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# Acing the **D2C Initiative** with Prime Product Assortment

Welcome to possible

# The Advent of D2C Commerce ..

In the heydays, before the internet, it was almost impossible to produce your product and sell it to customers globally. Producers relied on wholesalers to distribute their products and retailers to sell them from a store. This resulted in profit sharing, increased product prices, and competition with other producers to gain customer loyalty. In addition, producers did not have sufficient customer data to understand the needs of their customers.

The exponential growth of the internet changed the ball game. In essence, the growth of the D2C (Direct-to-consumer) commerce model is tightly coupled to the aggrandizement of the internet, as commerce-over-the-net made it possible for brands to reach out to customers without piggybacking on intermediaries.

D2C differentiates from traditional commerce models in three major ways—it transfers back the control of the commerce storefront to brands, increases their profit margins by eliminating the middlemen, and provides them direct access to customer data to offer personalized purchase journeys. On the other hand, customers benefit from direct brand engagement and access to exclusive product and marketing offers.

## D2C – Default Commerce Model for the New Normal and Beyond

Covid-19 made D2C the de-facto commerce model for commerce brands. Social distancing and the pandemic-induced lockdown restrictions led to the closure of physical stores. Purchase decisions were made at home and ordered over a digital storefront. Enforcement of contactless delivery led to doorstep deliveries. As a result, it skyrocketed the otherwise linear organic growth of the D2C commerce model, forcing commerce brands to embrace it to survive and thrive in the new normal. As the second and third waves continue to come in, it is becoming increasingly evident that these behavioral changes will become entrenched in the consumer's DNA, and D2C will become the default model of choice for customers in the future.

### The Winning Assortment of D2C Superstars

MAMAEARTH	BONOBOS	CASPER 
Kick-started with a discerning assortment of 8 products and currently has a moderate 80+ product lineup <sup>[1]</sup>	When started in 2007, it sold only one product, a man's pant <sup>[2]</sup>	Sells one product, a sleeping mattress, made to perfection <sup>[3]</sup>
5TH	DOLLAR SHAVE CLUB	AMAZON
Sells a limited amount of signature watches for a limited period of time <sup>[4]</sup>	Led a fierce D2C fight against entrenched legacy brands and was eventually bought by Unilever for \$1 billion <sup>[5]</sup>	Owns over 80 private label brands which it sells directly to its customers <sup>[6]</sup>



# Why Product Assortment Determines the Success of a D2C Journey

Customer centricity has been interpreted in multiple ways by many brands, but the end goal is to capture customer loyalty and anticipate customer needs beyond the horizon of current purchases. Fulfillment and customer service are regular success determinants, and an optimum product assortment merits standing out on the fact that it is distinctive to the D2C commerce model. Brands have to carefully map their product assortment to manage both extrinsic market conditions and well as to manage intrinsic brand perception when going D2C.

Below are some of the key challenges faced by D2C brands that are tightly coupled with optimum product assortment:

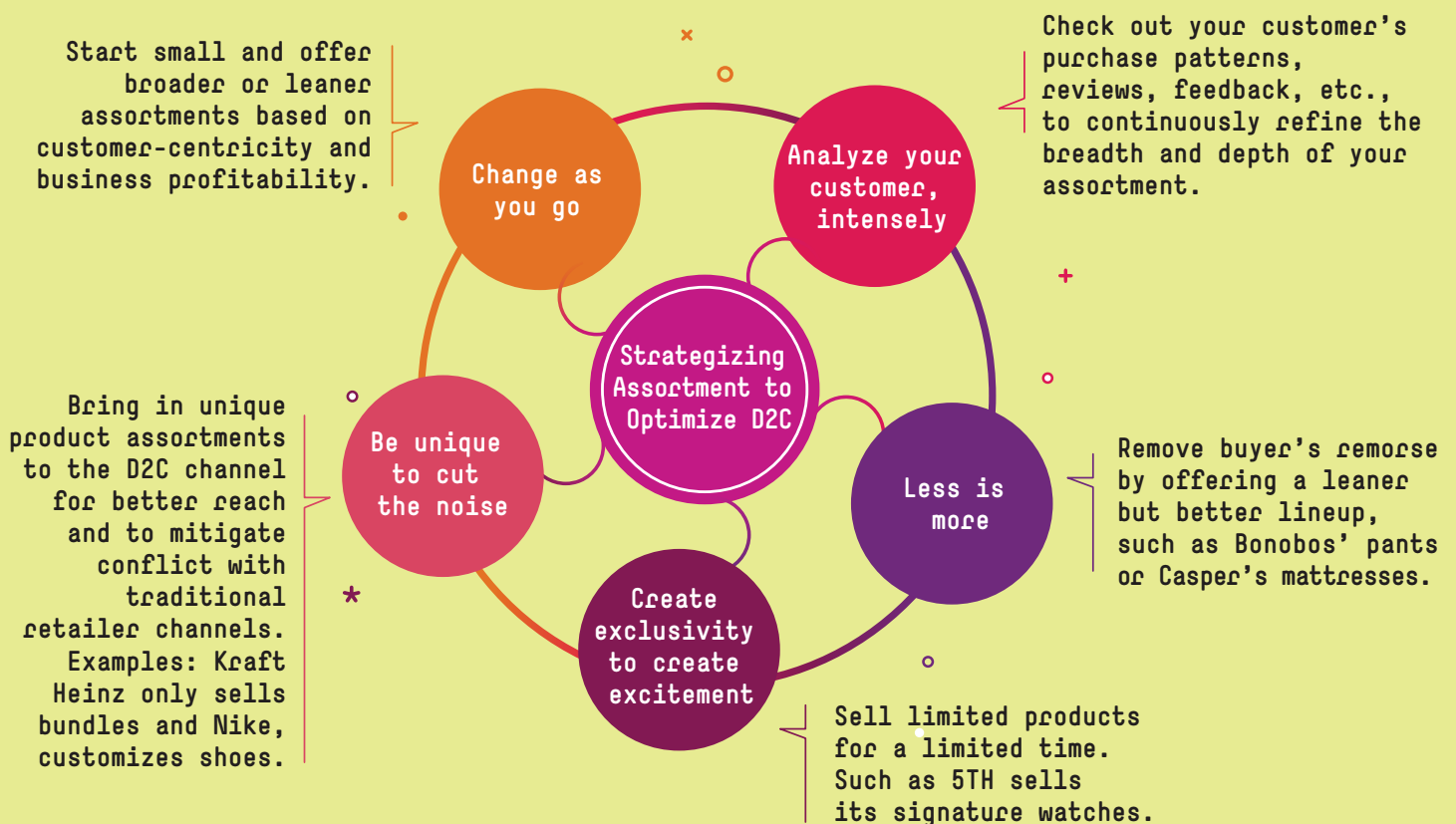
- 1. Maintaining existing brand relationships:** For a legacy brand going D2C, the possibility of friction between the brand and its traditional customers—the retailers, is high. Creating a differentiated product line for the D2C model ensures that the existing relationships remain unhurt with clear boundaries of who sells what in which channel.
- 2. Maintaining brand perception:** Differentiating the D2C product assortment is also a strategic move to maintain brand perception. It works as an effective shield against cannibalization of the traditional product offering while the brand passes away profit margins to customers in the D2C setup via a differentiated product line.
- 3. Simplifying decision-making for customers:** In the traditional commerce model, when a customer entered a store, they were assisted by a store agent in decision-making, leading to a purchase. In contrast, minimal differences between multiple product variants often lead to decision fatigue when shopping online. In such a scenario, rightsizing the assortment with market basket analysis often leads to better CX and cart conversion.
- 4. Personalizing customer journeys:** A major impediment of the traditional commerce model is the inability of brands to personalize their assortment to match the customer's buying patterns. D2C eliminates this hurdle and, at the same time, poses a key challenge for brands to use data to personalize their product offering for the customer. Leveraging advanced analytics to derive actionable insights into consumer buying patterns and demand forecasting can significantly help increase purchase conversions and customers' brand loyalty.
- 5. Scaling vertically, and not horizontally:** In traditional commerce, businesses scaled horizontally by selling more quantity and more variety to more and more customers. This might not be the best approach in the digital world led by a customer segment with low attention spans. Instead, most successful D2C brands have scaled vertically by selling a leaner product assortment focusing on quality and customer experience. Rightsizing the product assortment helps D2C brands to focus efforts more on CX, ensuring that the right product reaches the right consumer at the right time.

