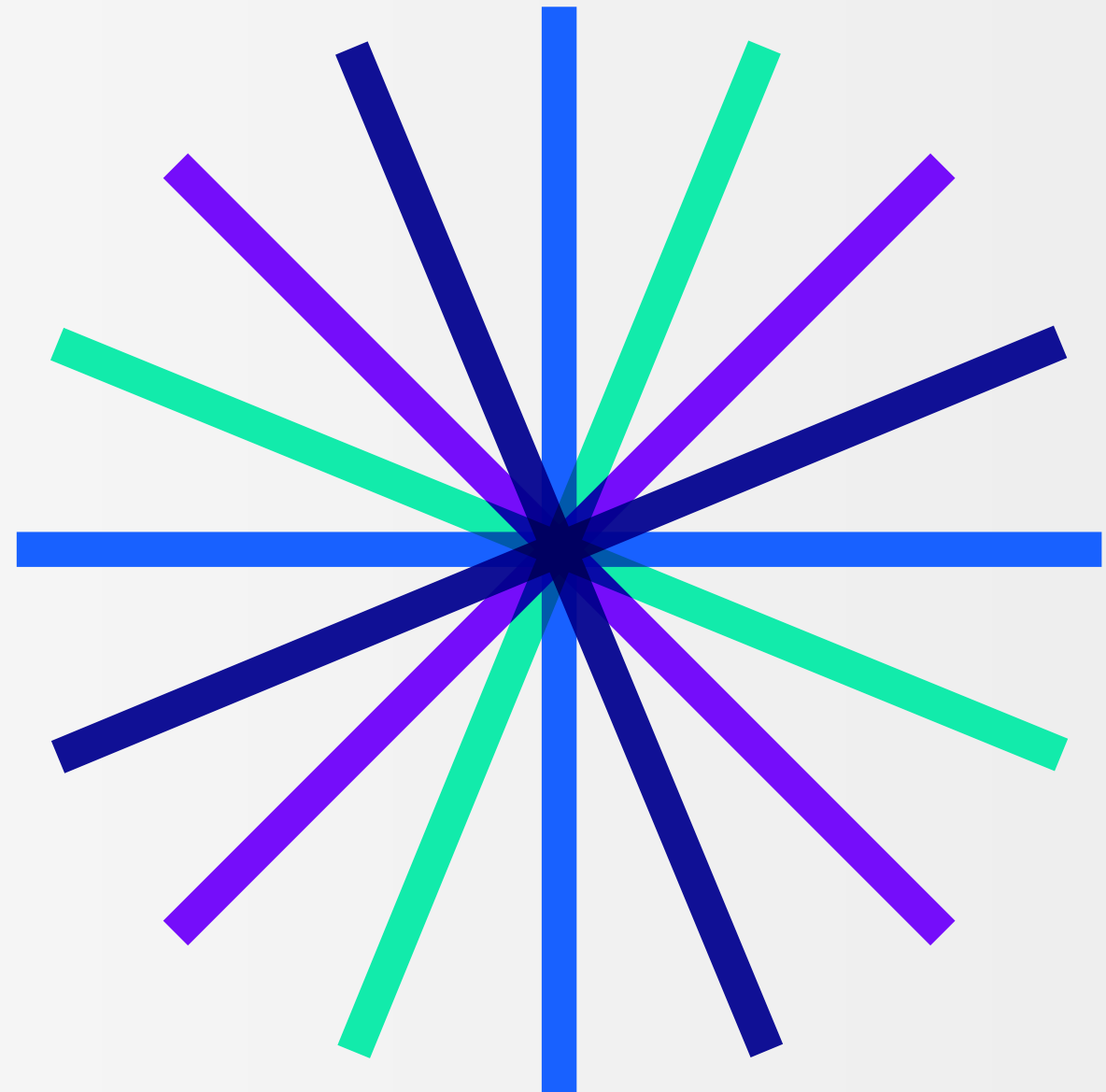# The Strategic Guide to DTC

Simplifying the complexity of digital commerce

The Strategic Guide to DTC

More than ever, brands are exploring the world of digital commerce, endeavouring to find a viable solution that both adds incremental value to their business and delivers to the demands of an ever-changing consumer.

Devising the right digital go-to-market strategy is no easy feat and poses a series of steps and potential challenges for your brand to navigate. Depending on your positioning and brand maturity within any given market, your go-to-market readiness checklist will vary.

In this report, we provide a guide to help you define and navigate the stage of direct-to-consumer (DTC) maturity at which your brand currently sits, and what you should consider when progressing towards your growth ambitions.

!i

The path to digital commerce success

The Strategic Guide to DTC is designed to help you navigate the integral elements in building your digital go-to-market strategy.

To do so, you must first identify where your brand sits on its path to ecommerce success.

Create

Digital proposition and strategy development

Build

Deploying the right technology and infrastructure

Grow

Digital strategy execution through performance planning

Scale

Ongoing performance and new channels

Establishing your brand within the market & channel

You're new to DTC and are seeking a strategic approach to establish your brand in the eyes of the consumer.

Building consumer relationships & leveraging data

You've set your strategic vision and now wish to launch your brand and gain momentum by building consumer relationships and leveraging data.

Optimizing & expanding to new markets

You're a well-established brand with a firm customer base and reliable revenue stream. Now it's time to scale your brand's potential.

Contents

+ Create
Strategy development
· Creating a strategy – where to start

· Meeting consumer expectations

+ Grow
Strategy execution & performance planning
· Designing your value proposition

· How to make your marketing spend go further

+ Build
Investment in technology & infrastructure
· Economic instability as an opportunity for growth

· Identifying the right operations model for your brand

· Considerations for your ecommerce tech stack

· The importance of first-party data collection

+ Scale
The potential for omnichannel
· Internationalizing your DTC approach

· Implementing an omnichannel strategy

· Developing your omnichannel presence

!i

+ Create

Laying the foundations for your digital proposition and strategy development

!i

What you'll learn:

How to define where to play across geographies, product categories, channels and consumer segments.

Articulate how to win, developing your value proposition and competitive positioning.

Understanding the desirability, feasibility and viability framework and how to put this into practice in your strategic planning.

Develop an understanding of the ecommerce ecosystem and digital channels.

Understand how consumer expectations have **shifted** and how to build these considerations into your DTC strategy.

!i

Creating a strategy that works for you – where to start

Before setting your digital strategy, you need to know what the right approach is, and this begins with asking yourself:
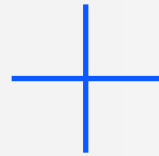
+ **where can my brand play, and how can my brand win?**

These two simple questions can help you to gauge your readiness to launch. For example, do you know what market geography you'll get the potential best return from, do you know who your customer is, and how exactly should you be talking to them?

