How to accelerate online direct to consumer strategies beyond COVID-19 (PART 2)

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EY
Building a better working world

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

(CONTINUED FROM PREVIOUS EDITION)

Second, many businesses have demonstrated the limits of their knowledge when it comes to making this business model profitable. For example, most start-up online D2C brands over the past few years have focused almost exclusively on growth to gain market share. The assumption has been that profitability would follow. When sales plummet, the pay-to-play model breaks down. With little money to meet the exorbitantly high costs of online consumer acquisition, traffic to those websites dries up – reportedly during the COVID-19 crisis by between 25% and 90% in some cases. 4 Profitability needs to move more center stage in online D2C strategies. Our research shows that online D2C channels can comfortably achieve a 15% to 25% profit after operating costs – including those relating to marketing, consumer engagement, and supply chain.

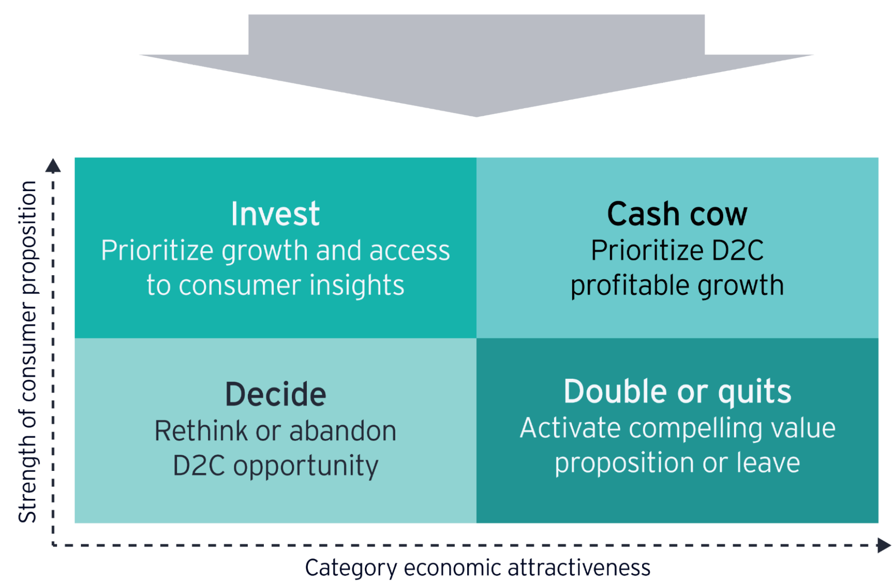
Online D2C tends to account for up to 15% of a brand's total sales depending on categories and geographies, according to our analysis. If businesses are not already achieving those levels of sales, online D2C represents a significant driver for growth.

Deciding where to play

The strongest online D2C models closely match the economic attractiveness of the product on offer with the strength of the consumer value proposition. Working critically through our D2C business assessment framework should help organizations decide where to play. The constraints involved will differ from sector to sector. For example, while food and beverage products may pass the size test, they are often low value, and items that are perishable pose logistical challenges. Even so, companies do prosper in this sector. For example, a famous snack and beverages multinational successfully launched two online D2C platforms targeting specific consumer trends that emerged during the pandemic's lockdown period within 30 days.

D2C potential assessment framework

Category economic attractiveness	Strength of consumer proposition
Order value: will the average basket size support a cost-intensive fulfillment model? Is there opportunity for increase (cross-selling, personalization)?	**Strategic role of the D2C channel:** what is the value proposition for the consumer?
Order frequency: does purchasing frequency allow for a subscription-based model that will generate recurring revenue streams?	**Differentiated offer:** how will the product or service be differentiated from traditional channels, while managing complexity levels?
Acquisition costs: can the existing consumer database be leveraged to optimize mix of traffic acquisition options?	**Pricing:** which tactics are used to increase consumer perceived value?
Retention/customer lifetime: can cost-effective CRM campaigns be implemented to increase long-term loyalty and profitability?	**Experience:** what additional features will be implemented to support the consumer's end-to-end journey, i.e., tutorials, demos, support?



Source: EY-Parthenon Research and Analysis

CHAPTER 2

Winning in online D2C

Traditionally, consumer product companies have faced operational problems with implementing online D2C channels because they significantly alter business and operating models. First, they remove the distribution intermediary – the retailer – and replace it with a complex, direct model that serves many people. The business must deal with an omni-channel strategy, be able to forecast demand, create bespoke supply chain and delivery processes, as well as handling payments, return management and customer communication. Second, it requires a shift away from marketing campaigns that are primarily designed to increase brand awareness to those that directly encourage consumers to purchase goods from the company's online outlets – ideally becoming brand ambassadors in the process. This shift regards consumers as long-term assets worthy of investment.

Successful online D2C strategies must manage the double complexity that these challenges present, while also meeting the high expectations that have been created by digitally native vertical brands: short delivery times, personalized consumer relationships, frequently renewed products and service offerings, purpose-led visions and socially sensitive propositions.■

(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**.