Mindtree
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D2C Sales Strategy - CPG | CPG Brands
Direct to Consumer Sales Strategy

Version 1.0

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Introduction

As consumers increasingly use the internet for their shopping needs, should Consumer Product Goods (CPG) companies have their own dedicated eCommerce channels to sell directly to customers? The answer is an unequivocal "Yes."

Adopting Direct to Consumer (D2C) strategies throws up several opportunities for consumer brands to expand to newer markets, grow sales and reap higher margins - with minimal investments. Of course, there are challenges too. This strategy faces substantial risks due to relatively low entry barriers for competition as well as the negative impact it creates on the value chain with the existing distributor and retailers' network.

It is important to note that enabling eCommerce does not necessarily mean investing in dedicated eCommerce channels or making all products available for online sales. In this paper, we explore multiple strategies that can help CPG companies make better decisions regarding which products to sell online or what kind of model to use.

The Growing Popularity of D2C: Key Trends

Research by Forrester (Sucharita Kodali, 2018) shows that nearly 90% of respondents prefer to buy directly from brands, given the choice. Not just consumers, CPG brands are also excited about D2C due to the success they've seen with this channel (see Figure 1). More than 80% of CPG manufacturers have been able to improve their customer experience and customer relationships by selling directly to them (Michelle Beeson, 2018). More than half the respondents reported increased brand awareness and higher leads and sales as a result of D2C sales (Michelle Beeson, 2018).

- **87%** Customer would like to buy products directly from a brand online if given the option
- **42%** CPG brands plan to sell products direct to consumers
- **82%** CPG manufacturers improved their customer relationships by selling direct to consumers
- **76%** CPG manufactures improved custmer experience by selling directly to consumers
- **54%** Manufacturers said direct to consumer sales increased brand awareness and have boosted leads and sales for their channel partners
- **61%** Organizations plan to replatform their current commerce platform technology solution

Figure 1: Trends in DTC

Challenges of Going Straight to the Source

Brands face multiple challenges while selling their products via online channels:

Gray market sales: Due to growth in multiple marketplaces across geographies, products are sometimes listed and sold without a brand or company's approval. Consequently, the brand does not have complete control over the price or even the quality of the product being sold. This enables the seller in the market place to either reduce the price of the product to compete with authorized retail partners who must adhere to the pricing guidelines / compliance of the brands. Alternatively, the seller will have to drastically increase the price of the product when the inventory is not available, thus impacting the brand image. Unsurprisingly, insights from the May 2018 report by Forrester (Sucharita Kodali, 2018) show that consumers will buy specialized products directly from brand manufacturers to ensure authenticity.

Varied content: According to the same Forrester report (Sucharita Kodali, 2018), 61% of US adults research the manufacturer's website to understand products better. With multiple partners and sellers on online marketplaces and several retail partners on the ground, unified content and messaging is key to success. Varying content on different marketplaces and websites can confuse consumers, deterring their decision to buy a brand's products, in turn impacting brand equity.

Accessibility to products and services: Most retailers are interested in selling the main products of a brand and not the accessories, services or parts of the main product required for replacements. This can lead to dissatisfied customers and customer attrition. Also, for categories such as apparel, retailers might not want to carry earlier favorite styles, despite the high loyalty shown by consumers. As per a HBR report (Jeremy Sporn, 2018), D2C brand stores and websites generate revenues 86% higher than purchases of those same brands elsewhere.

Insights from retailers: Retailer sales are not always transparent to brands due to lack of insights into sales and inventory across retailers/marketplaces. Most of the available information comes from distributors rather than the end sellers. Greater insights into retailer sales and inventory are critical for brands to meet the demands of the market through better planning.

Access to consumer information: Retailers or marketplaces own the consumer experience as well as consumer data. The data, however, is not completely shared with the brand. For brands that do not have their own retail outlets, the lack of consumer information makes it difficult to build customer personas, hampering their ability to design products that cater to the actual needs of customers. It also impacts their marketing efforts in identifying the right target segments. As a result, brands are completely dependent on retailers and marketplaces to define the customer journey and drive innovation.

Embarking on D2C Journey: Four Key Steps

Here are four key steps to be taken before embarking on a D2C journey.

Step #1: Assess D2C Value

As a first step, the brand needs to assess the value that a D2C business solution would bring to the brand (see Figure 2). The value does not have to translate into higher revenues. For instance, the ability to provide consumer insights to help in the design of products specific to D2C channels is an important value add. D2C channels can also serve as a test channel to test the acceptance of a particular product in a specific market.

