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SIX STEPS TO DIRECT-TO-CONSUMER SUCCESS

Featuring **"Behind the Bamboo Curtain"** - an exclusive insight from Samarkand Global into how to reach China's lucrative D2C market

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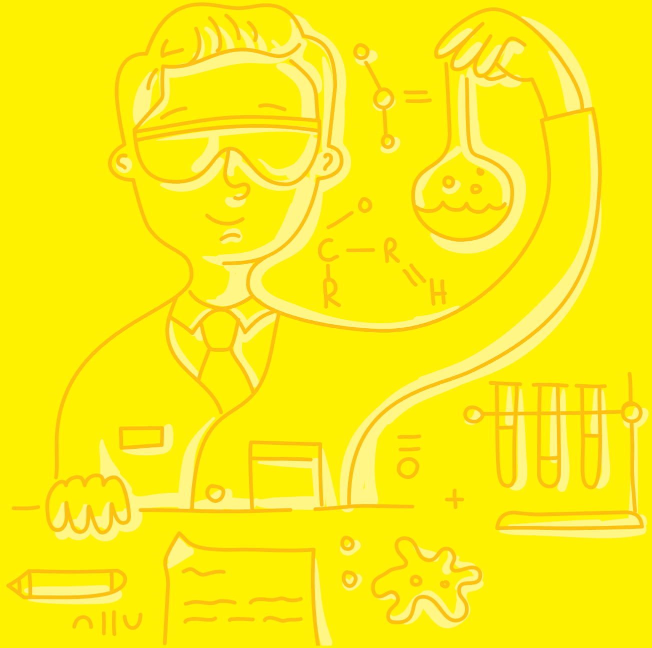
Introducing our **rapid D2C blueprint Lab**



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For more information and to set up your blueprint Lab, contact:

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If not now...**when?**

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‘There is **no such thing** as a customer service department. Everyone is in the customer development and satisfaction department.’

KATIE HUNT
CFO, Showfields

FOREWORD
BY: JON BIRD & DAVID ROTH

Direct-to-consumer commerce (D2C) has seen growth, success (and hype) unmatched by any other area of retailing in the past decade.

Spurred on by the success of early movers like Warby Parker and Dollar Shave Club, literally thousands of brands have sprung up in virtually every sector of the economy, using the practices of the most nimble startups to create new products, experience propositions and movements. Along the way, they have raised both capital – over $4 billion at last count – and customer expectations.

As more brands enter the market, the ideas, operating principles, tactics and techniques of those that succeed are being understood more widely. In this book, our team digs deep into this terrain to explore the essential characteristics of strong D2C brands. We uncover what makes them tick and how they engineer growth, and we show how the experiences of the best can be applied to other brands and businesses.

“The Six Steps to D2C Success” provides a roadmap for any brand or business seeking to serve customers in the direct economy, by developing better products, more quickly, at price points and with propositions that will bring new value.

Longevity and success in traditional retailing does not bring a significant advantage to brands entering the grueling D2C world. D2C brands must be more comfortable with ambiguity, more accepting of failure, and more responsive to daily changes in the marketplace than is typically the case for retail brands. It's not just a matter of installing the right technology and signing a logistics partner. In fact, legacy brands might actually be at a disadvantage. To succeed in D2C, they must learn new capabilities and dare to rethink every aspect of their proposition.

In this book we show how “The Six Steps to D2C Success” must be applied to a whole business, not simply the marketing and customer service departments. Brands have to be customer-centric from end to end.

Native D2C brands have ably demonstrated that D2C depends on a set of connected skills, not a business unit. These skills unite strategic marketing, product development and customer engagement, upending “business as usual”.

In the pages ahead, we set out what these skills are, and illustrate them with 26 case studies showing how D2C theory works in practice. Some of the most agile and pioneering brands in the world provide clear learnings on how to change products and business culture in order to grow a D2C brand.

We hope you find this both informative and inspiring.

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JB

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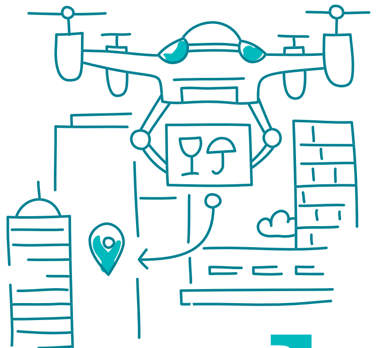
INTRODUCTION
BY: MALCOLM PINKERTON

The new retail landscape



MALCOLM PINKERTON
Vice President, Retail Insights, Europe, Kantar Consulting

MP

The growth of direct-to-consumer commerce has been driven by, and is in turn accelerating, enduring changes to the retail landscape.

Chief among them the rise of mobile connectivity and the fragmentation of supply chains into flexible units that no longer require huge investment of capital.

Next-generation commerce will be defined by the seamless integration of online and digital, offline and physical, logistics and data across the entire value chain.

Old retail was defined by multi-layered distribution networks, riddled with customer pain points. Launch and distribution costs were high, brands had limited control and little visibility of sales, and legacy systems were (and are) unable to accommodate new routes to the consumer.

Next-generation retail simplifies all of this from end to end. High-performing brands will cut out pain points, remove the middlemen and create streamlined digital-enabled route-to-market models. Costs will fall as value chains are simplified, availability will grow thanks to improved supply-chain flexibility, and sales performance and channel relationship visibility will increase thanks to real-time inventory and sales data.

Now, with greater control of the value chain, brands are introducing targeted retail formats and reducing communication costs while increasing SKU productivity. Customer messaging is more relevant, and insights generated from sales data are leveraged to optimize products and portfolios of products.

EMERGING CHANGES IN APPROACH

High-performing brands will be those with the ability to constantly invent and refine new customer missions and buying occasions, redefining commerce by creating truly seamless experiences across diverse channels, while making more meaningful connections with consumers through products and two-way conversations.

Brands can now sell direct-to-consumer on terms that can add value to the brand, the consumer and third-party retailers. The competitive dynamics of next-generation commerce will see brands look to preserve valuable retailer relationships while growing consumer connections through direct means. D2C success and success in third-party retail are not mutually exclusive. Indeed, one will increasingly become a condition of the other.

Operational agility, a test-and-learn mentality, willingness to collaborate, and new KPIs will be essential for high-performing brands looking to generate fresh revenue opportunities.

REASSESSING THE VALUE EQUATION LEADS TO REASSESSING THE APPROACH

Retailers and brands have to rework their overall value propositions to account for the end-to-end experience, not simply the price of a basket of goods. For example, saving time is as important as saving money for many consumers, with friction-free shopping now an expectation.

Simultaneously, experiences that engage and inspire, while remaining tailored and appropriate to the shopping mission, are table stakes. Brands that can create integrated, consistent experiences at every interaction, connecting with consumers one-on-one through unified online and offline engagement, will be the winners in next-generation commerce.

The change in the conditions set by customer expectations can only be met by a change in approach by brands. To compete in the era of marketplaces and retail ecosystems, brands will need to be more entrepreneurial, willing to fail and learn fast, and respond with flexibility and speed. In other words, they should be more like a retailer. Or more like an Amazon or Alibaba.

Brands will need to be agile in every dimension. Extracting meaningful, relevant and appropriate connections with consumers from the value equation is only half the battle. Brands will need agility when it comes to assortment, tailoring products according to channels to enable more direct sales, and to capture targeted consumers in evolving channels, like social commerce.

It will also become imperative to identify those moments of truth that a D2C experience needs to support, and be able to ensure that they can be met on owned properties, social channels and retailer experiences.

CONSUMER-CENTRICITY OVER CHANNEL-CENTRICITY

Modern shoppers want to feel connected to brands and the lifestyles they promote. They are unbound by channel thinking and are focused on the experience, not simply the product. Consumers have been granted control over their experiences and are creating personal retail ecosystems, populated with those best able to deliver the tailored, seamless, integrated experiences they now expect.

To compete in the era of marketplaces and retail ecosystems, brands will need to be more **entrepreneurial**, willing to **fail and learn fast**, and respond with **flexibility** and **speed**.

This requires a complete shift in mindset from being transaction-focused to becoming consumer-focused. Brands can only create competitive advantage by figuring out what customers want and how they experience the value provided across all touchpoints. By placing them at the heart of operations, by considering the end-to-end experience – from awareness, to purchase, to referral.

This requires being precisely where the consumer is at the right time, in the right channel, with the right product, ahead of the competition. Brands must look to build closer, more direct relationships with consumers by establishing mission-appropriate experiences that meet “in-the-moment” needs.

Successful efforts will focus on bringing retail to the consumer with products, solutions and services consolidating under a single platform as retailers and brands either create or join existing ecosystems that retain spend, drive engagement and foster loyalty. This will lead to the path to purchase being shortened through the establishment of new, more direct retail models that result in routes to consumer consolidation.

Gaining a holistic view of the consumer across the entire retail ecosystem is vital to successful direct-to-consumer solutions. The battle to win the hearts and minds of consumers will be waged with data. However, for many legacy brands, a failure to harmonize consumer data and insights across multiple brands and platforms will stall efforts.

LEARNING FROM THE NEW GENERATION

To succeed, the next generation of retail brands will need to create a structure that facilitates agility, enabling greater control over brand image and the experience proposition while capturing shopper data and ultimately, gaining deeper insights into consumer behavior.

Great changes in the marketplace require great changes by legacy brands and retailers if they are to keep up with and satisfy the expectations of their future customers. A clear view of The Six Steps to D2C Success laid out in this book will be vital in helping them succeed.

1

BE **MISSION-FOCUSED** AND mobile first

For consumers, buying products is no longer just about owning something.

There's greater attention than ever before being paid by consumers to what else a product does, besides serving its basic function. What it says about them, what it means for the environment, whether it helps employees and whether it projects an attitude they identify with. Brands have an opportunity to align with these new consumer demands; those that do it with authenticity and creativity carve out a place in people's lives.

To be truly mission-driven, brands need to rethink everything about the choices and experiences offered to consumers, as well as traditional views on consumer feedback. Many consumers don't just expect to be heard, they expect to be able to play a role in the development of a brand and its products. A fresh D2C mindset is essential.

Focusing on the consumer takes on new meaning in the D2C world; now, the consumer is an individual, and successful D2C brands are those that cater to the unique needs and preferences of consumers as individual people rather than broad demographic profiles. That sounds like an enormous challenge, but the way consumers relate to brands now is intensely personal, via the smartphone in their hands. The intimacy with which consumers regard their phones – and the fact that so many use them to manage not just their shopping needs but their entire lifestyle – means D2C brands must be built with the highly personal mobile experience in mind.

THINK OF D2C AS MISSION SHARED WITH CONSUMERS

D2C customers are not just buying products, they're fulfilling missions. As the boundaries blur between what people believe and what they buy, successful D2C brands have devoted themselves to making something – and therefore someone – better. Whether they do this by rethinking a category, a product or service, or through pure invention, they ultimately call attention to a truth shared with their audience.

Leading D2C brands typically have a distinctive point of view; a clear perspective on what they intend to change, to eradicate, simplify or invent. They cultivate forceful personalities and are often led by highly visible leaders who put their name to their brand and stand for authenticity. They are propelled by zeal and a sense they can change the world, one customer and one delivery at a time.

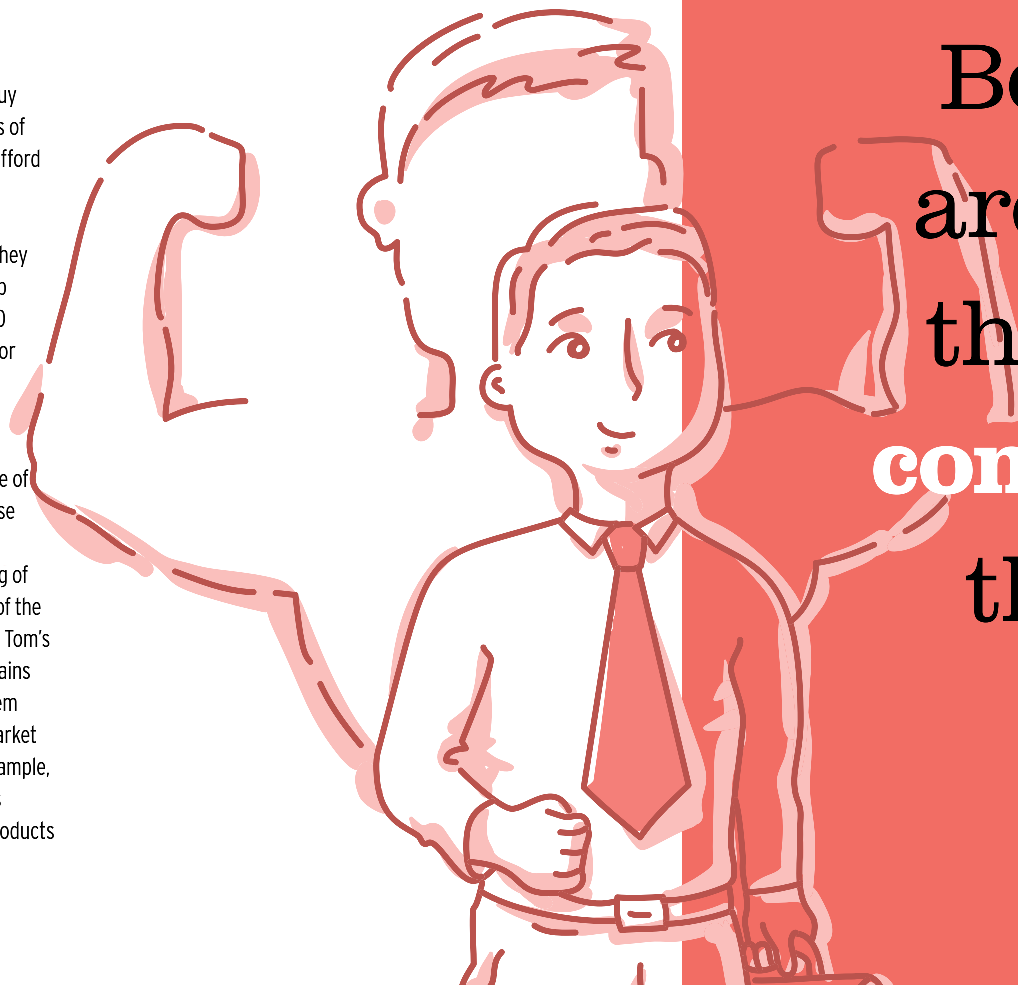
True D2C brands forge a "friendship" with their customers and engage them emotionally, rationally and functionally. This friendship stems from a shared sense of purpose. Their mission is found at the intersection of the customer's aspirations and the brand's desire to fulfil them.

D2C brands have emerged at a time of incredible advances in information, communication, and technologies, alongside dramatic and enduring shifts in consumer attitudes and appetites. The basic assumptions underpinning the era of mass manufacturing, mass media and mass distribution have given way to a completely revised set of "givens" that govern attitudes towards what's possible and acceptable in daily life. Behind all D2C businesses are founders who have seen the world as it is through a commercial lens and decided that "we should be doing better than this now".

Regardless of category, whether it be food, fashion, personal care or pet care, D2C founders have identified an opportunity to invent a new reality that resets expectations. The reason this is so dangerous for long-established brands is the same reason it is so compelling for new customers. It isn't necessarily that these products are better (in many cases they don't claim to be). It is that they are more suitable, more sustainable and more desirable than what has gone before. A brand with a mission cannot be competed away by companies that customers view as mercenaries. Once a customer has joined a movement or mission, they become off-limits to competitors. The mission may be supported even by people who don't have access to, or the means to buy the product. For example, there are many more fans of Patagonia clothing than there are people who can afford to own much of it.

