The new DTC: Delivering goods fast, with purpose

With the novelty factor inevitably fading on DTC 2.0 and consumer needs shifting in the wake of Covid-19, smart brands will take the opportunity to upgrade to version 3.0. It promises to deliver far more than just goods.

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Summary

In the last few months, all around the world, people are wishing they hadn't unsubscribed from that delivery razor/make-up/foodbox service, as they find themselves queueing (virtually or actually) for supermarkets and missing out on the life essentials during Covid-19 isolation.

Will this lead to a renaissance of DTC? Yes, and no. In this report, we'll set out its next incarnation. Following the demise of DTC 1.0 (mail order) and DTC 2.0 (single, novel products sold via subscription online), we predict that, as well as learning from its immediate predecessors, DTC 3.0 is going to look like something far older – the Silk Road.

This ancient route wasn't a simple country A to country B link – it was an interconnected network with each new country becoming a node that made it more powerful. This ethos offers far more opportunity than the traditional FMCG 'hub and spoke' distribution networks. Rather than putting consumers at the periphery as passive end-users, it makes them part of the distribution network for both the product and the wider brand purpose.

And that last part is key to our vision of DTC 3.0, because successful FMCG brands will be delivering far more than just goods and services.

The third wave of DTC is coming

Q: What killed the first two DTC models and how will DTC 3.0 be different?

It's worth looking at the demise of DTC's previous incarnations, as there are valuable lessons to be learnt. In the middle of the 20th century, many niche businesses thrived through their ability to reach customers via print media, selling and delivering via mail order. Eventually this led to recurring subscription models and a move to acquisition via TV advertising – what we now call infomercials.

	Example	Advantages	Lost out to
DTC 1.0	Mail order products promoted through classifieds	Higher margins making up for lower volumes of niche product sales	- Mail order catalogues - Infomercials
DTC 2.0	Single, novel product sold via subscription for a discount online	Recurring subscription making up for lower volume and margins	- E-grocery - Amazon and other e-comm aggregators' subscription models

Then came DTC 2.0. The early 2010s saw a flurry of businesses selling single items online via subscription. This was encouraged by three things – 1) easy access to Asian manufacturing 2) growth in consumer confidence in e-commerce and 3) the rise of influence marketing.

Oh, and 4) novelty.

Then, massive exits by brands like Dollar Shave Club and Graze to FMCG multinationals like Unilever only further added heat to the fire in the mid 2010s. But since this initial flurry of investments and acquisitions we have seen DTC 2.0 begin to struggle.

Once the early-adopters were acquired (mostly picked up for reasons one and four from above), DTC brands were left with two classic choices – grow through (finding new routes to) new consumers, or make more money from existing consumers.

Casper mattresses chose the latter, expanding its product set into dog beds amongst other curious adjacents. Harry's Razors swerved lane entirely and took its product range into traditional retail channels like Boots - dropping the D of DTC entirely. Competition, meanwhile, came on two fronts – traditional suppliers using their scale to launch DTC initiatives and online multi-category retailers facilitating subscription functionality.

The third wave of DTC is coming

Your average online supermarket now lets you reorder products frictionlessly on a periodic basis and the giant of e-commerce, Amazon, allows for subscription purchase of many of its products, using its scale to provide discounts the more items you subscribe to.

The key reasons a consumer might have opted for DTC in the first place – cost and convenience – have been largely negated. Which brings it all back to brand. Those who consumers have known for years and trust, in the end, invariably win out over the new.

DTC 2.0 met its demise because its cost and convenience were being duplicated by the competition. Plus, there's no such thing as long-term novelty.

DTC 3.0 will differentiate itself in two ways. Functionally, it will offer new ways to deliver products and services to customers. But, perhaps more importantly, It will offer new means for a business to do brand marketing – to 'walk the walk' of its brand purpose, a primarily emotional task.

A: DTC 2.0 met its demise because its cost and convenience were being duplicated by the competition, plus, there's no such thing as long-term novelty. DTC 3.0 is about brand marketing as well as simple delivery.

Covid–19 changes ~~every~~things

Q: How has Covid-19 changed consumers' needs and preferences with regards to DTC sales?

