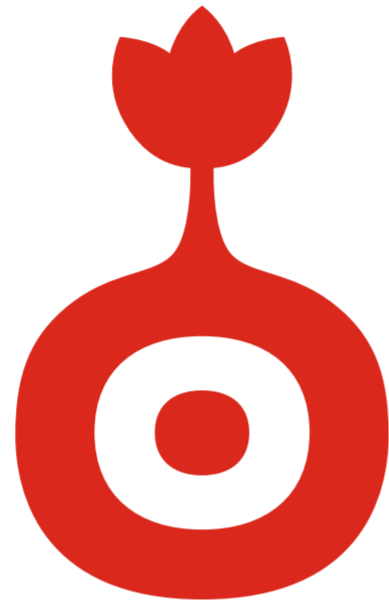# DTC Implementation: What's the future of DTC in CPG?

Improving DTC execution

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What's the future of the DTC model?

How to fully leverage Direct To Consumer, improving its execution.

In the ever-evolving landscape of the Consumer Packaged Goods (CPG) industry, Sevendots remains dedicated to providing timely and relevant insights and understanding. Through our Growth Series, we offer brand owners clarity on significant topics shaping the future of the industry.

Our previous study on "Personalization at Scale" delved into the balance between providing individualized value and managing the complexity and ROI for brands. Building on our commitment to inform on the most pressing subjects, with our new Growth Series, we've revisited a topic we covered a few years back: Direct To Consumer (DTC). This updated study on DTC is not a repetition but an analysis of its current state, comparing findings with our earlier work, detailing key learnings and offering guidelines for more efficient execution.

Our methodology included a review of diverse literature, pertinent case studies, insights from our senior partners, and invaluable client feedback. This summary encapsulates our main findings, presenting both an underlying premise and five crucial conclusions for CPG brand owners interested in the evolving dynamics of DTC.

For a more in-depth exploration of our findings, including further analysis, case studies, and our DTC strategy framework, please contact opportunities@sevendots.com.

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DTC allows for increased value and expansion of category definitions

In 2018, our DTC Growth Series report focused on advocating for this model for use by brand owners. In that report, we emphasized DTC's potential for superior margins, given its integration of value-adding activities that traditionally boosted the CPG industry. We observed at the time that long term revenue growth from the largest retailers significantly outperformed the organic growth of major manufacturers, given their greater attention to intangible elements. These considerations remain valid today.

CPG retailers are growing faster than major manufacturers

1.5%

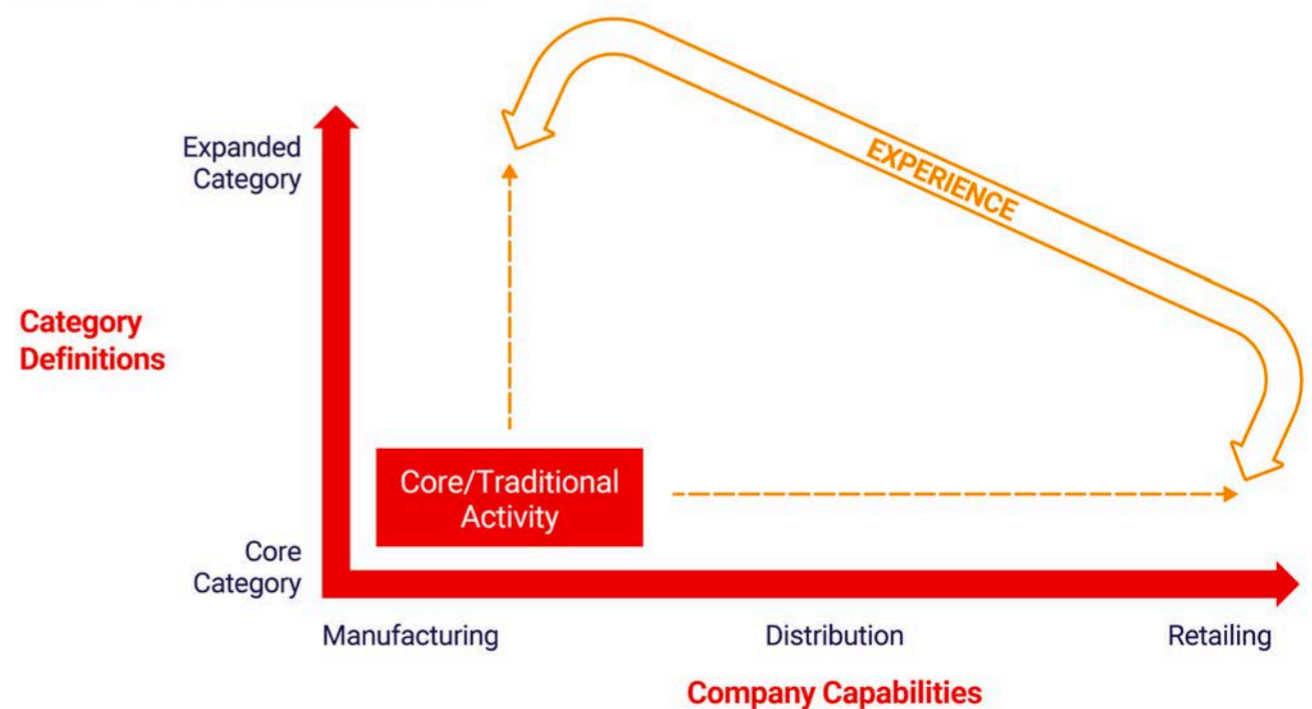FY 2012-2016 Organic Growth CAGR, >$8B CPG **manufacturers**

