2C operation is not the same as operating via retail. The ultimate destination on the journey is your mastery of the place where customers, the platform that serves them, and the way you use data all come together to drive sustained wins.

Reaching that destination calls for integration, discipline, and agility across a number of functional areas:

Experience

A company delivers its D2C experience with technology, but it brings it to life with creativity. Is your creative team ready to collaborate on customer research, creative direction, and brand style guides? There's more to this than one-way communication. Two-way interaction drives rewarding customer experiences.

Technology

In addition to the digital storefront the consumer sees, D2C requires components such as finance, revenue recognition, and others. Activities include lead vendor selection and development across store, commerce, fulfillment, service, payments, and integration to ERP. To realize more of D2C's potential relationship-building potential also takes large-volume data and analytics capabilities.

Customer insight

The lure of customer data and analytics presumes you'll do something with what you learn. That means empowering "feedback loops" in your organization that let you apply customer feedback and move with agility to keep customer relationships enriching.

Operating model

To sustain value, a corporate structure must be aligned to help team members succeed. A new model can help create pathways for the new D2C capabilities to function as intended, while also serving to mitigate the risks that may arise from disrupting the existing B2B retail channel.

Supply chain

You already have one for parts and materials; now you need one to get products out the door and into the buyer's hands. Modern buyers expect this to be an almost immediate process (the days of "allow 4 to 6 weeks for delivery" are long gone), and your current shipping contracts may have to adjust to send individual units to individual customers instead of pallets and truckloads to distribution centers.

Cybersecurity

Handling customers' personal and payment data calls for stringent protections in addition to the ones that have already been safeguarding your own operations. Where before you may have been able to focus entirely on securing your own data, your new relationship with buyers includes a responsibility for customer data privacy.

Results Management Office (RMO)

An RMO is a step beyond the traditional Project Management Office (PMO). In addition to tracking milestones and directing resources, it is strategic and proactive—outcome- and output-focused—and collaborative and communicative. The RMO also leads your organizational change management and communications plan.

Customer service

Interacting with consumers is different from interacting with enterprise buyers. Customer service needs a new tenor, and people will expect to connect with you through the channels they find convenient, including phone, online chat, social media, and chatbots. Consumers will also expect process transparency.

How Deloitte can help

Deloitte's Digital Commerce team is experienced in all the component capabilities that go into an effective D2C program, including organizational change, IT, supply chain, customer data privacy, and security.

- **We know businesses and industries.** Deloitte's broad experience in every sector means our teams know the operational details and pitfalls that spell the difference between an approach that looks good on paper and one that accomplishes the job.
- **We know the technology.** As a leading strategist and implementer, Deloitte works with large enterprises' core systems every day.
- **We know D2C.** We are the go-to-market transformation partner for the most complex and transformative initiatives in industry today. We know how to build scalable ecommerce platforms, supported by the lightning-fast supply chain and digital organizations, to provide world class performance.

The growth of D2C, including in categories where it may seem surprising, is an established and rising trend. It lies at the intersection of new consumer desires and new seller capabilities. As we have examined, these begin with digital technology, but there's more to the story than tech. The case for building D2C business suggests there are rewards waiting for those who move quickly to seize them, but quick doesn't mean superficial. D2C is not a bolt-on capability. It's a transformation of the ways you plan, create, sell, and deliver products—and a revolution in the ways to approach, satisfy, and delight consumers. Its time has come, and your turn can be next.

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Endnotes

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3. ibid.
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