Whether you're new to DTC, or looking to scale your brand to new markets, this step is vital to establishing the foundation of your ideal DTC strategy and kick-starting your path to ecommerce success.

!i

Where to play?
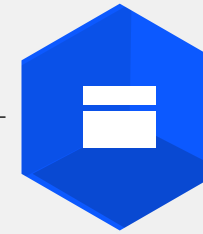
Where is the untapped opportunity
for you to compete?

Geographies + Product categories + Channels + Consumer segments

How to win?

Where do you have the unique right to win?
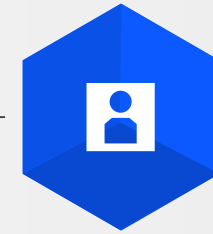
Value proposition + Competitive advantage

!i

To help further assess your market and proposition selection, consider these three readiness pillars to identify your areas of comfort, gaps and possible barriers to proposition delivery.

+

Desirability

Do you know where your product and brand is in demand, and which audiences this demand is coming from?

· Value propositioning
· International territory mapping

+

Feasibility

Do you know how you can operate successfully in the market?

· Channel strategy
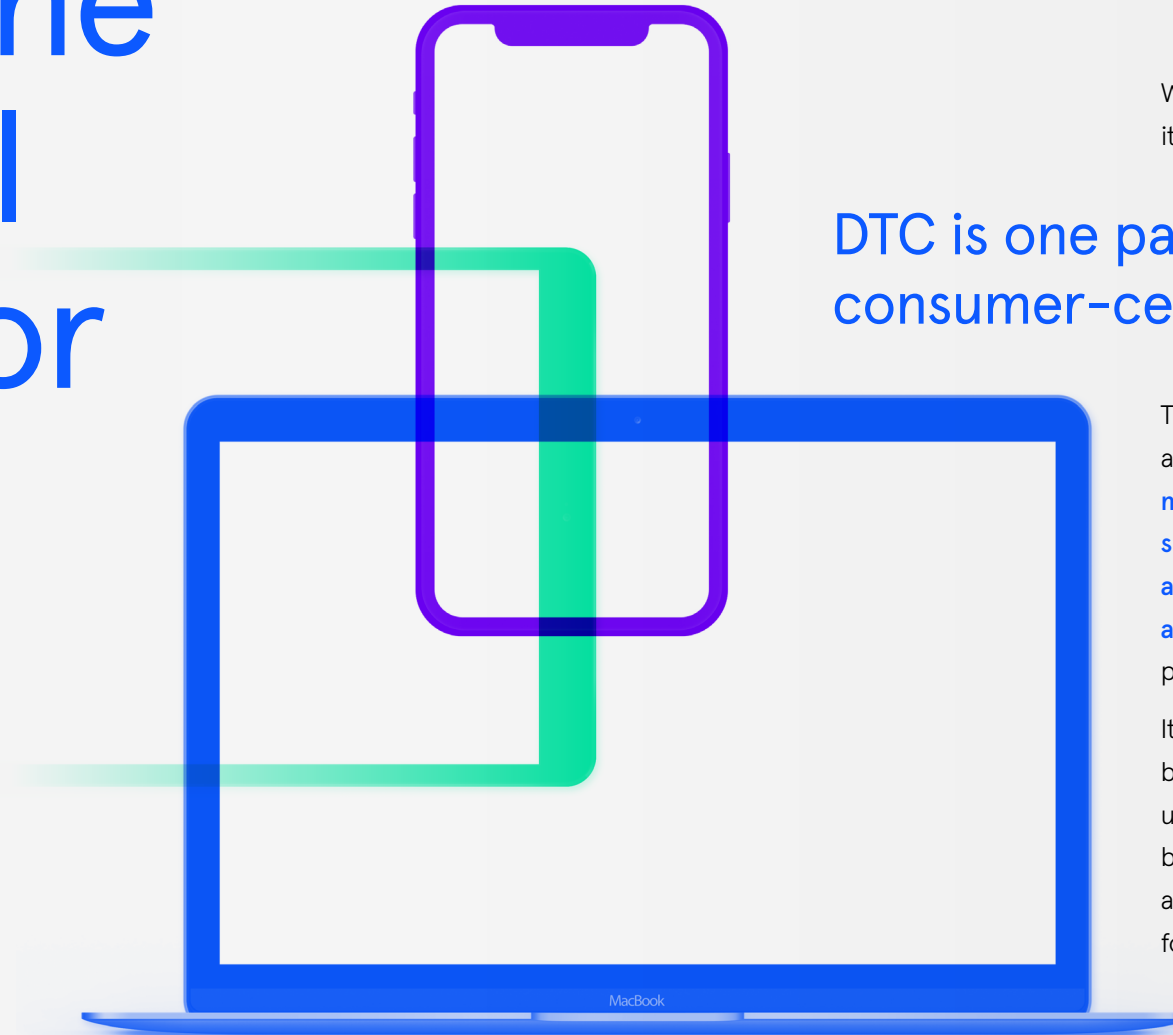· Infrastructure set-up

+

Viability

Which DTC strategy will offer the best return on investment?

· Path to profitability
· Cost-effective modelling

!i

Choosing the right digital channels for your GTM strategy

Whilst this guide focuses on DTC, it is important to understand that

DTC is one part of a multifaceted consumer-centric ecosystem.

These channels should be viewed as complimentary; **a concession model and retail presence should complement a stand-alone ecommerce site and DTC approach** through distinct product offerings by channel.

It is important to understand the benefits of each model and weigh up the pros and cons of each while building your business case and assessing your long-term plans for brand growth.

!i

Selling directly, bypassing any third-party retailers.

Opportunities:
· Full control and ownership of digital strategy
· Consistent brand narrative
· First-party consumer data access

Challenges:
· Absorb all costs
· Increased liability with full ownership
· Complex supply chains

DTC

Cater to specific needs through pure play retail.

Opportunities:
· Access to a large pre-existing customer base
· Established and quick route to market

Challenges:
· Lower profit margin
· Lack of control over data and product
· Impersonal relationship with consumers
· Lack of robust first-party data

Consumer-Centric Ecosystem

Marketplace

Digital concession

Cater to wider, less-specific needs to offer a variety of products.

Opportunities:
· Access larger audiences
· Represents a trustworthy and neutral platform

Challenges:
· High cost and time with each integration
· Difficult to access and deal with major marketplaces
· Data less likely to be shared
· Disconnect between brand identity and seller

MacBook

!i

Consumer expectations and the impact on DTC strategy

Consumers' expectations around seamless ecommerce experiences are higher than ever, with frictionless returns and variety of delivery options being front of mind for many, while convenience, personalization and community across all channels are increasingly valued.

