How to accelerate online direct to consumer strategies beyond COVID-19 (PART 1)

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COVID-19 has boosted the relevance of online D2C as more consumers embrace e-commerce. Get it right to enjoy both profitability and growth.

With retail outlets closed for protracted periods because of the COVID-19 outbreak, consumer product companies have had to increasingly re-examine their online direct to consumer (D2C) strategies. Many have sustained or increased sales through such channels despite traditional routes to market failing. Some are exploring fresh opportunities to create stronger, more resilient online D2C business models that will sustain them during the oncoming economic downturn.

In fact, the current crisis has turned D2C routes to market from an opportunity to a necessity. Online sales have rocketed. The average online transaction value has risen 74% compared with a year ago, according to the electronic payments company ACI Worldwide.1 The crisis has accelerated the long running trend toward e-commerce, with 44% of consumers expecting to do more grocery shopping online and 39% expecting to do more durables shopping online over the next one to two years according to the EY Future Consumer Index.

Consumers are also turning to businesses that can communicate a strong sense of social purpose on issues such as community, health and the environment as part of their overall value proposition. Online D2C provides businesses with an ideal platform for such messaging, as well as helping them demonstrate tangible reasons to purchase direct: offer differentiation, unique shopping experience and attractive pricing. In fact, while availability is most important for 59% of global consumers in the immediate wake of the pandemic, as the expected recession bites, such online channels may provide businesses with the right economic model to deliver better value to consumers at a perceived fair price.

Brand characteristics that influence consumer shopping behavior

54%

of global consumers feel authenticity and honesty is extremely important

These immediate concerns add urgency to existing reasons for creating online D2C models that are controlled exclusively by the consumer product company. One has been to capture e-commerce growth to offset the generally flat performance seen in offline channels where a proliferation of brands has made it difficult to get space on retail shelves. Another has been to reduce dependency on retailers and regain control over pricing policies to limit the erosion of profit on companies' high-margin products and innovations. And, finally, the growing recognition that businesses must become much more consumer-centric – a trend that has become a burning issue in the current business environment.

Not surprisingly, many consumer product companies want to realign their online D2C strategies to capture these emerging opportunities and achieve their longer-term strategic goals. Even though leading players in the sector have successfully seen a quarter of all sales move profitably online in this way, many have floundered in creating winning D2C initiatives. This test and see approach may have served businesses well before the pandemic, but the market is now moving rapidly. Even before the crisis, consumer products companies were seeing about 70% of their growth coming from D2C online channels.2 With consumers acclimating more rapidly to online shopping in the longer term, businesses getting their online D2C strategies right could be in a unique position to build growth, market share and profitability.

Case study: camera company refocused on online D2C due to crisis

In April 2020, GoPro announced that it would become focused on rebuilding itself as a largely online D2C business as a result of the global pandemic.3 Its distribution network has been badly hit during the crisis and sales have plummeted, Nicholas Woodman, the company's founder and Chief Executive Officer said in a public statement.

The statement came after the company's published preliminary first-quarter earnings. Those showed it expected to achieve US$119 million in sales – a 51% drop compared with the same period last year. GoPro said it would lose 200 employees from the payroll – about 20% of its total staff – and reduce the number of retail outlets in a move that should save US$100 million dollars over the coming year.

While the company generates about 20% of its sales from its D2C website, that outlet will now take center stage in the business's revised strategy. GoPro has appointed a new chief digital officer to lead its transformation and said that the new D2C-first strategy would help it become more profitable, efficient and resilient.

CHAPTER 1

Understanding the challenges

Understanding which categories are likely to be most successful, and how to implement effective governance, operations, supply chains and data management are hurdles that consumer product companies must overcome. These considerations are further complicated by variations among countries in issues such as privacy law, consumer attitudes and the cost of doing business: what works well in one market may fail in another.

In particular, the crisis has accelerated two long-term problems that consumer product companies face to achieve success with an online D2C model: poor product choices and consumer value propositions, and a limited understanding of creating profitable channels.

First, in the rush to compete in the e-commerce space and capture a "fair share" of the market, some businesses have poured money into ill-conceived online D2C projects. Although we have seen a significant culling of weak product lines by many organizations – and a strengthening of other offerings – it demonstrates that an understanding of which lines of business and consumer value propositions are best suited to online D2C remains elusive. For example, many have failed to sufficiently engage and incentivize consumers in sufficient numbers to bypass traditional retailers by developing compelling offers and brand experiences. Without a solid grasp of the fundamental economics behind such choices, the winners of today could well be the losers of tomorrow.■

(CONTINUED IN NEXT EDITION)

Leading through the pandemic

Our purpose is building a better working world. It starts with better questions. The better the question. The better the answer. The better the world works.The rapid emergence of D2C strategies is reshaping the consumer goods industry. We can help you define where, when and how D2C can transform your business and implement better ways of using D2C to meet the changing needs of consumers. Please send an email to **isaac.sarpong@gh.ey.com** and copy in **kofi.akuoko@gh.ey.com**.