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Direct to Consumer- The trend of the future

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Overview

Shopping online has become a necessity rather than a convenience due to the COVID-19 pandemic. This change has pushed many brands to go the D2C route.
Direct-to-Consumer or D2C is a model where a brand promotes its products directly to consumers without the need for any intermediaries. Brands using the D2C model manufacture, sell, promote, and ship its own products.

Today, brands are leveraging many online channels to reach out to their customers. But the decision to go D2C is one that needs careful consideration. This E-book will cover:

- D2C Fulfillment Options
- Factors that determine D2C Fulfillment options
- Impact of D2C E-commerce on manufacturers (brands)
- The future of D2C

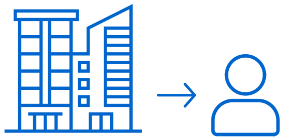
What is a D2C E-commerce Business Model?

87% of US Consumers say that they will purchase directly from a brand online if they could. - 2018 Consumer Preferences Survey, Brandshop.

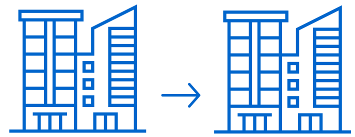
59 percent of respondents preferred to do research directly on brand sites and 55 percent want to buy from brands directly. -Astound Commerce Consumer Survey of 1000 US Adults, 2017.

Direct-to-Consumer is a model incorporated by brands that sell products directly to consumers eliminating the use of distributors, retailers, wholesalers, or other channels.

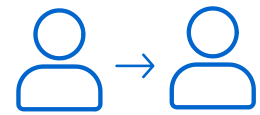
There are different types of E-commerce business models like:



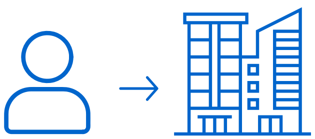
B2C- Business to Consumer



B2B- Business to Business

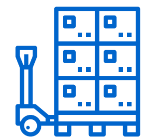


C2C- Consumer to Consumer



C2B- Consumer to Business

Dropshipping



Wholesaling

A large number of businesses are now moving towards D2C as it cuts out middlemen. It allows brands to manage every aspect of their product like marketing, distribution, and fulfillment.

Why do brands prefer D2C E-commerce Business Model?

- Obtain a good understanding of the target market and audience
- Easy to introduce an innovative product on a smaller scale without any delays
- Allows brands to take complete control over their reputation and customer experience
- Provides a platform for brands to easily create an omnichannel buying experience

There is obviously a concern if the D2C business model damages brand-retailer relationships. But brands would rather want to look at retailers as their channel partners. They redirect their D2C customers to their retail partners for order fulfillment.

Almost half of manufacturers said direct to consumer sales increased brand awareness and have boosted leads and sales for their channel partners. - Forrester Study.

D2C E-commerce provides greater control over brands, higher profit margins, and greater innovation. It is a win-win for both brands and retail channel partners.

Here’s how the D2C E-commerce model has outplayed a traditional retail model.

(Source: Deloitte)

Dimension	Traditional	Digital (D2C)
Reach	Limited	Unlimited
Personization	Massmarket	Hyper-personalized
Loyalty	Basic	Advanced
Access to customer	Periodic or limited	Comprehensive
Pricing	Partial control	Complete control
Speed to market	Slow	Quick
Merchandising	Limited control	Complete control
Assortment	Limited	Full
Capital expenditure	High	Low
Overhead costs	High	Low

Various Direct-to-Consumer Fulfillment Options

There are three ways to build your D2C logistics framework. They are:

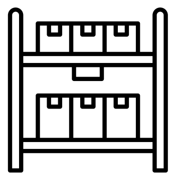
- In-house Fulfillment
- Fulfillment by E-commerce marketplace provider (External provider)
- Fulfillment through 3PL provider

