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DIRECT-TO-CONSUMER (DTC) OPPORTUNITIES ARE CLOSER THAN THEY APPEAR

How a wide-angle view of DTC can help brands unlock new efficiencies and build lifetime value

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Capgemini's recent study, What Matters to Today's Consumer, found that shoppers are more willing than ever before to buy direct from brands. So why then are many brands not better prepared and more invested in selling directly to consumers?

Making the hidden visible

Perhaps the most obvious explanation is that the market measurement services used by most consumer products (CP) companies and retailers to track sales by channel tend to underestimate the sales potential of direct-to-consumer (DTC) models.

A recent forecast from eMarketer suggests that sales through DTC channels will account for just 2.5% of total retail sales in 2022. With a number so marginal and the investment of time and money to establish a DTC operation so high, it is no surprise that many brands have been tempted to push DTC to the very bottom of their priority list.

This is a major mistake. There is increasing evidence of the appeal of DTC channels is far higher then previously realised – and likely to increase in years to come.

When shoppers are asked to scan all their receipts and online invoices – including their spend on DTC sites as well as in marketplaces such as eBay, and last mile delivery services like UberEats and Deliveroo – the real figure for the % of sales online can be as much as 10x that previously reported.

Widening the lens on DTC

So how should brands respond? To start, they should reconsider what is included in their definition of direct to consumer.

Many brands are still anchored by the narrow idea of a "brand.com" when they think of a DTC play. However, from the consumer's point of view, we would argue that DTC is any channel or method that consumers perceive as buying directly from the brand owner. Facebook, Instagram, Amazon, and other online marketplaces all offer brands the opportunity to sell directly to consumers.

Widening the lens still further, to include physical direct to consumer retail stores, such as a brand flagship stores, as well as 1:1 loyalty or membership programs, like Adidas's AdiClub, we start to see the true potential for direct-to-consumer platforms and vehicles to drive long-term sales growth through connected brand "story-selling" across key audiences.

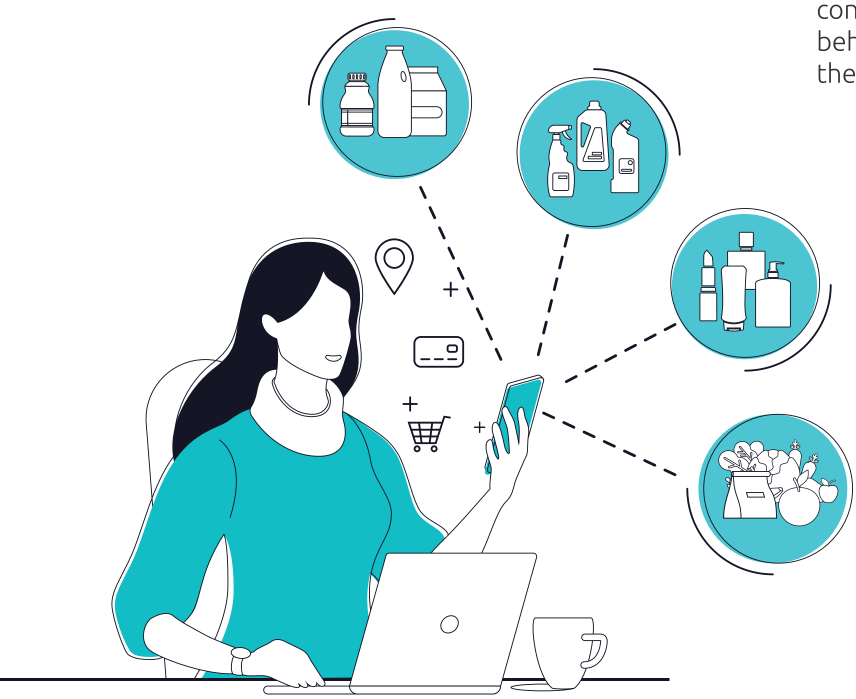
As the number of direct routes to the consumer continues to grow, we see the brands that are winning are those who have broadened their DTC strategy so that it is less about sales through a "brand.com" in isolation and more about using the full range of DTC options at their disposal to unlock high value demand opportunities.

