How to accelerate online direct to consumer strategies beyond COVID-19 (PART 3)

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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)

There is no easy answer to these challenges. Depending on the organization's strategic agenda, e-commerce maturity and financial resources, we believe that there are four online direct routes to consumer that can achieve profitability and growth. They involve different levels of operational outsourcing and partnership building. The simplest model involves the consumer product company putting its online catalog on an existing marketplace, such as Amazon or Alibaba. Alternatively, the business can open its own webstore, but rely on retail partners for distribution. D2C strategies can entail creating a webstore with distribution and fulfilment provided by logistics partners or launching a full-stack D2C channel. In each case the key to success involves harnessing online sales channels with a relevant supply chain and distribution model supported by a fully integrated, data-driven infrastructure (see Four possible online direct to consumer models)

While there is no one-size-fits all solution for creating online D2C channels, mastering the following disciplines is critical, whichever model you choose.

Mindset and talent

Consumer products companies must understand that the new channel is effectively a vertical retailer in its own right. This entails significant change in mindset best embodied by agile working practices and the creation of new strategic roles within the business staffed by people with deep experience in online D2C. For example, when the shoemaker Birkenstock Digital GMhB recruited 45 people for its D2C initiative, it favored those with backgrounds in ecommerce and digital expertise over those with deep experience in the shoe industry.5 Nike's acquisition of Zodiac predictive analytics group enabled the business to support multiple D2C teams with core technical expertise as its offerings matured.6 Training must be geared to specific retail capabilities, including promotion, loyalty programs and sales – and dealing with the integration of new partners. Creating the right teams with consumer-centric mindsets and skills will enable the business to engage and incentivize consumers by developing compelling offers and brand experiences.

Partners and ecosystems

Businesses must continue to nurture and strengthen relationships with retailers and look to build ecosystems. Being sensitive to the needs of existing retail partnerships means clearly distinguishing online and offline products and promotions. In some instances, selling direct to the consumer with a click-and-collect process at a retail partner may be more attractive and cost-effective than building a model that delivers the goods to the consumers' homes. The US beverage retailer Drizly has adopted such an approach.

Since online D2C platforms generate more insight into consumer behavior, it is often possible to build an ecosystem of services around a core offering. For example, a beverages company could add snacks, experiences and delivery by teaming up with businesses in related sectors.

Data and consumers

Online D2C channels equipped with data management platforms to reconcile offline and online data provide a window into consumer behavior on a scale and timeliness otherwise unavailable to consumer products companies. This enables rapid response and innovation based on changing trends. Businesses can adapt their offerings by increasing the effectiveness of marketing campaigns, personalizing products and customizing services within days and weeks – thereby replicating the agility of digital-only start-ups.

Enterprises launching products and brands that differentiate beyond price are more likely to succeed in the coming years: the EY Future Consumer Index shows that 67% of consumers are more likely to purchase from businesses with social purpose. Having a distinctive proposition can also prevent the business from having to enter into price wars with competitors. Additional insights gleaned from consumer data could inform overall advertising spend and even the mergers and acquisitions pipeline.

Profitability and growth

As businesses create innovative and meaningful ways of connecting with consumers, they must ensure that marketing spend does not nudge the online D2C initiative into unprofitable territory. Companies are already beginning to seek ways of avoiding the excesses of the broken pay-to-play D2C model: spending too much to acquire traffic and hoping for the best has shown to be a faulty strategy in the current crisis. Businesses that win create and engage a consumer community with relevant and savvy marketing and develop sound CRM disciplines to increase purchasing frequency and loyalty.

Our analysis of leading online D2C brands shows that the paid traffic acquisition budget will continue to take up between 20% and 30% of online D2C sales revenue if true growth and scalability is to be achieved – a percentage that could well rise in the future. Equally, some companies with strong brands have achieved 45% of their revenue for the channel from direct traffic and organic search, illustrating that an innovative approach traffic acquisition pays dividends.

Summary

COVID-19 promises to leave behind a radically transformed world. Business strategies will need to be fundamentally rethought as the economy and society are reshaped. The organizations most likely to survive and thrive are those that take a step back to reframe their futures. To reimagine their transformation agendas in the light of the catalyst that is the pandemic and its aftermath.■

Four possible online direct to consumer models

"Pure" D2C model – brand.com

Full stack

Description

Brand establishes storefront, as well as production, warehousing, distribution capabilities (last mile fulfillment typically third-party led)

Channel: Brand | Fulfillment: Brand/third-party led

Economic model

Benefits
- Direct access to final consumer
- Control over offer, data, brand experience and pricing

Challenges
- Operational complexity
- High marketing and advertising costs
- Potential channel conflicts

Storefront

Description
- Brand establishes web shop front end to engage with consumers and take orders
- Orders are fulfilled by third-party distributor(s)

Channel: Brand | Fulfillment: Distributor

Economic model

Benefits
- Speed – quick and easy to establish with a storefront
- Access to data through consumer engagement

Challenges
- Logistics problems reflect on brand
- High marketing and advertising costs

D2C "through intermediates"

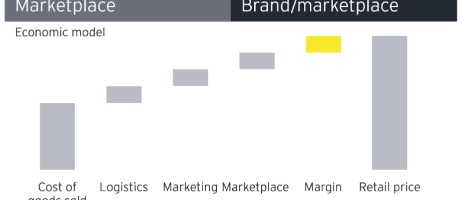
Marketplace

Description

Brand sells directly to the end consumer via an existing third-party e-commerce platform

Channel: Marketplace | Fulfillment: Brand/marketplace

Economic model



Benefits
- Speed and reach – leverages scale of existing platforms
- Direct access to final client
- Control over the offer and pricing

Challenges
- No common standard to all marketplaces
- Additional skills are required, such as for promoting presence on marketplace
- Commission fees

Retail

Description
- Brand establishes web shop to engage with consumers and take orders
- Orders are are fulfilled via retail channel, i.e., click and collect

Channel: Brand | Fulfillment: Brand/retail

Economic model

Benefits
- Leverages existing channels
- Suitable for products that require pre-certification, i.e., proof of age

Challenges
- Reduced margin through retail channel
- Operational complexity, i.e., managing stock levels in retail stores

Source: EY-Parthenon Research and Analysis

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**.