Another reason missions are so compelling is that they not only help define a brand's purpose, but also help customers define themselves. With more than 3,500 D2C brands in the US alone, there is now a mission for everyone.

Missions engender trust and affection and they are persuasive, not coercive. They don't engage by force of advertising, but rather by force of authenticity. These missions span the whole end-to-end supply chain rather than just functional needs, including sourcing of ingredients and raw materials. Witness the growth of the clothing manufacturer Everlane, give-backs such as Tom's shoes, and commitments to fair trade. As supply chains become more transparent, the demand to make them more sustainable increases, and D2C brands can market already-popular products with a fresh angle. For example, HiBAR is a new shampoo and conditioner line that is fighting the war on single-use plastic by creating products that come in bars, not bottles.



Behind all D2C businesses are founders who have seen the world as it is through a **commercial lens** and decided that '**we should be doing better than this now**'.

Make it happen...

For many brands, it's time to remember why they got into business in the first place and to spread that message to their employees and customers. This means doing the hard work of self-reflection and introspection. It may mean reviewing and changing established business practices.

A D2C brand's mission is the starting point for all its decision-making and communications – the touchstone that informs every aspect of their business.

A successful D2C brand must first view the world through the eyes of the customer, then undertake a radical self-assessment of who they are and who they want and need to be as an organization. They then determine the changes they must make to become who their customer wants and needs them to be.

The goal of this work is to unearth the often-submerged or suppressed truth at the heart of the brand and what it does, how it does it and how it communicates with its customers. A purpose cannot be faked, but over time it can be lost. Processes like this are a means for brands to create themselves anew or for the first time. It offers them the ability to recover and restate the truth that originally animated their business, so they can move onto the next step of establishing a proposition worthy of their customers and the marketplace.

Even brands that are already well regarded can use D2C principles and capabilities to reconnect their customers and themselves to their mission, and breathe new life and passion into what they do.

CASE STUDY

patagonia

Patagonia is an established brand built on the mission of maintaining and celebrating the environment. It sells its clothing and food lines direct as well as through retail partners.

Its clothing is built to last and is expensive. Customers often feel justified spending big on durable products, because over years of use they get their money's worth. But there's still the risk of ending up with a closet full of clothing they're no longer using, having moved on to a newer version that performs better and is lighter and even more durable.

Patagonia has solved this problem with its "Worn Wear" program, which it delivers direct to consumers on its own online platform and in stores. It gives customers the chance to trade in their old Patagonia gear and earn Worn Wear Credit that can be put towards something new, or another recycled product. It also allows outdoor enthusiasts on a budget to purchase recycled gear at a solid discount — all repaired, washed and ready to go.

Products that are beyond repair are recycled. The materials from the recycled gear go back into producing something new for Patagonia, which ultimately keeps it from ending up in landfill. For Patagonia customers, the Worn Wear program is a win-win. Not only do they get the chance to clear their closets of unused gear, they can also buy new products more suited to their needs at a reduced price.

For Patagonia, the program is authentic to who the company is and communicates the quality of its clothing. The brand has long been a staunch advocate for protecting the planet, reducing its carbon footprint, and finding new ways to reduce waste. Worn Wear helps accomplish all of those goals. Worn Wear fits with Patagonia's brand, positioning and target market, hence delivering tangible value to existing customers and Patagonia itself, as well as being a great means to bring new customer groups into the brand.

Worn Wear amplifies Patagonia's social mission and its brand equity for making long-lasting clothes that tell a story — as they say, "the scars tell the story". By identifying the season in which a product was originally sold, the brand also creates a sense of history, permanence and community.

TO **SHARE YOUR D2C MISSION WITH CONSUMERS**

ASK YOURSELF THESE QUESTIONS...

What is the **simple essence** of your mission? Do you need to **rediscover** it or **evolve** it?

What has the brand or category settled for that a **new competitor** would **question** or **jettison**?

How could you **adapt** to ensure operations **reflect your mission** from end to end?

DEVELOP A D2C MINDSET

It follows that as D2C brands are utterly focused on and driven by a mission, they also have a distinctive mindset. Their unique perspective on the customer and current market conditions is what allows them to rethink basic assumptions about products, structures and business models. That's why D2C brands see ways to bridge the gaps that others take as an immovable "given". They rethink the market according to a 21st century set of "givens" – whether they be consumer values, consumer context or available technology. Legacy brands seeking to adopt a D2C mindset also have four "givens" to guide them.

THE 4 NEW "GIVENS"

1 Excellent D2C consciously avoids competing with, copying and confusing the existing market structure

2 Excellent D2C delivers a distinctively new value to the market

3 Excellent D2C seeks to improve customer satisfaction

4 Excellent D2C is something only the brands themselves, not retailers or marketplaces, can deliver

Make it happen...

D2C commerce adds value to the whole commerce ecosystem by meeting the customer where they are and creating distinctive new value in a complex world of choices – all grounded in the current and evolving customer experience.

That means D2C experiences should be created with the whole market in mind, with brands seeking not only to address direct consumer needs, but also to create propositions that fill gaps in the market.

D2C experiences exist within a broader ecosystem than simply the system owned by a brand or any given retailer, and brands must be conscious of this.

For brands that have a comprehensive distribution network, D2C offers the opportunity to create insight into the marketplace that can serve retail and distribution partners, while providing customers with an appreciation of the complete proposition on offer.

RETHINK CORE BUSINESS OBJECTIVES

Because the core business objective for third-party retail is to deliver sales, scale and market share, sales are the principal goal of those channels, followed by engagement and insights.

Conversely, as the goal of owned retail is to generate data and insights, develop engagement, and deliver an experience, sales themselves can take a back seat to engagement and insights. Indeed, direct feedback and insights are the principal value D2C experiences can create for a brand.

SHIFT COMMUNICATION GOALS

For third-party retailers, the principal communications objective is usually to show brand utility, identity and presence, whereas in the owned realm the objective is to generate advocacy through engagement with and experience of the brand.

The D2C mindset accurately reflects the customer's view of the world and helps brands work within the customer context, not simply their own channel concept.

D2C offers the opportunity to create insight into the marketplace that can serve retail and distribution partners.

CASE STUDY

GATORADE

Gatorade has created one of the most comprehensive and varied D2C experiences in sports nutrition. It has brought distinctive value to the marketplace by creating product bundles that are not only unique, but also highly valuable to their target market: the serious teen athlete. Its subscription model helps athletes, many of whom have their products paid for by their parents, keep to their nutrition and recovery regimens without being reliant on stores to stock all the products they want.

Gatorade used its D2C site to launch Gx, a pod system that allows users to get concentrated products that fit within a bottle and that can more easily be ordered and shipped, and its G Essntl range of purer products.

The site also addresses the casual athlete and the sports fan with unique bundles, giftable sets and a complete range of products that can't be found in any store.

By owning and operating a distinctive D2C property, Gatorade is supporting its retail footprint and at the same time creating a domain that maintains its complete range. Gatorade uses data it gathers on consumer preferences to inform retail partners about opportunities and trends.

CASE STUDY

New Balance is a brand that sells through numerous retailers and online platforms, including Amazon, yet it also maintains a strong D2C experience featuring exclusives, limited-edition and customized products along with a rewards program.

It makes its core products widely available through wholesale and retail channels and also sells them on its own properties. Additionally, it has a platform for experimentation and engagement with its most ardent fans and advocates, whether they be lifestyle customers or serious athletes.

The customization engine is a great tool to get upstream intelligence on new product possibilities and to identify highly engaged customers.

Newbalance.com features every item New Balance produces, enabling customers to choose from classic styles and new creations. Products are often launched on newbalance.com before wider distribution, to get customer feedback and be tweaked as necessary.

New Balance also addresses the reality that many consumers like to buy older and discontinued styles, through its joesnewbalanceoutlet.com store. This store is run on the same e-commerce back end as the main New Balance store, and features rare finds and styles that are no longer available in national retail or on newbalance.com.

By creating a destination for these styles, New Balance is serving some of its most loyal customers who have a product, size and style combination that they particularly like. Far from being a site where seconds are sold, Joe's New Balance Outlet rounds out a highly developed retail ecosystem built on the three value pools of insights, engagement and fulfilment. New Balance's e-commerce team is able to see search and online behaviors in all of its domains, as well as aggregate reviews and use these to develop new products and extend the life cycles of its most popular styles.

ASK YOURSELF THESE QUESTIONS...

What is the market already **doing really well**, and where do gaps remain that only your brand **can fill**?

Which consumers are being passed over because they are not seen as **the primary target**?

How can customer and market insights **improve engagement** as well as sales?

REMEMBER: D2C DOESN'T JUST END WITH A 'C'

It **starts** with a C for consumer as well. All brands, regardless of their provenance, make the claim that what they do is driven by the customer. What distinguishes D2C brands is not the simple fact that this is true, but rather the extent to which it is true.

Katie Hunt, the co-founder of D2C investment firm The Fund and the third employee at Warby Parker, says: "At Warby we didn't just talk about 'customer satisfaction,' we talked about 'customer respect', meaning we would be completely drilled down on the customer's experience even if we couldn't make it work on the bottom line yet. Customer service or satisfaction are problem-fixing mindsets; customer respect is an experience-building mindset."

Great D2C brands typically begin with a simple product, proposition and experience, and broaden out from there. This enables them to target a very specific customer and use that customer cluster as a ready-made focus group to provide feedback, help advance the brand, and inform its future product trajectory. Note that they don't focus on "the customer" as an objectified generalization but rather as a specific person. Making the customer the subject of everything they do, rather than the object of the activity, is a subtle but transformational difference.

For this reason, D2C brands tend not to indulge in excessive competitive benchmarking or comparison.

D2C brands are seeking to be truly transformative in their industries for themselves and on behalf of their customers. Comparison and benchmarking processes can be level-setting activities that limit brands to looking for small incremental advantages over the competition, rather than transformative gains in experience for customers. D2C brands gain their information direct from their customers and establish a relationship with them on the basis of their responsiveness to feedback. They earn the right to experiment with every aspect of their proposition through transparent communication with an engaged and advocating cohort of customers.

Active, responsive listening is therefore a core skill of D2C brands. They cannot authentically engage with consumers without first understanding them.

An interesting implication of this is that for many D2C products and propositions, while they have to be compelling, effective and materially valuable at the outset, they don't have to be perfect at inception, nor does the product family need to be fully built out. This isn't a license for mediocrity, but rather an invitation from the brand to the customer to co-create.

Brands must create spaces for customers to engage directly and immediately with the brand. They need to be responsive and open about developments and improvements they make to as a result of feedback.

This means openly admitting mistakes, asking for feedback, and being able to transmit that feedback across the organization at speed.

Brands must adopt a "customer respect" mindset, and use this to guide the creation of their full proposition and experience. Does it truly respect the customer, or does it ask them to carry a burden to support the brand?

At Warby we didn't just talk about '**customer satisfaction**,' we talked about '**customer respect**'

KATIE HUNT
Co-founder of D2C investment firm The Fund and the third employee at Warby Parker

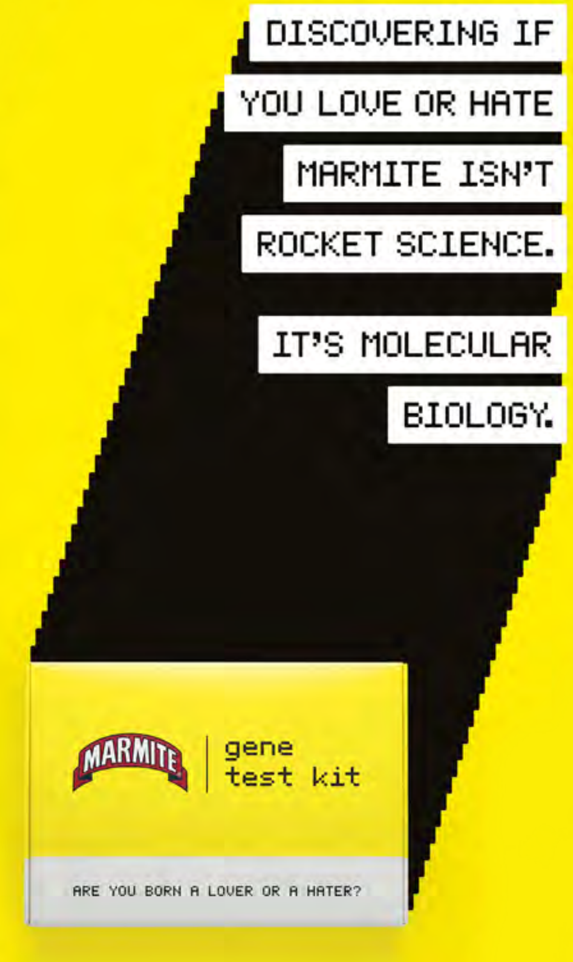
CASE STUDY

Marmite is an iconic British food spread produced by Unilever and made from yeast extract. It is similar to Australian Vegemite, the Swiss Cenovis and the German Vitam-R.

It has a distinctive, powerful flavor and is extremely salty. This unique taste is represented in the marketing slogan: "Love it or hate it", which is so prominent in British popular culture that the product's name is often used as a metaphor for something that polarizes opinion.

When Marmite launched a website selling directly to consumers, the company offered shoppers an opportunity to personalize jars and also order a "Gene Project DNA Kit", as a playful way to determine whether consumers were Marmite "lovers" or "haters", referencing a long-standing joke in UK households.

By approaching its D2C sales in such a way, Marmite has not only been able to deliver a level of differentiation that drives enough margin to make the platform profitable, but also brings its "lovers" into a closer, enhanced relationship with the brand.



ASK YOURSELF THESE QUESTIONS…

How could you make the customer the **subject of your experience**, rather than the **object of your goals**?

How could you **co-create** with your customers?

How could you **earn honest feedback** – and get **quicker at responding** to it?

BE MOBILE FIRST

D2C brands and businesses are built on and for the mobile economy. D2C businesses have always existed, but their modern incarnation is definitively mobile. D2C brands have exploded in number and scale since the launch of the iPhone in 2007, and now populate every conceivable niche of the economy. The relationship between the explosion of mobile and the explosion in the number of D2C brands is causal, not coincidental.

Mobile technology and the "always-on" society mean ubiquitous connectivity of consumers to each other and to brands. This creates the conditions for brands to listen intimately and immediately to customer feedback, and to respond to consumers directly and personally.

The rise of smartphones has accelerated the growth and reach of social networks, increasing the accumulation of accurate personal data and clearly defining consumer preferences. D2C brands have been able to identify their audiences and reach them directly, in the palms of their hands, lowering the cost of reaching customers, eliminating waste in advertising, and enabling them to start incredibly small and grow with their audience. This has dramatically lowered barriers to entry in every market, because brands can profitably focus on developing a single, differentiated product.

Brands can now be built at human scale and in real time by founders with whom customers have a personal affinity. And these customers live their lives as mobile warriors. Their devices are their main source of news, entertainment, communication and shopping. They are young, often relatively wealthy, and they are purposeful. The brands they most need to reach are easily found via mobile. The more time these consumers spend running their lives on their devices, the higher their propensity to purchase challenger D2C brands. Mobile media consumption has, among some audiences, overtaken linear TV, and with that the new standard for marketing has become the ability to drive mobile consumers to digital retail, rather than TV viewers to physical retail.