D2C Fulfillment Options

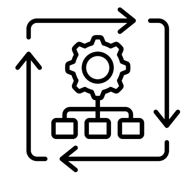
In-House Fulfillment	Fulfillment by E-commerce marketplace	3PL Providers
Managing in-house fulfillment without help of 3PL provider	Companies selling their items through Amazon/any other marketplace. Amazon under-takes fulfillment activities	Outsourcing the entire fulfill-ment process to the third-party logistics provider
Level of control: High	Level of control: Low	Level of control: Medium
Scalability: Low	Scalability: High	Scalability: High
Affordability: Low	Affordability: Low	Affordability: Medium
Best suited for starter D2C busi-nesses or small E-commerce stores	Best suited for smaller or emerg-ing brands	Best suited for large and growing e-commerce stores.
Not suitable for bigger and grow-ing companies.	Not suited for big brands as there are possibilities of cloning.	Not suitable for small and starter D2C businesses

In-house fulfillment

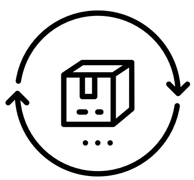
In-house fulfillment is also called self-fulfillment. The D2C owner handles fulfillment without any help from third-party providers. It involves five basic steps:



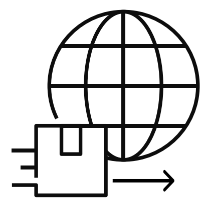
Inventory storage



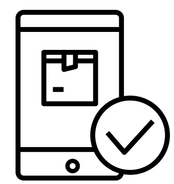
Order processing



Returns processing



Shipping



Receiving

In this fulfillment method, the D2C owner handles the picking, packing, or shipping of an item and the [returns processing](). Every step in this fulfillment process has its nuances, right from routing to managing inventory.

Pros	Cons
Comprehensive control over order fulfillment process	As business grows bigger and complex, cost and time burdens arise.
Better quality control	Needs more staff and technology spends increase
Helps offer personalized customer service thereby improving customer satisfaction	With more business, logistics handling becomes complex

Who uses in-house D2C fulfillment?

The D2C brand itself undertakes the fulfillment. Brands outsource logistics operations to third-party providers once their business grows.

Fulfillment by E-commerce marketplace

External E-commerce marketplace providers like Amazon have become a storehouse of business opportunities. They provide exposure to companies who want to reach a wider audience base. They also help brands to save costs on infrastructure like warehouse, labor, vans, and so on.

There are two types of D2C fulfillment by external providers.

Two types of D2C fulfillment by external providers

Outsourcing the entire fulfill-ment operations to external providers like Amazon (products listed only on external providers website i.e Amazon)

Using external providers for only inventory management (prod-ucts listed only on brands own website)

Outsourcing the entire fulfilment operations to external providers

In this method, the retailer sells items on online platforms such as Amazon marketplace, and Amazon fulfills their orders. Instead of brands selling their products online through their website or online marketplace and fulfilling orders to customers themselves, they send it to the nearest Amazon fulfill-ment center.

External providers like Amazon store the products in the warehouse and sell them in the Amazon marketplace. As a customer buys an item, the external provider is in charge of picking, packing, and shipping items.

Using External providers for only inventory management

In this method, brands don't list their products on E-commerce marketplaces like Amazon. They, instead, use these E-commerce marketplaces as their fulfillment partners. They do their product listings on their own website.

The marketplaces are only responsible for picking, packing, and shipping the orders and processing the returns.

Pros	Cons
Frees up working hours and lets businesses focus on other crucial aspects	Quite expensive compared to high-quality fulfillment providers
Receive benefits of two-day or overnight shipping	Confidential data on brands' products can be misused or duplicated when a product becomes a bestseller.
Sellers gain a competitive advantage to access the best logistics services	Quality control and control over customer data lies with Amazon

Fulfillment through 3PL Provider

Outsourcing D2C activities to a 3PL provider means handing over the entire fulfillment process to them. These processes include:

- Receiving inventory from manufacturing
- Picking
- Packing
- Shipping
- Restocking returned products
- Quality control
- Customer service

3PL providers offer high-quality services, flexibility, diversity, and optimal price for deliveries.