4.8%

FY 2011-2016 Revenues CAGR, top 135 CPG **retailers**

Source: Retailers Deloitte. Top 135 FMCG retailers. Global Power of retailing, 2018. Organic Growth Manufacturers. McKinsey

Experience as a fundamental driver

The bi-dimensional approach to DTC:

Category Definitions

Expanded Category

EXPERIENCE

Core/Traditional Activity

Core Category

Manufacturing — Distribution — Retailing

Company Capabilities

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01

A burning platform for DTC

DTC has been around for some time. It started in non-CPG sectors and in digital startups, known as Digitally Native Vertical Brands. However, it doesn't seem to have had the same impact on the CPG industry, and its effect on overall sales remains stagnant and limited. The number of successful cases is also few. Where does the potential for successful DTC implementation lie for the CPG industry going forward?

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Two connected observations about DTC development

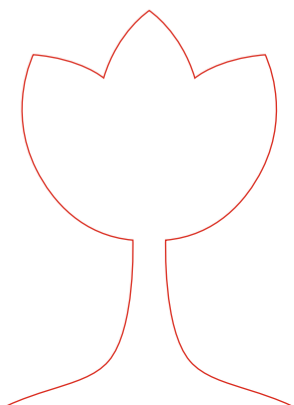**DTC incidence is still limited**

DTC success examples within CPG are limited

Overall, DTC still has a limited contribution to overall CPG sales and remains stable over the last few years, not growing.

There are not a lot of successful business cases.

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Source: Sevendots elaboration and reconciliation of multiple sources

DTC is a small part of overall CPG sales

US 2022
in $ Billion

Total CPG sales

1,900

E-com CPG sales

140 (7%)

DTC CPG sales

20 (1%)

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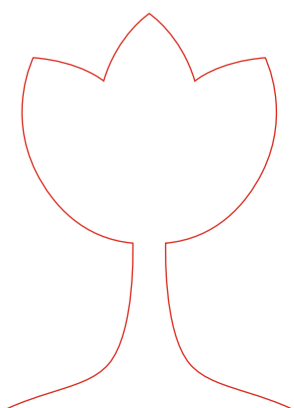
02

A call-to-action for DTC

Whether a company already utilizes DTC or not, or is simply considering it as a model, there is the need to carefully review and evaluate an approach for success.

DTC can be deployed in different ways, with the potential to cover a broad territory and nurture a multi-faceted relationship between consumers and brands. This indicates that DTC has the potential to go well beyond being a simple sales channel.

