

Direct to Consumer

Why brands and manufacturers should consider going direct to consumer

In the latest trading results for Christmas 2014, it was specialist retailers who fared the best. This is evidence of an increasing opportunity for manufacturers and brands to go direct to consumer.

By selling directly to customers, businesses will experience benefits beyond additional margin. It presents an opportunity to communicate directly with your end users and to become more agile in reacting to their needs.

PatelMiller has experience in helping brands and manufacturers build direct to consumer channels and in addressing the common pitfalls for businesses looking to make the change.



So why go direct?

By selling directly to end-users, businesses may be able to offer an overall better customer experience at a lower cost to the business. We discuss the main advantages below.

1. Know your end user

Going direct allows businesses to have uninterrupted access to the people buying and using their products. This presents an opportunity to build a relationship with their end user, understand their preferences and inspire them to buy again. This direct contact allows a brand to develop a clear understanding of how their consumers behave and how to improve the delivery of a consumer-centric retailing experience. All of this can increase the lifetime value of end users and drive down the acquisition costs for new ones, whilst ensuring the product is constantly improved.

2. Earn better margins

Intermediaries can earn considerable margins for retailing products to customers. In return, they increase the accessibility of the brand's products, take care of customer service and manage the overall shopping experience. However, as consumers become more comfortable shopping online and from niche suppliers, the need for retail intermediaries may diminish and this presents an opportunity for manufacturers and brands to earn better margins. For example, Vero Linens, a US luxury linen brand, saw margins increase by 50% with direct online sales.

3. Grow brand awareness

Going direct allows businesses to tell their brand story directly to their end users. It provides an opportunity to control how the brand is presented, from the look and feel of the packaging to how it's presented online or in-store. As brands like Burberry and Prada have almost doubled the proportion of goods sold direct to customers in the last 10 years – they have also invested in more theatrical runways and impressive flagship stores.

Direct to Consumer model: Manufacturers and brands can create their own points of sale to reach customers



4. Test out new products

Going direct, either through a store or online, allows businesses to gauge and assess customers reactions to new products. Testing products through direct channels is easier as there is no longer a need to conform to price and range requirements that may be imposed by retail intermediaries. Plus, as retailers have only so much shelf space, brands and manufacturers will have more options and space within their own stores or websites.

5. Control of pricing and promotion

Brands who distribute exclusively through wholesale arrangements often secede control of pricing to retail intermediaries. Within a direct channel, businesses are able to control pricing and promotion of their goods. This creates a better understanding of how prices work in the market and versus the competition.

Success Stories: Direct to Consumer Business Models

- **Graze** (founded in 2008) – food business that supplies healthy snacks straight to customers' homes and offices
- **Secret Linen** (founded in 2013) – online bed linen retailer that offers lower prices by connecting consumers with suppliers and selling online
- **Button and Sprung** (founded in 2014) – bed and mattress business that provides great value and customer service through a direct model

Key Considerations

We've discussed some reasons why going direct is advantageous. However, establishing a robust and competitive direct-to-consumer presence does involve effort, including changes to both operations and business mind-set. We outline some of the key considerations below.

1. Think like a retailer

Alongside numerous operational changes, there is an overarching need for the organisation to adopt a change in mind-set: thinking more like a retailer and putting the consumer at the heart of the decision-making process. This supports an overall cultural shift from wholesaler to retailer that will involve changing the rhythms of the business to think more day-to-day, and in some cases, hour-to-hour rather than month-to-month or season-to-season.

2. Manage supply chain end-to-end

Selling direct to consumer will also require managing the supply chain from manufacturing through to point of sale.

This will require additional capabilities in stock management, logistics, and after-sales service. Apple is a great example of a brand that seeks end-to-end control of its physical supply chain, from sourcing to store replenishment in an attempt to reduce risk and costs – and their recent record breaking quarterly profits of \$18bn shows their model is working.

3. Build capabilities in marketing and merchandising

There will also be a need to build capabilities in marketing (including social media) and merchandising to ensure the consumer experience of the brand resonates. This will be in place of support normally delivered by the retail intermediary and therefore needs to help the brand gain sufficient reach and communicate effectively with consumers.

4. Manage conflicting channels

Selling direct may jeopardise existing relationships with retail intermediaries; a recent study showed that 71% of retailers would reduce spend with brands that start selling direct to consumers. Burberry has managed this channel conflict by agreeing that certain items would be exclusive to retail partners and not available in Burberry stores or online.

Conclusion

Whilst going direct allows businesses to capture greater margins, a single direct channel may be difficult to drive sufficient volumes or attract enough customers.

We believe a hybrid model where brands sell direct to consumers alongside retail intermediaries is the best way to maximise sales, grow footprint and build brand awareness.

And this model allows for the best of both worlds – it allows you to remain close to your consumers whilst utilising the operational capability and reach of big retailers to connect to your consumers in a truly unique way.

How we can help

We understand both sides of the coin, having worked with retailers and brands. We can help your business understand the size of the opportunity from going direct, as well as the key risks and pitfalls, based on your current route to market.

We have helped clients build the business case and strategy for 'going direct,' as we understand the commercials of acting like a retailer and can identify and support the operational changes required for your business.

About PatelMiller

PatelMiller is a business consultancy that works closely with its clients to develop their strategies and deliver their full benefit.

Our team have gained their skills from working for leading consulting firms as well as the world's best retailers.

We combine the tools, methods and analytics of a strategy consultancy with the pragmatism of a retailer, to make sure potential benefits become real benefits, quickly.

The main things we do are:

- Create a **challenging vision**
- Develop **business plans**
- Design new **operating models** and improve **business processes** (including Lean Six Sigma)
- Use **analytical tools** on key business levers to drive rapid improvement
- Run **programme management**
- Carry out **due diligence**

The businesses we have worked with include Dixons Retail, Feelunique.com, John Lewis, Monsoon Accessorize, Morrisons, Tesco and White Stuff.

Our senior team:



Anish Patel
Managing Partner

Anish has built up considerable Retail consulting experience, both with top tier firms and as an independent advisor. Recently Anish held the leadership role of Retail Consulting Director for Deloitte UK.



Jonathan Miller
Managing Partner

Jonathan is an experienced advisor to Retailers, having worked for Accenture as a strategy consultant, and then directly for Asda-Walmart, Tesco and Dixons in strategy and operations development roles.

Find out more:

www.patelmiller.com
enquiries@patelmiller.com

References:

Shopatron's 2013 Retailer eCommerce Study
The Economist, Feb 2015