In the past three years alone, the time spent each day on mobile devices in the US, for instance, has increased by 133 percent as the time spent on TV has decreased by 14 percent, according to Nielsen. This defines responsive marketing strategies and enables two-way communication as never before. The ability of consumers to respond in real time to their impulses and the reach of advertisers has driven the rise of mobile e-commerce to 40 percent of the total. Mobile now accounts for $210 billion in annual sales.

New payment technologies like Apple Pay and Alipay have increased convenience while reducing the fear of fraud, further powering this trend. E-commerce has never had a down year; its growth in the past five years has been almost entirely due to mobile commerce growth.

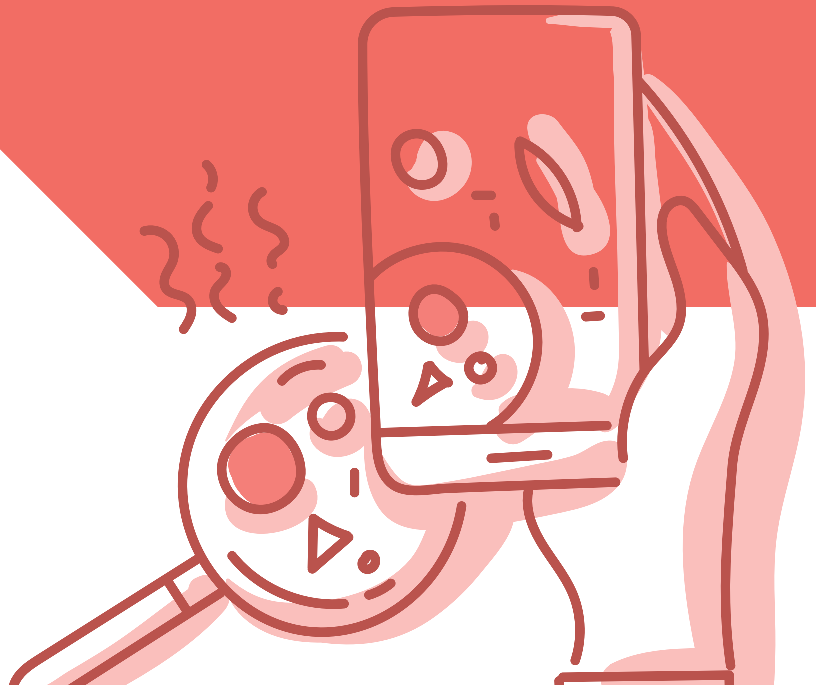
Mobile isn't confined to e-commerce, though. Mobile also means physical, because the consumer using the phone is unshackled and is moving around the real world. The mobile customer is omnichannel. In fact, there really is

no such thing as a channel any more. The flow of communication backward and forward and the movement of the customer into different contexts means mobile defines what a channel is. In the US, one in three in-store purchases is made after first shopping digitally, and one in four digital purchases is made after shopping in-store. Mobile is driving product trial into the arms of D2C brands.

It's important to remember, though, that not all customers have the same quality of connection that those in well-served capital cities do. Even in this connected world, there are plenty of people with slow or patchy connectivity. That means every aspect of the design of D2C experiences, from the front-end experience through ongoing communications, data collection and back-end processes, should be designed as if desktop computers and lightning-fast Wi-Fi did not exist.

Imagine: what if mobile devices on patchy networks were the only devices you designed for — how would you do things differently?

What capabilities would you expect as standard within a mobile-only world? What opportunities does the mobile domain offer that desktops don't? Most pertinently, all aspects of broadcast and responsive communications should be optimized for mobile, both in terms of the medium and the message.



CASE STUDY

care/of

A great example of how mobile can be deployed across the whole experience is Care/of, the vitamin and supplement brand. Care/of is a New York City-based technology company that is revolutionizing vitamin and supplement regimes using mobile. Its first product is a vitamin experience delivered monthly to consumers, personalized to the individual customer's unique body, lifestyle, values and health goals.

The brand helps customers choose the right vitamins and supplements, via the mobile interface, and develop a tailored program that's easy to stick to.

The Care/of app lets customers order individualized vitamin packs, set reminders, track progress and earn rewards by taking them daily. Care/of focuses on making vitamin consumption a fun experience, by making the process a challenge that can earn them rewards.

Each month, customers receive a tower with their vitamins that's like a grown-up Pez dispenser. Each day there is an individual pack, and customers get a reminder to take their vitamins in a daily notification on their phone. With the Care/of app, users can set reminders for taking vitamins, and track developments in their health. By taking their vitamins regularly, customers can even earn free vitamins and other perks.

IN ORDER TO **BE MOBILE FIRST**

ASK YOURSELF THESE QUESTIONS...

What are your customers' physical constraints that mobile **promises to liberate**?

What **capabilities** do your customers expect in a mobile-only world?

What **specific opportunities** does mobile offer that other screens don't?

2

DON'T **SELL** A PRODUCT

tell a story

In the D2C world, smart brands don't try to sell to consumers by presenting a list of product features or shouting about price. They convince them by telling powerful stories that reflect a mission shared by both brand and consumer.

Compelling stories are often based on the founder's passion or journey to product development, but they rarely focus on the product itself. Instead, they focus on the experience a brand can help deliver for a consumer. It's as much about how the brand makes someone feel as what it actually does.

Sales are only one of the goals for D2C brands with a long-term perspective; consumer insight, loyalty and advocacy are also important wins for a brand, and this informs development of the shopping experience as well as investment in marketing.

The importance of loyalty to D2C businesses means that CRM programs are built into the entire experience, rather than added on at the end. Consumers who are loyal to a brand feel part of a community of people with shared values, and one of the top priorities of the D2C brand is facilitating conversations between consumers as well as communication between individuals and the brand.

BE A 'STORY SELLER'

Strong D2C brands have an intuitive – and a data-informed – sense of who their customer is and what they hope for. They construct purpose and meaning through the stories they tell, and enlist the customer to write themselves into the story. Most D2C brands have an origin story that convinces customers that the brand sees the world the same way as they do, with shared hopes, aspirations, and frustrations.

Storytelling and mission are closely linked, and D2C brands operate on a more intimate level than traditional brands. They are carried by relatability rather than objective authority.

When brands craft a personality that appeals to their customer, this personality can be woven into a mission and proposition that makes it not only easy, but also desirable, for them to work with. In crafting their story, smart D2C brands understand that they are not the hero, the customer is. The brand is the guide and partner who helps the central character fulfil their purpose. This is "storyselling".

The brand cannot exist independently of the engaged customer and the context in which they are living. The brand and its stories ensure the customer believes that the brand cares about, exemplifies, and amplifies their own central values and concerns. If they don't, they might still be bought, but only because of a lack of ready alternatives. In this fast-moving retail world, that's shaky ground to be on.

Storyselling lowers customer acquisition costs. Anecdotally, brands report that customers acquired through storyselling channels like podcasts have higher lifetime values. After all, stories create better long-term consumer engagement, and are more shareable between consumers, meaning more "free" or at least cheap sales from referrals.

The D2C sock company Bombas says that in any given week, up to 40 percent of its paid acquisitions come from podcast advertising. According to VP of Marketing Kate Huyett, podcasts give the hosts time to talk about the brand's social mission and more room to tell its story, which results in higher sales, better engagement and long-term value.

In an era of low switching costs and easy comparison among numerous choices, only brands that create an emotional connection can command sustainable margins.

Make it happen...

Strong brands help consumers make better choices faster and live fuller lives through both emotional and rational consumption choices. Storyselling is the art of bringing the customer and the brand together and sharing that same relationship with the world. D2C brands and their propositions are indivisible from their stories, and the margins and loyalty they command are directly attributable to them.

Brands need to reconsider their story, not merely their identity. Why do they exist? What do they aim to do? How can their customers write themselves into the story? When D2C brands are storysellers, they excel in using media like podcasts and Instagram, where stories are what the consumer is seeking.

On a practical marketing level, storysellers don't separate media planning and buying from creative strategy and execution or content creation. Every aspect of their communications is an expression of the story.

Consider how you can "collapse the gaps" between strategy and execution in every aspect of the business, from experience and product design to fulfilment and communication.

TO MAKE YOURSELF A 'STORY SELLER'

ASK YOURSELF THESE QUESTIONS...

What is your brand's story? **When** and **why** was it created? **What** has it become?

What **could** and **should** the story be as you carry it forward?

How can you 'collapse the gaps' between **brand strategy** and the **end-to-end experience**?

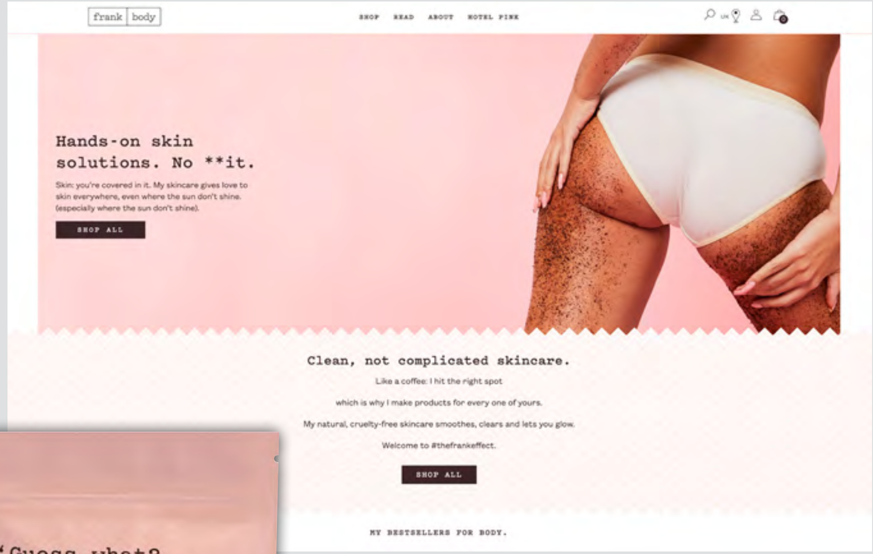
CASE STUDY

frank body

A great example of excellent storyselling is Frank Body. #thefrankeffect is natural coffee-based skincare made in Melbourne, Australia, which was founded in 2013 after two women came into the founder's cafe and asked for leftover coffee grounds to use as a natural body scrub.

That first request has led to a range of 20 caffeinated products that have sold to more than a million loyal customers and 700,000 Instagram followers. Frank Body has been selling direct worldwide since 2016, selling more than 3 million products to 155 countries.

"We think about the persona of our brand and we think about the ritual of the product. Everything from opening the box with a cheeky rhyme to taking a selfie in the shower. The experience comes down to what the brand allows you to become in actual life and in your social media life (which are often very different), not just the five physical senses."



Frank Body's origin story, its brand persona, and the creation and celebration of ritual, combine to create a story that enhances the product experience.

'The product gives you the ability to start (encourage trial) and sustain, but the story and the proposition is what enables you to scale'

NISHA KARNA

Frank Body General Manager, North America

DON'T SELL PRODUCTS. CREATE EXPERIENCES

Good D2C brands differentiate themselves through their understanding that the product and the experience are not the same thing. The experience, as we have seen, is predicated on a shared sense of mission and purpose. The selling and value proposition – and the commitment or promise to deliver it – make up the experience. Great brands sell a full experience proposition that encompasses the product, the product's use, the community of other users and benefits beyond the product's functional attributes. Customer value and experience propositions are a distinct mix of hard and soft benefits that position brands in the lives of their customers, not merely in their hearts and minds.

D2C brands are typically constructed on a few key valuable claims. In developing an experience that will delight their customers, they lean heavily on a couple of pivotal factors that together enhance the brand experience.

Because trust is a prime source of value for these brands, effective D2C brands also make clear claims regarding how they will support and address customers throughout their life cycle. They make promises about transparency, refunds, returns, satisfaction and openness to communication, among others. Brands driven by an affinity to customers' purposes will quickly come unstuck if the brand and experience are not the same.

The experience is a combination of the shared mission, the proposition itself and a brand's commitment to deliver it. The cultural and operational commitment to its promise is ultimately the brand's active validation of the trust the customer places in it.

The execution of the experience isn't limited to the product; it encompasses every aspect of marketing and communications. D2C brands are creating product experiences on relevant social platforms, such as YouTube and Instagram. They "reach" and "teach", through everything from product usage tutorials to unboxings.

D2C consumers expect each communication to enhance the experience of buying and owning the product, even seemingly mundane post-sale communications. Operational elements like the unboxing or pick-up experience are as fundamental to establishing brand affinity and affection as the use of the product.

Make it happen...

The clear implication of this is that brand owners must be concerned with every detail and delivery point of the overall experience; they need to consider all communications and fulfilment processes as a means of creating differentiation for themselves and value for the customer. This extends to product packaging, the unboxing experience and any communications channel the brand establishes. Brilliant D2C brands are very conscious of their voice and tone, ensuring it is always appropriate to the brand.

The purchase itself doesn't sit at the center of the experience, as is often the case in expressions of the customer journey; the brand experience does. Understanding the customer experience as a loop highlights the modern reality that the purchasing and owning experience for a customer can begin anywhere - and need not end.

At the core is the ownership (sometimes called the usage) experience. A great experience yields advocacy and referrals as well as repeat purchases. The goal of the brand is to engage customers as users, not buyers, which means moving investments from pre-purchase promotion and sales, to post-purchase renewal and advocacy.

Brands must create a two-way communication loop with the customer before, during and after the "sale". Often the moments of truth happen after the initial transaction in the domains of delivery, service, education and advocacy.

Every contact with the customer and every variable in the experience can be conceived as creating a competitive advantage. Returns windows and privileges, delivery options and cycles, product unboxing and packaging or YouTube "how to" videos and more can all be created to improve the proposition, separating the brand from the competition and altering the consideration criteria entirely.

CASE STUDY

Nestlé

Nestlé Japan is using AI, social media, and home-testing DNA kits to create personalized diets for consumers, enabling it to evolve from selling packaged products in stores to becoming a healthy lifestyle brand.

As lines between professional healthcare and lifestyle-oriented healthcare are blurring, personalized nutrition is improving. Food and drink brands can tap into artificial intelligence (AI), big data, and social media trends to create ultra-tailored choices for consumers. This is creating a completely tailored ecosystem of food and health-related products, and locking consumers into not only products, but also protocols that aid and improve lifestyle.

ASK YOURSELF THESE QUESTIONS...

Which are the **pivotal elements** of your brand experience and how can you make them **more memorable**?

What **promises can you make** that will build trust and serve as a foundation for the experience?

Which **points of contact** can you use to communicate your competitive advantage?

LOOK BEYOND YOUR BANK BALANCE

D2C businesses offer brands three clear pools of value, and the goal of any D2C business should be to develop and maximize each in support of the other.

THE THREE POOLS ARE:

1 **Insights**
Uncover new markets, audiences, and improvements to products and services.

2 **Engagement**
Increase brand loyalty and advocacy.

3 **Fulfilment**
Sales and customer satisfaction.

They all ultimately exist to improve the customer experience over time and increase a brand's reach to serve more customers in better ways. Balanced in the right way, they ensure the money follows.

Excellent D2C brands set up their businesses to reflect the way customers want to shop and buy rather than how the brand wants to sell. Because they know their customers both individually and at scale, they are able to customize their products, propositions and services, and undertake a range of activities profitably that enhance customer enjoyment of their proposition and story.

They can intentionally develop insight and engagement knowing that sales will follow. And they can track the relationship between the different pools of value.

D2C brands measure their customers' response and reaction to everything – not only the presence of the reaction, but also the emotional temperature of it. They are aware of and care about how the customer feels about them in real time, and are focused on that individual's likelihood to support and recommend them. They aim for frequency of activity because their customers are identifiable and measurable. Because of this, brands can be confident in their judgments and make decisions and adaptations in real time.