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Bringing the consumer to the center

From
Direct to Consumer

(mainly sales)

To
Connect to Consumer

(sales and much more)
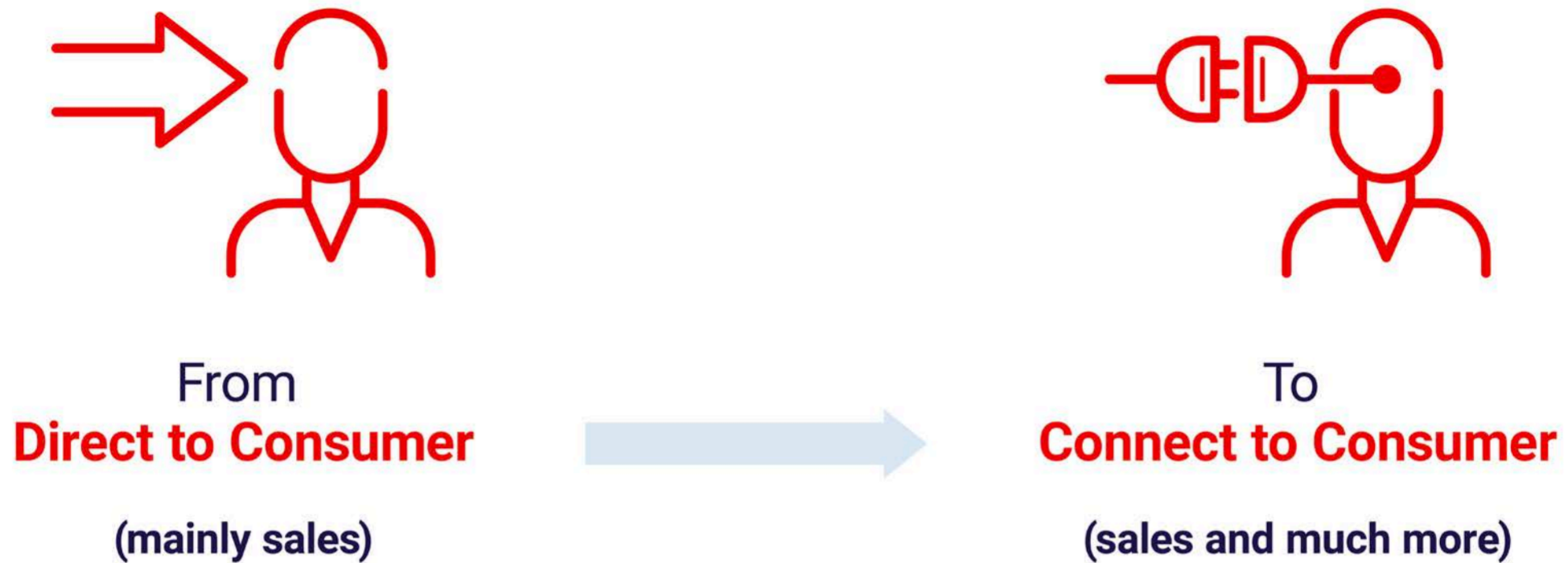
A more collaborative, brand-building relationship between businesses and consumers

Going beyond only sales

From a transactional relationship to a **new, more resilient and ongoing iteration.**

Going beyond a simple interaction

From an easy customer acquisition and cheap social media ads approach to a **more substantial connection to customers, and a real reliance on first-party data.**

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Source: Wired, 2023; Forbes, 2023
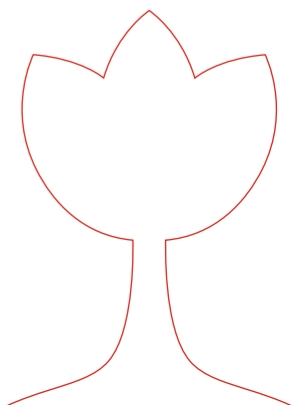
03

What's DTC for?

Properly defining your company's expected outcomes (namely, the why) of DTC is essential, alongside articulating a strong, relevant consumer benefit that demonstrates knowledge of why a consumer would choose a DTC channel to purchase from. These are the central pillars for every DTC approach, and any strategy must be designed and deployed around these two elements.

The connection between these two elements is also crucial to develop a sustainable and successful model, requiring an answer to the question: How is the desired company outcome and the consumer benefit linked?

