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Article

The Prerequisites for D2C Strategies A Close View at Established Consumer Goods Manufacturers

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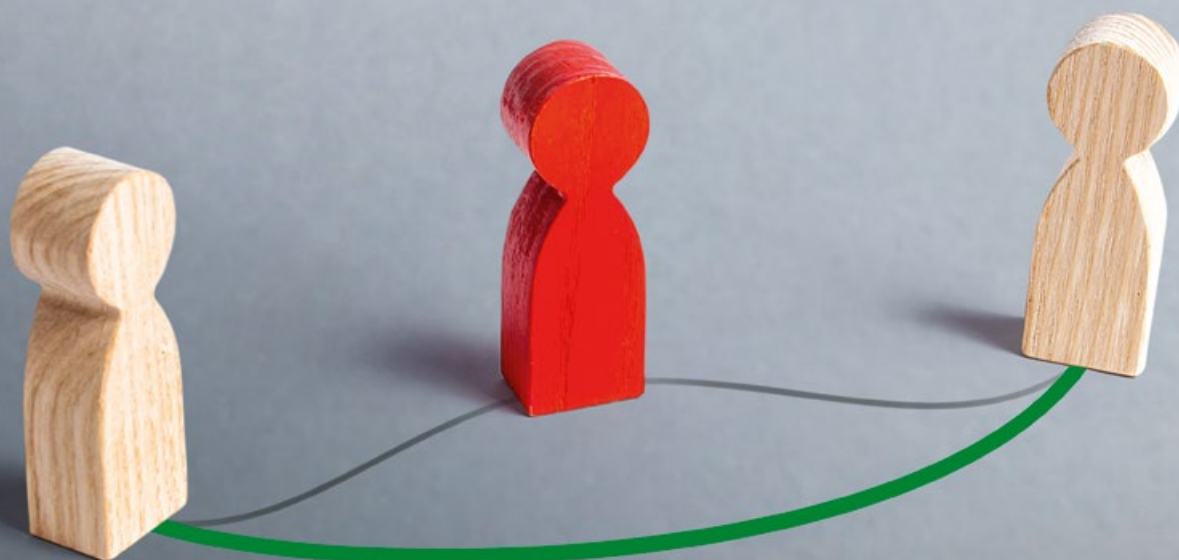
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6 | 2021 **SCHWERPUNKT** Mammut's Direct-to-Consumer (D2C)-Strategie • Drivers and Prerequisites for D2C Strategies • Erfolg durch D2C-Start-ups • Sustainable Corporate Incubation at a CPG Company • D2C-Lernstrategie einer FMCG-Marke • Voice-Systeme im D2C-Kontext **SPEKTRUM** Kundenansprache im persönlichen Verkauf • Objectives and Key Results-Methode und intrinsische Mitarbeitermotivation

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Direct-to-Consumer- Strategien



The Prerequisites for D2C Strategies

A Close View at Established Consumer Goods Manufacturers

Various drivers are currently encouraging established consumer goods manufacturers to start exploiting the D2C growth opportunity. Semi-structured interviews were used to explore the different facets and angles of D2C drivers and prerequisites. The results show that for traditionally intermediary-focused manufacturers the launching of D2C strategies demands four prerequisites: commitment, capabilities, customer transformation management and culture.

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Bypassing intermediaries and selling directly to consumers (D2C strategy) is among the major trends for consumer goods manufacturers (Xia et al., 2017). While some manufacturers tap into the direct-to-consumer (D2C) field by acquiring D2C start-ups, such as the well-known Dollar Shave Club example (Pasirayi & Fennell, 2021), others create their own D2C brands (Schlesinger et al., 2020). Yet, the vast majority of manufacturers, such as Estée Lauder or Hewlett Packard, add a direct channel and still strongly rely on intermediaries (Zhang et al., 2021).

