Maximizing the ROI on Your DTC Investment

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A direct-to-consumer (DTC) business model affords companies lower barriers to entry to most markets and creates opportunities to create scale and reach without investments in traditional retail and wholesale channels. Growing a business via DTC channels also provides unique benefits that are harder to come by in traditional retail. For example, the company can create direct opportunities for consumer engagement and test and learn, gain a deeper understanding of their consumers and their behaviors, and provide a more personalized approach to selling target consumers.

Given those benefits, many traditional CPG businesses (that primarily sell through retail) have launched a DTC channel to capitalize on the data and engagement opportunities. Launching in DTC often requires investments in new technology tools and data, organizational skillsets, and processes. As such, companies often look after their launch to ensure that they are getting the most out of their DTC investments.

Below, we highlight several areas to consider when evaluating return and optimizing a DTC business for growth.

Creating Brand Awareness

The first step to optimize growth is ensuring that your brand can be found online as consumers search for relevant challenges your product solves or other competitive products. Top-of-the-funnel strategies that help your brand gain awareness in the market should include SEO, influencers, and field marketing.

SEO: DTC sites that have considered a keyword strategy and optimized their site for SEO have a greater chance of showing up when a potential customer enters relevant search terms into their search engine. If your page is SEO-optimized, you're more likely to have the chance to introduce your brand to consumers – even when they might not be actively searching for it – and begin moving down the funnel for consideration and purchase.

Influencers: Influencers have a track record of driving awareness and product education for DTC companies. According to eMarketer, approximately 40% of U.S. shoppers say influencers and celebrities drive their awareness of DTC brands. Influencers can help to get eyes on a product, and using their platform, can establish a sense of trust with the consumer in a more authentic voice, further enabling brand and product recognition. Depending on the size of the DTC company, leveraging influencers in your sales and marketing strategy can help to drive awareness in the DTC space.

Field Marketing: Field marketing – through events or brand partnerships – offers an opportunity to introduce a product to consumers and form a relationship with complementary or like-minded brands, enabling consumers to better engage with and know your brand. If you know enough information about the consumer you're targeting and are trying to find more consumers with similar interests, you can be intentional in marketing efforts geared at events those consumers might attend – either complementary to your product or connected to one of your brand attributes. For example, Monster Energy might consider sponsoring or doing a tasting at an extreme athletic event.

Testing and learning are critical with awareness to find out what methods are acquiring the right customers. Depending on your strategy, you may seek to learn which avenues drive the greatest volume of customers, the most profitable customers, or those with the highest lifetime value (LTV).

Driving Purchase Consideration

Once consumers are aware of your products, you'll want to take every step to create frictionless consideration to purchase. Investments to optimize the path to purchase (e.g. reduce clicks) or ensure your message is heard during consideration are critical. While many avenues are available, marketers should be careful to allocate their precious marketing dollars in ways that deliver the best bang for their buck.

Paid Digital Ads: Paid digital ads can be scattered throughout search pages and popular websites. Strategic ads can reach more customers, make a favorable impression, and build connections with consumers. Utilizing user-generated content (UCG) in the advertising process makes the purchasing process 93% more efficient for consumers. Take, for example, Mejuri – a DTC jewelry brand that uses UGC as an integral part of its strategy. They utilize sponsored Facebook and Instagram ads that look like normal posts to drive consideration in consumers while also appearing more authentic through this approach.

Paid Search: Paid search can also be implemented to lead to more clicks and prioritization from big search engines. Guava family, a small DTC brand, has grown their business through paid search ads. Guava spends around 60% of its advertising budget on Google search ads, and over 50% of its revenues come from Google clicks alone – significant for a small DTC brand.

Micro-Influencers: Smaller influencers, known as micro-influencers, can also drive consideration by frequently using and showcasing products on their platform. Influencers with a smaller following can often be more targeted in their reach and connect more closely with their followers, often invigorating a more personal tie to the product. Despite a smaller following, these influencers can make a significant impact in placing your brand or product into your consumer's consideration set.