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Answering the 'why': Starting from the expected payback for consumers and manufacturers
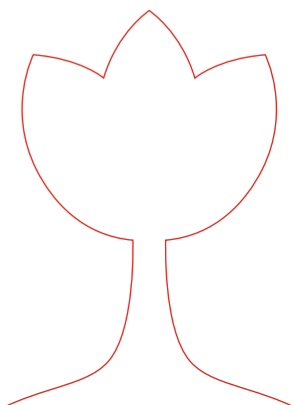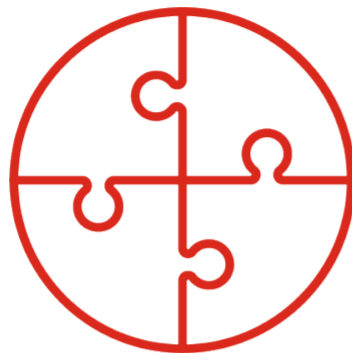
Company benefit

Why should a company offer DTC?

Consumer benefit

Why should a consumer use DTC?

Clustering expected benefits for manufacturers

Sales focus

Non-sales focus

Each channel can have a relative strength vs. the others

How does DTC differentiate vs. the other sales channels?

	Mainstream	E-com	DTC
	Non-sales	**Non-sales**	**Non-sales**
Expected outcome	Volume	Assortment	Experience & Service
	Sales	**Sales**	**Sales**

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The main consumer benefits are linked to three areas

Convenience

Performance

Experience

Majority of Millennials, Gen X & Gen Z believe DTC offers a more personalized experience

73% of Millennials, and 69% of Gen Z shoppers, believe that shopping via DTC channels gives them a "more personalized experience."

That compares to 63% of Gen X and 50% of Baby Boomers.

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Source: ESW, 2022, based on 14,000 consumers across 14 countries
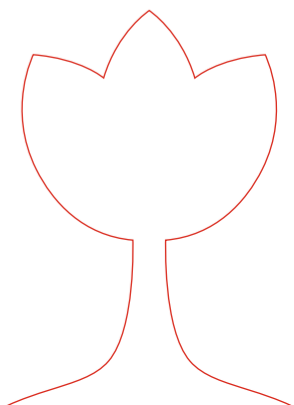
04 A differentiated value proposition

One of the main requirements for successful DTC implementation is to develop an effective value proposition that smoothly delivers the consumer benefit , while being empowered by an effective business model. The value proposition must be properly differentiated from cluttered competition to have a chance at cutting through and capturing consumer attention. Especially in the case of an existing brand, expansion into DTC must be differentiated from other channels. This enables DTC to provide a specific benefit to consumers, avoiding any cannibalization that may impact relationships with retailers. Different business models can be identified, but they must be connected to specific consumer benefits.

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Need a value proposition with double differentiation
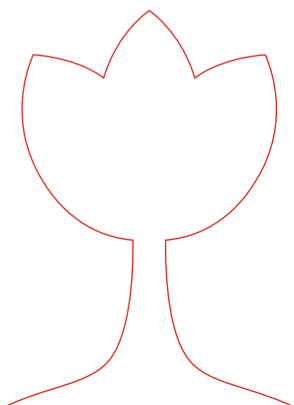
Towards competition

The offer has to beak through the clutter and stand out.