Covid-19 will hasten the need for businesses to move from DTC 2.0 to 3.0 because of the acceleration it's causing, across all segments, in the uptake of digital channel behaviours specifically around communication and staple shopping.

A greater level of sophistication will mean that customers are satisfying their basic needs in efficient ways through e-grocery and multi-brand retailers. They'll also be far more demanding of value-add from any brand they have a one-to-one relationship with. For more on why and how Covid-19 is changing consumer behaviours for the long term, see our recent report, 'A Decade of Deliberate Decade'.

The appeals of the new DTC will be different to those of the previous generation, and lean into needs and preferences exacerbated by people's experiences during Covid-19.

A: Customer needs are changing from the functional, which are table stakes, to the emotional – in order for them to justify having a direct relationship with a brand over shopping aggregators for key products.

Example	Example	DTC 2.0	DTC 3.0
Cost conscious	Focused on cheapest in category	X	
Customisation	Attracted to products that are particularly suited to their needs	X	
Security of supply	Concerned about always having product on hand		X
Exclusivity	Impressed by access to products of limited availability	X	
Delivery	Driven by ease of having products arrive directly on their doorstep	X	
Novelty	Delighted simply by the newness of the experience	X	
Shareability	Motivated by products and experiences they can share with others	X	X
Community	Enjoy a sense of being part of the community surrounding a product		X
Sustainability	Need to know their purchases are sustainably orientated		X
Surprise & delight	The excitement of the unknown	X	X
Supporting small	Supportive of local and small over larger businesses	X	X

Delivering purpose as well as goods and services

Q: What is the key new role DTC 3.0 should play for a brand today?

Because the basic functional advantages of DTC have been largely eradicated by the competition, DTC 3.0 will need to find new strengths in order to remain as a viable distribution mechanic. We'll look at the functional opportunities later in this report.

It's in the other, much hyped marketing paradigm of the 2010s that we find the overarching, brand-led and emotional new role for DTC 3.0 – purpose.

Coming out of Covid-19, we find consumers with a heightened sense of need for trust, security, quality control, security and other aspects of emotional support. While these won't only be solved by brands, they can play a profitable role in helping consumers. And DTC 3.0 may turn out to be a primary channel for this.

So, for instance, if a brand's purpose is oriented around environmental sustainability – its DTC proposition shouldn't simply be sustainable itself but help a consumer live a more sustainable life overall. It might go from minimising its own packaging, for example, to using recipients as drop-off points for recycling other manufacturers' purchases through its plant.

If it's about living a more fulfilled life, it shouldn't be about just delivering a product with an energy kick to get more done. A brand could be tapping into partners to deliver a suite of productivity products or creating opportunities for networking meets via shared delivery.

A brand with inclusivity at its heart might not just talk about it, but actually walk-the-walk by opening up its distribution network for customers who are also small business owners to sell their own products to other customers.

A: The purpose for DTC 3.0 is... delivering on a brand's higher order purpose, not just delivering its products.

DTC 3.0 = <mark>Digitise</mark> the channel

Q: What is the key functional difference between DTC 2.0 and 3.0?

DTC 2.0 failed because it was never truly digital. It took the offline mail-order approach of its predecessor and simply mirrored it online. Indeed, Dollar Shave Club and many similar brands try to alay customers' concerns in their website FAQs, 'is this like one of those record clubs from the 90s that are impossible to cancel?'.

No, of course it wasn't. But, essentially the model was the same – the method of acquisition and payment just slightly easier for business and consumer alike. In using digital channels, the previous generation of businesses missed a trick to actually digitally transform.

To understand what DTC 3.0 should look like, we need to go back further than DTC 1.0, indeed the 20th century entirely, to the Silk Road of antiquity. On one level, it resembled a typical supply chain. A route was found from a supply of novel goods to the consumer and those who delivered them efficiently profited.

But that wasn't what led the Silk Road to be globally transformative. It was the clash of cultures, ongoing communication between countries and exchange of other products and technologies through these new 'channels' that saw modern cities and civilisations rise from a world of discrete villages.