These companies, which come from an intermediary focus and increasingly tap into direct channels, are the focus of this article. Prior literature has shed light on the management of the channel configurations of these manufacturers that sell directly and through intermediaries. A high number of research articles has been published on channel conflicts (Pan, 2019; Samaha et al., 2011; Sharma & Parida, 2018; Tsay & Agrawal, 2004) between manufacturers and retailers, on pricing aspects (Cattani et al., 2006; Choi, 1991; Matsui, 2020; Zhou et al., 2019) or on determinants for going direct or buying direct from a consumer perspective (Kim et al., 2021; Li et al., 2017; Múgica & Berné, 2019; Yu et al., 2020).

Yet, literature with an exclusive focus on the manufacturers' perspective is limited. For instance, flagship stores were investigated (Nierobisch et al., 2017), as well as the appeal of manufacturers' online channel websites and how to drive traffic (Gielens & Steenkamp, 2019; Steenkamp & Geyskens, 2006). Further authors investigated how to allocate the marketing efforts (Zhang et al., 2017) and conducted an analysis of the consumers who buy directly (Higgins et al., 2015; Kim et al., 2021). The existing literature on missing D2C strategy success (Gielens & Steenkamp, 2019; Schlesinger et al., 2020; Zhang et al., 2021) combined with the observation that by far

not all manufacturers embark on the D2C strategy journey (European Commission, 2017; Schögel & Lienhard, 2021) prompt the question what prerequisites (defined as prior conditions) are required for launching and developing a D2C strategy. Research so far has mainly focused on conditions that help the retailer and manufacturer to benefit financially from a direct channel (Dumrongsiri et al., 2008; Nie et al., 2021; Tsay & Agrawal, 2004) or to create a Pareto zone (Lei et al., 2020). Thus, the research question of this article is: What do the managers of established manufacturers consider to be necessary prerequisites for selling directly to consumers in addition to selling through intermediaries?

The article starts with a brief literature review of D2C strategies of established manufacturers. In contrast to de-novo brands or D2C start-ups, these brands have been well known to consumers for years or even decades (Gielens & Steenkamp, 2019). In this context, the authors dive into the underlying concept of direct selling. The subsequent section outlines the methodological approach of the investigation, followed by a section on the results of the study. Finally, the authors develop managerial implications for consumer goods manufacturers and their managers.

Literature Review

Different authors put different lenses on D2C strategies in terms of definition and scope (Gielens & Steenkamp, 2019; Kahn et al., 2018; Pasirayi & Fennell, 2021; Schlesinger et al., 2020). Based on this variety, the authors derived their own D2C definition: "Direct-to-Consumer (D2C) strategies allow established consumer goods manufacturers to bypass intermediaries in the current market environment and sell directly to consumers through means of offline or and online brand stores." D2C strategies belong to the channel selection strategies and are also frequently in-

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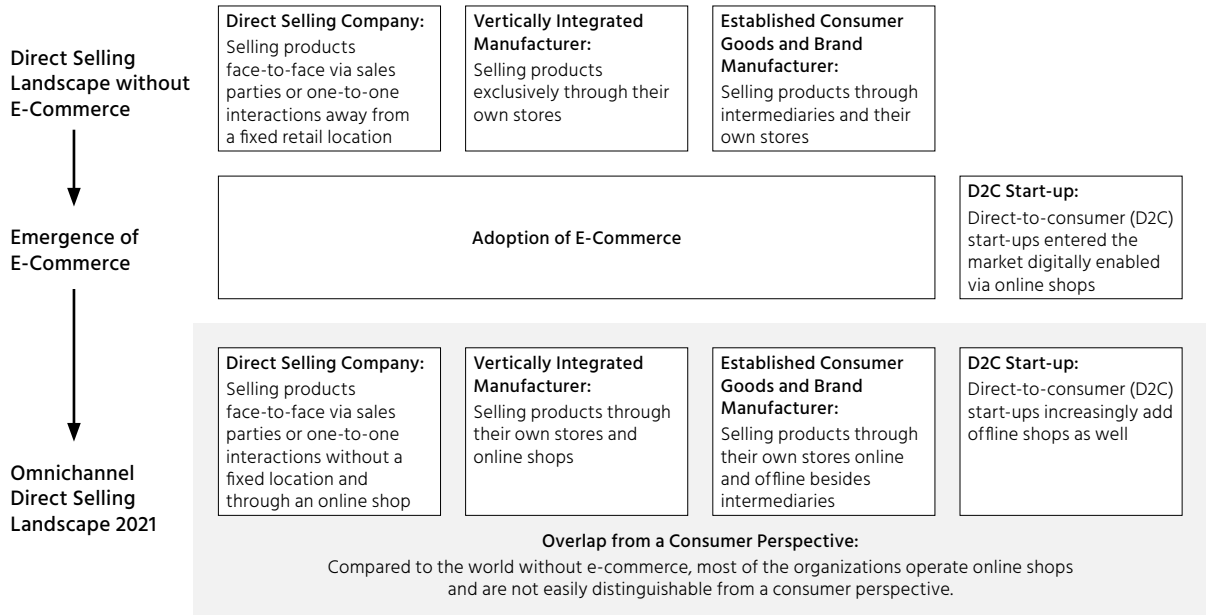
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Fig. 1: Evolution and Development of the Direct Selling Landscape



