



PATH TO SUCCESSFUL DIRECT TO CONSUMER (DTC) - A TECHNOLOGICAL LANDSCAPE

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Abstract

Digital sales are booming, and with deeper internet penetration and increased accessibility, people have increasingly started to buy digitally. Most of the CPG brands & retailers have read the writing on the wall and are taking steps to change per the market needs. They are not only relying on traditional sales channels like physical stores or e-commerce partners, but also increasingly using digital technologies to circumvent distributors; thereby, entering direct relationships with their end-users, Direct-To-Consumers (DTC). With the clear opportunity for businesses to go DTC, what are the key tenets that need to be considered and what technologies support is needed.

Digital sales are booming, and as per [E-commerce worldwide - statistics & facts | Statista](#), in 2021, over 2.14 billion people worldwide are expected to buy goods and services online. This is up from 1.66 billion global digital buyers in 2016, i.e., 27.2 percent of the world's population, the COVID-19 period further accelerated this trend. Now, even when things are calming down, people are free to visit and shop from stores, the consumer habits & behavior seemed to have changed in sundry ways, so has the response of CPG brands and retailers.

With deeper internet penetration and increased accessibility, people have increasingly started to buy digitally. In 2020, e-retail sales accounted for 18 percent of all retail sales worldwide. These numbers are expected to increase to 21.8 percent in 2024. In Europe and the U.S., digital commerce is expected to grow by more than 50 percent until 2024, while China and the Rest of the World are forecasted to almost double their digital sales in the next 4 years.

One argument can be that post-pandemic, things may go back to pre-covid times, but again as per McKinsey, analysis of credit and debit card statements), Dotcom step change has stuck. E-commerce sales continue to experience outsized growth, with online penetration remaining approximately 35 percent above pre-COVID-19 levels, and e-commerce showing more than 40 percent growth over the past 12 months. At the same time, brick-and-mortar spend on retail categories have stayed relatively consistent during this whole period.

The data and figures clearly depict digital commerce is here to stay!!

Most of the CPG brands & retailers have read the writing on the wall and are taking steps to change per the market needs. A survey by EY suggests that prompted by the pandemic, 86% of consumer companies in 2020 reviewed their comprehensive strategy and portfolio. 63% of global companies plan to increase investments in tech and digital and 57% will focus more on customer engagement.

Many business leaders defined digital spend as their most critical focus for 2021 (Forbes).

The consumer buying landscape is changing, but question is, what are they looking for?

The [EY Future Consumer Index](#) (Index), having surveyed thousands of consumers since the pandemic began, has some interesting findings:

- **Affordability takes pivotal role-** 63% of consumers say three years from now price will be the most important purchase criterion.
- **Purpose matters more than ever-** 69% of consumers believe brands must positively change the world.
- **Consumers embrace data sharing-** 62% of consumers would share personal data for healthier product recommendations
- **Brand characteristics** that influence consumer shopping behaviour... 54% of global consumers feel authenticity and honesty are extremely important.
- **Experience-** 38% of consumers intend to do more shopping online and only visit stores that provide great experiences.

The above survey helps and provides guidelines for the strategic directions that brands need to take for futuristic planning and to align their game plans. Rather, it points out that brands need to find the right economic model to deliver

better value to consumers at a perceived fair price which is the prime driver for purchase and brand switch. It also implies that brands form closer ties with consumers and communicate their "Brand Equity" & "Brand Purpose", in return for consumers' willingness to share data.

Several CPG companies having identified the trend have started investing heavily in digital & digital-transformation. Brands are not only relying on traditional sales channels like physical stores or e-commerce partners, but also increasingly using digital technologies to circumvent distributors; thereby, entering direct relationships with their end-users, **Direct-To-Consumers (DTC)**. This has translated into brand independence for companies, which they have been aspiring for long. It helps them control their own destiny rather than relying on third party players. It also provides an opportunity for brands to come closer to their consumers and align with their purpose, to share right message and position which earlier used to get diluted by many intermediaries. These relations can help the brand managers to generate deeper insights into consumer needs, learn the trends unmediated by collecting first party data. Thus, enabling them to create efficient new sales channels, feedback mechanisms, fueling innovations or unlocking entirely new business models eliminating the middleman. DTC model also ensures customer confidence in product authenticity, protecting brand by resolving issues of counterfeit products impairing the brand image and customer experience.