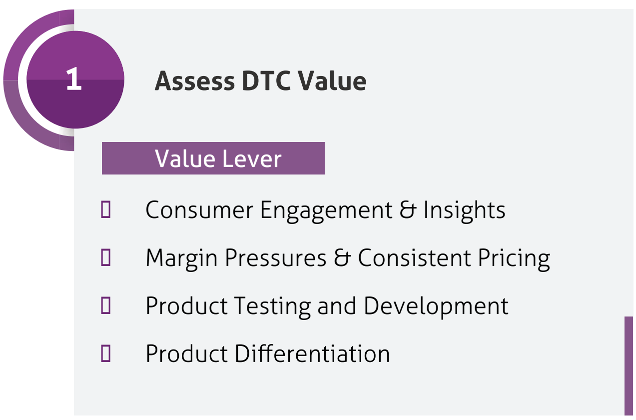

Figure 2: Assess D2C value drivers

oduct Eligibility

Not all products of a CPG brand can be sold profitably online. Some of the key questions to consider when choosing products for online sales include:

- Is it important to connect directly with customers?
- Can you personalize your offering?
- Can you improve your margins?
- How comfortable are consumers with shopping online?
- How easy is it for the competition to replicate online sales?
- Is your product commoditized or is it unique?
- How frequently are people likely to purchase?
- Will going online add any competitive advantage such as the ability to differentiate?

Based on the answers to these questions, product fitment for online channels can be assessed. For example, commoditized products which are not purchased frequently may not be a good fit for online sales in geographies where people do not prefer shopping online. But a product like an Apple iPhone, which is well differentiated and for which direct customer connect is important for future sales or sale of accessories, would be a good candidate for a D2C channel.

Step # 3: Choose the right combination of online channels for D2C

Many brands already use retail partner websites and online marketplaces to sell their products. However, they needn't limit themselves to only those channels. D2C opens up another avenue to drive growth. For instance, Schick Hydro started selling on retail partner websites and online marketplaces. It then qualified certain shaving blades and razors for its own D2C channel and launched the same with subscription-based shipping as the differentiator.

Step # 4: Select an appropriate D2C operation model

Brands can choose from multiple business models to execute their D2C strategy (see Figure 4):

1. Own end-to-end commerce
2. Outsource the experience and own the fulfillment
3. Cart Transfer – Own the experience and outsource the fulfillment

The objective for the brands in going online forms the basis for choosing the right model. For example, if the main objective of the brand is to own customer experience and drive customer engagement without worrying about fulfillment issues, cart transfer is the best option.

On the other hand, if the main objective is to grow the business by leveraging partners while controlling inventory and price across multiple retailers and marketplaces, then outsourcing experience and owing fulfilment is the best option. This would help brands control and distribute their inventory across warehouses in sync with changing demand.

If, however, the brand wants to own the whole customer journey, from creating awareness to driving purchase, fulfillment and customer service, then end-to-end commerce should be their go-to solution.