Source: Based on Gertner & Stillman, 2001; Nierobisch et al., 2017; Peterson & Wotruba, 1996; Schlesinger et al., 2020; Watson et al., 2015.

investigated through the lens of vertical integration (Gertner & Stillman, 2001; Harald et al., 2019; Kahn et al., 2018; Watson et al., 2015). If a manufacturer begins to bypass intermediaries and sell through online or offline direct channels to the consumer, these channels take over the functions of the downstream retailers (Watson et al., 2015). Especially in the apparel industry, some players like Zara or H&M have been vertically integrated for decades. Before the advent of the internet, brand stores served as their distribution channel, and with the emergence of the internet they started to also adopt e-commerce (Gertner & Stillman, 2001). In addition to vertically integrated companies like Zara, there are direct selling organizations which are characterized by “face-to-face selling away from a fixed retail location” (Peterson & Wotruba, 1996). Moreover, the established manufacturers

have been challenged by so-called D2C start-ups that sell mostly through online channels (Schlesinger et al., 2020).

The evolution of the different D2C approaches is summarized in figure 1. Before the adoption of e-commerce, direct selling companies sold away from a fixed retail location, vertically integrated players like Zara sold in fixed retail locations and some established consumer goods and brand manufacturers sold through their own stores besides their focus on intermediaries. Due to the ease of selling directly via e-commerce channels, all of these organizations adopted e-commerce (only a few of them have not). Moreover, D2C start-ups entered the market since it became very easy to set up an online store with a new brand and to sell directly (Gielens & Steenkamp, 2019; Schlesinger et al., 2020). Nowadays, this omni-channel direct selling landscape encompasses

four different types of organizations that operate online and offline channels. From a consumer perspective, the different evolutionary roots of these companies are not easily distinguishable in their online shops.

In the current market environment, enabled by digital technology, going online and bypassing intermediaries in the form of D2C strategies has become a major trend (Pasirayi & Fennell, 2021). Manufacturers have increasingly started to turn their information website into an online shop to create an additional sales channel (Gielens & Steenkamp, 2019). In addition, manufacturers still have the option to also sell directly via offline stores. New outlet forms such as flagship stores or showrooms have gained in attractiveness and can also be part of a D2C strategy, besides the online shop (Kahn et al., 2018; Nierobisch et al., 2017).

The advantages of a D2C strategy are numerous. Forward integration is linked with a decrease of transaction-related costs (D'Aveni & Ravenscraft, 1994), can lead to higher profits for manufacturers (Chiang et al., 2003; Tsay & Agrawal, 2004), and addresses the double marginalization problem (Kumar & Ruan, 2006). D2C strategies also provide a direct channel for consumers to voice their opinions, thus helping the manufacturer better understand consumers and their behavior. Facilitating choice, improving consumer satisfaction, opportunities to deliver personalized experiences or to gather data, and the potential usage as a test market for product development are further benefits of a D2C strategy (Gielens & Steenkamp, 2019).