D2C brands run their communications like a dynamic two-way newsroom, knowing that each response they get yields new insight and can generate new advocacy, leading directly to profitable sales.

Make it happen...

For established brands, D2C experiences shouldn't be evaluated on the same sales, share or profitability metrics as third-party retail.

D2C brands built within the walls of legacy businesses should be set up to enable the business to gain insight and engender loyalty, distinct from the everyday course of business. The objective of brands is to grow advocacy and sales over time, so much of the brands' activity will be to engender engagement, even from stakeholders who might never buy a product from the company.

Tesla Motors is a clear example of this strategy working well. Since inception, Tesla has been aspirational, resetting expectations for the electric car and the auto industry itself. The company's buying audience is small, but its advocating audience is huge, evidenced by its 3.4 million followers on Twitter, even though it currently sells only 300,000 vehicles per year. Compare this to GM, which sells 3 million cars in the US and 10 million globally, but only has 680,000 followers on Twitter.

For many established businesses, engagement is an initial challenge, especially when competing for limited internal resources with comparable metrics and bases of measurement. When companies understand the ecosystem, they are able to frame appropriate goals and develop experiences that reward customers' expressed and unexpressed aims.

Viewing the system this way ensures brands create experiences that support the whole ecosystem, not just a single element. Data and insight captured in any part of the system is valuable when deployed to all parts of that system. Loyalty earned on owned experiences shows up as sales on third-party experiences and so on. Understanding the complete digital commerce ecosystem and the three pools of value is essential to ensuring D2C experiences deliver value for the whole enterprise. Brands must create measures that demonstrate the relationship between insights gathered, loyalty engendered, and satisfaction delivered.

CASE STUDY

PAPPY & COMPANY

The Old Rip Van Winkle distillery in Frankfort, Kentucky, produces one of the world's most exclusive and in-demand bourbon whiskeys. Created by founder Julian "Pappy" Van Winkle just prior to prohibition (when it was licensed to be sold for medicinal purposes), the Old Rip Van Winkle brand was reintroduced in 1972. Demand is so high that it's been dubbed "The bourbon that even billionaires can't get hold of".

Pappy Van Winkle's great-granddaughters started their own venture, Pappy & Company. This bourbon-inspired lifestyle brand sells a range of culinary, apparel, home and barware products as well as an exclusive barrel-fermented cigar line. Rather than explicitly selling bourbon, Pappy & Company uses its site to promote the promote the lifestyle at the heart of the brand and develop relationships with customers who might never actually taste the real thing, but who want to experience the brand and maintain a relationship with it.

ASK YOURSELF THESE QUESTIONS...

What value can you assign to each of the pools of value (**Insights**, **Engagement** and **Fulfilment**), and how can you link them?

Which **insights** would **create the most value** for your brand in terms of sales, satisfaction and loyalty?

Which **KPIs** would help you **pursue** insights and engagement as well as sales?

LIVE FOR LOYALTY

A smart D2C brand doesn't run a loyalty program as an add-on to their communications; the whole proposition is intended to engender loyalty and give the brand freedom to develop their propositions beyond a given product.

This has significant implications for how businesses establish and manage their communications programs. The most pronounced implication is that D2C companies don't see CRM, social, 1:1 communications, chat, IM, etc., as distinct, but rather as a single collaborative experience and communication program that increases insight into customers at all points of the experience.

D2C brands seek to address all the stakeholders in the business, not just the paying customer, and they regard advocates and critics differently to legacy brands. They realize that the most valuable brand advocates and the most constructively critical consumers may be the same people. Relationships are assessed not simply by their monetary value, but by their relational value. It is the quality and frequency of two-way engagement rather than spend that genuinely reflects the value of the relationship created.

D2C brands do not stop at trying to create strong 1:1 relationships; their vision for loyalty and engagement is to create groups of advocates who celebrate the community as well as the brand. This concept of loyalty ties directly to new customer acquisition, sales and repeat purchases. For these brands, loyalty is shareable and reinforceable among groups. They don't manage loyalty programs – they mediate relationships between consumers. Loyalty is conducted not only on owned properties, but also on shared social platforms.

As Ido Leffler, co-founder of Brandless, the household supplies company says, "The biggest part of our marketing goes toward our community, through social media, community building and information sharing."

CASE STUDY

Glossier.

The cosmetics brand Glossier, founded by Emily Weiss, started as a blog called "Into the Gloss" in 2010 and expanded into commerce in 2014. It is reported to get 70 percent of its online sales from peer referrals. The brand's interaction with its online subscribers (including 1.1 million Instagram followers) has fostered strong channels of communication between brand and consumer and between consumers themselves.

Glossier has utilized these bonds to conduct free product research and development, amassing user-generated content and building a solid fan base of "Glossier Girls". Its massive online ecosystem continues to drive the future success of the brand.

Being able to hold on to customer information for marketing purposes or get sales data directly in real time is key to successfully launching new products. The brand then creates an experience that matches the expectations of the core audience.

A successful D2C platform will often feature exclusive items, which give a sense of being part of a club, leading to increased brand enjoyment and advocacy. Brands like Glossier are masters of driving traffic to their site by using social media to create a buzz that builds the online ecosystem of engagement through direct and user-generated content.

ASK YOURSELF THESE QUESTIONS...

How can you transform the idea of loyalty from something customers express toward the company, to something they **express to other people**?

How can you create a loyalty program that **rewards engagement**, not just sales?

How can you make loyalty **shareable** and **reinforceable** among customers?

3

USE **DATA TO DELIVER** ON detail

One of the great advantages of dealing directly with consumers via a brand's own online platform is that every single thing a consumer does creates a rich trail of data.

This is a potential goldmine for D2C brands, allowing them to adjust products and services and then see, in real time and over time, how different customers respond. This feeds into an ongoing process of research, development, iteration and improvement.

Data is where brands win insights into how not just to satisfy consumers but delight them, and great brands know that delight is in the detail. Consider which details of the whole experience you offer can create true moments of delight, and remember that these moments can occur after the sale or in the unboxing or usage experience – things that aren't strictly necessary, but are genuinely delightful.

Given the wealth of what can be achieved with data, it is tempting to try to collect as much of it as possible. This is not just a waste of resources, it can easily backfire on a brand. Much better to focus on the data a brand needs in order to create those delightful details, and then set about creating it.

The other key aspect of data for D2C brands is in measuring the performance of every aspect of the business. Being on top of how different elements of the offer and communication contribute to the cost of acquiring a customer, and to the lifetime value of each one, is essential.

LIVE AND BREATHE R&D

Outstanding D2C brands are iterative. Flexibility, curiosity and improvement are built into their business models, from original inspiration to product and experience design.

The first goal of D2C businesses is to improve their customers' lifestyle over time, and first-party data can be used to drive research and development. The brand's creative functions, including product development, marketing effectiveness, customer analysis and pricing should all be driven by data and customer feedback.

Fluid and fast supply chains enable brands to test new products and propositions quickly and responsively. D2C brands set themselves up as learning organizations, meaning they constantly establish a hypothesis, determine expectations and goals, and then measure outcomes. They aren't wedded to a single hypothesis or point of view. If the customer doesn't value the feature or product, D2C brands are able to move on because they haven't committed heavily upfront.

In years past, experimentation directly with the customer was impossible; the cost of creating an experimental product run was prohibitively high. Experiments, as far as they could be termed that, were largely confined to achieving incremental gains. In other words, they weren't really experiments at all.

Outcomes would have to have a "certain certainty" before trial, and they definitely couldn't be tested on large, engaged and directly responsive audiences. They had to be limited and controlled. Testing multifaceted and amorphous experiences were simply impossible, because too many variables and third parties made such a test unviable.

Modern, digitally enabled D2C experiences allow almost complete control of the consumer experience, enabling brands to delve into the mind of the consumer to explore what is and isn't working. Failures do not happen in this lab; instead, hypotheses are proved or disproved. This D2C retail lab is a place to continually test, tweak and learn. And then apply (and scale) elsewhere – and often on substantially better terms than could be negotiated at inception.

Outstanding D2C brands are iterative. **Flexibility**, **curiosity** and **improvement** are built into their business models, from original inspiration to product and experience design

Make it happen...

Brands need to decide what they are using their D2C platform for. A D2C brand experience is composed of many interrelated parts: product, proposition, fulfilment, marketing, loyalty communications, supply chain and more. Brands can create experiences outside their typical business realm to test and learn from new hypotheses that communicate value into the main stream.

Everything can be tested – not only the product, but also every aspect of the communication and experience cycle. The results of these tests can be used to improve every aspect of the company's business function and customer experience.

CASE STUDY

bear naked

Kellogg's Bear Naked granola brand, sold in stores like Target, Walmart and CVS, uses its own e-commerce site, BearNakedCustom.com, to allow customers to create their own granola mix and buy directly from the site.

The site showcases the breadth of the product range; creates a unique and personalized experience for users; and plays a key role in new product development, allowing Kellogg's to capture a large amount of consumer data and understand the preferences of its most engaged customers. Kellogg's also employs IBM's Chef Watson AI API tool set to power the experience. Watson draws on the chemical composition of hundreds of different ingredients and analyzes some 10,000 recipes from Bon Appétit.

By combining data and detecting certain patterns, Watson has learned to suggest combinations of up to four different ingredients that blend together well, and is helping Kellogg's redefine the granola-eating experience from one synonymous with breakfast to one that can occur at any time of the day or night. Olive and Kale Granola is one of the site's many successes.

ASK YOURSELF THESE QUESTIONS...

If you could only collect **three data sets**, what would they be and why?

If you could get it, what data or insight would be **truly transformative**?

How might you use a D2C platform to test not just '**what is**?', but also '**what could and should be**'?

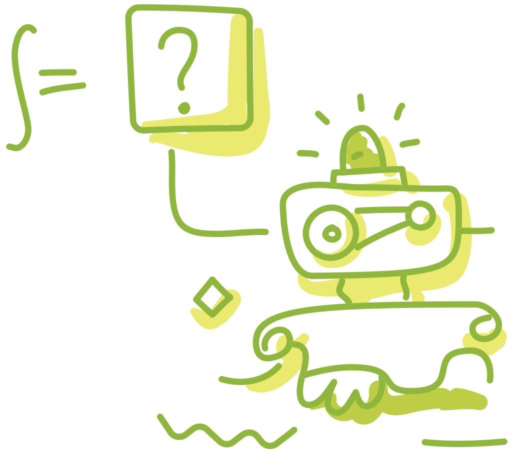
BE A DATA DEVOTEE

The consumer data that D2C brands can capture enables them to create great experiences that get better and more useful for the customer over time. Smart D2C brands use data as a strategic business asset; they know what data they want, why they want it and how they plan to use it. They strive to understand the context in which data was generated, and what combinations of data generate richer consumer insights.

The currency of digital commerce is information, which is intelligently aggregated and communicated data. But the paradigm of capturing data from customers to persuade them to buy more is not only dated but flawed. Data must be "created", and retailers and brands need to build data strategies around a new question – "What data do we want to create?", instead of "What data can we capture?".

When D2C brands offer a highly engaging experience, they are able to draw on customers and their data to incorporate R&D into their proposition. They can all readily identify their best customers, and focus on increasing the strength of their relationship with them.

Many brands focus on the second purpose, but those who focus on the first really stand out. Engagement is about collecting insight just as much as it is about increasing sales, but this perspective is surprisingly rare. Forrester reports that only 9 percent of marketers cite customer data collection as a top business objective for their customer loyalty strategies (Forrester, Q2 2018, Global State of Customer Loyalty Survey). For emergent brands, the value of this first-party data is inestimable and not simply confined to improving the efficiency of marketing campaigns.



To create memorable customer engagement, boost ROI, and identify new customer segments, brands must have a focused and objective-driven data strategy. The first rule of first-party data is to only ask for and collect information that is useful and will ultimately serve the customer. First-party data includes information on behaviors, actions or interests demonstrated across a customer's digital and physical properties, as well as the data that brands hold in proprietary CRM and subscription systems, and other sources, such as social data where the customer is known and identifiable. Data is collected directly from the source, for a specific purpose, and is therefore accurate and relevant.

Successful D2C brands collect data to better understand customer needs and improve the role the brand plays in fulfilling those needs through a commerce experience. They don't collect data for the sake of collecting data. They collect, create, analyze and synthesize data to advance the customer experience, improve engagement and inform strategy – not simply to tweak tactics.

Data must be 'created', and retailers and brands need to build data strategies around a new question: **'What data do we want to create?'**, instead of **'What data can we capture?'**.

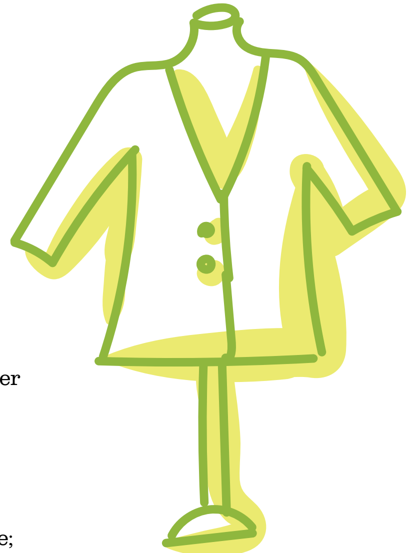
Make it happen...

Regard data as an asset that interprets and shapes the customer experience, enables better understanding of the audience, improves brand strategy, and fosters product and proposition innovation. It also helps build a more fluid supply chain, fulfilment and business operation. Data collected via owned digital experiences can stimulate brands to develop new revenue models, promotions, and marketing communications, in addition to optimizing the shopping experience to sell more products.

Albert Einstein is often credited with the aphorism "Creativity is intelligence having fun". Brands can have fun with data when they think of it as something they want to "create", not something they want to "capture". Data becomes insight when brands collect and synthesize information for the purpose of improving the product and the customer experience.

CASE STUDY

STITCH FIX



Stitch Fix, the D2C clothing brand founded by Katrina Lake, employs 80 data scientists so they can deliver "personalization at scale".

Writing in the Harvard Business Review in 2018, Lake said: "Data science isn't woven into our culture; it is our culture. We started with it at the heart of the business, rather than adding it to a traditional organizational structure, and built the company's algorithms around our clients and their needs. The part of me that loves data knew it could be used to create a better experience with apparel. After all, fit and taste are just a bunch of attributes: waist, inseam, material, color, weight, durability, and pattern. It's all just data. If you collect enough, you'll get a pretty good picture of what clothes people want."

Lake says data should be reported to the CEO, innovation should all be data-driven, and data should be combined with a human perspective in order to generate the most powerful insights.

ASK YOURSELF THESE QUESTIONS...

What **fun** can you have with data in your business?

How might you switch from a **'data capture'** to a **'data creation'** mindset?

How can you move from using data to improve marketing efficiency to using it to **improve customer experience?**

DELIVER ON DETAIL

The proof of a brand's ability to create experiences that improve over time is found in the tiny details of its proposition, and these are inseparable from data.

For brands to earn the right to collect and create data from engaged and supportive customers, they must demonstrate they are doing it for reasons that customers value. They must also able to identify and act quickly on the insights this data generates. The great failing of many companies and brands is they use data and analytics to tell, or worse, "to sell" a story, rather than shape one.

Collecting and using first-party data creates an expectation and a tension, which means that D2C brands must be committed to the fine details of their offering. Great D2C brands live on the truth that "The operation is the brand". This means that the authentic truth of the brand is carried by the operational details. If these are executed badly, trust erodes and with it the faith in providing personal feedback and information.