DTC is consumer centric, with customer experience at its core. It is not just about creating an e-com website and filling orders but about providing an excellent, uniform, and seamless experience across the customer journey. Companies have recognized that customers, while pursuing their intent, engage in multiple journeys

over the lifetime of their relationship with a brand.

An effectual DTC can be enabled by aligning with customers' intent and serving them in their preferred channels, devices, and touchpoints through every stage of their journey. The key trends that are emerging since 2020 are that more and

more customers are shopping outside of the traditional website, such as on mobile, social networks, Kiosks, chatbot, wearable tech or IoT channels (Alexa, Google Home, etc.). Thus, businesses need to adapt to keep the competitive edge and ensure accommodability for other innovative products that will surface in the future.

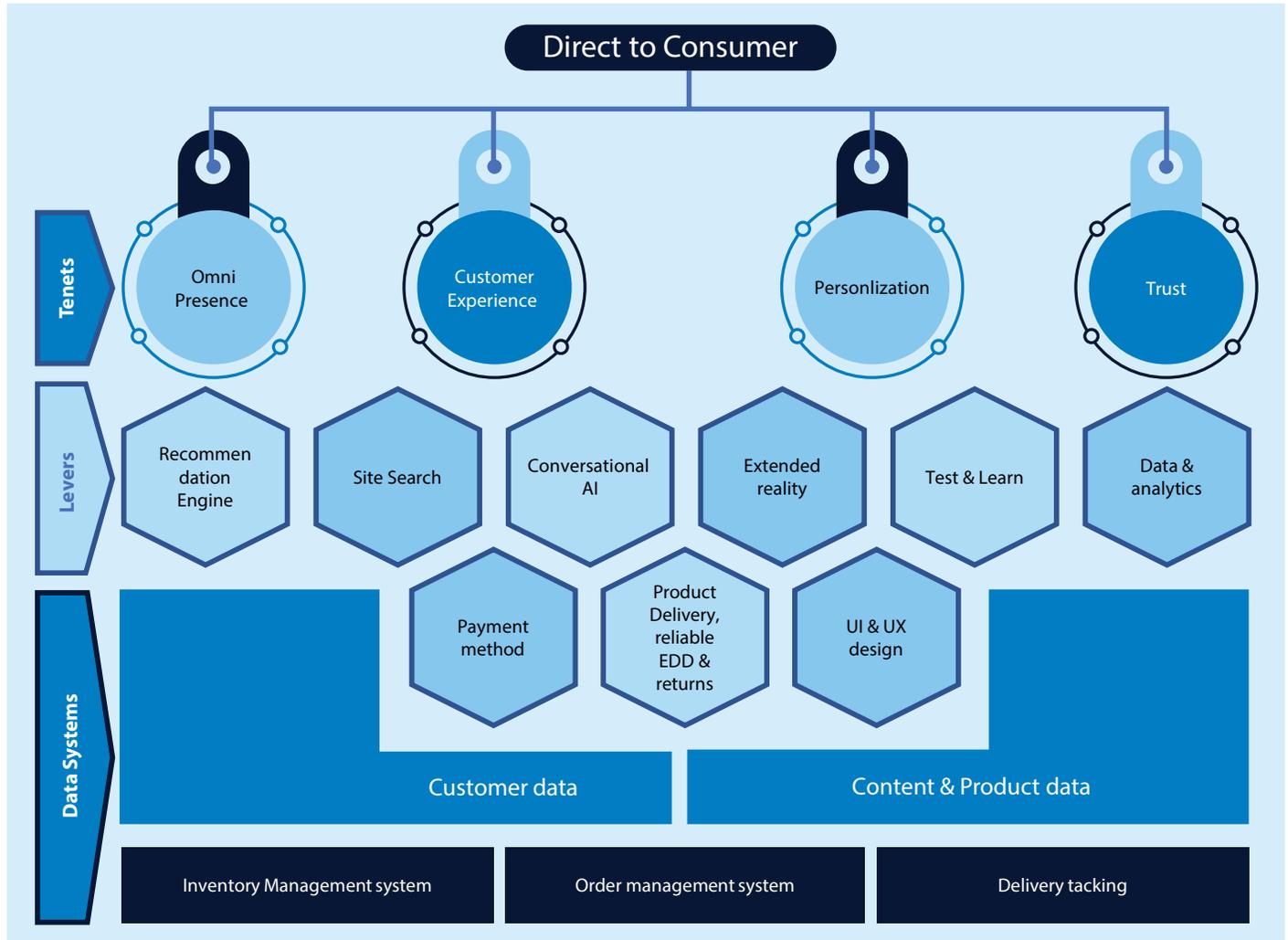


Figure 1: Tenets, levers & data systems for achieving DTC



With the clear opportunity for businesses to go DTC, the key tenets that need to be considered for planning are