However, D2C strategies also come with some disadvantages. First of all, going direct while also maintaining indirect channels via intermediaries may lead to channel conflicts (Sharma & Parida, 2018) since the intermediary will lose benefits such as market coverage or opportunities for gathering information (Choi, 1991) when manufacturers and retailers turn into horizontal competitors. Some retailers even start to invest voluntarily to reduce the threat of a manufacturer going direct (Hamamura & Zenny, 2021). As soon as the direct channel is in place, further obstacles may arise. For example, many manufacturers are not able to generate enough traffic on the website and, thus, sufficient revenues (Gielens & Steenkamp, 2019).

Even though a D2C strategy is challenging for the manufacturer and the retailer in different ways, different authors suggest that a Pareto zone exists where both players can benefit from the introduction of a direct channel (Chiang et al., 2003; Tsay & Agrawal, 2004). Further research suggests that this zone depends on different factors like whole-

sale price, demand variabilities and marginal costs (Dumrongsiri et al., 2008). So far, however, studies shedding light on the role of the manufacturer in the current market environment and on the prerequisites for launching and developing D2C strategies are missing.

Methodological Approach

Due to the complexity of the phenomena and the limited literature on the current D2C strategy trend in the retailing and consumer goods environment, the authors decided to conduct a qualitative study. Semi-structured interviews (Silverman, 2015) with a three-phased approach were used to explore the different facets and angles of D2C drivers and prerequisites. In the first round, eight marketing managers responsible for the D2C strategy of an established consumer goods manufacturer were interviewed. The transcripts were coded with Atlas.ti, and a qualitative content analysis according to Mayring and Fenzl (2014) allowed the authors to organize the data into different prerequisites. Based on those, the first draft of a prerequisite framework was developed. In a second round, the authors discussed this draft with eight different

managers working with established consumer goods manufacturers and involved in the development of the D2C strategy within their companies. During these interviews, further components were developed, especially the drivers to go direct, because the interviewees highlighted the need for a holistic understanding of how manufacturers decide to go direct and the role of the prerequisites. The adjustments and areas of (dis-)agreement were adapted into the framework. Lastly, the second draft was discussed in another round with the same participants to challenge the ultimate framework and especially the areas of disagreement. After 24 interviews with 16 interview partners in total, theoretical saturation was reached and no additional prerequisites could be identified (Strauss & Corbin, 1994).

Results and Discussion

The results encompass two aspects of D2C strategies: drivers and prerequisites. First, the underlying drivers for developing a direct channel, besides the intermediary channel, are briefly outlined. Next, the prerequisites are elaborated.

As explained above, during interview rounds two and three the inter-

Management Summary

Besides their traditional sales channels through intermediaries, consumer goods manufacturers increasingly sell directly to consumers. Prior literature primarily shed light on the consequences of additional direct channels, dealing with intermediary conflicts or determinants for going direct. However, there is limited knowledge about the prerequisites for launching and developing a direct-to-consumer (D2C) strategy. In a qualitative explorative approach, the authors conducted interviews to examine the prerequisites of D2C strategies. The results reveal that different D2C drivers, such as the high dependency on intermediaries in terms of revenues, are decisive for understanding the prerequisites. Commitment, capabilities, customer transformation management and culture were identified as the crucial prerequisites. Middle management plays a crucial role as an enabler and initiator of D2C strategies in traditional intermediary-focused consumer goods manufacturers.

viewees emphasized the linkage between the D2C drivers and the prerequisites, which enhances the understanding of the prerequisites.

The D2C drivers may be classified into three categories which represent different types of reasons (figure 2).

The first category includes the manufacturers' **internal reasons**. In line with previous literature, the financial attractiveness (removing the double marginalization problem) due to retaining the retailer margin is a strong driver. Moreover, many of these manufacturing companies have at least some experience with D2C due to their factory stores. Hence, they can assess what it means to have direct contact with customers. Here is an exemplary quote:

“Historically, we already had a D2C solution by running a factory shop (...). There was already access to the end consumer, but the shop offered mostly niche products. The added value was very small.” (Manager 1)

The second category encompasses the so-called **market reasons**. Here, the strongest and most frequently discussed reason is the dependency on retail. It is well known that the relationship with intermediaries like retailers can be challenging and comes with certain business risks. If the revenues of a manufacturer in a certain market de-