> Great D2C brands live on the truth that **'The operation is the brand'**

Customers expect to not just receive their product or service, but also to delight in it. The delight (and not the devil) is in the detail.

This mindset extends beyond conceiving the product, and extends to every detail of how the proposition is communicated digitally and physically (for example on packaging or in video). The purchase, delivery, out-of-box, usage, review and reorder experiences are all contributors to the overall experience.

A great experience end to end is built on strong analytical and customer experience skills and a responsive approach to customers. The real value for customers is created when there is no gap between their aspiration – and that of the brand – and the reality.

CASE STUDY

Casper

The "out-of-box experience" (OOBE) is a key moment of truth in which brands can connect with customers, and one that too many brands take little or no heed of. One brand that stands out in this regard is Apple, famously designing the iPhone box to open slowly — taking three seconds — to make the unboxing of the product more memorable.

Casper has also aced the OOBE, delivering its mattresses in a box that one person can carry, then the inflation is unleashed by simply cutting open the cellophane. When Casper launched this, it was such a different experience to typical mattress delivery that consumer unboxing videos generated millions of online views. The focus on the details of delivery and unboxing of the mattresses were the finest and most visible articulation of the brand proposition.

Casper Sleep was founded in 2014 and sold $1 million worth of mattresses in its first 28 days, largely fueled by viral videos of customers receiving their mattresses and having them "magically" inflate on their beds.

Their proposition was simple. Mattresses are in reality quite simple, and they had designed the best mattress for most uses, that could be delivered in a box small enough to be carried up to any urban apartment.

Casper had thought through every aspect of what it was really like to buy and install a mattress for young millennial customers. The product had to be great, but their full focus at launch was on creating buzz and delight around the experience.

Casper has gone on to develop a range of sleep products, most recently launching a night lamp that promotes better sleep, and is working with American Airlines to counter jet lag. At its heart, Casper is selling sleep, not mattresses.

ASK YOURSELF THESE QUESTIONS...

Which elements of the customer experience are **currently flat** but could be opportunities to **create delight**?

Which **operational necessities** and **details** carry the brand promise for your brand?

How can you ensure that the customer can see your **care and respect for them**?

KNOW YOUR NUMBERS

Drilling down into data is important for all the reasons we've already outlined, but there are two key figures that D2C brands simply have to be on top of: their cost of acquisition of customers (CAC), and the lifetime value of those customers (LTV). The relationship between these two is crucial to engineering success. The higher the LTV, the higher the CAC the brand can sustain, giving marketers more flexibility and options in seeking new customers.

D2C brands are able to measure, manage, and develop individual customer relationships at scale; they know the effect of their communications and user experiences on their ability to collect personal data that can drive engagement, response, shares and sales. Everything they do leaves a data trail they can examine to understand immediate and consequent effects.

Think of CAC as rent, so all media strategy and experimentation is backed by a provable CAC strategy.

D2C brands are constantly focused on reshaping and increasing their LTV, because growth depends on it. While they are trying to keep their CAC down, there are numerous pressures on it. CAC typically rises over time as early-adopting customers tend to be the more easily reachable cohort of customers. Later cohorts cost more to reach, and brands are keen to show that these later cohorts offset that cost by an increased LTV.

LTV is increased through frequency and value of transactions, and through the creation of new products and services to go alongside them. D2C brands that have anchored their customer on a belief in their story and authenticity in a category then broaden their reach. Brands that began with a simple razor and blade subscription begin to add a range of male grooming products. Away, the travel brand that began with carry-on luggage, has gradually expanded to become a travel lifestyle brand.

The equity built by addressing a singular product with an eloquent solution ensures that deepening the portfolio is natural and LTV rises. A vital component of this is the development of community. Community and the sense of being part of a movement and a mission not only enhance margin at the single purchase level (LTV might also be called lifetime margin), but also create a momentum to grow the range and frequency of transactions. And because all of this is measurable, brands quickly know what works and what doesn't.

This has given rise to the term "performance branding", meaning all advertising and marketing must perform. It must work to boost brand awareness and perceptions, as well as sell, develop a community and motivate repeat purchasing. Distinctions between above the line and below the line no longer exist. There is no line.

Performance branding means brands manage every touchpoint and talk point of the entire customer life cycle. D2C brands need to know the relationship between their advertising spend and all of the contributions it makes to LTV. Most D2C brands try to work with a minimum ratio of 1:3 for CAC:LTV, because they know their ratio is what drives decision-making. Having specific targets informs product, merchandising and marketing decisions at every stage.

CASE STUDY

jiobit

Brands need to know their numbers and find ways to establish both their true customer acquisition cost and their true lifetime value. For legacy brands, these numbers can be hard to pin down; however, they have a head start on startups, because they have established history to work with. A great first step is to ask: "What should they be?", and work back from there.

Jiobit makes a child and pet tracker it sells exclusively D2C. Its founders began the business with a single tracker bought for a fixed fee, and added subscription tracking services and hardware payment options, as well as pet trackers, to broaden its audience and boost lifetime value.

SOCIAL COMMERCE

Social platforms like Instagram are increasingly enabling D2C brands to develop "performance branding". Instagram's "Instagram Checkout" feature allows shoppers to seamlessly access a retailer or brand's website without leaving the platform, and gives brands the opportunity to drive impulse purchases.

Social media offers retailers and brands a new way of creating urgency around products and promotions, and marketing becomes a shoppable tool. Brands like Charlotte Tilbury and Liz Earle have created shoppable social media posts to sell directly to consumers via social platforms linked to their own e-commerce operations.

Social commerce is still in its infancy. However, brands looking to win with younger shoppers should prepare for this to change over the next few years as technology advances and a new generation of shoppers comes into spending power. Social commerce strengthens a brand's ability to be part of the conversation on consumers' terms – wherever and whenever they choose. This creates a seamless experience, especially for those just browsing for inspiration.

The possibility to create shoppable posts directly moves shoppers from "I want to buy" stimulus to conversion. But be warned, social commerce is becoming more expensive. D2C drinks brand Dirty Lemon was spending $20,000 to $30,000 per day on Instagram and Facebook, but it came off the platforms in December 2018 because it was no longer cost effective.

The CAC that a brand can sustain is directly proportional to its ability to develop an increased lifetime value by increasing frequency and range, and reducing churn of existing customers. Dirty Lemon has moved on to podcasts, and is investing in retail stores and hospitality venues as a new means to increase sales and maintain the right balance between CAC and LTV.

Madison Reed, the in-home hair color brand, still uses Facebook as its primary acquisition channel, despite

the expense. "The lifetime value of the customer from Facebook is the highest LTV we have," says CEO Amy Erret. The brand maintains an LTV calculation for each marketing and distribution channel (stores and online), as well as a blended LTV for each cohort of customers to ensure the ratio remains profitable. CAC and LTV are very closely related.

"D2C brands have to know their unit economics and be able to develop products and experiences that enable higher LTV, which in turn enables them to spend more in marketing," Erret says.

‘D2C brands have to know their **unit economics** and be able to develop products and experiences that enable **higher LTV**, which in turn enables them to spend more in marketing’

AMY ERRET
CEO, Madison Reed

ASK YOURSELF THESE QUESTIONS...

What should the **lifetime value** (LTV) of your customers realistically be?

How can you **develop the variables** that compose your LTV (product lines, frequency, tenure etc) to increase your LTV?

What new **marketing opportunities** would present themselves if you could increase LTV?

4

OPEN YOUR MIND, BE A curious collaborator

The structure of D2C brands needs to be flat and open in a way that differs vastly from traditional businesses.

An entire organization needs to be focused on the customer experience, and that can only be as good as the weakest link in the chain. Everyone in the business needs to see their responsibility as reaching beyond one department; their success depends on together achieving shared goals.

Collaboration between employees is therefore essential, as is collaboration with a range of business partners, from logistics teams to external marketing partners. It also applies to a brand's relationship with consumers. One is not simply a supplier to the other; they have a shared interest in product development and a broader shared experience.

Curiosity is the way a business discovers ways of making people's lives better, and D2C brands' curiosity is unencumbered by legacy systems or the need to defend long-standing products. An essential part of being curious is also being ready to act – to move the business based on what you discover.

BE 'UNORGANIZED'

D2C brands need to behave differently to brands that sell via third parties as they own every aspect of their customers' experience. Customers expect the brand promise and brand attributes to show up at every touchpoint and in every interaction. To describe these brands as "unorganized" is not to call them "disorganized", but to recognize that these brands are comprehensively committed to and integrated with customers, because they are comprehensively committed and integrated internally. This is a defining characteristic.

Every job within the brand is pointed at delivering a full end-to-end experience for the customer. They are "unorganized" in the sense that the mantra of the culture is to collaborate and simplify every process and every task. This enables the customer to buy from and experience the brand in the way that makes sense to them, rather than in the way that reflects the company's org chart.

Outwardly, the two purposes of a D2C brand are to build a differentiated customer experience, and an audience to appreciate and encourage it. To do this, each role must be subservient to the totality of the experience.

It has been said that marketing is "too important to be left to the marketing team"; likewise, it could be said that fulfilment is too important to be left to the logistics team. In fact, every aspect of the experience is too important to be left only to the team "titled" to deliver it.

The business-ready D2C team appreciates that every detail of the customer experience carries the weight of the whole experience, and should be conceived and executed as though everything depends on it. Because it does. Hence the effective D2C team does not comprise only a siloed team of subject matter experts, but also an integrated team of customer experience-obsessed teammates who understand each other's responsibilities and the impact they have on the customer. Granular details like same-day fill rates are the concern of everyone who is concerned with the outcome of the brand, not simply the team charged with shipping.

Make it happen...

Brands should assess to what extent the experience they are providing is a reflection of their organization and organizational compromises rather than a reflection of the real needs and aspirations of their customers.

Brands need expertise, but to truly develop an end-to-end customer experience, they need to respect knowledge, but not be beholden to it. Vetos don't create fluid, real-time customer experiences.

To create a truly connected customer experience – one that inspires the customer, develops engagement with the brand and creates a sense of commitment over time – brands need to break down internal silos, enabling the business to maximize the company's technology investments and develop its processes and skill sets.

Regardless of who "owns" a given environment within the organization, they should view increasing engagement and the two principal outcomes (insights and affinity) as tangible business goals. By this definition, every element of the experience is a channel of communication.

Having done this, D2C brands built within the walls of larger organizations have an opportunity and an obligation to improve the whole of the organization, while at the same time observing and respecting the value and advantages the organization confers.

Silos that compromise the customer experience are typically reflections of how an organization sets incentives and goals that cause conflict among divisions. These conflicts spill into the customer experience, either through outright competition or unhealthy compromises that serve no one, least of all the customer.

CASE STUDY

HARDVARK

Hardvark is a performance clothing brand based in the US, but birthed in London, that brings performance fabrics to urban styling by knitting together operations in China, Italy, the UK and the US.

In 2013, founder J.J Symons, an avid skier and longtime equity analyst, set out to design a shirt that would enable him work with the same freedom and comfort that he experienced when skiing.

This meant creating a formal shirt made from the finest merino wool. As well as being crease-free and anti-odor, merino maintains comfort on the move and in changing temperatures. The journey from design to market took him from Switzerland and New Zealand to China, Italy and Death Valley. His team is an integrated and distributed network of freelance and full-time experts based in LA (marketing, design and photography), logistics (Poole, UK), garment technologists (London) and factory agents (Portugal).

Coordinated brands don't need to be co-located, but they do need to share a common mission and vision that runs across all their disciplines.

CASE STUDY

STANDARD TEXTILE

Standard Textile is a family-owned textiles business founded in 1940 that has manufactured and sold bed and bath linens and towels to hotels and hospitals throughout the US.

In 2018 it launched a D2C site under the brand "Standard Textile Home", with a range of 24 sheet and towel sets that had proven popular in high-end hotels. The development of the site was inspired by the insight that many of their products were either taken home by guests after their stays at luxury hotels, as well as from direct requests from customers who had been so impressed by their towels and sheets that they found the label and called the company to ask if they could order direct.

Starting with a team of just three, Standard Textile launched an e-commerce site using the Shopify platform, as well as a pop-up store near its headquarters in Cincinnati. The team flexed across all aspects of the business strategy, design and development of the site as well as creating new products and a supply chain that could deliver to customers' homes. Working with agency partners, the team created its go-to-market program and all aspects of customer support.

As the business grew, roles became more clearly defined as some tasks became less necessary and planning and developing the site was superseded by "run the business" necessities. Standard Textile Home is an example of how small teams working multiple disciplines can leverage the business assets of parent companies to create new value for the brand and a new cohort of customers.

ASK YOURSELF THESE QUESTIONS...

What disciplines and processes do you need to put in place to become **'unorganized'**?

How do your current experiences reflect the **organization's** needs rather than the **customer's**? What changes could you make to this?

How can you incentivize your team to execute a great **end-to-end customer experience**?

BE A COLLABORATOR

The skill that underpins every aspect of D2C brand success is a culture of collaborating across domains and simplifying outputs. How many customers think of their shopping experience as something that spans "functions" of an organization? None.

This means brands must be great collaborators in three dimensions. They collaborate with:

1
Their customers, to engage them in the brand's mission and stay open to new opportunities to serve them

2
Their employees, to ensure that no internal divisions arise that damage the experience

3
Their suppliers and marketing partners, to develop and execute the experience

The D2C customer's relationship with a brand is founded on mutual values and an ongoing quest for improvement. This progressive relationship focuses on who the consumer and brand are becoming, not merely who they are now. This customer "collaboration" is something distinctive about D2C brands – not distinctive in fact, but in intensity.

Forward-thinking D2C brands will partner with companies in almost every sector, including communications, marketing, product development and supply chain, and these partnerships and the capacity and flexibility of the partner will be central to the customer experience. D2C brands must work with businesses that share their concern for the customer, and incentivize them to keep consumer promises.

That means D2C brands should be demanding partners. Marketing, logistics and supply chain partners all need to move at the speed of D2C: fast but unhurried. Fast and accurate. Fast and eloquent.

As well as strong relationships with the right external partners, D2C brands need collaborators within their business, focused on creating an experience, rather than just developing and shipping a product. This means that every team understands their role in the consumer experience, and brings not just their professional expertise, but also their personal support for the totality of what the brand is crafting.

D2C brands are, at their heart, strategic marketers rather than product marketers. This means that everyone on the team, whether a full-time or shared resource, must be committed to working cross-functionally.

Make it happen...

The only way to drive a cohesive end-to-end customer experience is to drive integration across the parts of the enterprise that design it. That means D2C team leaders must clearly understand the business they are in, and their internal and external partners, then ruthlessly simplify systems so the D2C brand can move with agility.

Indeed, a D2C capability within a large organization can bring the value of collaboration and simplification to the wider business. While it is undoubtedly hard for a large enterprise to adopt the agile "design, deploy and improve" processes required by D2C brands, the D2C capability is founded on them.

Many of a brand's promises will be kept by partners who are responsible for delivering key aspects of the lived customer experience. Brands can control the intended proposition and the communication of it, but need to be confident and comfortable with the elements over which they don't have overall control.

Brands must create an ecosystem of trust that ensures third parties will not just agree to keep your promises, but actually want to keep them. Factor in the interests of suppliers, internal departments and subsidiaries, combined with the pressure to be profitable, and the margin for error in delivering on a brand's promises is minimized. Partners need to be motivated to go the extra mile, beyond the bounds of their contractual obligations, all the while maintaining their own profitability.