Towards other channels

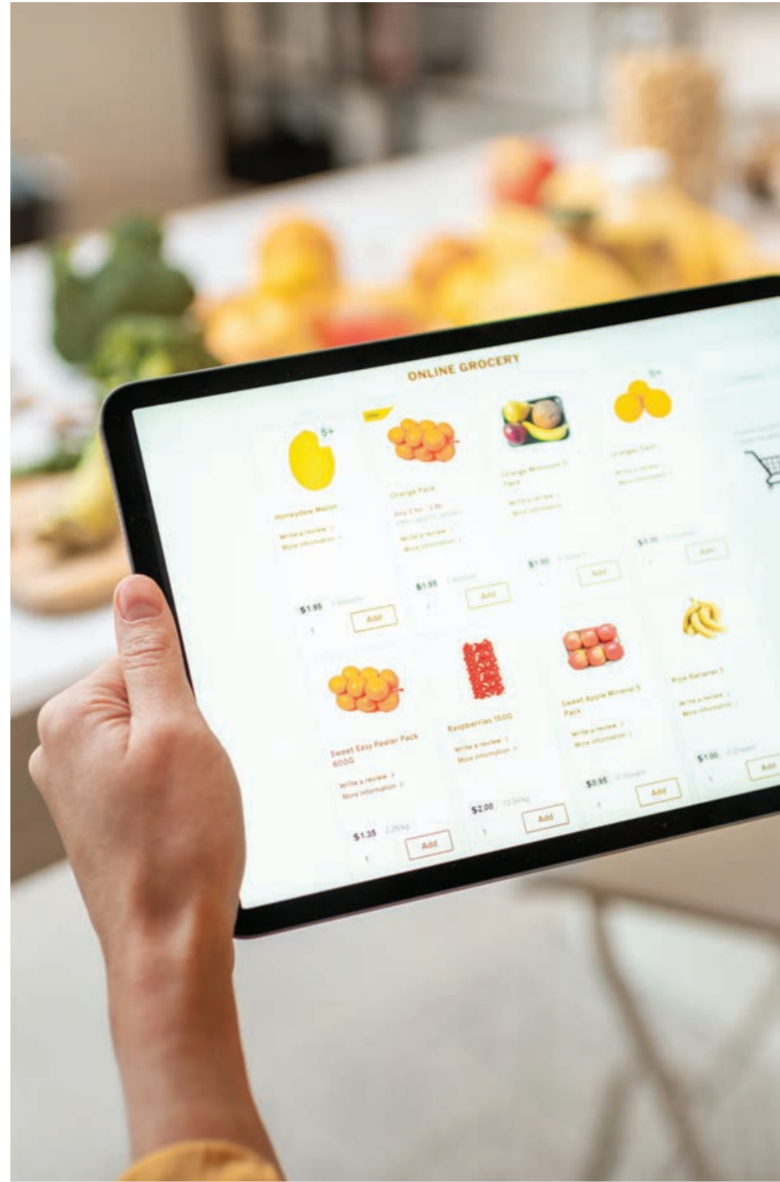**The offer should provide an additional or different benefit vs. the other channels.**

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What do I sell in the different channels?

Mainstream

E-com

DTC
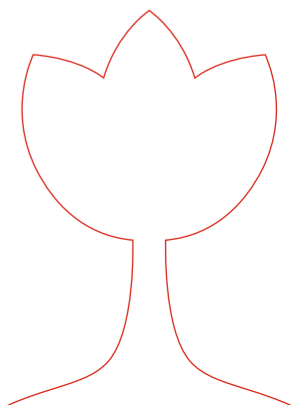

Differentiated value proposition

Tangible

- Formats, tastes...
- Broader assortment

Intangible

- Experience...
- Services...

With personalization as a transversal opportunity.

Each DTC business model has a different set up

Digital Store	Subscription	Curation/ Personalization	Membership/ Access	Touchpoint Commerce	Knowledge Hub
E-commerce website dedicated to direct sales, along with content experiences	Recurring shipments of products or curated items tailored to consumer needs	Providing uniquely customized products/ experiences or linking consumer to a specific range of products	Allowing access to unique products and experiences	Embedding D2C commerce in non-commerce digital touchpoints (social, games, IoT, etc.)	Building unique, brand-centric engagement that informs, inspires, educates and engage