But what do these expectations mean for brands?

!i

i12
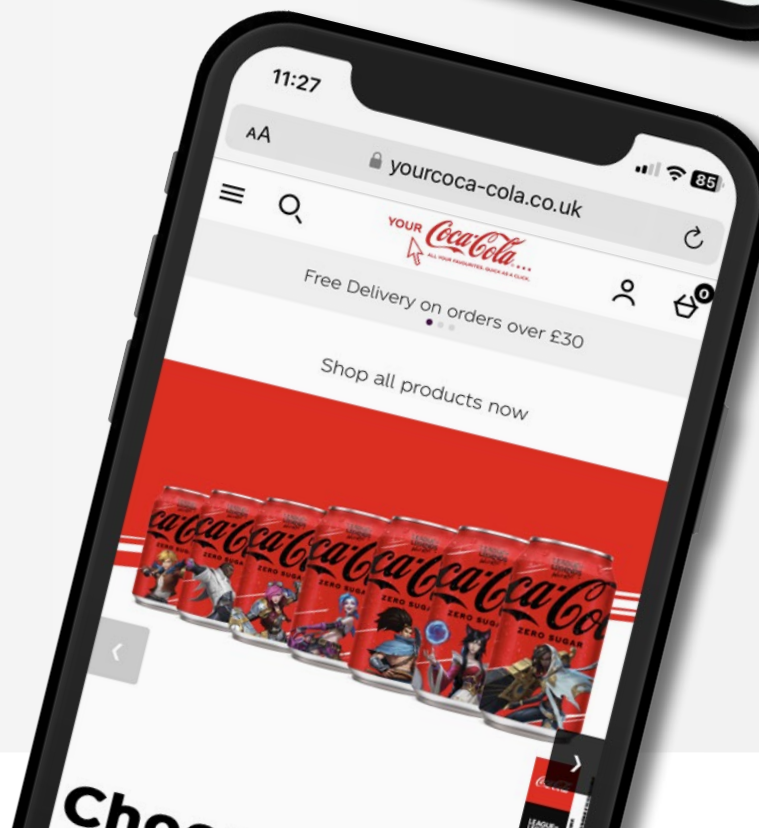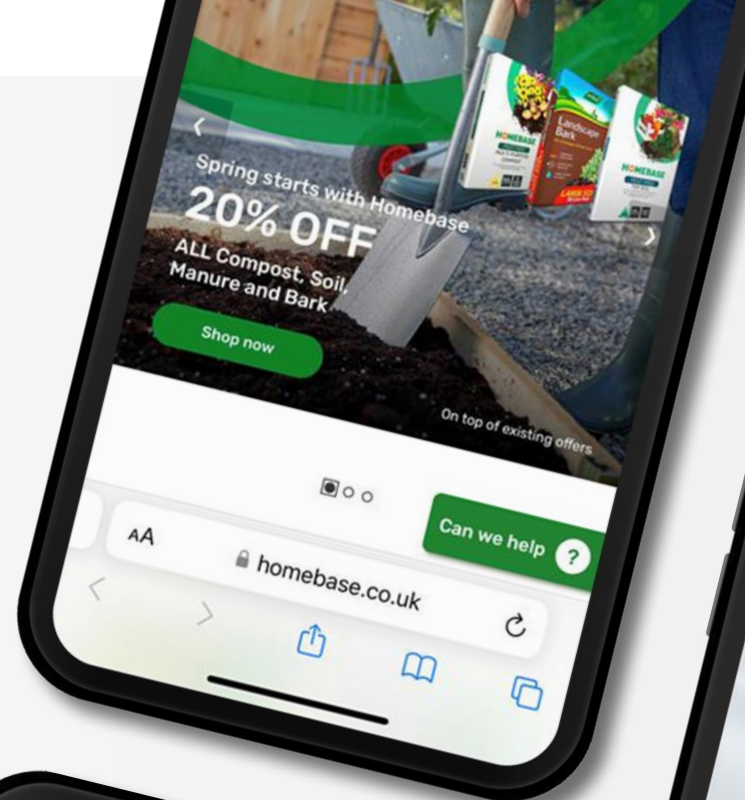
Consumer expectations and the impact on DTC strategy

Consumer expectations

01 Commerce convenience

Users choose how they receive the product with multiple return options.

02 Expectations for wider ecosystem

360 offers with content tailored dynamically to what consumers are doing/feeling. Engage with the brand across shopping/purchases/experiences seamlessly.

03 Personalization is a must-have

Integrated shopping – switch easily between channels when shopping, receiving their order and making returns. Engagement post-transaction – app/loyalty.

Brand impact

Focus on last mile

Optimize your fulfillment operation in line with where your customers are and, with a brick-and-mortar presence, be as flexible as possible with fulfill from store to shorten delivery times.

Test and learn mindset

A/B testing on messaging across channels to understand what resonates with consumers. Testing product assortment, bundle assortment and prominence on homepage to maximize CVR.

Build community

Offering an engaging multi-tiered loyalty scheme is one approach but developing brand communities through socials, local groups and UGC is key.

+ **Build**

!i

Deploying the right technology and infrastructure

What you'll learn:

+

Develop an understanding of economic instability as an opportunity for growth.

+

Learn about potential operating models for your DTC.

+

Importance of first-party data in a cookie-less future and the value of data acquisition.

+

Key considerations when **building your ecommerce tech stack.**

!i

Brands view economic instability as an opportunity for growth

When it comes to investment in ecommerce and digital transformation, retailers aren't holding back despite financial strains being felt by both consumers and brand owners alike.

Retail executives understand that an aggressive digital investment strategy is crucial in managing economic headwinds and laying firm foundations for long-term success.

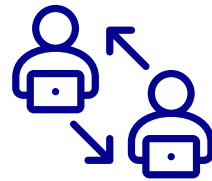As a result, brands' commitments to digital transformation remain positive

and brands are seeking to prioritize growth past current economic instabilities.

!i

Brands view economic instability as an opportunity for growth

83%

of retail executives plan to invest in ecommerce and online shopping platforms (US & UK).

70%

of online retailers plan to outsource technology rather than build in-house.

72%

of CEOs say they have an aggressive digital investment strategy to secure first mover status.

25%

of CEOs agree that advancing digitization business-wide is a top priority between now and 2025.

!¡

Sources: Retail Touchpoints 2023, Digital Commerce 360 2022, KPMG 2022

Investing in ecommerce to unlock new revenue streams

As well as complementing a consumer-centric ecosystem combined with marketplace and concession channels, DTC can also unlock multiple new revenue streams. By investing in short and long-term digital transformation, brands can open doors and widen opportunities to future revenue streams.