Likewise, key performance indicators and service level agreements must be based on key points in the customer experience, not just efficiency. This is particularly important in the early stages, while a brand is building its reputation.

Delivery partners are vital for many brands going direct to consumer for the first time. There are many potential delivery partners and managing them is a key skill for brands.

CASE STUDY

Coca-Cola established a global partnership with food delivery app Delivery Hero to make its products available to shoppers "where and when they need them" in several markets. Coca-Cola's logo is featured prominently on Delivery Hero's pages, offering shoppers deals on soft drinks with their meal. This is a step toward owning visibility on this third-party platform directly, rather than relying on restaurants and food service operators to provide visibility to its brand as the drink of choice.

Other brands seeking to better connect with shoppers need to identify the right platforms for digital connection and leverage online visibility on these platforms to develop a direct conversation with shoppers.

TO BE A COLLABORATOR

ASK YOURSELF THESE QUESTIONS...

How can you create a **truly collaborative** experience for customers?

How can you **encourage** and **reward** collaboration within the enterprise and with business partners?

How can you reframe supplier agreements to **improve** the **customer experience?**

BE CURIOUS

Curiosity about the world, markets and people is fundamental to being a D2C brand. The mission's first spark of inspiration – seeking a solution and experience for consumers – and their devotion to understanding their customers, hinge on the brand staying both curious and optimistic in the face of challenges.

The curiosity that feeds the persistence needed to begin with a small idea and turn it into a huge movement can only be maintained by teams that appreciate the maxim: "The truth will set you free".

D2C brands as R&D organizations are constantly looking to have their hypotheses disproved so they can focus what adds the most customer value. The listening systems they create are not echo chambers, but forums for actual meaningful feedback. D2C brands can afford to be curious because they typically don't have a market or a brand to defend. Their curiosity is their competitive advantage.

By responding to customer feedback with action, a brand's curiosity can be active and not passive. Large monolithic supply chains involving numerous disconnected partners are less adapted to the curiosity that animates D2C brands because they are less able to act on their findings. Remaining flexible and adaptable enables D2C brands to remain curious, acting on their findings and quickly establishing their results.

Curiosity is central to, and a product of, the cultural distinctiveness of D2C brands.

Make it happen...

Brands can promote truth-seeking curiosity by building more collaborative and fluid organizations that not only collectively own the total experience, but also are able to respond rapidly and in meaningful ways.

Consider first the ways within a business that curiosity might be disincentivized. There might be competing interests across divisions, or a team might self-censor their curiosity because they feel unable to act on what they discover.

CASE STUDY

Unilever's Sinsei brand provides customized skincare solutions through a monthly subscription format. The products provided take into consideration all aspects of a consumer's lifestyle, such as nutrition, sleep and exercise.

Using advanced skincare technology, and in-depth, scientific-based knowledge of health and wellness related to skin care and overall wellbeing, Skinsei adopts a holistic approach to skincare by providing D2C skincare regimens that target multiple areas of concern and ultimately promote "healthier, glowing and more resilient skin in the long-term".

ASK YOURSELF THESE QUESTIONS...

Which aspects of your brand experience should you be **more curious** about?

How is curiosity **currently dis-incentivized**? How can you **promote curiosity** within your company?

What steps need to be taken to make the company flexible enough to **be** curious... and to **act** on its findings?

5

MOVE AT SPEED AND KEEP YOUR promises

In this fast-paced world, it's essential that businesses are efficient, and that they allow consumers to be as efficient as they want to be.

Being fast means keeping things simple: your mobile site, your brand's mission and story, your communications, your product and your route to purchase. When consumer choice is unnecessary, take it out. There's a difference between swift and hurried, though. One relies on structures designed for agility and quick decision-making; the other is rushed, and that can lead to poor outcomes.

Being a business that is comfortable operating at speed makes it more likely to be comfortable with experimentation. This is because it becomes quickly evident whether something is working, and they don't need to stick with what turns out to be a bad idea for long. Experimentation is a way not just to develop new products but also to play around with communications, consumer engagement and other aspects of the offering.

What must never be played around with are the promises made to consumers. If you say "next-day delivery", make it so. If you promise shinier hair, a better night's sleep or the freshest of flowers, do it.

BE SMART – KEEP IT SIMPLE

Successful D2C brands simplify choices for their customers. They find ways in every detail of the experience to lift the burden of choice from customers, and thrive on making things easy. Whether it be streamlining choices of mattresses or luggage down to a decision about size, or radically resetting expectations when determining which vitamins to buy, D2C thrives on simplification.

Often beginning with a single product or proposition, D2C brands typically make clear and easily communicable promises about their products and propositions. This is a necessity in a mobile world where attention spans are short but demands on attention are perpetual, and where choices are unlimited and switching costs are low. Customers need to be able to make choices easily, to "get" what the brand stands for and what its proposition is, and to be motivated to opt in, so D2C brands work to address every friction point along the whole experience journey in order to make saying "yes" easy.

D2C brands have the advantage of having no stake in legacy market structures that have grown bloated by an excess of choice and confusion. Decades of "product development and innovation" have often led to complex and confusing product lines, perhaps most glaringly seen in the traditional mattress market, which boasted literally thousands of variants that customers couldn't tell apart as brands focused on an ever-more esoteric range of features rather than delivering a clear, singular benefit.

Consumers are demanding simplification, which is also a highly effective product development and marketing strategy. Line additions and audience growth can be built on the equity created by the initial launch.

Customers need to be able to make choices easily, to **'get'** what the brand stands for and what its proposition is, and to be motivated to opt in.

Make it happen...

A great experience is one that makes decisions simple for the customer, not more measurable for the brand. D2C brands seeking to develop equity with customers must stress their simplicity by focusing on the key product attributes and the benefits of the end-to-end experience rather than just the features of the product.

D2C brands are anchored on only providing the features that increase satisfaction and promote advocacy. Brand innovation is directed at making the experience, quite literally, remarkable.

ASK YOURSELF THESE QUESTIONS...

Which features of your product experience really **increase satisfaction** and **advocacy**?

Are there details that unnecessarily add to the **burden of choice**?

How can you **simplify** the decision-making and buying experience?

BE FAST, BUT NOT HURRIED

D2C brands are built for speed in every dimension; however, speed, not haste, is the central dictum.

Because D2C businesses are typically founded on flexible and leased supply chains and design pathways, products can be created in small batches so they can be fast to market and fast to elicit feedback before increasing production. The IAB's recent "Direct Brands Report" surveyed the founders of more than 250 D2C businesses in the US and found they typically could launch a product in four months. This compares to 22 months for a packaged goods company, McKinsey reports.

This kind of speed takes planning, and is built into the daily reality of an agile D2C business. When a brand hatches a new idea or determines a new way to provide satisfaction to a customer, it does so within the construct of a flexible culture and a flexible supply chain. Working with urgency within a structure built for change is a discipline, and disciplined haste is speed. This approach colors every business activity, from the supply chain to product conception and development through communications, delivery of the product, and assurance of satisfaction.

Because these brands are mobile-centric and see themselves as ongoing R&D labs fueled by data and audience feedback, they are literally built for speed.

They are planned and organized with speed of response and development in mind. Speed is also highly prized by their audience, so the brand must be intentional in creating structures and capabilities that enable it to move quickly from end to end. To borrow basketball coaching legend John Wooden's aphorism, they can "be quick but don't hurry".

Make it happen...

Legacy brands can't build D2C businesses on top of legacy systems. If they do, they may have the outward appearance of a D2C brand but won't have the responsiveness of one. Customers will notice, and trust will be lost.

It is important to assess whether business structures and incentives enable and promote speed to market and speed of response. The first thing to assess is the cost of failure. When it is too high, either in terms of finance, effort or cultural attitudes, then the organization will slow down to de-risk it. Brands looking to speed up must lower the cost of failure and increase the speed of response.

Delivery service Deliveroo has enabled supermarkets in the UK like Co-Op and Spar to provide great choice, convenience, flexibility and speed to customers. This approach offers a different way to reach customers, helping the retailer reach a new convenience-focused, brand-agnostic customer base. For Co-Op, the service is in addition to its own online store, which offers a range of around 1,500 products delivered by e-cargobikes.com, a zero-emission electric cargo bike courier service.

ASK YOURSELF THESE QUESTIONS…

What business structures do you need in order to enable, incentivize and promote **speed to market?**

What do you need to **stop** or **start** doing differently?

How can you lower the cost of failure to make the business **more responsive?**

BE AN OPPORTUNISTIC EXPERIMENTER

D2C brands are open to experimentation in many dimensions, and none more so than in demand generation. Because D2C brands define success in ways beyond sales, they are incentivized to experiment not only with new products, but also with their communication, to generate insights and engagement.

Brands are broadening their channel strategy beyond Facebook and Instagram; platforms as diverse as Pinterest, Google, Spotify, Hearst and Hulu are working with D2C brands. In a remark that is typical of the experimental and opportunistic attitude D2C brands have, Glossier President Henry Davis told Digiday, "If you don't want to be disintermediated by a retailer, why would you be disintermediated by a platform?"

D2C brands also led the development of storyselling on podcasts and video streaming platforms, because these are better storyselling media. D2Cs are now venturing into TV, and when their experiments pay off, they are quick to double down on their success. For example, ThirdLove, a D2C lingerie company, made its first investment in TV in 2017 with an initial budget of $286,000 for the first month. Within three months it had spent $3 million and it ultimately spent over $13.2 million on TV in 2018. D2C brands have also led to the development of pop-up stores as a new advertising medium. They are negotiating new lease terms with landlords, which is changing the economic model for brands to set up stores. Entrepreneurs have responded by creating new retail concepts that support D2C brands, such as Showfields in New York City and Four Post in Minneapolis. D2C brands have reimagined retail stores as a creative and customer engagement solution rather than simply a distribution opportunity.

Brands such as Bonobos menswear, with its guide shops, and Casper, with its Dreamery sleep stores, are rewriting expectations of what a physical store does.

They're also developing stores with the specific intent of being "Instagrammable", so customers don't just become buyers but also advertisers of the brand. When Kylie Cosmetics opened a pop-up store at Westfield Topanga near LA, its centerpiece was a replica of founder Kylie Jenner's bedroom. Away luggage's "Terminal A" pop-up in New York City's SoHo has a travel-inspired checkout and luggage scanners. (see reference images

CASE STUDY

WARBY PARKER

One of the original “pop-ups” from a D2C company was Warby Parker’s Class Trip back in 2012. The brand bought an old school bus and retrofitted it to look like a professor’s library, in keeping with the company’s retro style. The bus traveled to nine cities, spreading the word about Warby Parker and assessing each as a potential future location.

The stunt was also a social event that invited Warby Parker fans to enter an online video contest for the chance to win free glasses – and a party on the bus with all their friends.

Class Trip wasn’t scalable in itself, but it gave the brand breakout media coverage and acted as an inexpensive means of assessing whether it should open stores.

Warby Parker co-founder Dave Gilboa says, ‘It gave us the confidence to sign permanent leases’

ASK YOURSELF THESE QUESTIONS...

What **opportunities** do you have to broaden your go-to-market strategy that would create novel insight, engagement and sales opportunities for your brands?

Which physical, digital and analogue channels would open up new ways to **challenge old assumptions**?

KEEP YOUR PROMISES

D2C brands make bold, simple and explicit claims and promises; they aren't simply asking customers to buy products, they are asking them to buy the brand, the values they claim to represent, and the experience they claim to offer.

They make clear claims about how they will support and address customers throughout their life cycle on things like refunds, returns, satisfaction and communication. Communications set customers' expectations about the interactions they're going to have with a company. If those expectations aren't aligned with the brand's ability to deliver on them, the brand and business suffer, possibly irreparably.

The ultimate test of a brand is whether and how it keeps the promises made to its customers. The central truth of D2C relationships is that they are singularly personal. The modern, connected and engaged customer will advocate enthusiastically for the brand that surprises and delights them, but will feel betrayed when let down. Expectations, and hence the stakes, can be very high.

Make it happen...

The promises brands make clarify and simplify customers' choices and expectations. Rethinking the clear commitments the brand makes about its products and propositions is a great way to rethink customer engagement. We advise brands to:

Make promises you can keep.

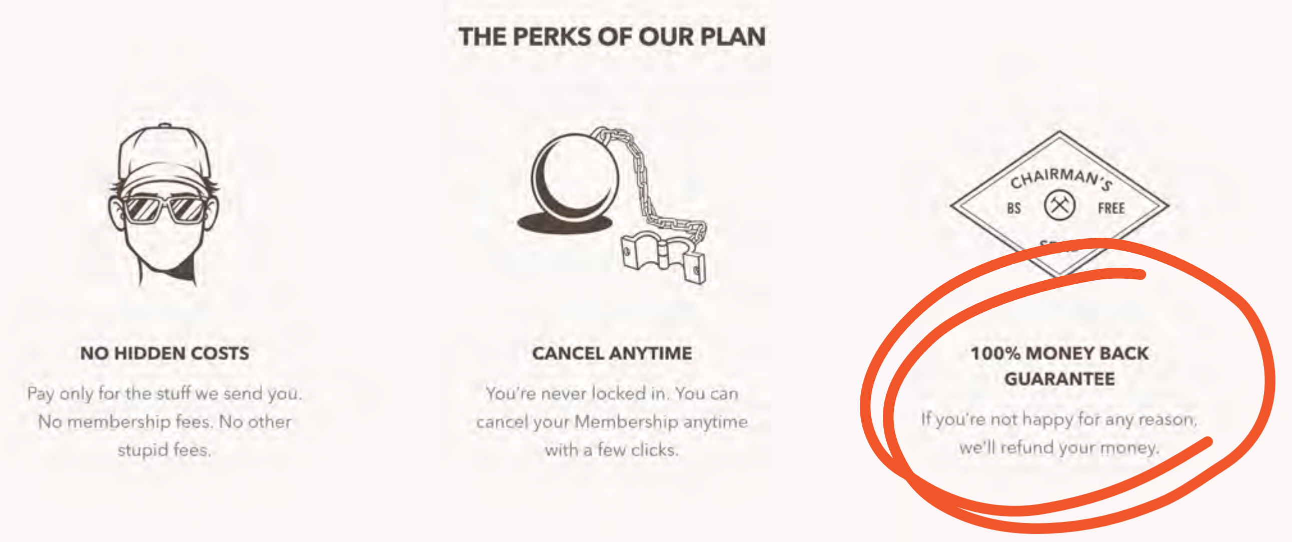
Make promises that matter to customers.
Brand culture is too precious and fragile to be frittered away on promises that aren't valued by customers.

Don't make too many promises.
There are only so many things a customer values, and they don't value them all equally. Some commitments are pivotal, many are incidental. After these key elements of the proposition are in place, the law of diminishing returns rapidly reduces the value of each subsequent commitment. Make your promises valuable and make them count by keeping them short and to the point.

CASE STUDY

DOLLAR SHAVE CLUB

Dollar Shave Club captures its whole proposition below. All customers receive a 100 percent money back guarantee if they are unsatisfied with the product or service.



TO **KEEP YOUR PROMISES**

ASK YOURSELF THESE QUESTIONS...