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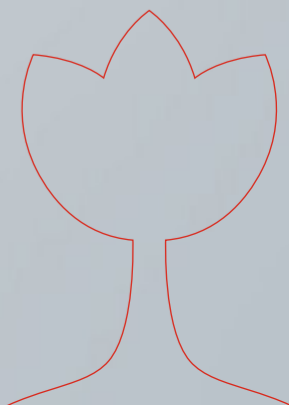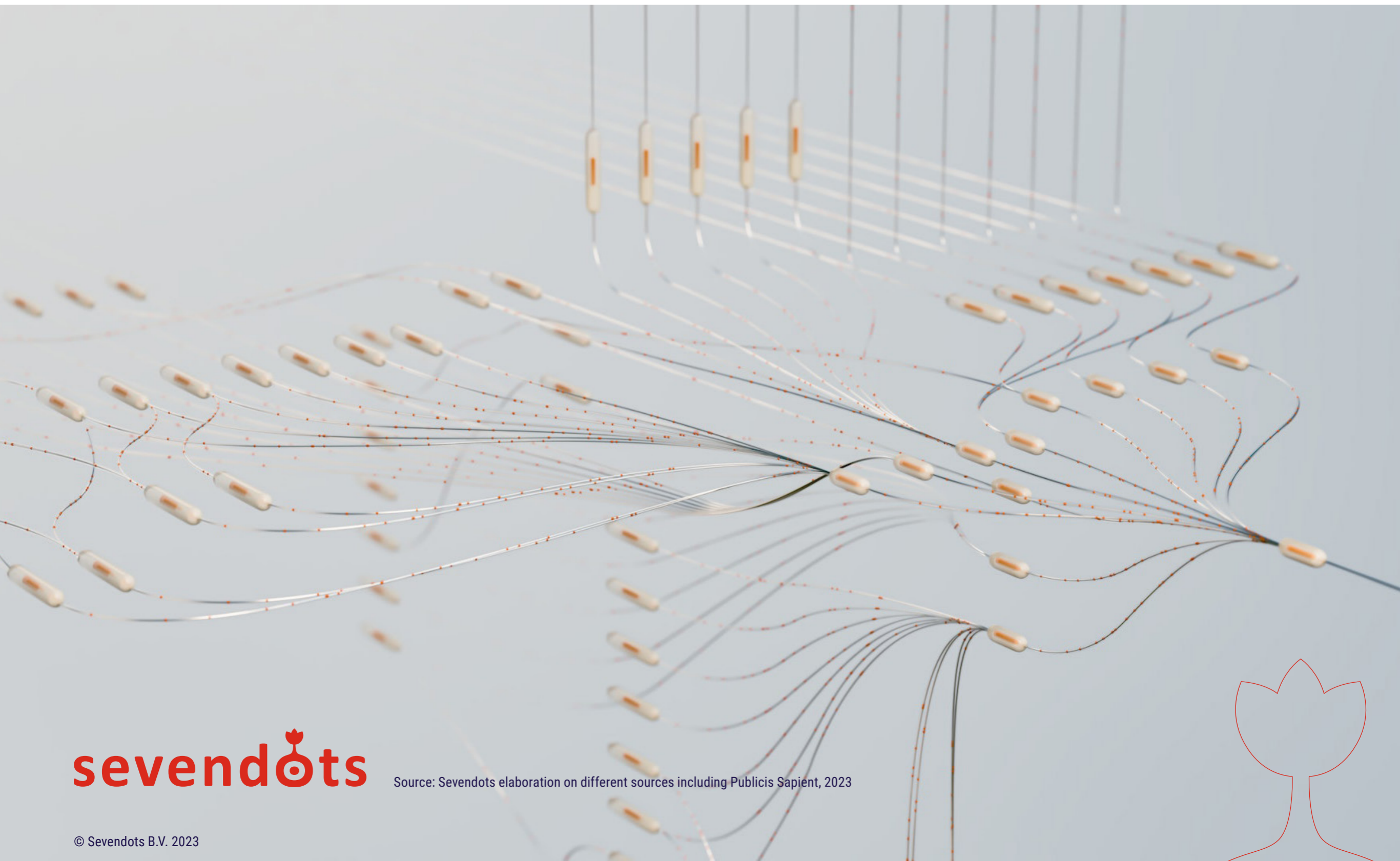
Business models and consumer benefits can be linked, while providing different value propositions

Key consumer benefit

Business Model

	Convenience		Performance		Experience	
Digital store	**High quality at lower cost** (cuts the middleman)	**Access** to broader assortment			Increased brand content	
Subscription	**Replenishment** saves time and money				**Surprise** factor based on variety	
Curation/personalization			**Personalized** recommendations	Personalized products	**Personalized content**	
Membership/access					**On-trend Increased variety**	Exclusive access to products
Touchpoint commerce	Facilitated **accessibility**					
Knowledge hub					**Immersive brand experience**	**Access to community**

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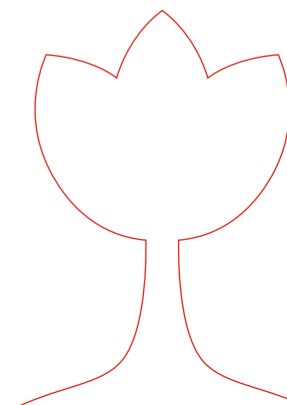
05

Focus on the value building elements

The effective implementation of DTC is down to detailed executional elements. Three key steps are required:

- Defining the value extraction approach which is linked to effectively managing consumer acquisition and retention.

- Identifying the best operational format considering the level of investment vs. external support required for the implementation and running of the channel.