!i

+

Precision targeting

First-party data allows for **more personalized & more relevant interactions** with consumers. More broadly, retailers benefit from a deeper understanding of their consumers.

+

Commerce media

With profitability challenges, brands can **monetize first-party data by selling advertising** to brands on-site. The end of third-party cookies makes this particularly attractive to advertisers.

+

Retention across channel

Brands are starting to dial back spending on paid media with rocketing CPMs. **DTC continues to be the best channel to develop community** and speak directly to consumers.

!i

Identifying the best operating model for your brand

Every brand is unique not only in what they sell, but also in their capabilities and objectives as a business. And the desirability of your brand and product must also be matched by your ability to effectively and cost-efficiently deliver your proposition in your chosen market.

Selecting the best operations model for your brand depends on acknowledging and assessing current capabilities across fulfilment, technology and digital channels and aligning this reality with the short-term and long-term ambitions of the brand.

This will help you identify whether you're capable and/or striving towards an in-house, outsourced or hybrid operating model.
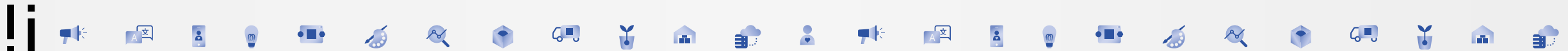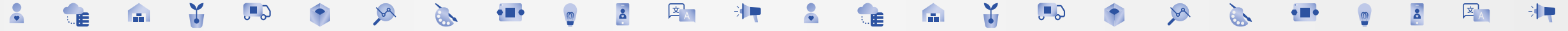
In-house

In-house organization structure for the brand owner would mean running all operations, technology and digital services internally.

Fulfilment	Technology	Digital Services
Global Fulfilment	Core Commerce	Trading & Merchandising
Delivery Management	Payments & Fraud	Content & Translation
Warehouse Management	Business Intelligence	Performance Marketing
Customer Service	Hosting	Brand & Creative

Outsourced

An outsourced model means giving control to multiple third-party providers or ecommerce platform providers to run a DTC brand efficiently.

Fulfilment	Technology	Digital Services
Global Fulfilment	Core Commerce	Trading & Merchandising
Delivery Management	Payments and Fraud	Content & Translation
Warehouse Management	Business Intelligence	Performance Marketing
Customer Service	Hosting	Brand & Creative

Hybrid

A hybrid model means collaborating with third-party providers to leverage each company's strongest offering. Or, you can choose a single provider who offers multiple services such as Ingenuity.

Fulfilment	Technology	Digital Services
Global Fulfilment	Core Commerce	Trading & Merchandising
Delivery Management	Payments & Fraud	Content & Translation
Warehouse Management	Business Intelligence	Performance Marketing
Customer Service	Hosting	Brand & Creative

Legend:
- Brand Owner - Full Responsibility
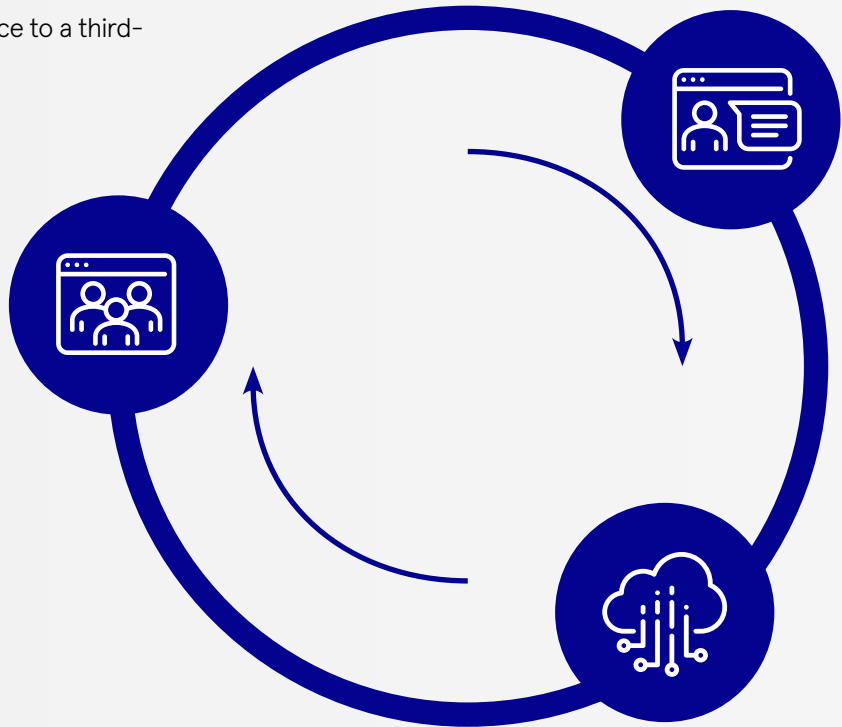- Outsource Recommendations
- Joint Responsibility

What to consider when building your ecommerce tech stack

Defining the scope of your tech stack and making considered choices on whether to build in-house or outsource to a third-party provider.

Tech stack components

Third-party Providers
- Analytics tools
- CRM
- PIM
- Payment Gateways
- Shopping modules

Front end
- Cascading Style Sheets (CSS)
- HyperText Markup Language (HTML)
- JavaScript

Back end
- Databases
- Frameworks
- Servers
- Programming languages

Key considerations

Size of project	Budget	Compatibility
Time to market	Scalability	Balance innovation & reliability
Resource capacity and skills	Ease of use	Cost vs. potential ROI

!i

i22

First-party vs third-party data collection

In the wake of third-party cookies being phased out by Google – a process due to begin later in 2023 – brands are both wanting and needing to reduce their reliance on this particular data source.

Instead, greater focus has come to first-party data, and for good reason. Owned by the brand in question at the consent of the consumer, first-party data empowers brands to make highly informed decisions across activities, not only creating efficiencies within the business, but benefitting the end-consumer with a more personalized experience with a brand.

As an owned channel, DTC can be the key to unlocking first-party data and the opportunities it offers brands.

!i

Benefits of first-party data

Track demographics, interests and behaviours, visited websites, interactions and purchase history.

Enabling **test and learn capabilities** through performance and interactional data collection.

Owning first-party data gives brands the ability to deal with **cookie deprecation in 2023**.
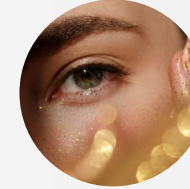
Drawbacks of third-party data

Limited in the ability to truly create a customer-focused proposition because reports are **rolled up for speed and simplicity**.