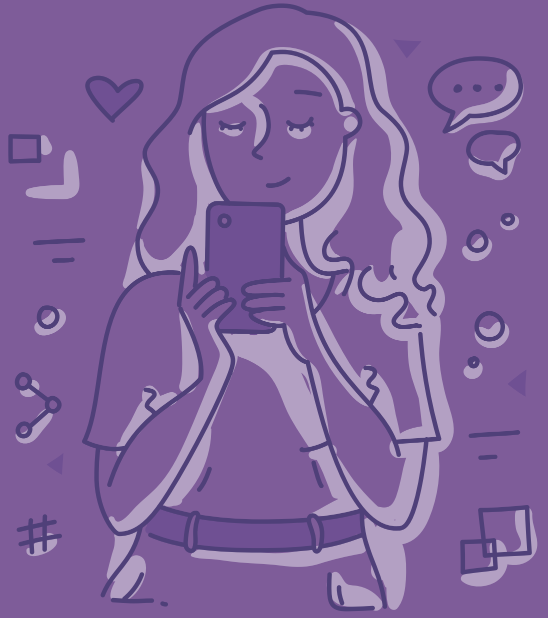
How can you **clarify**, **simplify** and **codify** your brand's promises to make it easier for customers to make choices?

Which promises does your customer **value the most**?

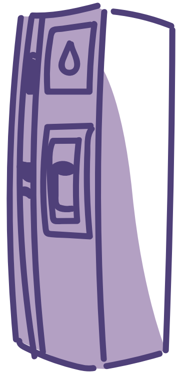
Which commitments are **pivotal** and which are **incidental**?

6

BE A
DIGITAL NATIVE,
BUT NOT A
digital captive



In many quarters, the rise of D2C is seen as being a direct threat to traditional brands and retailers, and rightly so.



But D2C brands don't have to be online only, and they don't have to be the sworn enemy of big retail. In fact, many of the most exciting D2C brands are doing creative and powerful things in physical retail spaces, broadening their reach and making themselves a bigger part of consumers' lives.

That move into physical retailing often involves a partnership with established retailers, and that isn't the one-sided affair that one might imagine. There are sizable potential gains for both parties when D2C brands team up with retail giants.

But before a brand sets about launching or expanding its D2C proposition, we urge them to consider carefully the question: what have you got to lose? There are some significant risks in this game.

GROW D2C THROUGH 'DIG-ETAIL'

Some of the most exciting D2C brands are breathing new life into retail as they unite digital tools with personal human connections.

They are focused on expanding niches through every physical and digital dimension, developing intimacy with customers at scale, and using digital connectivity to enable more human discovery. Digital tools complement the physical world; they don't replace it.

As brands embed themselves in the lives of their audiences, they are seeking more innovative ways to be available to them, wherever and whenever customers need them.

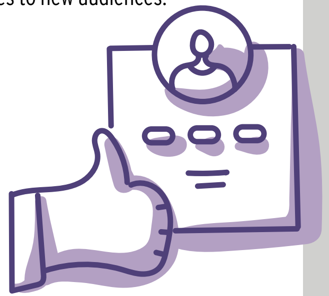
They are showing up in numerous physical and digital environments, such as vending machines and new delivery partnerships, powered by data and digital recognition of customers. A new ecosystem of partnerships is being created to bridge the "dig-etail" environment.

New D2C brand curators like Showfields and Four Post are offering brands short- and long-term showcases to create awareness and build audiences beyond the web. Microsoft's Dynamics 365 platform enables store managers to understand the customer in real time and make merchandising decisions with digital responsiveness.

Online platforms like Shopify and Square are creating ecosystems that enable web-first brands to sell in the physical world whenever the opportunity arises. Many D2C brands may start online, but few seek to remain there.

The D2C paradigm has quickly transcended the web, but it remains enabled by digital tools and the intimacy and immediacy they provide. Becoming a true dig-etail brand should be part of any brand's growth ambitions. Physical spaces enable brands to go beyond the immediate reach of their core customers and into new spaces that can educate and inspire them to address new audiences and develop new products and propositions.

Digital-only spaces are great for feedback, but can become echo chambers. Digital capabilities married to physical properties enable brands to tune their sensibilities to new audiences.



CASE STUDY

GLAMSQUAD

Glamsquad, founded in 2014 as an on-demand in-home beauty services platform, has undertaken over 600,000 in-home makeup and hair appointments. It also recently launched its own cosmetics brand and an in-store experience in partnership with pharmacy and personal care chain CVS.

Glamsquad CEO Amy Shecter calls their in-home experience "H-Commerce". "Data is our superpower; an appointment is a micro lab. Beauty pros and customers can test products in each appointment and get immediate feedback, for example, on what clients want in a hairspray."

Glamsquad has used this intelligence to create unique products that stand out in retail environments like CVS. Shecter believes that collaborations with established brands and retailers are win-win, because the retailer can provide a new and interesting experience and the visibility to create credibility.

'When we began the partnership with CVS, we instantly **saw an uplift in** Glamsquad bookings and visits to our website, which were **directly attributable** to the visibility in stores'

AMY SHECTER
CEO, Glamsquad

CASE STUDY

NESPRESSO

Nespresso, owned by Nestlé, was one of the first D2C brands founded by a large packaged goods company. Now, with the addition of vending machines, Nespresso can connect with its shoppers in more ways.

Brands are looking for micromoments of need, getting beyond conventional retail platforms and touchpoints. For Nespresso, vending machines are convenient and complementary solutions to its branded flagship stores and online platforms. They help create an exclusive ecosystem and convenience network. The machines stock around 24 large coffee pods and allow users to opt between paying for the products on the spot or collecting products pre-paid online via a subscriber "club" platform.

Value is delivered not only by the product, but also the brewing system and Nespresso ecosystem.

CASE STUDY

Häagen-Dazs

Häagen-Dazs' on-demand delivery solution, Häagen-Dazs NOW, is a service linked to customers' exact location.

The app can locate and facilitate a delivery, even if the customer is on the go or in a public place. At an individual transaction level, these kinds of services may not be profitable. But as food delivery continues to experience major growth, with third-party food delivery expected to rise at a rate of 13 percent every year for the next five years, satisfying the need for speed, convenience, and instant gratification is becoming an important element of brand marketing, customer insight and engagement.

By providing solutions that ensure brands are where the consumer is, not where they would prefer them to be, brands are able to increase satisfaction and sales across the entire ecosystem.

ASK YOURSELF THESE QUESTIONS...

What **combination** of **digital tools** and **physical presence** could dramatically shape your ability to reach new audiences and gain new insights?

What digital tools would **enhance** the physical experience of discovering, using or owning your products?

RETHINK THE COMPETITION

Many D2C brands have found great allies in some of the largest retailers and packaged goods companies in the world. By telling their story and developing their mission, building their following and crafting their compelling proposition, these brands have found an audience and a market with the most desirable customers in retail. These discerning customers have both the means and the appetite to demand quality and value, and they're willing to advocate for great brands and collaborate with them to continue to improve the product over time.

Consumers of D2C brands have an emotional connection with the brands rather than a simple functional need for them. As a result, retailers and D2C brands have found common cause in recent years. Retailers want access to these customers and the direct insights gained by working with them, and D2C brands want to grow their audience and access a wider and more mainstream audience.

Because D2C brands aren't reliant on retailers to build their brand, they are able to enter the mass retail domain on far better terms than before. They don't have to fight for shelf space against major legacy brands with deeper pockets. When a D2C brand such as Quip, Harry's or Native is sold in Target, for instance, it gains a wider audience and at the same time reinforces Target's positioning for cheap chic. The retailer-brand dynamic is now one of partnership, with both parties having much to gain from and give to the relationship.

For this reason, retailers like Target, Walmart and Nordstrom have made large investments in (or have bought outright) D2C brands in which they would have had little interest only a few years ago. These investments and acquisitions are making new talent available to these brands; people who might never have considered working with them before. D2C brands aren't being birthed by these retailers and do not owe them their existence, but they can be dramatically scaled by them, giving the founders tremendous incentives to work with and for them.

Walmart's strategy has been to acquire a portfolio of D2C brands, none of which individually contributes huge growth to the parent, but which in aggregate are a profitable growth engine and deep talent pool. This is tremendously valuable, quite apart from the access to customers who would not previously have shopped at Walmart stores.

D2C brands punch well above their weight in terms of visibility and customer appreciation, but they typically struggle to grow beyond $100 million in revenue because the audience for their products in the direct arena is capped. However, they bring numerous benefits to retailers when they join forces, meaning that despite their size, they can join as equals with an eye to their ongoing mission, not simply on the exit door.

This phenomenon isn't limited to retailers looking to appeal to a younger, more affluent audience. Packaged goods companies have also been extremely active in buying emerging D2C brands. Native Deodorants, for instance, was bought by P&G for $100 million less than three years after it was launched. The founders of these brands see their growth within the prism of their exit, viewing acquisition as the next round of investment to take the brand to new audiences. They are literally built to sell to consumers and to legacy brands. Their existence doesn't ultimately pose a threat to those brands – it shows them a route to the future.

Make it happen...

The "built to sell" mindset focuses D2C brands on where they are going next and how to discover their next path to transformational growth.

Legacy brands should have a founder mindset and "always be selling" in their minds. They should always be looking for their next path to new investment and brand growth. This approach births new partnership opportunities and helps brands consider ways to attract new talent and new customers. The emphasis that D2C brands have on growing and transforming to survive drives their creative vision for the future.

TO SEE HOW **BIG RETAIL IS NOT THE ENEMY**

ASK YOURSELF THESE QUESTIONS...

Which retailers or other outlets (such as dentists or fitness companies) could **you partner with** to deliver them an engaged audience and gain exposure for your brand?

If you were to sell a portion of your brand, who would it be to, and what would **the brand gain** from the partnership?

If you had $100 million to take your brand to **the next level**, what would you spend it on, and how could a partner help you **achieve the same thing**?

DO NO HARM

A word of warning – D2C experiences are not benign. Larger legacy enterprises and brands have a lot to lose through the thoughtless development and execution of D2C experiences that deliver no new value to customers and create confusion in marketplaces. The first and best piece of advice to brands seeking to develop D2C experiences is to swear a kind of Hippocratic oath: "First, do no harm."

What harm can a bad experience do? There are five main ways that a poorly conceived and executed D2C experience risks causing damage. It could:

1

Harm the customer
by creating confusion on pricing and product availability

2

Harm the brand
through poor execution of visual design, incomplete or irregular content management, or through a poor customer experience

3

Harm existing channel relationships
by creating channel conflict, undercutting on price, or withholding product from the market

4

Harm the organization
by creating internal tensions and counter-productive incentives; and

5

Harm profitability
Existing supply chain and customer experience channels are often profitable only at scale

CASE STUDY

If brands are to embark on creating effective D2C experiences, they must take them seriously and support them with appropriate financial, human, and cultural resources – or they should not do it at all. Cultural resources are often overlooked, but they are vital to ensuring that everyone in the organization understands the value the brand is endeavoring to create from the D2C experience.

Make it happen...

Our advice to any brand considering developing new D2C experiences or overhauling existing ones is to design them in a way that prevents harm at all costs. A clear-sighted appreciation of the risks that a poor D2C experience will create leads to clarity on how to create experiences that add value for customers, the brand, channel partners, the organization and shareholders.

By providing D2C limited-edition sets that can't be found at retailers, Lego avoids confusing the marketplace.

This is a smart way to differentiate the proposition while also removing direct channel conflict. A key challenge is often to maintain good working relationships with retail partners while also providing a compelling D2C offering. Exclusive products that can't be found in stores neatly solve this issue.

CASE STUDY

Nike has created D2C experiences that are tangibly different and more customer-centric than experiences the brand could co-create with retailers, and its focus on D2C has made it one of the most iconic sports brands of all time. Nike consistently continues to expand its own brand stores, launching new locations and increasingly compelling concepts across the globe.

Nike is investing in in-store retail experiences that exceed expectations, and key capabilities such as an app to accompany shoppers in its stores. When customers enter a Nike store, the app recognizes they're in a branded brick-and-mortar location and offers personalized features and seamless payment functions. The brand has acquired analytics firm Zodiac, which helps Nike deepen its relationship with its consumers based on offering relevant and speedy personalized experiences, both in-store and online.

The digitization of the store experience provides brands with the opportunity to deepen the connection between digital and physical for their shoppers and creates new loyalty touchpoints.

ASK YOURSELF THESE QUESTIONS...

Which of these harms are you **already** committing?

Which do you most clearly **run the risk** of committing?

How can you **remedy** them?

Conclusion

By applying the principles outlined in this report, the **best equipped** and **most responsive** brands will be able to develop better products, more quickly, with propositions that bring new value to the marketplace and ultimately to themselves.

The principles we advocate do not guarantee success, but they do neatly express promise and potential. Brands that want to compete in the value-centric, data-enriched economy need to sharpen their focus on these areas in order to effectively serve both their businesses and their customers.

We hope this book, and the examples we have shared, inspire you to create new and compelling value propositions and experiences for your customers, while at the same time developing the corporate culture and skills that will be so vital to business success in the direct economy.

We hope to feature these new businesses in future editions of this book!

Ready to unlock your own D2C success?

The team at VMLY&R works daily with companies in every conceivable market and with every imaginable digital challenge, opportunity and imperative. They craft perspectives, and advise on every element of a brand's physical and digital touchpoints and organizational design. They execute real-time campaigns and business operations to create compelling propositions, all the while ensuring clients are able to keep the promises they make to their customers.

In this book, we brought together hundreds of thousands of hours of experience spent collectively in the trenches of digital business strategy and execution, and distilled them into clear, actionable insights for strategists and practitioners alike. If you would like us to work with you on your business as you seek to develop D2C in your business, please contact us at **Charlie.Wade@vmlyr.com** or by phone at **+1 646 724 7494.**

About Us

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Charlie leads VMLY&R's Commerce practice in New York. He has over a decade of digital and retail experience, within both the agency world and retailers. At VMLY&R he works with major commerce clients, delivering innovative solutions, providing strategy and thought-leadership. Prior to joining VMLY&R he led global menswear marketing for ASOS, the leading fashion and beauty retailer, before moving to the US to drive ASOS's US market growth strategy. His notable digital marketing exploits include the a search to find the world's best dressed man and launching the first-ever digital house party. He writes and speaks regularly on retail and D2C commerce.

Andy formerly headed up VMLY&R's Direct-to-Consumer (D2C) retail practice. He currently runs a number of B2C brands and remains a consultant to VMLY&R.

Prior to joining VMLY&R in 2016, he spent 10 years at Best Buy, founding and running internal online startup businesses, including Best Buy's third-party marketplace, Best Buy Mobile Online and Best Buy Everywhere – a division created to sell Best Buy products on third-party websites.

His lived experience as an "intra-preneur" in large corporations, an entrepreneur in his own right and as an investor in D2C startups makes him an ideal guide to D2C businesses beyond the headlines and the hype, enabling enterprises of all types to embrace and deploy the mindsets and practices that will shape the future direct-brand economy.

About us

Zac is Commerce Director at VMLY&R, consulting with clients across direct-to-consumer and third-party commerce to identify areas of opportunity for growth and innovation within their respective categories.

Zac has spent the entirety of his career at various operating companies within WPP - one of the world's leading marketing and communications groups - using his design background and skillsets to bring unique and innovative experiences to consumers. Prior to his current role, Zac assisted in running Labstore, Y&R's worldwide retail network, providing commerce expertise and thought leadership to the group's broad spectrum of clients, while simultaneously working to institute best-in-class creative and design globally. In the past, Zac has been published in PSFK, The Journal of Brand Strategy, The Drum and numerous WPP-facing thought pieces on current best-in-class commerce activations.

He has closely studied the evolution of retail trends and shopper behavior for much of the last decade - with a specific focus on Gen Z and millennial audiences - publishing a number of studies including "The New Tribe of Shopper" and "Outlook: Gen Z".

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Based in London, Malcolm leads Kantar's Market Insights practice for Europe, where he also spearheads e-commerce and digital insights.

