clarkston CONSULTING

HOW CAN DTC CONTRIBUTE TO YOUR OVERALL PORTFOLIO?

During the pandemic, the direct-to-consumer (DTC) model experienced a remarkable expansion, charting a path of soaring success for many industries. We now see a new normal where consumers have comfort buying certain categories online but have also returned to in-person shopping for many goods. We have seen a leveling off in some DTC categories, in part because of evolving consumer habits but also due to market saturation and low differentiation.

Companies utilizing DTC face fewer barriers to entry, limit distributor/wholesaler costs, and have greater opportunities for consumer interaction and personalization. A hybrid model that incorporates DTC into a brick-and-mortar framework can reach different consumer markets, as preferences for in-person vs. online shopping vary.

Brands considering implementing a DTC model should determine the role that DTC will play in their portfolio and what successful DTC will look like at your organization, including determining where your audience is, how saturated the product market is, and how the product can be uniquely differentiated.

Whether you're currently in the DTC space or considering entry, we'll guide you through some ways of thinking about how DTC can contribute to your overall portfolio.

Evaluating the Right Channels for Your Business

DTC is only one channel for consumer goods companies to consider. Oftentimes, a brand may start in one channel and migrate to others over time and growth horizons. There are three main consumer goods channels for consideration:

Brick-and-mortar sales

As of 2022, approximately 81% of consumer spending still occurred in a traditional in-person store environment. Shopping in person allows consumers to physically evaluate the products on the shelves and make comparisons between product characteristics, prices, and other differentiating factors. Given the large size and scope, brick-and-mortar can provide a significant upside for sales growth but does come with challenges and costs of serving the retail market.

DTC

A direct-to-consumer channel is when a brand sets up its own online selling and fulfillment platform. The brand owns the experience, the sale, and the fulfillment. This allows for direct data capture and communications but also means that the company is responsible for the consumer service that goes along with that. Organizations need to set up the infrastructure to manage fulfillment as well as consumer satisfaction, including all the social channels with the responsiveness that consumers expect for any issues with shipping, product defects, etc.

eCommerce purchases

DTC and eCommerce can go hand in hand through online selling platforms, but they are not one and the same. eCommerce can be defined as selling products online using someone else's platform, such as Amazon, Walmart.com, or Instacart. This channel allows companies to take advantage of established consumer habits with some of the largest online players including Amazon, which accounts for 38% of online sales. Selling on these platforms gives a brand access to the retailer's consumer base, as well as their technology, systems, and networks. Some retailers provide access to consumer data on purchase habits and demographics as well as the tools to personalize offers and marketing opportunities for targeted consumer segments. However, it's worth considering the opportunity cost on some of these platforms around access to and control of data and the cost of marketing.

Establishing Company Goals and Values

The DTC distribution model holds potential for direct consumer engagement but can lead to rising costs and complexity. To determine how DTC fits into your structure, there are some key questions to consider:

What complexities exist in distributing your products?

Some consumer products naturally lend themselves more to DTC distribution through the need for consumer personalization or interaction. On the other hand, certain products may add complexity and cost in a DTC environment. Products that require refrigeration or must be kept frozen can be economically challenging to ship directly. Likewise, heavier products like beverages or pet food can be difficult and costly to ship.

What does the competitive set and category look like in the DTC environment?

Product differentiation online can be challenging. With low costs of entry, there can be lots of competition in any given category. This can create oversaturated markets, and product differentiation becomes difficult and can inhibit consumer recognition. It is critical to consider the unique features of your product or business model to drive consumers to your product over others.

What are consumers looking for that you can uniquely provide on a DTC site?

DTC allows close consumer engagement without a distributor or retailer existing as a middleman. Can you provide products on a DTC site that consumers will not find in other retail establishments? Are there perks or rewards you want to offer that could build loyalty and might only be achieved through a direct relationship?

Will direct consumer interaction significantly enhance your brand?

The DTC model allows for direct feedback loops, where consumers can share thoughts and preferences directly with your brand. It also provides you with full control over the consumer experience without the presence of intermediaries. DTC allows you to establish a direct line with consumers, and this one-on-one engagement can allow you to convey brand values, encourage consumer loyalty, and make your product more memorable. This kind of direct relationship provides the opportunity to gather insights into consumer behaviors and feedback, allowing better alignment of consumer wants and needs with your product offerings.

Evaluating the Role of DTC in Your Channel Portfolio

Once you have determined your other sales platforms, there are a few key questions to consider as you evaluate the distribution channels for your business:

- Where is your margin coming from today, and what are the key features and benefits that consumers are looking for in your brand and product?
- For your unique business and product, which channels provide the benefits you are looking for at a margin that makes sense?
- Do the DTC benefits around marketing, communications, and loyalty outweigh the costs associated with distribution and fulfillment?
- Can or should DTC be viewed as a marketing expense instead of a distribution expense?
- Will the benefits of reaching new consumer segments, increased brand loyalty, and opportunities for closer communications make DTC an attractive brand opportunity?

DTC can create a deeper connection with consumers, which can enhance brand awareness and revenue. In fact, 88% of consumers state that they would prefer to buy directly from manufacturers, so selling directly may open doors to more streams of revenue. Many consumers believe that brands themselves have better deals and offers, and they also tend to trust the brands more than the intermediaries and retailers.

The DTC model is enticing to many companies due to its lower entry/establishment costs, easier market entry, and relationship with consumers. However, brands must have a marketing strategy to drive consumers to their sites.

It's essential to get the right product into the right channel at the right time. DTC can be a primary driver of revenue and for others, it might be more of a consumer engagement activity. Understanding the role DTC might play in your brand will allow you to set realistic goals and expectations. To learn more about if DTC is right for you, contact our DTC experts today.

ABOUT CLARKSTON CONSULTING

Businesses across consumer products industries partner with Clarkston Consulting to enhance strategic decision-making, improve operational efficiencies, implement new technologies, and promote business growth and market diversification. Leveraging deep functional and industry expertise, our people discover, design, and deliver solutions that fit your business, your goals, and your future. At Clarkston, your purpose is our purpose.

For more information about how we can help your company, please contact us.