Less reliable and accurate than first party data.

Example first-party customer profile

Customer Data

Address: Riddle Pit Farm, Leeds, LS27 8LX

Email: matt.anders@gmail.com

LTV: $250

Predicted LTV: $520

Last purchase date: 04/05/2022

Last interaction date: 20/07/2022

Churn risk: 8%

Acquisition Sources | Revenue

1. Email | $250
2. Facebook | $238
3. Direct/brand | $230

Customer Product Purchases

Protein Poweder - **$70**

Immunity Bundle - **$54**

Create - **$40**

Viewed, not purchased

• Gummy Multivitamin
• Iron tablets (90)
• Omega 3 – 60 soft gels
• Melatonin – 50ml

Top Product Categories

1. Sports Nutrition
2. Immunity
3. Digestives
4. Sleep

+ Grow

!i

Digital strategy execution driven through performance planning

What you'll learn:

+

Four key value propositions for DTC sites and what works best for your brand.

+

Consumer challenges for brands and how to do more with less.

+

Understanding the full funnel mix and how to support consideration, conversion and re-engagement post-purchase.

!i

Designing your value proposition around consumer values

When it comes to consumer expectations for DTC, cheaper prices, variety of product assortment, greater product information and convenience are all top of mind.

Brands need to be aware of shifting consumer expectations and create a strong differentiated proposition in order to capture market share and win the hearts and minds of consumers.

Brands need to provide a compelling reason to shop and stay with you.

Even with increased participation and purchase behaviours buying online, consumers need a convincing reason to shop DTC over alternative channels. But what does this mean for you and what is the right proposition for your brand?

!i
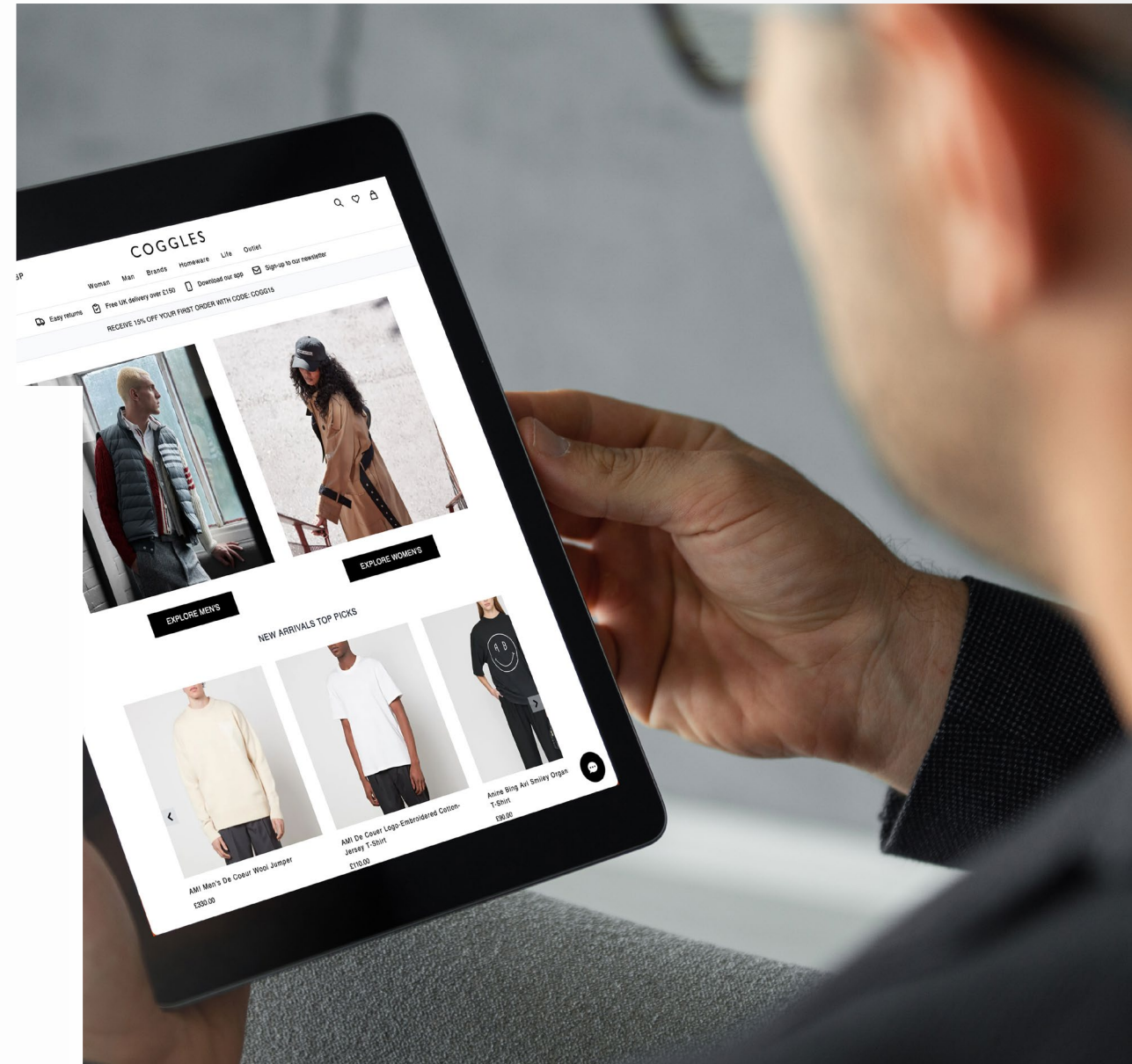
Providing consumers with a convincing reason to shop DTC over other channels through values-based propositions.

Hard to find focus

Leveraging scarcity and 'rare' products on-site, hard to find is often used as a value proposition for CPG brands.

· Products **only being sold online is a top 10** reason for consumers to prefer shopping online.

· **45%** of global consumers engage in sales events to access rare products.

Subscription-based

Subscriptions are a strong tool for increasing both retention and CLTV. Focus on delivering flexibility and convenience.

· **Up to 75%** of DTC brands may offer subscriptions by the end of 2023.

· Nearly half of US consumers **feel overwhelmed** by the growing number of subscription choices.

Convenience focus

Characterized by breadth of delivery options, payment options and greater variety in assortment.

· **Half of global consumers cite convenience** as their main driver for shopping online.

· 60% of consumers report **free delivery is a main purchase driver**, followed by greater product range.
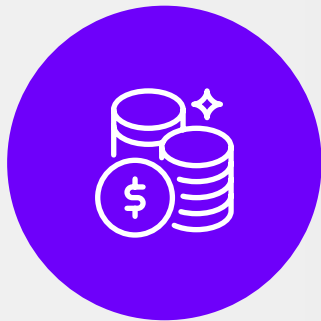
Price leadership

Characterized by special pricing strategies (bulk, membership, etc.) and value-ads to surprise and delight.