- Engineering the value chain by identifying the key potential value generators and the value destroyers.

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Three main areas to be considered from a DTC operational perspective
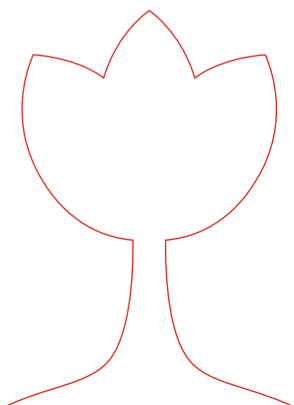
A. Value Extraction

Managing consumer acquisition and retention as key elements for supporting value extraction from DTC.

B. Operational Model

Different levels of support can define the operational format for DTC and the value development.

C. Value Chain

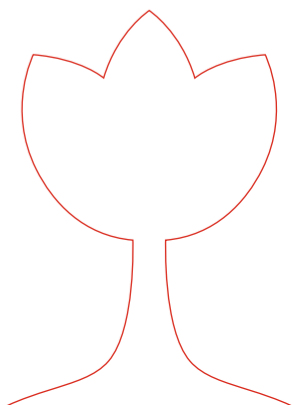Some key components can be critical elements to empower value acceleration.

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Identifying the most critical steps in the DTC value chain

Primary activities

| Inbound logistics | Operations | Outbound logistics | Marketing & sales | Services |

Supportive activities

Firm infrastructure

HR management

Technology development

Procurement
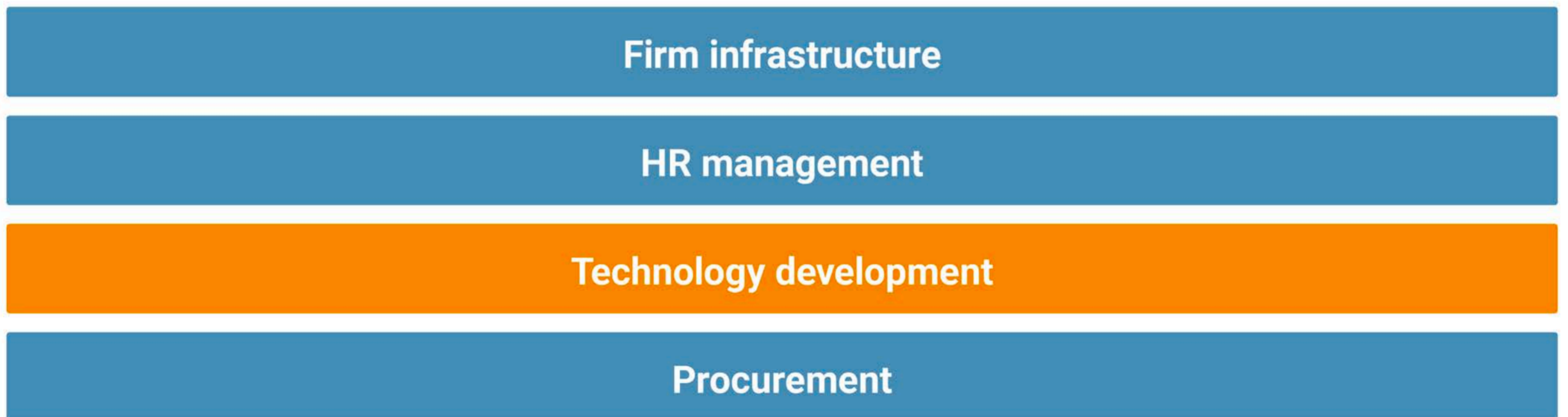
SO

What did we base these insights on?

Sevendots insights are always based on a robust platform of knowledge and, dissatisfied with just one source, we always cross-check our conclusions with other sources of information.

5 key stages of learnings fueled our final content:

1 A review of the study conducted in 2018 and a check of the different insights identified then.

2 A detailed search and a deep review of many different information sources about DTC, including reports, data sets and articles.