This happened because the Silk Road wasn't a one-way channel like traditional DTC. Products flowed up and down the route. And it wasn't a simple country A to country B link – it was an interconnected network with each new country becoming a node that made it more powerful. Somewhat like the Internet a millennium later.

DTC 3.0 will more likely reflect the organic and messy Silk Road than the traditional FMCG 'hub and spoke' distribution networks. Putting consumers not at the periphery as passive end-users but making them part of the distribution network for both the product and the wider brand purpose.

A: DTC 3.0 will break apart the hub-and-spoke distribution model and make consumers themselves key nodes in a more organic distribution network – spreading product, and brand love, further.

Direct to ~~consumer~~ collaborators

Q: What will the new relationship between businesses and consumers look like?

The C for consumer in DTC is a misnomer, because in this next wave recipients won't be passive consumers at all. They'll be collaborators. This means a totally new dynamic between brands and their DTC subscribers.

By activating their purpose in enabling this new form of DTC, brands will have the opportunity to walk-the-walk in a way that will generate true customer loyalty.

See our report, 'From occasions to rituals' for more on how food and drinks brands can become key to consumption moments.

A: Key consumers will become collaborators in the new wave of DTC, making for loyal and two-way relationships that benefit both sides more than ever before.

Consumers as collaborators	Customers won't just sign up and receive products, they'll become nodes in the distribution network – connecting other consumers, co-creating service ideas with the business, using the distribution facilities for their own projects and more
Two-way delivery	Brands won't just drop their products off, they'll pick things up – whether that's items for recycling or other items for redistribution/sale
Channel-agnostic acquisition	The web won't be the only way customers will sign up and interact – social, voice, dark chat, in-person sampling pop-ups, even the old fashioned phone may be offered
Brand friendships	Brands will piggy-back on each other's distribution services and customer bases to provide curated deliveries specific to a customer's needs
Global initiatives	The 'last mile' of delivery will become the 'local mile' as customers' preference for shopping local has grown. Big brands will need to work with local businesses to support their delivery initiatives and diversify
Super nodes are the new influencers	Content-based influencers will be on the wane as customers look to people who are collaborating with brands actively to deliver better products and services as their new influencers

From margins to multipliers – making a business case for DTC 3.0

Q: What should a brand base its business case on for DTC 3.0?

The simplistic, but often effective, notion of higher margins conferred by selling direct to consumers, bypassing steps in the distribution chain, was the primary attraction in previous generations of DTC business models. In the first dotcom boom this was encapsulated in the notion of 'disintermediation', or colloquially, 'cutting out the middleman'.

Its simplicity means it's as readily understood by consumers as it is the c-suite. The story for DTC 3.0 is more complex, but ultimately more rewarding. Here the advantages can be seen in three distinct areas – 1) insight 2) agility and 3) value creation.

If the era of Big Data has taught us anything, it's not (just) how big your data is, but what you do with it. A strong DTC proposition should deliver actionable data – that is, insights about your customer base that can be applied not just in the direct channel but across the entire marketing mix.

The watch-out here is assuming your most frequent customers – as DTC subscribers naturally will be – are representative, of the possibly long tail, of light buyers across all channels. But DTC 3.0 mitigates this risk by enabling a

business to capture additional data, through supplementary services/experiences, that allow for the segmentation of consumers in a more granular way. To allow the difference between early-adopter behaviours (those that will eventually become mainstream and thus should be invested in) from heavy-buyer behaviours to be identified.

This focus on the data, identifying changing needs and behaviours, means even a small DTC 3.0 channel has an outsize ability to create actionable insights. Especially when the DTC audience is activated in a Direct-to-Collaborators way – involving them explicitly in the new product development (NPD) process. Testing everything from products to how their benefits are creatively communicated with an engaged audience.

DTC 3.0 doesn't just enable this process to happen more effectively but also more efficiently in terms of time-to-market. If the Covid-19 crisis has taught us anything, it's that adaptability and agility are some of the most important skills an organisation can possess in both its people and its processes. DTC 3.0 develops agility by creating tighter feedback loops between production and consumer.