He is responsible for helping clients validate or form their route to consumer, e-commerce, digital, and omnichannel strategies.

Malcolm has been analyzing retail, and shopper behavior, for 15 years. During that time, he has worked with some of the world's leading retailers and consumer goods manufacturers to help them deal with the disruption caused by the ever-changing omnichannel shopper. He holds a BSc in industrial systems and business management from the University of Westminster.

Malcolm Pinkerton

Vice President, Retail Insights,
Europe, Kantar Consulting

About Us

Starting his career at the House of Commons working for a member of the UK Parliament, David progressed to be a leading marketer with Bates Dorland and a career retailer for Kingfisher's B&Q.

David is now at WPP as the CEO of The Store, EMEA and Asia - WPP's global retail practice. He also leads WPP BrandZ™, the world's largest brand equity study.

David is an acknowledged expert on China and retail and is a published author on both subjects; his published work includes "The Thoughts of Chairmen Now" and "A History of Retail in 100 Objects".

David Roth

CEO, The Store WPP, EMEA and Asia
Chairman, BAV Group & BrandZ™

After five years based in New York City in global leadership roles for VMLY&R, Jon Bird recently returned to Sydney. Jon is now CEO of VMLY&R across Australia and NZ, while retaining an advisory role on retail and commerce for the agency.

While in the US, Jon headed up VMLY&R's global retail and commerce practice, working at the intersection of digital and retail for some of the world's best brands. He has also been a contributor to Forbes on retail, and a regular speaker at events and conferences all over the world.

Before relocating to the US in 2014, Jon was based in Australia and was a founding partner and ultimately Executive Chairman of specialist retail marketing agency IdeaWorks. Separately, he served as Director of Retail Marketing for M&C Saatchi in Sydney, and was Chairman of trade publication Inside Retail.

Jon Bird

CEO, VMLY&R Australia & New Zealand, Senior Advisor Retail & Commerce at VMLY&R Global

Behind the bamboo curtain

HOW TO GO DIRECT TO CHINA'S VAST MARKET OF E-SHOPPERS

SAMARKAND GLOBAL

The appeal of a market with 1.4 billion consumers is obvious, but less obvious is the route to reaching this vast audience for international brands — particularly smaller brands that lack the resources to open stores in China, or to find a local partner to do it for them.

The challenges of operating in China are significant. There's not just a different language and cultural mores to get to grips with. There are also tight customs regulations, and a retail and digital ecosystem that's unlike any other in the world.

But there are, increasingly, ways for small brands to succeed in this big market. And it's simpler than you might think.

Nearly

2 trillion

US dollars spent each year on e-commerce around the country

144 billion

US dollars cross-border e-commerce sales in 2019

A big nut to crack

Make no mistake, consumers in China are spending a lot of money online. In fact, nearly US$2 trillion is spent each year on e-commerce around the country. That makes the Chinese e-commerce market worth more than twice that of the US, UK, German and Japanese e-commerce markets combined.

But that's only part of the picture. The number of people shopping online is growing all the time. Close to half the population is still yet to get connected to the internet, and those who are already shopping online are spending more money — in more categories — each year. There remains huge untapped potential.

As more consumers have more money available to spend, they're also broadening their horizons when it comes to what they buy and from where. Increasingly, they're looking internationally for new products and brands.

This surge in demand has caused headaches for Chinese authorities, who have battled against smugglers seeking to fill the gaps that local retailers and e-commerce platforms have been unable to fill.

That's why in 2014, Beijing's response was to encourage a legitimate "Cross-Border E-commerce" trade to flourish — one that could be regulated and, crucially, taxed. It set up a series of free-trade zones where products in prescribed categories could be legally imported for sale online, with reduced rates of sales tax applied.

The move chimed with a national strategy to have the economy evolve away from a reliance on "Made in China" towards being fueled by "Bought in China".

Cross-border e-commerce now accounts for between 15 and 20 percent of total online sales in China. In turn, online sales are around 25 to 30 percent of all retail sales. To put a dollar figure on that, cross-border e-commerce sales in 2019 were worth around $144 billion, and are forecast to rise to $164 billion in 2020.

They want it all, and they want it now

China is home to some of the most extensive and dynamic online shopping platforms in the world; Alibaba has a whole suite of business and consumer-facing platforms, then there's JD.com, group buying site Pinduoduo, recommendation site Xiaohongshu (Little Red Book), and buying options through the one-stop-does-everything app WeChat. Between them, these digital giants have loyal users in the hundreds of millions.

These platforms offer seemingly endless listings, and use cutting-edge technology to make sharply personalized recommendations. So, you might reasonably wonder what else consumers there could possibly want, especially from a fairly small foreign brand.

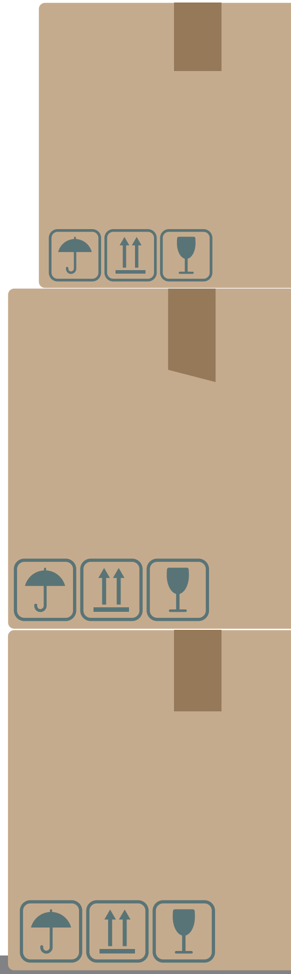
But Chinese consumers are increasingly looking for exactly that: small and foreign, according to Sam Deacon, Chief Commercial Officer at Samarkand, a WPP business helping international brands reach Chinese audiences.

He says that as disposable incomes rise, so too do aspirations and the ability to pursue them. There's still badge value in wearing or carrying an item from a universally known luxury brand, but being "in the know" about a more niche brand increasingly carries cachet, particularly if you can be the first to share it with friends on social media.

Deacon explains that "hero" products from global brands — things like a Burberry coat or Louis Vuitton handbag — are always going to be desirable, but the strongest growth is coming from a appetite for brands that tell a rich and meaningful story, often one linked to a place or time that just can't be replicated in China. Think of century-old French brands, or brands associated with 1960s London.

There are also key product categories in which people are willing to pay a premium and wait longer for delivery, because they believe foreign brands offer superior quality and more dependable standards of product safety. This is important to consumers who have seen several product safety scandals, including one in 2008 involving tainted infant milk formula that led to the deaths of six babies and the hospitalization of thousands.

Mother and baby items, food and drink, personal care, health, luxury and skincare products from international brands are therefore all highly prized. Deacon says this can even apply to brands whose products are manufactured in China.



The brakes are coming off

Growth in cross-border e-commerce is being supercharged by changes to the regulations around it, making it easier for customers to buy and international brands to sell into China.

The number of Cross Border E-Commerce zones is rising; the first was launched in Shanghai in 2014, and they now number over 30 around the country.

In 2019, Beijing lowered some key barriers to entry for international brands. While before, products sold via e-commerce had to comply with all Chinese consumer regulations — which in the case of cosmetics included testing on animals — this no longer applies. Products simply have to comply with the consumer safety regulations in force in their country of origin.

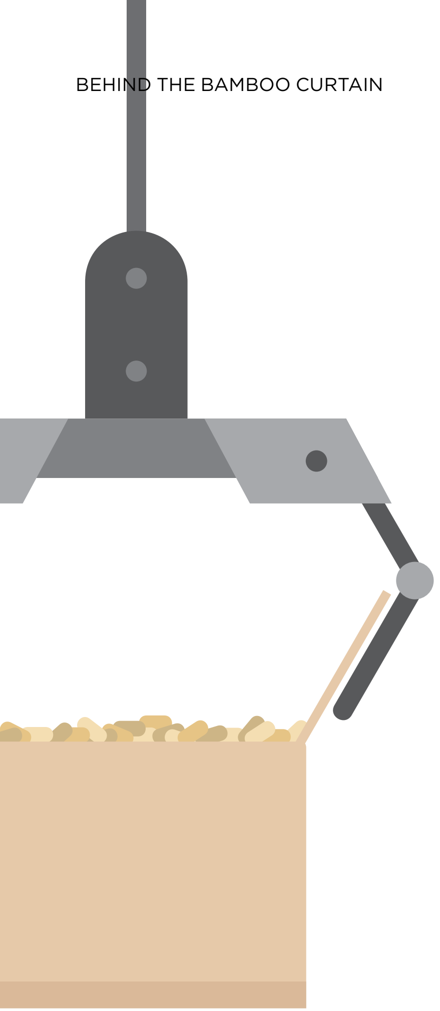
The government has also provided a catalyst for growth in demand for international goods, by raising the annual spending limit for individual consumers via cross-border e-commerce. The previous limit was RMB2,000 (about US$280), and in 2019 was raised to RMB5,000 ($700), providing higher-end brands with a greater opportunity to sell in China.

The cross-border e-commerce market is tipped to approach the $200 billion a year mark by 2022.

This a world away from the way international brands used to have to approach the Chinese market, which were complex, expensive and potentially risky, given that they required a partnership with a Chinese service provider whose priorities might not always have been aligned with their own.

> 'There's a perception that international brands will hold manufacturers to a higher standard; that they've been made to comply with international regulations, and that's reassuring'

SAM DEACON
Chief Commercial Officer at Samarkand



Pop it in the post? Not so fast

While aspects of cross-border trade into China have become simpler and more appealing, there remain some significant challenges, not least in relation to actually getting parcels into the country.

Sending parcels into China has always been something of a hit-and-miss affair; plenty seemed to go astray, and, anecdotally, it seemed that about 1 percent were held up in Customs for checks.

In 2019, under a new national e-commerce law, it has become more complicated to get parcels into the country. This arose due to government concerns that so many products were being imported without the relevant taxes being paid, and that counterfeit goods were too easily slipping in.

Now, every parcel needs to be labeled with three key pieces of data: details of the e-commerce platform on which goods have been purchased; details of the payment platform being used, such as Alipay; and details of the logistics partner that will be handling local delivery. These need to be presented in a standard format that is integrated with the IT systems of the local Customs department at the point of entry.

The result is that when parcels haven't had these procedures lined up in advance, they are far more likely to be stopped and checked — and therefore delayed — than before. Around 10 percent are now being intercepted, prompting some international brands to simply stop allowing buyers in China to make a purchase on their websites.

Is it all too hard?

Even before the entry regulations for international parcels changed, doing business in China already seemed like hard work to many brands outside the country.

A survey by Frost & Sullivan in 2019 found that despite the evident scale of the opportunity, many international brands have been hesitant to attempt to sell in China, fearing they will struggle to be profitable and may lose control of their brand.

Around 30 percent of businesses surveyed said they were deterred by the apparent complexity of regulations they faced, and 21 percent said the level of investment required to get started was prohibitively high.

There's also an entirely different commerce, communications and payment infrastructure to understand. So, while it's relatively easy for a brand to expand from the UK to Europe, or from Europe to the US and vice versa, China is a whole different ball game.

It's not simply a matter of switching from Google, Amazon, Facebook and Instagram to the local Chinese equivalents — because there are no equivalents.

And it's not just that people shop online from different sites, it's that customer acquisition is completely different, too. Key Opinion Leaders (online influencers), hold huge sway here, and it's not uncommon for shoppers to buy direct via a video livestream. Social networking and shopping are far more closely linked than they are in the West.

New silk road? An easier route to Chinese customers

Navigating the lucrative but challenging China e-commerce market — and getting parcels to the people expecting them — is a complex business. But there are ways in which the process can be simplified.

Samarkand is a business established to give international brands a simple way of tapping into Chinese consumer demand, without having to take big risks or recruit staff with local market knowledge.

The business, named after the Uzbek city that was a major trading post along the ancient Silk Road linking Europe and China, serves as a gateway between Western brands and Chinese e-commerce.

Its Nomad technology enables brands to list on any or all of the major Chinese e-commerce platforms, to promote themselves in ways they can see are working, and to make logistics hassle-free.

Partner brands ship to a Samarkand fulfilment center in the UK with plans to open more in continental Europe and the US – and parcels are re-labeled with Chinese Customs requirements and customers' addresses. Parcels are usually in the hands of their Chinese buyers in between five and eight days — usually seven.

Shipping can be by the pallet to a B2B seller such as JD.com, or individual units can be sent direct to individual Chinese consumers.

Sellers see a sales dashboard of the style they're familiar with, a little like Google Analytics, enabling them to see where demand is and, crucially, what kind of activity triggers sales, from a price adjustment to promotional online video or WeChat article.

Samarkand CEO David Hampstead says the system gives international brands the transparency and control over their China operations that many have felt is lacking if they simply ship inventory to a Chinese partner who then promotes and sells as they wish.

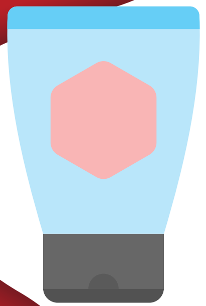
This way, they can use real-time data to inform their communications strategy and new product development.

He says that even though consumers are growing used to same-day delivery from local selling platforms, when they are buying from overseas brands, they feel it's worth the extra wait. And, if demand proves to be strong and consistent, brands can ship bigger volumes to warehouses in a free-trade zone, so delivery times are reduced by several days.

Samarkand became part of the WPP family in 2019, when retail solutions provider Smollan became an investor in the business. It has offices in London, Hong Kong and Shanghai, and handles over 10,000 parcels a month destined for China. Clients include Zita West, BarryM, Probio7, Tateossian, Shay & Blue and Temple Spa.

For brands that aren't yet ready for the full Nomad service, starting in Q1 2020 it will be possible to add a "checkout for China" function to an existing brand.com, so that if a shopper logs on from China, Chinese payment and logistics solutions are automatically offered. The checkout plugin will be integrated with all major website platforms including Shopify, Magento and WooCommerce.

Theory in Action



Case Study 1

A premium skincare brand that in 2018 was selling only via its own website and the Harrods store in central London is now also a hit in China. The brand started out in early 2019 selling via specialty skincare retailers on Taobao, one of Alibaba's platforms, and has since expanded into channels led by KOLs (key opinion leaders) such as BuyBuyBuy. There are plans to develop four direct-to-consumer stores for the China market. Sales have gone from £3,000 in 2018 to over £250,000 in 2019.

Case Study 2

A natural and organic retailer specializing in food and wellbeing products has successfully made the leap from its London base, where it has several shops, into China, where it served over 34,000 customers in 2019. In the two years since it launched in China, starting on the e-commerce platform OMall and managed by Samarkand, sales revenue has soared from £3,000 in the first year to around £550,000 in 2019.

About Us

David began his career in software engineering at large blue-chip firms such as Hewlett Packard and Vodafone before moving to a mobile technology startup leading a team of engineers building software for mobile phone companies across EMEA and Asia. In 2008 he founded QuickThink Media, a digital marketing company focused on Facebook which later listed on AIM. In 2016 combining his experience in digital marketing and background in software and technology he co-founded Samarkand Global to give Western brands a new route to the Chinese e-commerce market not previously available. Based in the UK David splits his time between Europe and China.

David Hampstead

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Samarkand Global provides the gateway connecting Western brands and retailers with the enormous and rapidly growing Chinese e-commerce market. A solution to fit businesses of any size and at any point of their journey in China. We work closely with our clients to create the right solution based on their needs and ambitions in China.

SAMARKAND GLOBAL

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