Pros

- Enables brands to focus on brand strategy and growth
- High volume of shipments means better discounts and hence cost efficiency
- High-quality fulfillment experience
- Provides cost advantages for regulated items and goods like electronic products
- Extensive experience in scaling logistics process thereby making it a long-term fulfillment option

Cons

- Losing complete control of fulfillment and quality control is reduced

Who uses the 3PL providers as a fulfillment partner?

Both emerging and established brands depend on 3PL partners for their fulfillment needs, thanks to their extensive experience in scaling logistics processes.

Factors that Determine D2C Fulfillment Process

Here are the necessary elements required for emerging businesses to establish a timely and efficient D2C fulfillment process.
Direct-to-Consumer businesses are experimenting with new ways to provide excellent customer service at the lowest possible costs.

Fulfillment costs per order

The outbound shipping costs (costs involved in goods going out of the factory) and employee benefits vary between companies. The costs include:

Indirect labor costs- Employees in all departments (receiving, quality, replenishment, pick, pack, ship and put away)
Direct labor costs- Managers and supervisors
Occupancy costs- Utilities and space
Shipping supplies costs- Cartons, Dunnage, Envelopes, etc.

The cost of outbound shipping is higher than fulfillment center costs for most of the businesses. For businesses handling items like electronics, the outbound shipping costs are enormous. Hence, it is crucial to assess fulfillment costs for each quarter.

Personnel

The hourly wage rates for personnel completely depends on market and labor availability. Therefore, until sales volume reach sustainably higher levels, businesses must use a temporary staff.

Inventory Management

When it comes to outsourcing inventory management, selecting the right fulfillment partners is crucial. The role of a fulfillment partner is to keep a close check on product availability and deliver orders to customers quickly. Fulfillment partners should have a clear understanding of forecasting, planning and purchasing inventory.

Software-as-a-Service (SaaS)

Since SaaS solutions are hosted on the Cloud, it can be accessed from any device with an internet connection. It only attracts a subscription-based payment that is highly customizable.

With SaaS, there is no need for monitoring, maintaining, or upgrading the software. Beyond cost savings, SaaS provides in-depth analytics that helps brands make effective decisions.

The new ground reality demands companies to be prepared for different scenarios and challenges in business. SaaS tools enable businesses to come up with optimal game plans that can tackle these challenges efficiently. Being an affordable, secure, and scalable option, investment in SaaS has become essential today.

Impact of D2C E-commerce on Manufacturers (brands)

A study conducted by Forrester Research found that 82% of manufacturers surveyed said selling directly to consumers improved their customer relationships, and 76% reported that it improved customer experience. In that same study, 54% of manufacturers said their channel partners, who sell their brands, saw growth in sales, too.

14% said they see a benefit in letting the manufacturer test the success of new products before passing them along to retailers.

Brands in a wide variety of segments are jumping into the direct-to-consumer bandwagon through E-commerce methods. They are directly distributing and selling goods to consumers bypassing middlemen like traditional retail and wholesale channels.

Many manufacturers are now reserving their hottest new products not for their retail partners, but for their own direct-to-consumer channels. Global Consumer Insights Survey, 2018 (New Business Models in E-commerce era)

Advantages of D2C for manufacturers (brands)

The D2C format enables control over customer experience and helps generate better profits. There are key competitive advantages that brands can exploit if they take the D2C route.

Brand clarity and control

D2C enables brands to control their entire branding experience like packaging without competition for shelf space.

Speed to market

D2C benefits brands to market their products faster without seasonal delays, retail interruptions, or third-party channel coordination. Also, it enables them to make quick product changes.

Business Intelligence

D2C helps brands gain crucial insights, thanks to close customer interactions. These valuable customer insights, like regional preferences, product positioning, and buying trends, help them build strategies to better reach their target market.