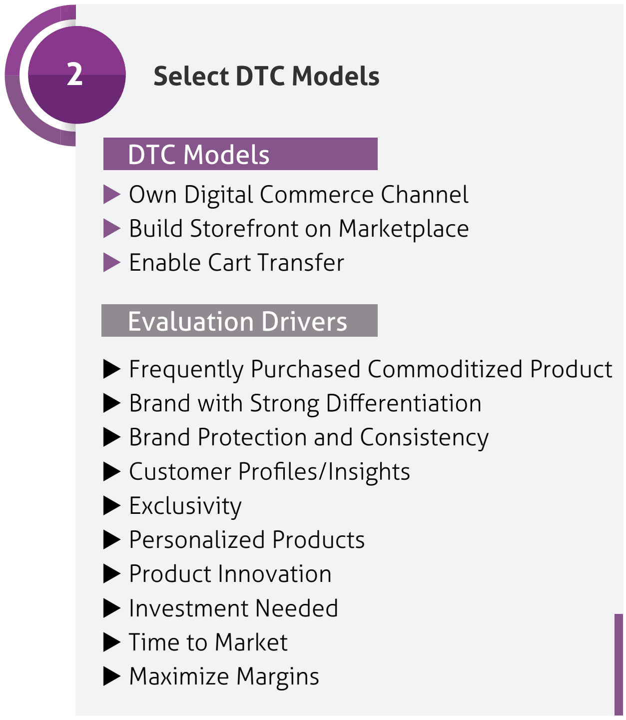

Figure 3: Different drivers for selecting DTC model

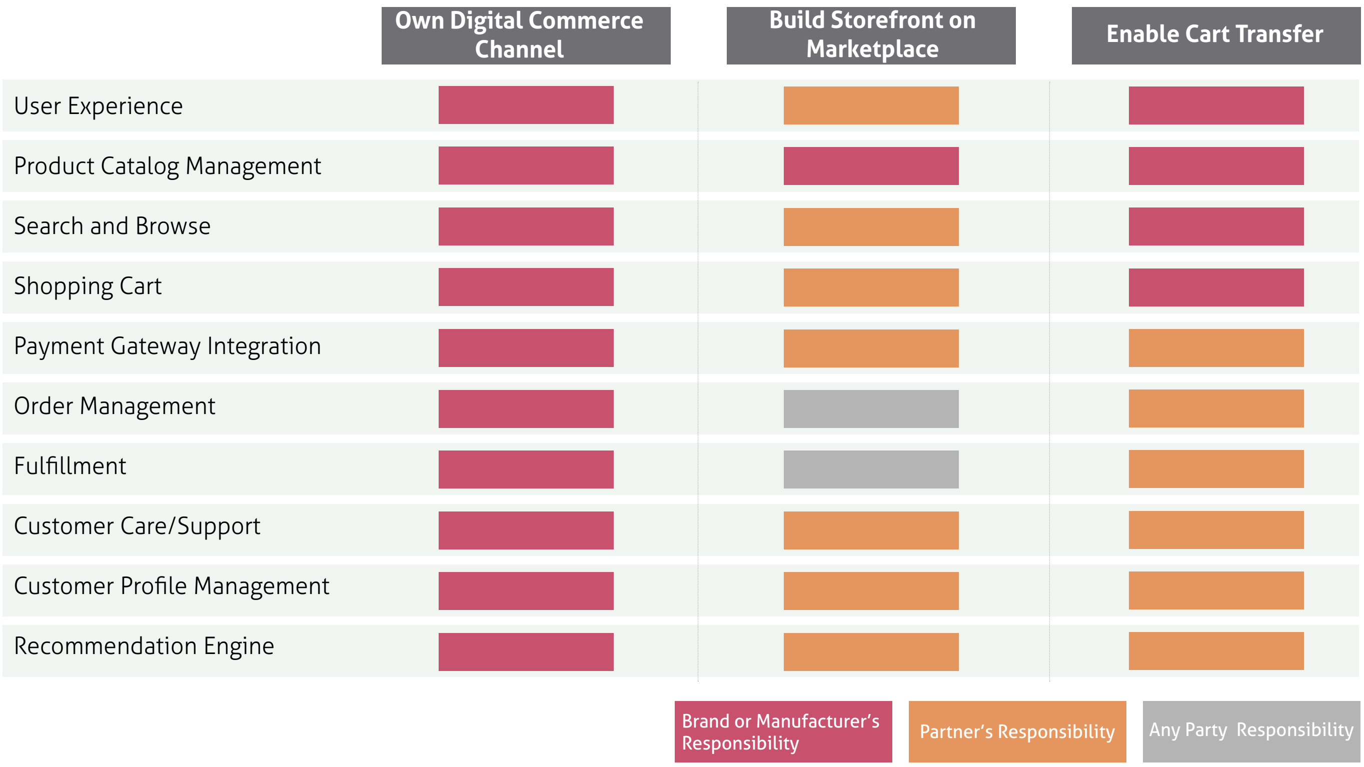

Figure 4: Different DTC Models

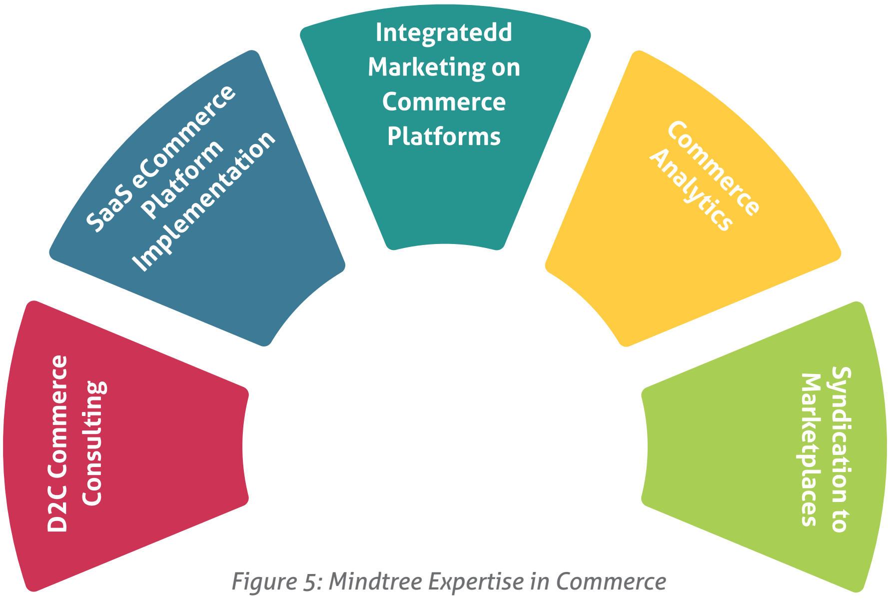

Figure 5: Mindtree Expertise in Commerce

How Can Mindtree Help Brands With Their D2C Strategy?

Mindtree's experts have helped many global brands select the right strategy and tools for enabling profitable and seamless D2C experiences (see Figure 5). Some of the solutions that we have built to ensure success of our client in the D2C space include:

- D2C evaluation framework
- D2C strategy selection framework
- Augmenting support to D2C business model using unique pre-built features

For more information on e-commerce, developing a successful D2C strategy or ensuring flawless execution, write to info@mindtree.com

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