Getting ahead of the generational shift

The rationale for brands investing in DTC opportunities becomes even stronger when one considers the generational dynamics that will come into play over the next decade. By 2030, the Alpha generation, the first generation to be raised entirely within the smartphone era, will become economically active and Gen Z, the first raised entirely within the internet era, will have emerged as the core target audience for many retail and CP businesses.

You can see this potential for an explosion in DTC models in the findings of our report: 41% of shoppers in our survey say that they ordered products directly from brands in the past six months, while more than double that number (88%) of online Gen Z shoppers have ordered grocery, health, and beauty, and/or household and toiletry products from an online marketplace.

As these valuable and highly addressable audiences come through – with their instinctive use of smartphones and devices – and their heightened expectations of always on, anywhere, anytime access to content and commerce – they are creating a bow-wave that will increase the relevance and role of DTC models. it is hard to see how a brand would not want, or benefit from, a direct route to engaging with them.



Setting Customer lifetime value as the goal

As anyone who has run a DTC operation will tell you, it is an inherently expensive exercise. The high costs of customer acquisition and fulfilment make it imperative to maximize both average order value and customer lifetime value (CLV). This is why subscription models are so attractive in the DTC space.

A key design parameter for developing a connected and coherent DTC strategy is to ensure it not only provides a direct and enduring path to consumers who are already brand loyal, but also that it actively sets about recruiting those who are likely to be so in the future.

The brands who have pioneered this approach have found that establishing CLV as the primary goal across all DTC models brings its own challenges – not least in the tracking and measurement side. However, it can be done and is worth the effort. When you flip the definition of conversion from a one-off sale to one of conversion that leads to long-term loyalty, you compound your sales and profitability.

As such, the winning strategy is be to identify and build up the cohort of high-propensity future-loyalists – and incentivize them to keep coming back by using exclusive content and premiums, along with strong insights and behavioral data to continuously anticipate and serve their needs better than anywhere else.

Leveraging data to offer a meaningful value exchange

Unlocking consumer loyalty online is difficult. Trust must be earned and consumers are understandably wary of sharing their personal data. Our survey found only 39% of consumers were willing to hand over personal data to brands or allow organizations to collect data through automation, such as browsing history or mobile app activity.

However, when it comes to consumers who have made purchases via subscription, the numbers are markedly higher, with 63% and 65% giving the green light to personal data sharing and automated data collection, respectively.