· Particularly effective for **perishables where larger pack sizes** are often only found online.

· **90%** of consumers indicate that gift with purchase is a large driver in making purchasing decisions.

How to make your marketing $pend go further

With rising marketing costs and lower consumer demand due to economic pressures and reduced disposable incomes, brands are faced with the task of doing more with less when it comes to marketing spend.

Brands are already experimenting with alternative high-growth channels like TikTok and Amazon shopping. With more established channels like PPC through Facebook, marketers are working smarter, combining reach and conversion campaigns to raise brand awareness and convert new customers.

DTC brands have difficult choices to make in this new environment when it comes to choosing who to target and how to get more of a return on campaign activations.

So, what avenues can brands take to make their marketing spend go further?

!i

With consumers set to reduce their discretionary spending, brands need to do more with less to maintain loyal consumers

Challenges for brands ----------> # Potential solutions

Increasing revenues without increasing marketing spend

✓ 30% of global brands are planning on cutting ad spend in 2023.

✓ Profitability is the top priority of DTC brands going into 2023 with a renewed focus on investing deeper on cheaper forms of advertising.

Competitive prices and shipping

✓ Nearly half of UK brands selling direct online **see rising shipping costs as the biggest risk** to their business over the next 12 months.

✓ Brands are less flexible in offering steep discounts and promotions with squeezed margins and rising input cost.

Gaining and maintaining customer loyalty

✓ 41% of consumers plan to switch from a different brand than normal in line with squeezed disposable incomes.

✓ Forecasted reduced consumer spending will hit retailers through reduced traffic, CVR and AOV.
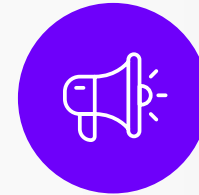
Do more with less – optimizing acquisition costs to keep initial investment lean

✓ Diversify media spend through alternative channels (e.g., TikTok, Amazon).

✓ Accurately measuring marketing effectiveness – identify channels for brand building (long-term) and sales driving (short-term) goals.
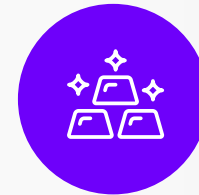
Convince consumers of product value

✓ Offer flexible shipping, charge for returns.

✓ Call out product USPs on product pages, clearly define your value proposition and deliver clear messaging to consumers.

✓ Experiment with new product development through smaller, more affordable product variants.

Combine reach and conversion campaigns

✓ Meta (2023) analysis saw +100% greater reach for reach and performance campaigns vs performance alone (for 36% greater spend).

✓ Reach & conversion also drives organic search lift and can increase signals for re-targeting.

3

!i

Leveraging the digital funnel to guide the customer journey

Observationally, maximizing activities in the **mid-lower funnel** is a logical approach to **encourage conversion** and reduce cost of acquisition. However, upon new market entry where the brand is lesser known, the aim should be to increase **social proof and brand awareness** driven by activities in the **upper funnel.**

Upper Funnel

Lower Funnel

Awareness ❯ Consideration ❯ Conversion ❯ Retention ❯ Advocacy

Exposure / Discovery

Education / Engagement

Research / Evaluation

Justification / Purchase

Adoption / Retention

Expansion / Loyalty

Activity: Paid Social, Affiliates, Influencer Outreach, Search & Shopping; PR
KPI: Reach, Impressions, Followers, Traffic

Activity: Education through engaging content: video; blog; interactive tools; influencers.
KPI: Click Through Rate (CTR) + Engagement from social: like; comment; share

Activity: Retargeted marketing: CRM; Dynamic Paid Social; Incentivised CTA (abandon basket 10%)
KPI: Click Through Rate (CTR)

Activity: Further dynamic web advertising, remarketing, web creatives
KPI: Click Through Rate (CTR)

Activity: Drive to purchase with emphasis on data capture and repeat purchase.
KPI: Conversion; Revenue; CAC; CPA; COS

Activity: Ongoing outreach: CRM; Trading Incentivisation; NPD
KPI: CLTV; Repeat Purchase; Brand Advocacy; Continued Engagement

Improve consideration: Increase brand relevance

Maximize conversion: A data-led approach to performance marketing

Maximize re-engagement: Enhancing social and CRM engagement

!i

i31

+ Scale

!i

Optimizing and expanding your DTC proposition

What you'll learn:

+

Key considerations for **internationalization and localization.**

+

Practical considerations for **integrating online stores and physical stores into a wider omnichannel strategy.**

+

How to develop your **omnichannel presence.**

!i

Internationalizing your DTC approach

Once brands achieve success in domestic markets, many start to consider how to replicate successes on a global scale.

When it comes to DTC, an international approach is not a one-size-fits-all situation; **there are nuances in every market from customer behaviours to legislation to language that must be accounted for when expanding DTC commerce to new territories.**

Brands must return to their "create" mindset when internationalizing, considering **the desirability, feasibility and viability framework** in order to identify the target markets and strategies that will maximize the opportunity for global success.