D2C Lifecycle report by LCP Consulting and The Center for Supply Chain Management at Cranfield University, 2017

23%

No activity- No plans on developing D2C activities at this stage

→

15%

Too early- D2C is crucial, but the journey has not yet begun

→

31%

Developing- Investing in new D2C capabilities

→

17%

Mature- Developed D2C Presence and capability

These statistics show that 48% of manufacturers (brands) are already investing in D2C channels. Brands expect D2C to grow by 5% CAGR over the next five years. The growth from retail is expected to be 6.5% CAGR over the next five years.

What’s required for the success of D2C E-commerce Model?

Companies engaged in D2C E-commerce can achieve success with specific features. Getting these features right enables efficient, effective, and consumer-centric logistics.

New Delivery options

Customers desire numerous delivery options beyond free and fast delivery, like 24-hour delivery, same-day delivery, or even during specific time frames. These evolving consumer demands have increased the need for technology that can streamline packaging, picking, and shipping processes.

Transparency

Transparency in E-commerce means the ability to track the package. Companies involved in D2C business should enable their customers to monitor the status of their orders in real-time. Also, they should implement proper communication channels to enable easy resolution of any issues.

Accuracy and Consistency

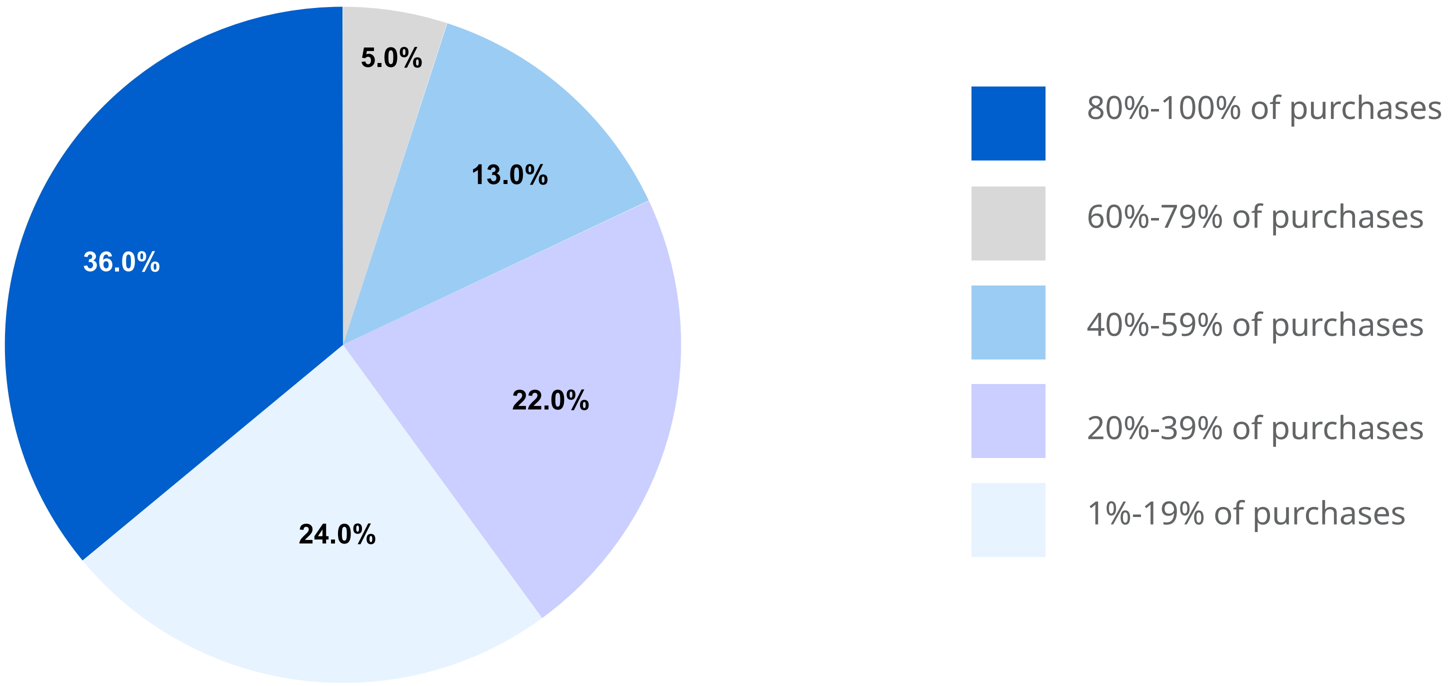
A brand's technology environment should support the D2C approach.