## Strategizing Product Assortment for D2C

Bonobos started its acclaimed D2C journey by only selling pants<sup>[7]</sup> but succeeded by selling the best assortment. Its D2C assortment was extremely limited but high in quality and service. Nike allowed its customers to customize their shoes in its D2C offering<sup>[8]</sup> while offline stores continued to sell the generic variants. PepsiCo and Kraft Heinz only sell product bundles via D2C<sup>[9]</sup> to offset shipment and other costs and mitigate conflict with other channels.

The above examples make it abundantly clear that different brands follow different assortment strategies when implementing D2C. Below are several approaches that can be leveraged independently or in combination for a successful D2C go-market plan:

- 1. Create a differentiated D2C product line:** Creating a differentiated D2C product line helps the brand re-position its D2C model as an independent business. The first use-case is when a legacy brand is going D2C and seeks to keep its existing retailer partnerships unhurt by its D2C move. The second use-case is when a brand wants to keep its brand position separate—when its traditional products are at a higher price range with retailers offering a premium product experience, while its D2C product line passes on the profit margins to its customers via discounts and offers. An example could be a high-end apparel brand selling moderately priced apparel to millennials through its D2C channel, while its traditional channels focus on its premium offerings.
- 2. Generate exclusivity through product assortment:** In the world of retail, the fear of losing out is real. Creating limited signature pieces specifically for D2C can potentially create more demand as well as improve brand perception. When Zara was using fast fashion to revolutionize the clothing industry, it triggered FOMO (Fear of Missing Out) psychology to compel shoppers to buy catwalk fashion products before they went out of stock. Generating exclusivity has been further tweaked by the 5TH approach,<sup>[10]</sup> which opens a very limited signature product line for a very limited time before moving onto a new design.
- 3. Personalize product assortment:** D2C commerce enables brands to personalize. Brands can leverage personalization to increase customer loyalty. D2C brands such as Lenskart use the power of personalization effectively. They give their customers the power to choose the frames, and the lenses, to create a product personalized to their choice<sup>[11]</sup>. Going beyond embracing mass personalization, companies can even plan deeper 1:1 personalization by leveraging data acquired via customer journeys, reviews, social media accounts, and customer support. A pioneer in this field has been L'Oréal, which launched its D2C initiative Color&Co, which allows a user to chat with a professional hair colorist to facilitate ordering a highly personalized hair dye kit<sup>[12]</sup>.
- 4. Upsell and Cross-sell:** Manufacturers can leverage D2C commerce to upsell and cross-sell their products, outside of their purview in the traditional commerce model. Hypothetical examples are when potential eyewear brand customers purchase superior glasses that offer them UV protection or a customer buying a razor ends up purchasing both the razor and a tube of cream—a win-win situation for both customer and manufacturer.





# Conclusion

The sunrise of D2C commerce has put the power back in the hands of the manufacturers. The battlefield is now the digital space, and customer-centricity will determine the winners. The customer is no longer tied to a store but uses a cellphone with a plethora of commerce applications. To make a lasting impact in a few seconds, brands have to show the right product to the right customer before the user's attention fades. Consequently, optimizing the product assortment will become a key success determinant in this era of short attention spans and multiple distractions.

Starting small and staying focused on getting it right will be the only way forward. Data and design will be the key tools in this journey of gaining and retaining customer loyalty. Successful D2C players will have to experiment and strategize to balance the assortment and operational costs, mitigate channel conflicts, and keep the customers happy.

## List of References

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## About the Author

Siddhartha Mohapatra is a Business Consultant at Mindtree. For over a decade, he has helped several businesses achieve their B2B and B2C commerce vision across the NAM, APAC, and EMEA regions.

## About Mindtree

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