Main Propositions

1. Boosted by the ease of launching an online shop, D2C strategies have gained in importance over the past decade.
2. The desire to reduce dependency on retailers and to gather first-party data are core drivers for D2C strategies.
3. The prerequisites for D2C strategies are commitment, capabilities, customer transformation management and culture.

pend on just one or two domestic retailers, a purchasing stop by the retailer would endanger the entire unit. The following quote underpins this:

“We want to gain more direct access to the consumers and collect feedback from them. In addition, our dependency on the retail trade is very high. There is only one major player and that is Coop. Through D2C we can open up further distribution channels and minimize our dependency.” (Manager 2)

Moreover, D2C strategies enable manufacturers to expand and open up new markets fairly quickly, especially online. Further reasons are price control and the fear of missing out because D2C is a big trend.

The last category consists of **customer-driven reasons**. First of all, a D2C strategy enables manufacturers to create a relationship with customers and better conveys the emotionality of products. Another strong driver is the opportunity to gather first-party data. Especially in Switzerland, receiving or buying data from retailers is difficult or fairly expensive. Accessibility is improved by D2C strategies: *“We also want to get data and try out different things.”* (Manager 8)

Besides these various drivers to go direct, four different prerequisites could be identified in the course of the interviewing process.

The first prerequisite is **commitment**. The approval of the board and the CMO or CSO is required for launching and developing a D2C strategy. Various factors are associated with that prerequisite. Thus, perseverance is required to run a D2C strategy successfully in the mid and long term. Only if the board believes in D2C strategies and allows for their development over time, can the strategy grow: “I would

Fig. 2: D2C Drivers



Source: Own illustration.

say that it is slowed down when there is no commitment” (Manager 4). Especially when it comes to financial support: *“Support means that a higher budget is allocated, which drives D2C forward”* (Manager 7). The interviewees also mentioned that a dedicated D2C team should comprise various members of the management since D2C involves many different functions like marketing, sales or logistics.

A second prerequisite are the right **capabilities**. Taking on the retailer’s functions means that manufacturers have to execute these functions on their own. Developing these capabilities, from search engine optimization and search engine advertising to logistics, is crucial as the following quote suggests: *“Fulfilment is critical to success. Beautiful pictures can be uploaded very quickly into the online store, but if the processes in the background do not work, it is bad for the image”* (Manager 3). Furthermore, the interviewed managers highlighted that capabilities linked with the D2C-related customer journey have to be developed.

A third prerequisite is **customer transformation management**. This means that the initial situation of a manufacturer has to be understood and taken into account. If a manufacturer sells exclusively through intermediaries, their usual customer is a “B”-customer – typically purchasing managers of retailers: *“In B2B distribution, the employees have a very long-term relationship with the key accounts. In D2C, however, every customer has to be newly acquired and accompanied on the customer journey from start to finish”* (Manager 2). While in intermediary settings the managers face a limited amount of customers, in D2C the managers are forced to cope with thousands of customers on a daily basis. If a D2C strategy is implemented, the

customers shift and are end customers (“C”-customers). Managing this transition and understanding the differences is crucial. Community management is a key attribute mentioned in this context: *“But what is very important is community management. It requires resources to create a commitment between customer and company”* (Manager 1).

The fourth prerequisite is an appropriate **culture**. This element is mostly driven by benchmarking with D2C leaders like Nespresso. The interviewees claim that these companies have a distinctive culture which is required for launching and developing D2C strategies, especially if a manufacturer intends to establish D2C as a relevant revenue pillar. This implies, for instance, the trial and error principle: *“It takes a certain sense of security to try something new and be prepared to fail”* (Manager 6). Another element that was mentioned in this context is the usage of new tools like the continuous improvement process (CIP).