3 Broad set of case studies observed and analysed in detail.

4 The collection of our Senior Partners and Key Client input.

5 A set of workshops with our senior partners involving a complementary skill set including brand management, finance and operations.
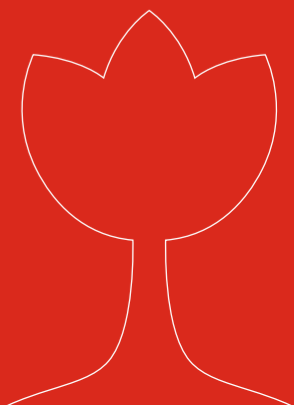
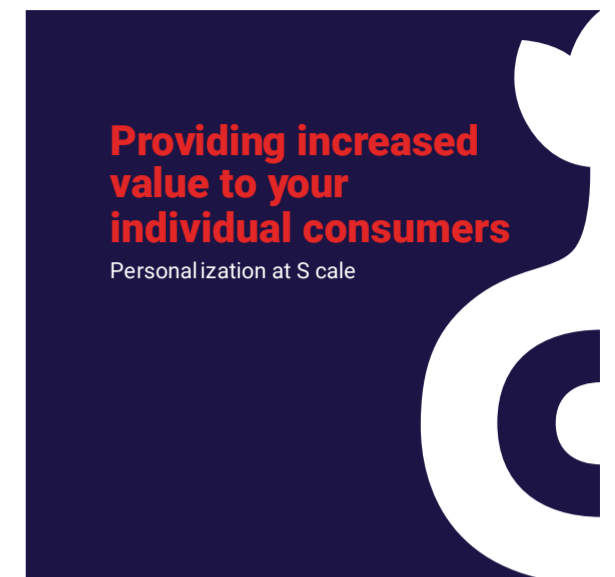**sevendots**

Download all volumes of the Sevendots Growth Series

Brand Penetration
The driving force to growth

The role of penetration is gaining additional importance

Brand Purpose
The secret weapon of the bold

Purpose and social focus should be upgraded while reinforcing the basics

Category Growth
The new path to long-term success

Category definitions could be reconsidered and the role of intangibles expanded

Providing increased value to your individual consumers
Personalization at Scale

Personalization can drive increased value and engagement but needs to be properly planned and executed.

Direct to Consumer
The value of disintermediation
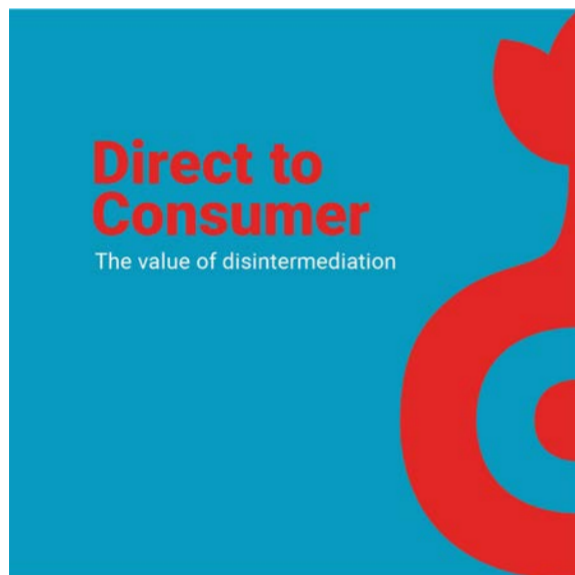
The need to evaluate and step into DTC with the right execution

A New Paradigm for Portfolio Management
Effectively managing increased complexity

The importance of a more proactive portfolio management

The Societal Contribution System
Raising the Stakes
Towards a more articulated societal intervention for brands and companies

Companies and brands societal contribution is today more demanding and complex to manage

The evolving role of DTC in the Beauty Industry

Developing the right mix of service and product as a key component of successful DTC implementation

Fostering sustainable consumption models
Sustainability by Design

Sustainability is a central asset and has to be managed through an effective value equation

Big can be beautiful too
The dynamic of Big vs. Small brands

Managing the different benefits level is a crucial component for coping with small brands developments
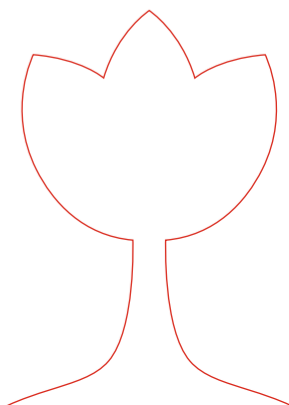
Sevendots Growth Series / **Volume 12** / **Key Highlights**

For a presentation of the
whole outcome of the project
please contact
opportunities@sevendots.com

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