



ZIFFITY
DIGITAL

HOW CAN MANUFACTURERS EMBRACE DIRECT TO CUSTOMER COMMERCE?

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I. INTRODUCTION

DIRECT TO CONSUMER : ONE OF THE FEW BRIGHT SPOTS IN COMMERCE

As a manufacturer, your business model has always been straightforward: supply retailers with products who then sell them to end consumers at a markup. But does that model still make sense as we enter an era when many retailers have shuttered their doors due to the pandemic, and commerce growth accelerates?

The wholesale/distributor model was useful when managing individual customer relationships was a complex business. But technology, such as Magento Commerce, has streamlined order management workflows for eCommerce from start to finish. As a result, more and more manufacturers are following the Nike model of selling direct to consumers (DTC).

DTC is a bright spot in an otherwise challenging economy. Forrester predicts that online spending by "DTC enthusiasts" will increase by 18% year over year.



II. BENEFITS OF DTC ECOMMERCE

SHOULD YOUR COMPANY IMPLEMENT A DTC CHANNEL? BEFORE YOU DECIDE WHETHER OR NOT TO TAKE A DTC IMPLEMENTATION ON, CONSIDER THE BENEFITS:

- Customers favor eCommerce. Ecommerce had been growing at a fast clip since its introduction 20 years ago, but COVID-19 changed the game. In July 2020, DigitalCommerce 360 reported that online sales increased by 76% due to the pandemic. Consumers are actively forming new shopping habits and brand preferences to avoid crowded stores. As a result, new winners and losers are emerging, and a robust DTC channel helps to ensure your brand is one of the winners.
- Cut out the middleman. The markups that once went to the wholesalers and retailers of your products now stay on your balance sheet.
- Customer journey insight. When you sell your products via a third-party, you get no insight into the customer journey, and why customers choose your products over your competitors. The insight you receive from controlling the customer journey will ultimately shorten your lead-to-purchase cycle.
- Competitive advantage. When you sell directly to a consumer you're not competing with other brands as you would in-store where retailers stock multiple products on a store shelf. You're also not at the whim of a salesperson who may favor your competitor's products for one reason or another.

- Direct customer relationships. A direct customer relationship will allow you to engage with the people who buy your product. You can solicit their feedback on products and use that input to make strategic decisions on product improvement.
- First-party data. GDPR and CCPA are placing limits on the kinds of data advertisers can use to engage customers and prospects. First-party data is inherently privacy-compliant because it is created via a direct relationship. A pool of first-party customer data is a valuable asset, one that can be legally leveraged to target customers when you have a new product to announce, as well as to model prospects to target.
- The retail apocalypse continues. This may be the most important reason to launch a DTC channel. To be sure, the apocalypse started long before COVID-19, but the pandemic has certainly accelerated it. Major department stores have shuttered their doors, hundreds of others are in bankruptcy, and over 100,000 small businesses have failed. At some point, every manufacturer needs to ask: who is going to sell my products?

III. CHALLENGES IN LAUNCHING DTC ECOMMERCE FOR MANUFACTURERS

The benefits of launching a DTC channel are more than compelling -- such a channel may be necessary to assure your brand's survival. But some challenges must be faced and solved.

To begin, the retailers and wholesalers with whom you've done business may not appreciate competing with you.

Additionally, you'll need to create a B2C website, and integrate it with your ERP system so that your customers can place orders and be informed of when they'll arrive at their destinations.

There's also the challenge of selling products one at a time to individual consumers, rather than the volume orders your organization is set up to process. This is no small undertaking. It will require you to understand how, why, and when consumers make purchase decisions and map that insight to an omnichannel customer journey.

Finally, you'll also need to develop a new pick, pack, and ship model, which is no small feat.



IV. HOW IS DTC DIFFERENT FROM B2C?

Many people are understandably confused by the notion of DTC. How is it different from B2C?

The original DTC brands, such as Everlane, Allbirds, Casper, Dollar Share Club, Parker Warby, and Away, are digitally native, meaning they were launched in the digital era and operated solely in the digital sphere. Their mindset and outlook were digitally focused. From their earliest days, DTC founders have needed to sharpen their digital and social media advertising skills, and rely on clever messaging and branding to cut through the noise of these channels.

Another major distinction of DTC brands is their use of the content, which is carefully crafted to resonate with specific user personas at precise points in the customer journey.

DTC brands are excellent storytellers, and those stories are what attract and retain loyal customers. Founders launch their brands because they're unable to find a product that meets their exacting standards for quality, sustainability, or a host of other issues. For instance, the founders of the cooking brand Equal Parts say they founded the company because cooking is a way to spend more time with family and away from the screens that gobble up so much of our attention. This is a powerful message to consumers who also long to spend more time interacting with people in real life.

Mature DTC brands don't stay purely digital, of course. The most well known DTC brands have opened retail outlets and formed wholesale relationships with major retailers. And they don't rely solely on their owned and operated eCommerce site, as many now sell their products via the online marketplaces.