From margins to multipliers – making a business case for DTC 3.0

This will put fresh burdens on traditional organisations at first, but once embedded in an organisation this new agility will benefit all distribution channels. And DTC allows for a gradual roll-out by geography, or other segmentation, meaning it can be slowly scaled up as internal processes and resources are developed and applied.

Lastly, but most importantly for this new era, value creation. If your DTC proposition starts off on the footing of 'we sell direct to you, and pass on the savings', you've failed at the first hurdle. 'That's so 90s, as it were. Like ever-tempting retail sales promotions, relying on a price advantage in DTC has a long-term negative effect on price elasticity and ensures that ultimately your product's value perception will drop.

DTC 3.0 should be about creating value-added services and experiences around your product and its delivery experience that increase the price people are willing to pay for it compared to competitors. Only by delivering on the brand's wider purpose, through the implementation of DTC, will value creation be able to be maximised in this way.

KPIs will vary by category, but this is what they might look like across the three ideas identified:

Insights	• Increased identification of preference trends for NPD development • Raised pre-testing scores on marketing collateral • Growth in CRM database size
Agility	• Decreased time-to-market for NPD • Increased turn-around in campaign briefs to market • Speed of entry into new
Value creation	• Higher Brand Preference scores e.g. NPS • Increase Repeat Sales / Customer Retention • Higher retention rate of NPD in portfolio

Ultimately DTC will prove itself by finally uniting a businesses product and its purpose, in a way that's profitable and sustainable.

A: Enhanced insights generation, increased organisational agility across the marketing mix and decreased price elasticity through improved brand perception should be the basis for any business case for DTC 3.0.

DTC 3.0 trailblazers

Forest Brew brought the pub feeling to home

Understanding that cans and bottles just weren't the same, Forest Brew found a way to bring pub quality beer straight to people's homes.

What: The brewery fitted a van with a draft beer dispenser and delivered fresh pints to people's doorsteps.

How: Using WhatsApp, local residents could book a beer delivery slot and then invite their neighbours to join in, too, letting you create your own micro pub.

Why we love it: Not only does it help people have a new experience, it brings local communities together, reduces waste and builds brand awareness for long-term growth.

Bringing Jacob's Creek to 'Our Table' with purpose

Jacob's Creek introduces Chinese consumers to the power of wine drinking occasions through customised experiences, created through the WeChat 'Friends Circle'.

What: Jacob's Creek wants to own meal occasions among the growing middle class. The brand created a global strategy around 'Our Table', and the challenge for our team in Shanghai was to give it meaning in China.

How: By bringing people together through a new WeChat communication strategy, Jacob's Creek knew it could create something meaningful and engaging for consumers through the WeChat 'Friends Circle'.

Why we love it: The customised label service using WeChat allows people to make their table experiences at home with friends that much more personal. Selling direct, it has led Jacob's Creek to be the No. 1 wine sold through WeChat.

A bespoke Magnum experience from home

Magnum partnered with Deliveroo, delivering 'Make my Magnum' kits to promote its new Ruby collection.

What: Creating bespoke kits, it gave consumers the chance to order a customisation kit for their ice creams, in a tie-up with Deliveroo and The Ice Cream Store.

How: Taking advantage of a time where people are getting more deliveries at home, it made this an easy process for people to take part in, and made sure it could result in some stunning UGC.

Why we love it: It's hard to discover a new product, especially in lockdown. This not only helped people hear about the new Magnum, but the Unilever Ice Cream Stores on Deliveroo. The experience of customising your own ice adds to the luxury feel a Magnum provides.

Delivering more consumption occasions

Clif Bar launched a FB Messenger chatbot that draws from user's adventure profiles and gives online buyers tailored recommendations for new runs, rides and hikes.

What: In launching the brand's online DTC proposition, Clif Bar supplemented product delivery with value-added services that not only gave customers new experiences but increased consumption occasions and thus drove further sales.

How: Recognising a mindset of exploration, the brand's Facebook messenger chatbot used location services and customer preferences to identify new running and riding routes near them.

Why we love it: Clif Bar created a virtuous feedback loop where gathering more data on customer preferences allowed it to provide better experiences and grow demand for products in a mutually beneficial way.

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