Example: A stock in the warehouse should match the actual stock in the website. Capabilities like omnichannel order fulfillment and real-time inventory management help suppliers avoid delivery mishaps for customers.

Automation technologies provide a competitive advantage to order fulfillment. They make sorting parcels, routing, etc. cost-efficient, and transparent.

Changes Involved in Direct-to-Consumer E-commerce for the Future

How much do US Internet users expect to purchase from Direct-to-Consumer (D2C) companies in the next 5 years? (based on the percentage of respondents)
(Source: 2018 Direct-to-Consumer Purchase Intent Index, Emarketer)

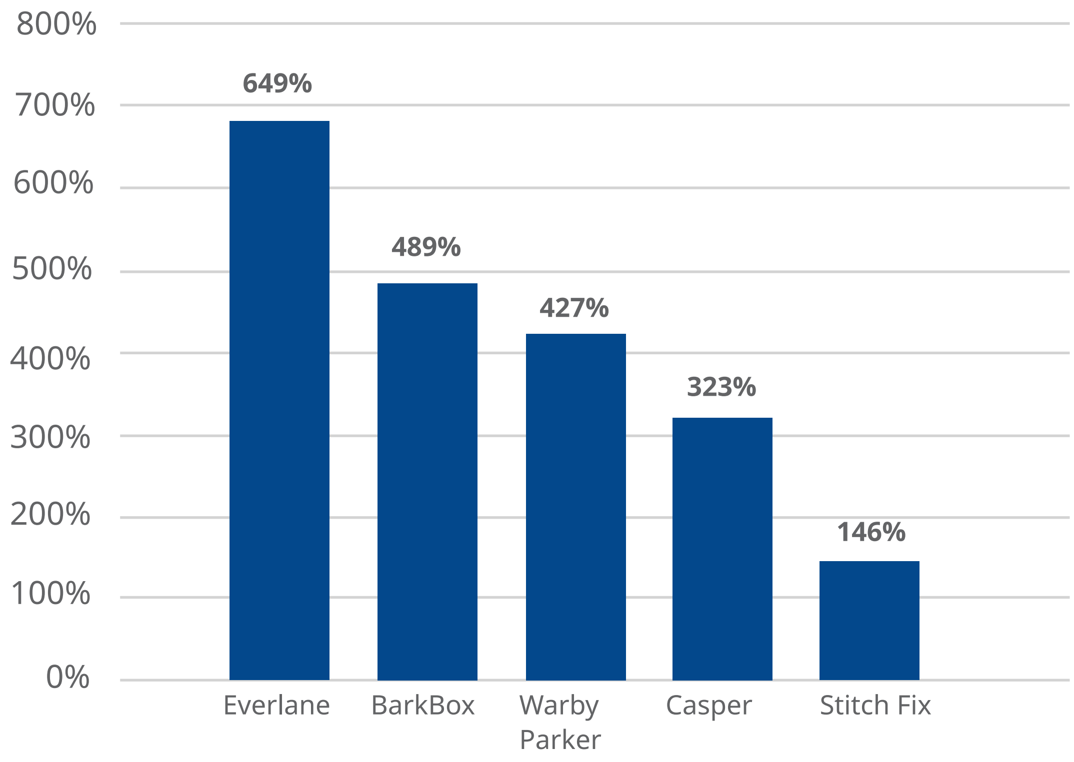


There is a massive transformation in the way consumers are shopping. Especially after COVID-19, there are changes in order fulfillment. In the recent decade, many companies have started to deliver products through social media and online forums in addition to conventional service channels.