V. THAT WAS THEN, THIS IS NOW: DTC 2.0

Recently, the star DTC brands have lost a bit of their luster. As the Harvard Business Review points out in its recent article, Reinventing the Direct-to-Consumer Business Model, Casper's February IPO valued the company \$600,000 lower than its last private fundraising round. And within days of that fiasco, "Brandless — akin to a DTC dollar store — ceased operations and laid off 90% of its employees. Glossier suspended its color cosmetics line Play after lackluster sales, and Outdoor Voices CEO Tyler Haney was forced to resign amid a reported \$2 million monthly burn rate on \$40 million of annual sales."

Why the DTC bloodbath? According to HBR, the favorite tactics of DTC brands -- social media marketing, influencer marketing -- can't offer the kinds of scale brands need to sustain growth. Foes of direct-to-consumer sales are angsty over selling products via marketplaces or distributors, and what that will do to their sense of purity cut them off from a potentially large pool of new customers.

Moreover, the initial success and abundance of press have caught the attention of potential competitors from a number of corners. Numerous entrepreneurs and investors, eyeing the initial success of DTC brands, jumped into the market, launching and funding competitive DTCs. The competition for the same set of customers consequently drove customer acquisition costs, which had a negative impact on margins. And, incumbent brands either launched their DTC lines or purchased an existing one, increasing competition even more.

Established manufacturers are less likely to feel the constraints of the "traditional" DTC brand. You've sold via wholesalers and retailers successfully and suffered no loss of brand purpose from that model. You already understand the importance of scaling, omnichannel capabilities, and balancing growth with a positive balance sheet.

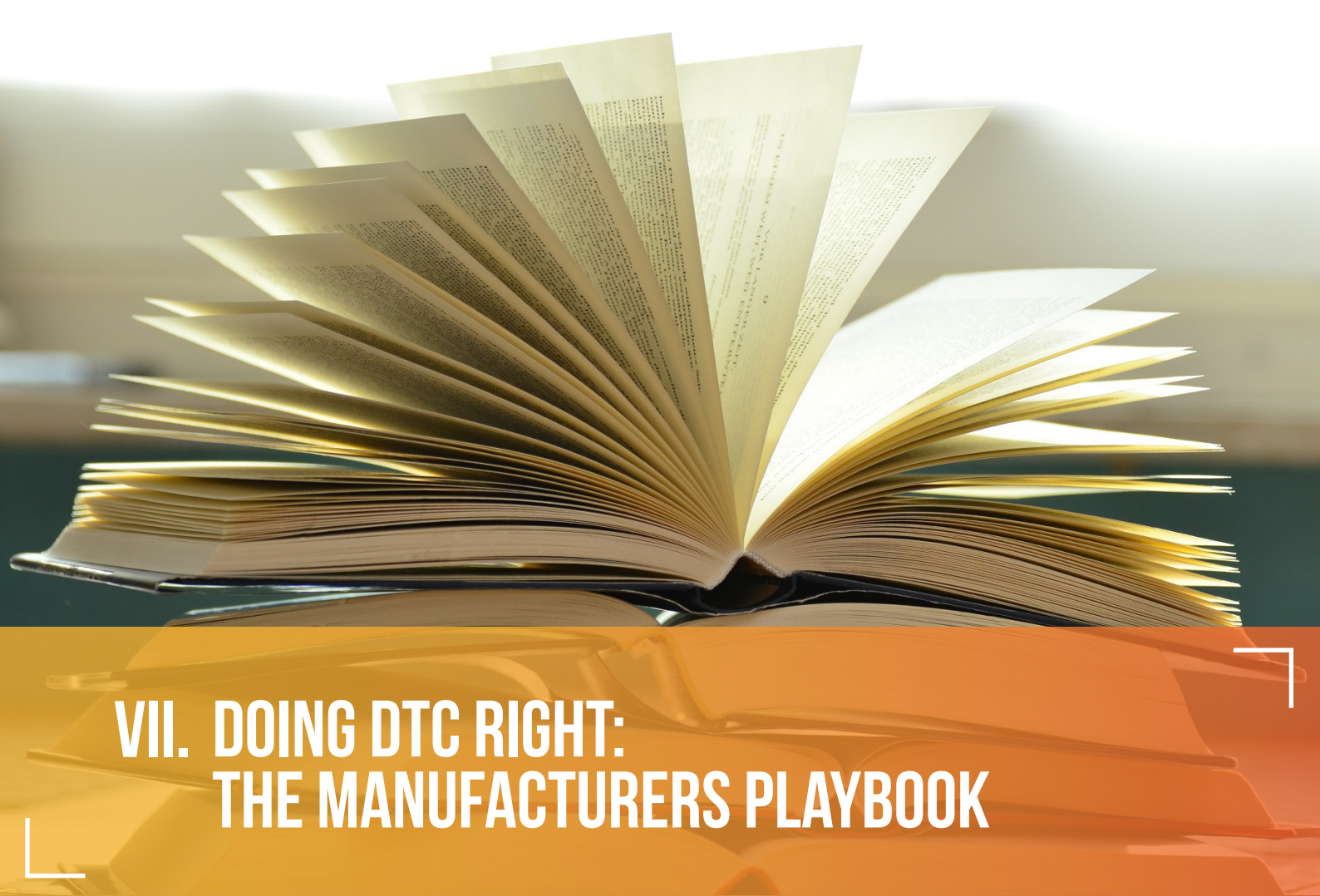
Although the original DTC brands now struggle to survive, all commerce executives must recognize the innovations they brought to the market. Focus on quality, extreme customer centricity, community development, and a content-focused approach to marketing have pushed the consumer products market forward. These tactics will not fall by the wayside, even if some of the brands that pioneered them do. They will almost certainly be core components of the next generation of the DTC business model, which, we believe, will be pioneered by manufacturers.