1. Omnipresence across channels:

objective is to be present for the consumers' need in their preferred channel and network. The presence could be in physical stores, Partner e-com networks and other emerging channels. Customer journeys are different and interwoven across media and channels, calling for a structured channel ecosystem, e-commerce included, which provides value along that journey. To maximize this value, we need to create brand content drivers & storefronts on multiple channels for the customer. The lines, between platforms for media consumption and buying, are blurring, and today's customers explore options, reviews on social media, and even make purchases through it.

It is vital to have a strong digital presence, to develop an integrated strategy between digital touchpoints, to trigger intelligence for connecting better with consumers and to generate business.

2. Customer Experience: Mere presence across channels is not enough, rather it can be detrimental if experience across channels is not seamless and uniform. As per a survey by Microsoft, 58 percent people stopped doing business with a company owing to poor customer experience. Experience encompasses every aspect of a company offering, from the ease of finding the products on channels, to products, recommendations, interactions, advertising, packaging, service features, ease of use, reliability, post purchase process etc. For brands to adopt DTC strategy, customer experience is pivotal and to ensure it is positive, it must be at par with experience from retailers. Organizations must understand customer journeys, behaviors, preferences, & expectations and continuously strive to enhance experience by improving their capabilities.

DTC enables alignment of user experience with its journey. For e.g., organization should constantly try to understand the intent of consumers to offer the right products. The offering should be simple and all the expectations regarding products, delivery cost price etc. should be communicated upfront, and throughout the transaction.

3. Personalization: It can be deemed as a subset of customer experience but as it involves 1st party data collection and helping customers, an independent reference is needed. Nowadays, customers have multiple options available given superfluity of products online, so much so, that a Washington Post article (states, multiple options have overwhelmed shoppers so much that some shoppers are turning to other stores. A classic theory "Paradox of Choice" captures this beautifully on how a surplus of choice actually paralyzes people, making them feel less free.

To provide the right recommendation at the right time, thus, becomes a key for consumers and brand loyalty. Every customer journey is different, and data becomes critical to understand, build a relationship with consumers and provide relevant recommendations. It is important to look at the consumer holistically, not just

at what they buy, but how they buy, what influences them, what do they care about, how do they arrive at purchase decisions, etc.

4. Trust: A famous pearl of wisdom, "Customers Don't Buy from People They Like, They Buy from Those They Trust", and the same applies to companies. Building trust is important but difficult, especially online, without genuine, face-to-face interaction akin to physical stores. Companies focusing solely on the "Features, Advantages and Benefits" will not be enough if consumers don't trust. Brand characteristics, such as "Brand Image", "Brand Purpose", "Brand associations", etc., play a great role in developing customer confidence. Companies should acquire a purpose-driven and transparent approach, from the customer's perspective, a company should be demonstrative and honest about the principles it values. There it becomes easier for customers to align their ethics and give the trust.

Many a times even passing over trivia like slow response time of website, misleading shipping prices, inadequate FAQ page, negative social proof, inefficient social response to critics & controversies, shorter trial or return period, vague customer data collection and privacy becomes detrimental to customer trust.



The above tenets are guiding sources to achieve success in DTC, and to achieve them, the companies need to build on:

1. Content (Product info & Marketing content) platform across channels:

A uniform messaging across channels should be visible to customers to have a uniform experience so that “brand identity” is clear and consistent. With increase in the complexity of media consumption platforms, channels, and devices, shoppers have got an ever-evolving world of resources at their fingertips. It is required that companies have a base system that caters to all uniformly. The content, product information, and other relevant data should be unified and not be bifurcated into “social”, “web” or “display” etc. It should be available for all mediums and adaptable at a moment’s notice. The base system should be flexible to create a unique experience for the visitors, with the features and functionalities customizable from the commerce platform. The storefront or media consumption platform, (whether it is web browser, mobile device, social media, or in-store), provides users with a personalized experience. This encompasses product delivery and service offerings, pricing, and other content that’s tailored to their interests and needs with negligible manual activity or backend complications. The content platform is further connected to other systems like Order management systems, Inventory system, order tracking systems etc., for accessing data and sharing it as and when needed.