!i
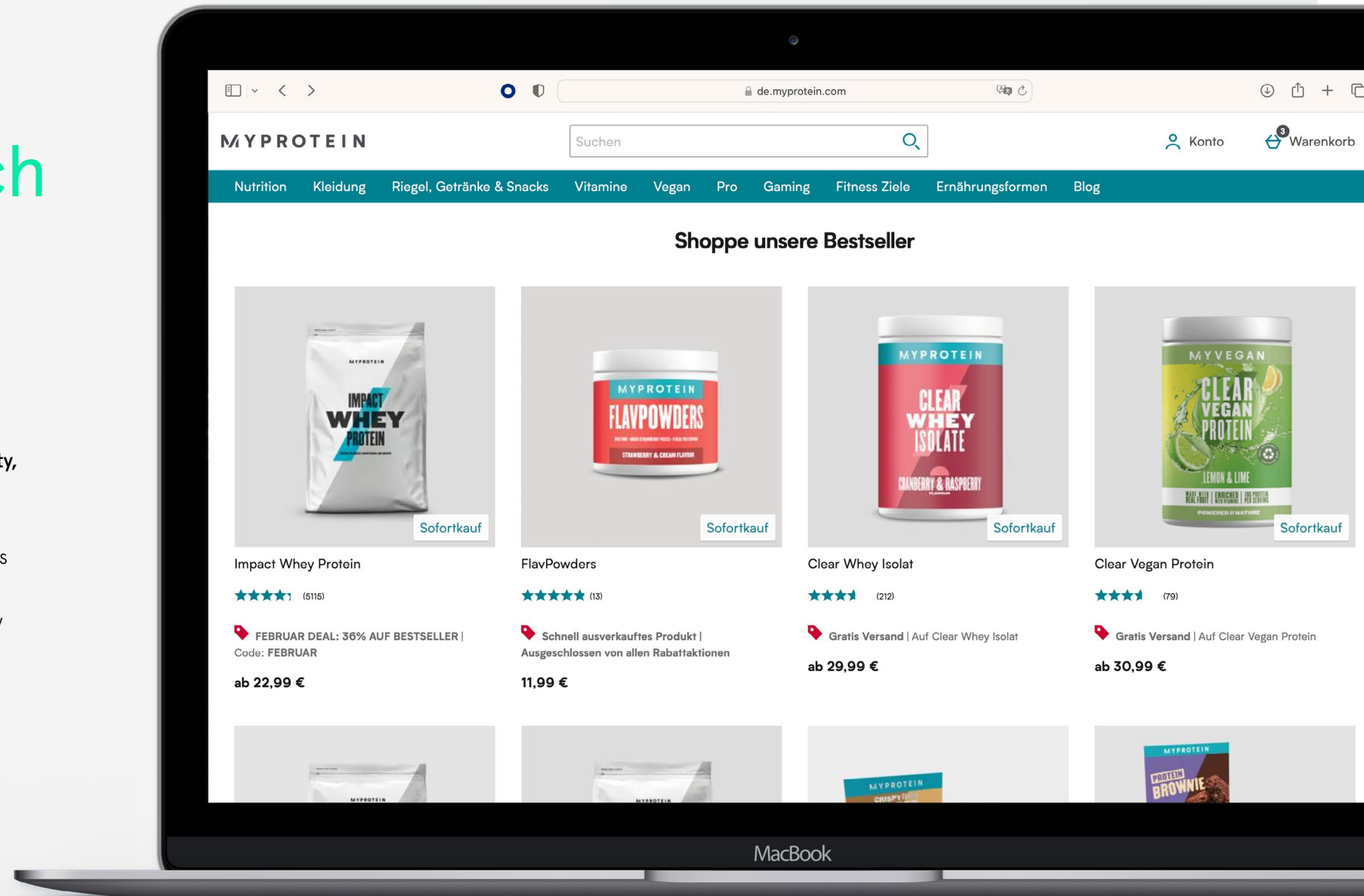
Consider your most feasible markets

• Regulatory considerations

• Density of competition

Define your most viable markets:

• Cost effectiveness of entry and ongoing operations

• Profitability (Y1, Y3, Y5)

+ *Localization strategy*

Identifying your target market through these considerations will enable you to develop and action a localization strategy, covering everything from market-specific regulatory nuances to a creative approach that will resonate with the local audience.

Feasibility

Viability

Market identification

Desirability
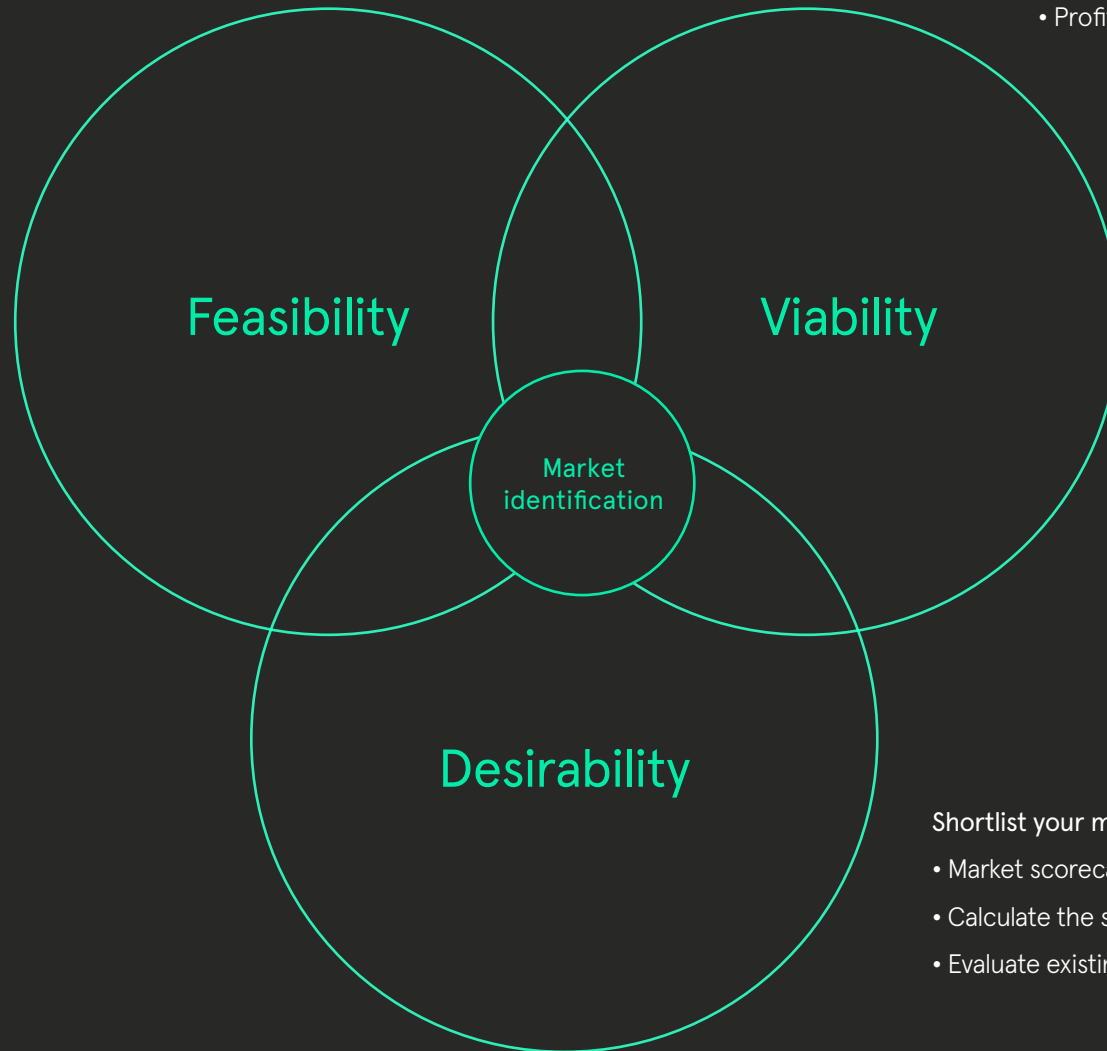
Shortlist your most desirable markets:

• Market scorecard assessment

• Calculate the size of prize

• Evaluate existing retail presence and revenue contribution

!i

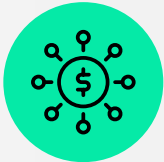*Implementing an*

omnichannel
omnichannel
omnichannel
Strategy

!i

While three quarters of retailers have started work on their omnichannel strategy, just one third are actively executing such strategies.