VI. HYBRID COMMERCE MODELS THAT SUPPORT DTC

What will the next generation of the DTC business model look like? One thing is certain: there will be no one-set model that applies to all brands. We are already seeing hybrid commerce models supporting DTC channels.

B2B2C	This is a model in which both B2B and B2C customers shop from the same website. Products may be purchased individually for the consumer, or in bulk for the B2B customer. Discounts are applied based on the volume of items ordered.
B2B + DTC functionality on same site	In this model, a single instance of the ecommerce platform offers a complete set of B2B functionality for business customers -- custom catalog, pricing, bulk ordering, flexible payment options -- and a B2C site serves direct consumers.
Multiple branded sites on one ecommerce instance	As we'll discuss below, some manufacturers opt to launch a DTC line under a new brand and want to support it with a separate consumer -facing website. That said, they don't want to buy a separate ERP system for the new brand, or integrate the brand into its backend system. In this scenario, a single eCommerce platform like Magento Commerce can support multiple branded sites on a single instance.



VII. DOING DTC RIGHT: THE MANUFACTURERS PLAYBOOK

■ #1: PLAN YOUR CUSTOMER JOURNEY UPFRONT

Selling direct to consumers is a very different model than what you are used to. To succeed, you'll need to plan and execute an end-to-end customer journey, from awareness and consideration to purchase and post-purchase experiences.

This journey will encompass your customer and employee experiences, internal business processes, and technologies.

■ #2: CREATE OMNICHANNEL EXPERIENCES

Your customers may first consider a need based on a video ad they saw on their connected TVs, search your brand on their mobile phones, be reminded of your product in a display ad, pick up their research on their tablets, and ultimately convert on their laptops. The successful brand knows how to recognize those customers across every touchpoint and tell a unified story across the entire journey.

Creating an omnichannel experience also requires you to connect your eCommerce platform to your ERP so that online shoppers have access to real-time product availability data. And in the age of COVID-19, many customers want to order online and pick up at a specific location.

■ #3: CREATE A CULTURE OF CONTENT

This is one of the most important lessons of the first generation of DTC brands: consumers are hungry for product data and brand stories, and will actively seek it out. As a brand, you'll need to create an abundance of content and map it to each stage of the customer journey. Social proofing -- customer reviews, testimonials, social media posts -- will all play a crucial role in your content strategy (and alleviate some of the burden of content creation for your brand).

■ #4: CARVE OUT A NICHE FOR YOUR LONG-TERM BUSINESS PARTNERS

Clearly, the wholesalers, distributors, and retailers that have traditionally sold your products are vital to sales strategies and revenue streams. You have numerous options for ensuring their continued satisfaction for your brand as you open a new, direct-to-consumer channel. For instance, you can create a new sub-brand for products sold exclusively through your third-party partners. You can sell your evergreen products through these distributors, and reserve your online channel for new or unique inventory. And you can create exclusive products for your top-performing retailers, giving them a reason to drive customers to their stores.

■ #5: USE MARKETPLACES AS A STEPPING STONE

Online marketplaces, such as Amazon, eBay, Walmart, and Alibaba, can provide a stepping stone as you prepare your DTC channel. Many consumers begin the discovery phase of their purchase journey on an Amazon, making it an important brand awareness channel. A marketplace strategy will teach consumers that they can buy from you directly, and will seek out your online channel.

■ READY TO GET STARTED?

The biggest challenge to launching a DTC is the time and effort it requires, but Ziffity has you covered. We will:

- Build your DTC channel from scratch and have you up and running in no time.
- Migrate from a third-party eCommerce infrastructure to a robust platform such as Magento Commerce.
- Customize your DTC channel to your customer journey. Our experts can perform code refactoring, custom module development and customization for your existing functionalities.
- Affordable build packages with no payments for 90 days towards your Magento Commerce implementation.

And once you go live, we offer managed services for your technology and marketing needs, thus improving your operations and sales.

If you are thinking of launching your DTC eCommerce project, write to us at contactus@ziffity.com or visit our [Contact Us](#) page to tell us your requirements.