2. Customer data:

Apropos personalization demands data. It is not just about having enough data, but to reveal shopper’s real intent and interests. DTC model enables and provides an opportunity for brands to collect “First-party” data of their consumers (either through online or physical stores). This data may include historical, transactional, contextual, demographic, and behavioral

information, which provide means to a brand manager to know its consumer better. This data, when unified, forms basis for gaining insights, driving intelligence & creating personalized experiences, thereby, providing endless possibilities to the brand in developing custom products and promotions. Different teams like marketing, sales, and service, can discover a wealth of new opportunities across different channels and get a 360-degree view of the customer. Data along with the power of Analytics can provide a rich, real-time view of exactly what resonates with the precise needs and expectations of the shopper at that very moment.

Apart from first-party data, consumer data is further augmented by 2nd party (first-party data that is collected by another company) and 3rd party data (typically anonymized data collected by data collection agencies like Google). These data sources on one hand enhance the customer data but do offer complications such as 2nd party data which may be unreliable and difficult to integrate with existing system, 3rd party data being highly regulated and of short usability span (It is being speculated that google may stop 3rd party cookies in future).

Eventually, a system, that is flexible and responds to the ever-changing consumer behaviour and technologies, is needed. It should integrate data from disparate sources and support to provide real-time and personalized recommendations. It must safeguard and control customer PII (Personal Identifiable Information) & SPI (Sensitive Personal Information).

3. Recommendation engine:

Information overload and problem of plenty has paralyzed the consumer. There is a hard demand to prioritize and deliver relevant information to users to simplify the “Paradox of Choice”. The mechanism to provide personalized content to the consumer is a recommendation engine, which can drive product recommendation or content recommendation. An efficient

recommendation system is an important aspect to improve customer experience and increase conversion. This also fulfils the need for prioritization and personalization. Recommendation system can also be based on certain functionalities and uses. These can be prescriptive, i.e., based on historical transactions, Adaptive, based on real-time behaviours of shoppers, and Customized, based on customer segment or generic terms. To summarise, relevance is created by showing the right message to a customer at the right time at the right place.

4. Site Search:

Effective site search functionality, on a DTC channel, is an important component of a successful digital strategy. It helps the users to find the products they are looking for by matching the search keywords with the products. According to Forrester Research, 43% of website visitors go straight to the internal search bar when they open a website. Site search encompasses more than just the search box; it also refers to faceted search, product ranking, and synonym management.

In today’s world, consumer expectations on search results are driven by Googles and Amazons of the world. The Baymard Institute research suggests that 61% of top selling e-commerce websites perform “below an acceptable search performance. Where 40% to 80% of the online revenue is generated by search users, yet 70% of eCommerce search implementations are unable to return relevant results for product-type synonyms. The search, now, covers voice and visual aspects too, where some of the companies provide customers the option to provide sample pictures to find items similar to that of the sample.

Better search can help achieve higher conversion rates and provide a better consumer experience. Site search analytics can also provide valuable insight into what customers want, how they seek the products they’re looking for, and which searches are returning irrelevant results.

5. Conversational AI:

Conversational AI is a technology powered by sophisticated machine learning and artificial intelligence algorithms. It can carry out and hold written and verbal conversations with humans, identify and address their needs. As a virtual sales assistant, it can be used to improve customer experience by steering interactions, guiding them and successfully completing sales. It can access customer data, transaction history, touchpoint actions to understand customer choices and even offer recommendations. It can also predict the most probable intent of a user for site visit i.e., track shipment or purchase item etc. and can provide relevant support. The support can range from helping to find the right product, upsell and cross-sell, inform customers about product details, help them register, respond to delivery-related queries, etc.

Conversational experiences add value to the customer's journey, by enabling a two-way communication channel thus delivering personalised experience, driving brand value, and, last but not least, enhancing customer satisfaction.

6. Extended Reality:

Somewhere between catching Pokémon on streets and Covid19 lockdown, our world has changed a lot and so has the expectation from and adoption of technology. Consumers and businesses have adapted to this new extended reality and brought that in commerce to enhance experience and build confidence during shopping. Companies are exploring further options and technologies for consumers to have a nearly identical experience to shopping at a physical store.