After the first round of interviews, the picture was unclear and blurry, but it seemed that commitment is a top-level prerequisite, capabilities and customer transformation management are a middle management prerequisite, and culture a company-wide one. Thus, in the first draft the authors tried to link the prerequisites to the various hierarchical levels. The interviewed managers of rounds two and three, however, challenged this view. They claimed that D2C is a topic that is very frequently middle management-driven and a strict correspondence of the prerequisites to certain levels is not appropriate. Often, middle-level managers initiate D2C and pitch it internally. Project teams that also include middle managers are formed to organize D2C projects. Therefore, middle managers are not the only ones involved, but they possess a decisive role in terms of internal enablers. The following exemplary quote highlights their crucial role: *“The top management should support and assist the introduction of D2C, but the implementation should be the responsibility of the middle management”* (Manager 2).

Lessons Learned

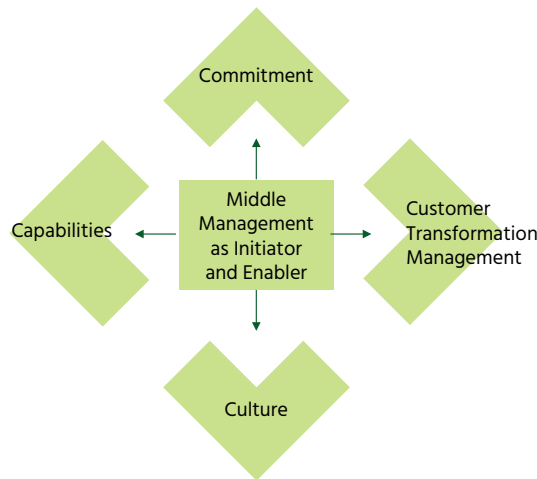
1. Developing D2C strategies requires a remarkable amount of resources from different departments.
2. Going direct is new to the company process and comes with failures and success stories which have to be taken into account by the management.
3. Every brand needs an individual D2C approach which is tailored to the preferences of the consumers in the market.

Key Take-aways for Managers

Based on the results of the investigation regarding prerequisites, the authors draw three conclusions for established consumer goods manufacturers that want to launch and develop a D2C strategy. The relevant managerial implications are outlined below, introduced by an appropriate quote from the data set.

- **Build on your factory store tradition to bring D2C internally forward**
“The processes of the factory stores have long been running autonomously. There is a normal standard process there.” (Manager 2)

Fig. 3: D2C Prerequisites for Established Consumer Goods Manufacturers



Source: Own illustration.

A vast number of consumer goods companies have a long tradition of selling directly through factory stores. Building on these experiences helps to extend the required D2C competences and to overcome internal barriers or skepticism.

• **Adapt your working mode: keep testing and improving your offering**

“We work with a trial-and-error principle and try to find out what works and what doesn't. I also try to convince different people internally to do new projects and celebrate the small successes.” (Manager 6)

Since established consumer goods manufacturers do not have a lot of experience when it comes to direct channels, especially e-commerce, they have to adapt their working mode. The fact that every click in an online store is directly attributable leads to constant opportunities for testing and improving the shop.

• **Allocate sufficient resources and maintain a long-term focus**

“D2C is extremely expensive and most manufacturers don't want to spend that much money.” (Manager 4)

Many managers of consumer goods companies underestimate the efforts and resources required for setting up an appealing D2C strategy. Even though financial attractiveness is a key driver to go direct, when it comes to the implementation, a remarkable amount of resources is required. As the quote highlights, many manufacturers are still relying entirely on their intermediary revenues and do not believe that D2C can add as much value as it costs. The intense competition spurred by D2C start-ups (Schlesinger et al., 2020) makes it tremendously hard to succeed with a D2C strategy without allocating a large amount of resources.

Conclusion

To summarize, the interplay of different drivers encourages many manu-

facturers to launch D2C strategies. These are usually driven by the middle management that works as an enabler. Four prerequisites for launching a successful D2C strategy were identified by the present study: commitment, capa-

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bilities, culture, and customer transformation management. These prerequisites seem to be familiar and are also applicable to other topical issues and trends in the field of management. This, in fact, is an additional learning:

even if established consumer goods manufacturers do not intend to use D2C channels, the prerequisites for launching D2C strategies are similar to those required for other issues they are currently confronted with.

Further studies could double check the results with additional managers or use quantitative measures to disentangle the relative importance of the various D2C prerequisites. 

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