Integrate physical stores

1 Define a layout to accommodate

- **Option 1:** Offer click-and-collect capabilities within the current layout of your store
- **Option 2:** Repurpose a portion of the floor layout for click-and-collect.
- **Option 3:** Reconfigure retail space into a dark store where all or some of the store becomes a warehouse to house products.

2 Maximize visibility of data

- HQ needs visibility of critical data across time to fulfil orders, replenishment rates, marketing campaign performance.
- Clear store-specific KPIs.

3 Training for colleagues

- Targeted, relevant training alongside up-coming product launches and software updates.

Integrate online channels

4 Unite business systems

- Ensure prices and promotions are synced across channels.
- Provide effortless returns across channels.
- Flexible tech stack that allows for real-time changes to assortment in line with demand.

5 Real-time inventory management

- Leverage an EPOS system that handles both online and offline sales in real-time.
- Centralised CRM system and order management system that can be updated across channels.

6 Single brand experience

- Aligned colours, fonts, imagery, tone of voice and copy.
- Align virtual merchandizing efforts in-store and online.
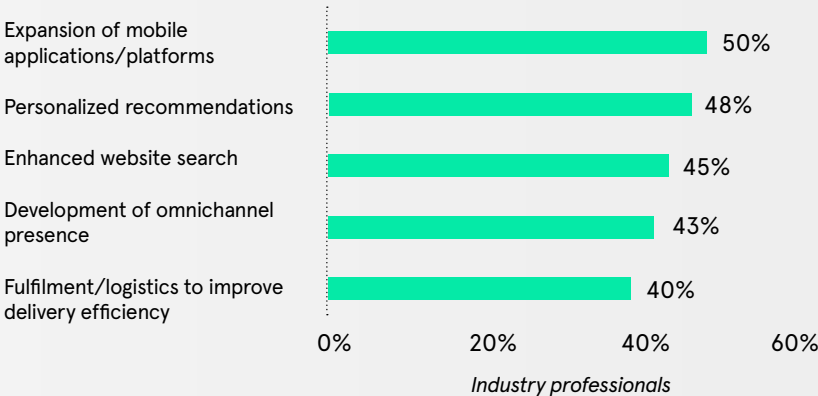
Invest in infrastructure

Local last-mile network

Store layout, fix-tures and signage

Integrated IT systems with inventory transparency

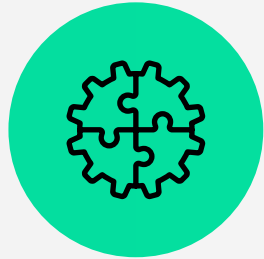### Planned future spend on infrastructure (21–22)

Expansion of mobile applications/platforms	50%
Personalized recommendations	48%
Enhanced website search	45%
Development of omnichannel presence	43%
Fulfilment/logistics to improve delivery efficiency	40%

0%   20%   40%   60%

Industry professionals

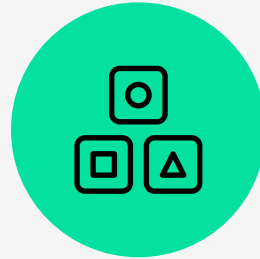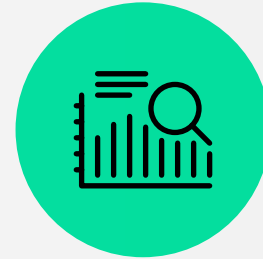# Five key steps for developing your omnichannel presence

Practical considerations

Get up to speed
Plan your strategy

Define omnichannel goals, include a clear understanding of the target consumer, the desired customer experience and the channels required to deliver that experience.

In-store gaps
Assess and evaluate

Understand existing in-store capabilities and those required to support online sales.

Analyze current channels and customer touchpoints and establish gaps in the customer experience across touchpoints.

Start small
SKU decisions

Start with best-performing hero SKUs before gradually increasing assortment size as time goes on.

Use learnings from bundling products through DTC to inform decision making on positioning in the aisle.

Upskilling
Focus investment

Take a holistic approach to both change management and upskilling employees.

Train employees on the new systems and processes, employees need to be able to navigate the new technology effectively to ensure a positive customer experience.

Optimize service
Using first-party data

Companies need to create an all-inclusive 'one view' of the consumer that is user friendly.

Personalize the customer experience by using data collected across channels to create targeted marketing campaigns and personalized offers.

!i

Key takeaways

!i

Key takeaways

Regardless of your brand maturity, using the frameworks within this guide will help unlock your ideal DTC approach and potential, and will empower your to guide your digital go-to-market journey.

Create

Know where you have the opportunity to play and the right to win.

Build

Ensure you have an efficient and effective proposition across fulfilment and technology.

Grow

Activate your proposition with a test and learn approach to facilitate an agile model for brand and channel optimization.

Scale

Optimize your proposition to gather a wider opportunity across new market and channel expansion.

!i

Activate your DTC potential with Ingenuity

+

Commerce Academy

The Commerce Academy is a training program designed by Ingenuity, with a range of courses built to accelerate the digital and ecommerce capabilities of you and your teams.

Hosted at our Ingenuity campus in Manchester (or at your own office), we'll provide valuable ecommerce training and upskilling for those teams owning your digital transformation agenda.

With foundational, advanced, and executive courses designed around your brand goals, Commerce Academy is here to empower your teams to achieve DTC success.

+

The DTC Playbook

This step-by-step execution guide is designed to drive your decision making in setting up your DTC strategy. But there's more.

Ingenuity offer you the chance to have your very own DTC Playbook created, crafted specifically around your brand and your DTC growth ambitions.

Whether building a new DTC strategy, or looking to elevate your current DTC activities, The DTC Playbook will cover everything you need including:

• An in-depth ecommerce maturity assessment

• Consumer personas and competitor audits

• DTC proposition building and business model canvas

+

Our offering

Ingenuity is the end-to-end DTC partner of choice for brands looking to connect with consumers through a multichannel commerce approach and reach consumers globally.

We combine technology, fulfilment, operations and customer care excellence with our expertise in creative advertising, digital marketing and trading, to successfully build, deliver and grow your brand via DTC.

!i

THG / ĮNGENUİTY