Here are the changes in D2C E-commerce that will impact its future.

Mobile traffic = Foot Traffic

Mobile audience growth of five D2C brands from June 2017 to June 2019 (Source: Statista)



The lines have blurred between online and offline shopping in recent years. Today, customers buy a product online, pick it in-store, or purchase a product in-store, and ship it to their home.

Mobile-friendly site designs play a crucial role in bringing foot traffic to stores. Brands have started to integrate the mobile experience into brick and mortar stores. Mobile apps of stores help customers be aware of prices, exclusive promotions, discounts, and rewards.

Virtual and Augmented reality

Customers visit stores to get an understanding of the product through demos. They conduct online research before purchasing. But beyond all this, they want to feel the products and experience what the product has to offer.

Immersive technologies like Virtual and Augmented Reality can help in this respect. They provide an immersive experience and can help customers make decisions without ever setting their foot in a store.

Example: Ikea's Place app enables customers to overlay company's furniture in various settings. Its AR technology presents items in the real world using the phone camera. It helps customers see if a couch or bed fits a space. Their brand strategy has digitized the buying process.

An innovative approach like this helps resolve logistical issues that come with the trial and demo of heavy items like furniture.

Inventory systems will be made public

Earlier, companies kept inventory systems confidential. Customers visiting a store had to ask an associate to know if a product was available or not. They could not view stock availability information online. Even if the details were available, they were not accurate.

Direct-to-Consumer shipping has changed this situation. Big brand retailers have an open inventory system where customers can see the availability of all items carried in-store and online. If a product is not available in the store, they can purchase it online through D2C shipping choices.

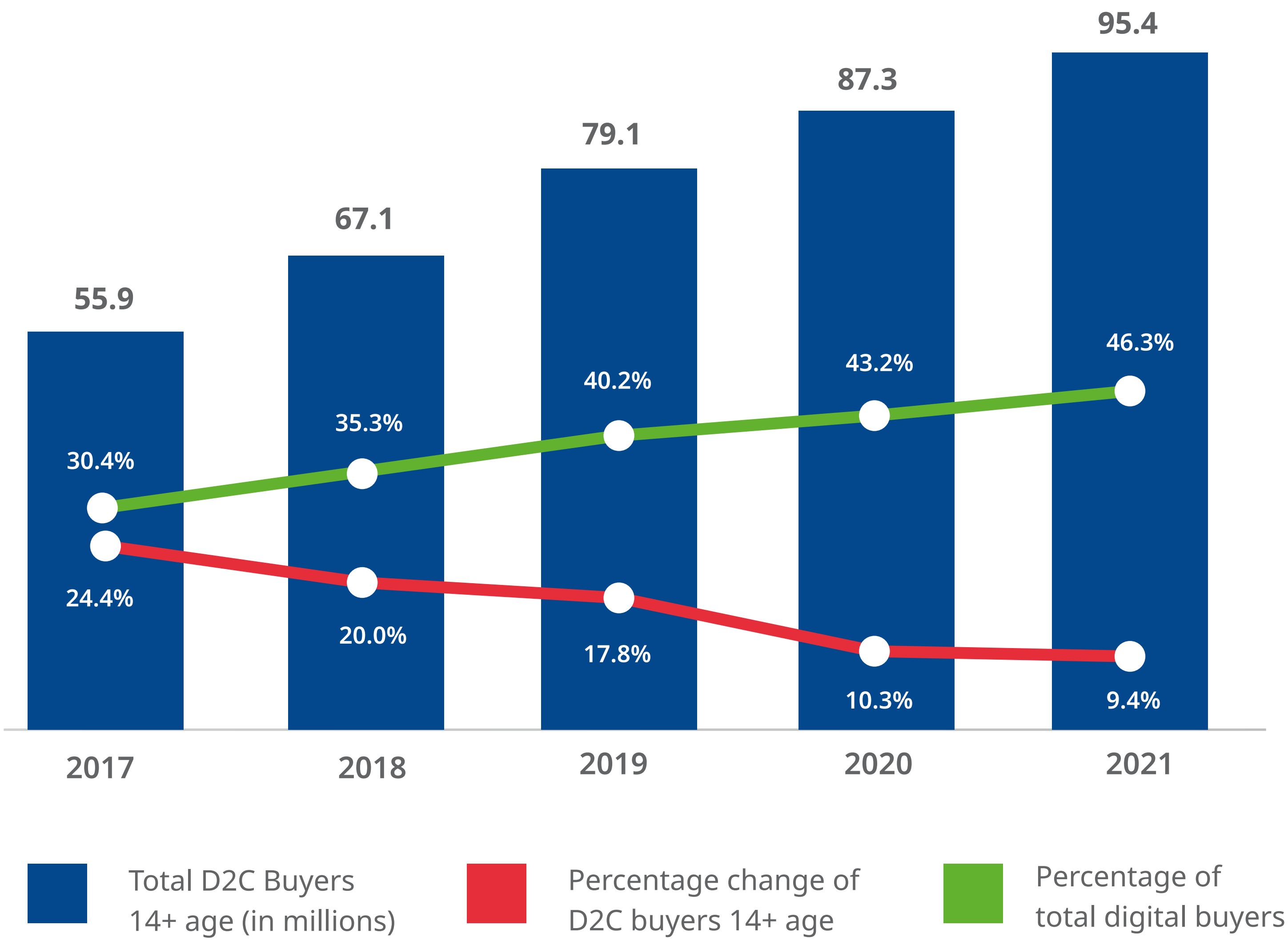
The blend of offline and online channels has enabled a hassle-free return option. Customers can purchase products online, but can walk into a store and return the product.