Augmented shopping aided by AR, VR & AI provides online shoppers more comprehensive interactions with the products. Today's shoppers' reality encompasses Virtual fitting rooms, Digital mirrors, visualization of product in a home environment providing an accurate visual, albeit extended. These technologies enable DTC companies to provide rich content, surplus details thereby offering consumers new experiences and help generating higher confidence in their product choice. A customer today, laden with highly effectual and technology rich smartphones and 5G standard, can explore and hence provide meaningful interaction and profound data resulting in increased conversions and unforgettable experiences. The maturity and delivery of these experiences will depend on the industry and products.

7. Test & learn:

Test and learn is an optimization process where all changes, ideas, hypotheses are tested with real customers and products than on gut feelings, opinions, or just part experience. It talks about setting up experiments, observing the results of those experiments, and making observation-based inferences. It helps to find areas of improvement and supports continuous upswing. More than a methodology, it is a philosophy and cultural practice. Think about all the big digital companies built on Test & Learn philosophy. One of the world's biggest marketplaces that I worked with, has the leadership KPI for numerous experiments conducted in a quarter.

Test & Learn lowers the opportunity cost and minimizes investments in changes which may fail. This means a steady and sustainable improvement leading to incremental gains and high ROI. Developing an internal culture of experimentation and setting up processes

& tools for Test & Learn can speed up the process of identifying consumers priorities, and optimum way of delivery.

8. Data Analytics & Insights:

We have been discussing a lot about data and how to make data work for achieving DTC objectives. However, with this data comes the need to house, analyse, and apply insights from data to business processes. For successful DTC operations, there is a dire need for an analytics team to churn out insights applicable to the business. Consumer products companies can acquire data analytics capabilities by building in-house, through acquisitions or outsourcing analytics to trusted partners.

This paper has so far covered major technology modules required for a successful DTC, but that's not all. Covering the technology tracks is needed, yes, but interlinking them to provide a superior experience to customers is still a difficult task. These capabilities should be modular and independent to the front end, and have a smoother interface amongst them i.e., system silos should be removed to access the data and the system. The front end or storefront should be flexible and adaptive to the new and emerging channels for personalized customer experience, and accessible as and when needed. One of the new buzzwords that's applicable, "Headless", means the frontend and backend operations are independent and can be connected through efficient systems. This gives flexibility to front-end developers in providing a customized experience for each channel without disrupting the backend processes. The customer expectations are fluctuating, so a high in demand novel offering becomes the table stakes. It is a constantly evolving process and needs organizational design and committed support. Some of the points worth mentioning are:

9. Policies and processes for returns:

The main reason for people enjoying high speed is not just the engine but the reliability of breaks. Similarly, for developing confidence in digital shopping and experience, return policies and processes should be smooth and streamlined. Customers should be able to order with confidence that if the product doesn't fit the expectation, they have an easy option to return. Some of the retailers go to an extent of printing returns slip in the delivery box.

10. Payment Options:

Another significant area for DTC is payment options. Consumers want wider variety of options than just credit cards or checks, like ACH payment, e-Check, recurring payments, etc., in short, anything that makes transaction easier.

11. Reliable delivery management and delivery time:

This is one of the major areas of potential friction. Customers demand fast, flexible, and convenient delivery options, not necessarily free. But to fulfil the customer-centric promise of the DTC model, it is essential to implement systems for smooth delivery management. Apprising customers the right delivery time in advance is crucial for expectation management, hence, it becomes imperative to efficiently estimate and calculate delivery dates.

Planning to launch a new channel i.e., DTC has several advantages for brands, but it can also alienate long-term partners and distributors which have been core to the brand. When adopting DTC as one of the new channels, companies should determine and plan which market, which target group, what products, which line of business it wants to enter, so that the relationship with an existing partner is not soured. There are numerous ways for DTC and brand partners to coexist, such as exclusive product launches with partners or creating a new brand line for

DTC, exploring markets where partners don't operate, or developing a unique source for customized content on product information/brand information which can be accessed by all.

Conclusively, for entering the DTC channel, organizations need a clear channel strategy for the right market, customer segments and products. Detailed market size evaluation, assessing relevant trade-offs

in terms of cannibalization, and gaps in customer needs need to be researched. The kind of assortment and pricing strategy to be adopted, the type of brand messaging to be communicated to the consumers need to be gauged and decided.

Finally, these capabilities need to be made a part of the organization design to operationalize. How to do it? – Build, Buy or Lease.



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