Retail Partnerships: Partnerships with physical locations can also drive consideration. Nordstrom is one example of a giant retailer that has partnered with digitally born and native DTC brands, such as Bonobos, Thinx, Glossier, and Hatch. For DTC companies, this is an effective way to further drive consideration, as consumers are now seeing your brand not only in the digital space, but also in retail stores they may already frequent.

The key at the consideration stage is creating enough brand trust to drive a consumer to begin the checkout. Leveraging brands or individuals that are known to the potential consumer helps accelerate that path to trust and associate the brand with a positive perception.

Completing the Purchase

Once consumers are aware of your DTC product and considering their purchase, brands need to ensure they are putting everything in place to make the close.

Digital Banner Ads: DTC companies can drive purchase through digital banner ads to make a favorable impression, build strong connections, and increase long-term demand. These ads make it easier for consumers to click on and buy a product within minutes.

Email and SMS Offers: Email and SMS (short message service...or texting) can help to remind potential consumers of product offerings and drive purchase through special deals. According to research, 59% of respondents stated that marketing emails influenced their purchase decisions, with half of them buying from those emails at least once per month. Harry's, a DTC company that sells personal care products, sends frequent emails that include a link to easily purchase their products.

Time-Bound Incentives: Time-bound incentives are a tactic to give consumers a sense of urgency through flash promotions, limited time offers, and special discounts, among others, and encourage that decision to purchase. Additionally, there are tools that can be implemented to address cart abandonment and provide incentives for those who may have fallen off the purchase path late in the cycle.

While advertising can be critical in this stage to drive purchase, removing every possible barrier from ordering on the site is also important. Testing again can provide data around which site changes may lead to reduced friction and improved order conversion.

Driving Growth Through Retention and Advocacy

Once a brand has acquired a customer, the objective becomes driving repeat purchase, creating brand loyalty and advocacy, and maximizing LTV. Repeat customers also create consistency, which helps with business planning and operations. Recurring revenue is a key to improving ROI on DTC investments.

Cross Selling and Upselling: Cross selling and upselling are two more major components of DTC consumer loyalty. Pairing complementary products based on existing consumer behavior and brand loyalty can increase average order value (AOV) and LTV.

Subscription: Offering consumers special promotions and deals through frictionless reordering can increase consumer retention and LTV. The subscription business is expected to grow to almost $10.8 billion in 2025. Adding subscription capabilities to your DTC store has numerous advantages, including improved consistency in cashflow, better planning, and ensuring the right consumer has the right product without much effort on their behalf.

Brand Advocates: Brand advocates who have purchased the product before can vouch for DTC companies' brand clarity and effectiveness. Influencers, KOLs (Key Opinion Leaders), co-branded content, and word-of-mouth are notable examples of brand advocates a DTC company should consider. In addition, companies can incentivize customers to spread their brand love through promotions, often creating a new customer at a lower customer acquisition cost.

Personalization: Providing opportunities for personalization can also drive growth with existing consumers. Personalization improves customer experience and boosts loyalty by providing customers with individualized product choices that make them feel unique or valued. DTC companies should utilize the ease of capturing this personalized first-party data to retain customers.

As you continue to grow your DTC business through the funnel, first-party data will be much more accessible to your company. It's important to utilize this data to ensure that you are making the right investment optimizations for your business at the right point in its maturity. This may change over time and requires constant attention to what the data is telling you in addition to investment alignment with the business strategy and the role DTC plays among it.

Looking Ahead with DTC

As DTC companies continue to grow and penetrate various markets, DTC leaders will need to be aware of how to grow and maintain their business. Both attracting new consumers and retaining existing consumers can be difficult, but they are essential to DTC success and financial growth. To better understand these trends and the impact they may have on your businesses, reach out to Clarkston's DTC consulting experts.