D2C revolution will increasingly pass on to farms and factory products

US D2C Digital Buyers (2017-2021)

By 2022, the number of D2C ecommerce buyers will reach a milestone, at 103.4 million. - Emarketer, March 2020, US D2C Digital Buyers (2017-2021)

A mix of new digital buyers are entering the D2C E-commerce segment resulting in spending increase per buyer. 2020 will see 87.3 million people of 14+ age making a purchase on D2C platform. D2C spending is expected to grow 12.7% to $203 per buyer.



Direct-to-Consumer E-commerce has even changed the supply chain processes of farms and factories.

Direct from farms:

Stores and restaurants that want unique varieties of local products use this method.

Direct from ranches:

Meat box companies sell meat directly to customers who want a higher quality of meat with specific animal raising or feeding methods.

Direct from the winery:

Vineyards sell wine directly to customers who have personalized requests.

Direct-to-Store deliveries will increase

Brands have started to undertake Direct-to-Store deliveries (DSD). They deliver the products directly from their warehouses to stores without relying on distributors like wholesalers. This model enables companies to be more responsive to customer needs and stock demand from retail partners.

DSD model brings healthier profit margins, tighter ownership over the supply chain, and better customer experience. Though this might not be suitable for all brands, it helps many of them who do not want to rely on intermediaries.

Direct-to-Consumer: A New Beginning

34% of marketers were altering their ad creatives as a result of the coronavirus, and 19% of them were starting to promote e-commerce offerings- Gartner Survey, Apr 2020

Gartner analyzed 162 retail outlets and D2C brands with brick and mortar footprint since coronavirus. Their emails between March 1 to March 23 on additional fulfillment options increased 4% from January and 8% from February.

The Coronavirus pandemic has made brands reassess their existing routes to market. It has become the best way to cater to the countless demands of customers. Many brands are using D2C fulfillment options to even connect with their hyperlocal customers.

Locus offers AI-driven logistics solutions to optimize logistics in D2C selling. Get in touch with our experts now.

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