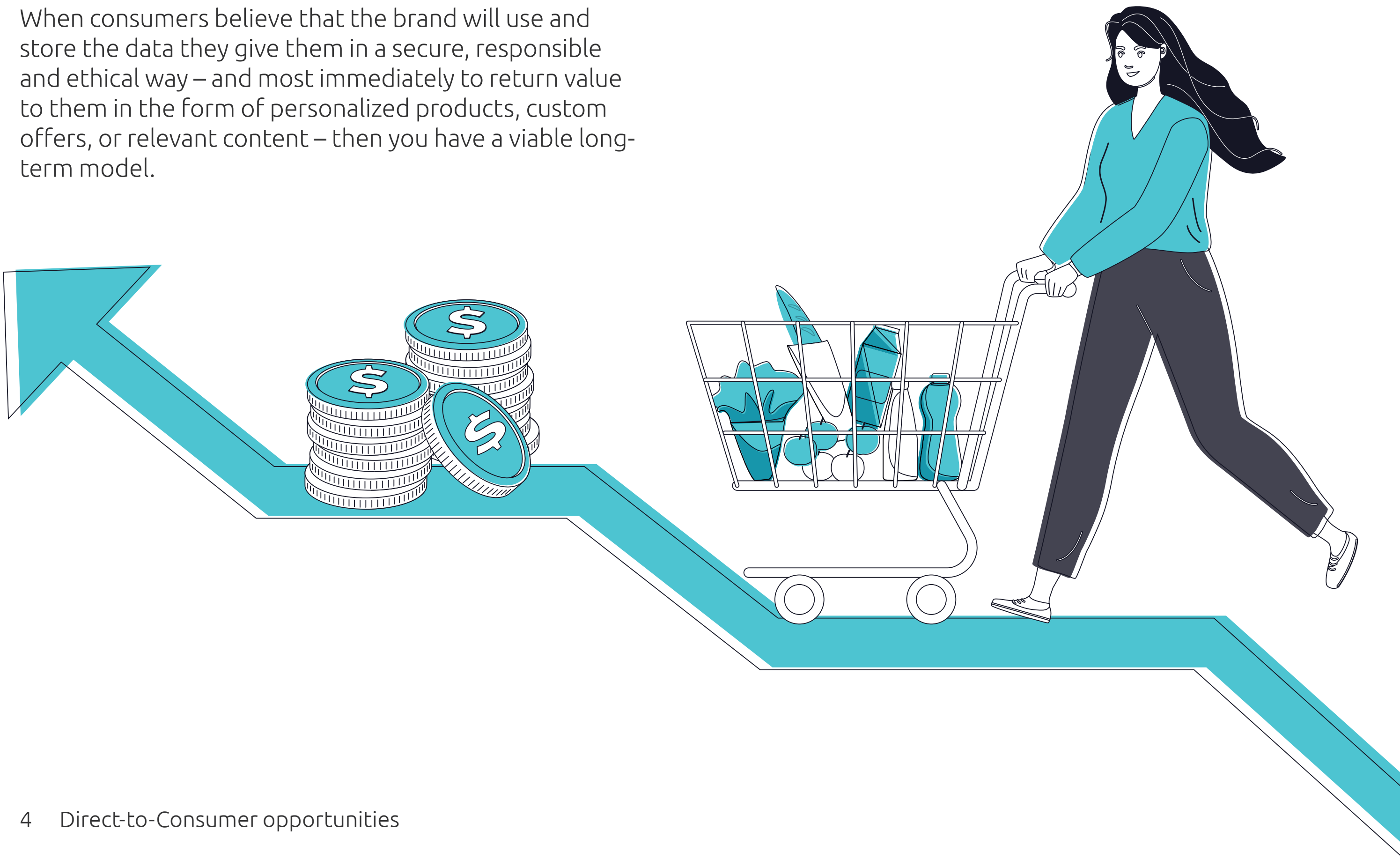
This increased willingness to share data on DTC channels is undoubtedly tied to much higher brand trust levels as well as the expectations of increased value in return for sharing their data with the brand owner. Under-investing in this value exchange is one of the primary reasons that many DTC propositions fail.

When consumers believe that the brand will use and store the data they give them in a secure, responsible and ethical way – and most immediately to return value to them in the form of personalized products, custom offers, or relevant content – then you have a viable long-term model.

Of course, brands also benefit from this value exchange. Access to more data about shoppers provides brands with a wealth of information that they can use to not only improve the customer experience, but also transform the business based on what customers need and want. This behavioral data is especially powerful when directed toward new product development, redesigning packaging, or as an input to price and promotion strategy.

Conclusion

It turns out that DTC opportunities for your brands are not only closer than you might think, but they are also a lot more accessible too. As the retail and consumer landscape undergoes seismic shifts, it is time to update our view of what defines them. The DTC winners of the future will be those who refocus their objective to lifetime value and 1:1 loyalty, and who invest for the long-term in the strategic role this channel can play in a brand's growth plans.



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Reach out to our author, ***Owen McCabe*** *(owen.mccabe@capgemini.com), today to learn more about how Capgemini can help your company deliver what matters to today's consumer.*

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