

WHITE PAPER

PRESENCE, INTELLIGENCE AND CONFLICT:

OPPORTUNITIES AND CHALLENGES IN DIRECT-TO-CONSUMER E-COMMERCE

EXECUTIVE SUMMARY

Readers of this document will learn why the advantages and opportunities provided by direct-to-consumer e-commerce outweigh perceived risks and challenges. This document also outlines some best practices for going direct.

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GOING DIRECT: IT'S WORTH THE TRIP

Online shopping is mainstream. Whether a consumer's needs, wants or cravings run to books, gadgets, clothing, toys or auto parts, there's a big-box store, luxury retailer, online-only retailer, flash site or auction site with a digital presence to serve them. Interestingly, manufacturers whose products are sold through these channels often hesitate to create their own, branded, e-commerce website to connect directly to end users.

If your company is considering the development of a branded online store, good. If your competitors aren't doing it already, they will be. A 2012 survey of brand marketers indicated that 24% had an active direct-to-consumer channel and 41% expected to sell directly to consumers within 12 months.¹ Since a digital presence is cheaper and easier to launch than a traditional store, much of this activity will be online.

Going direct can provide your company with profound opportunities and benefits, including:

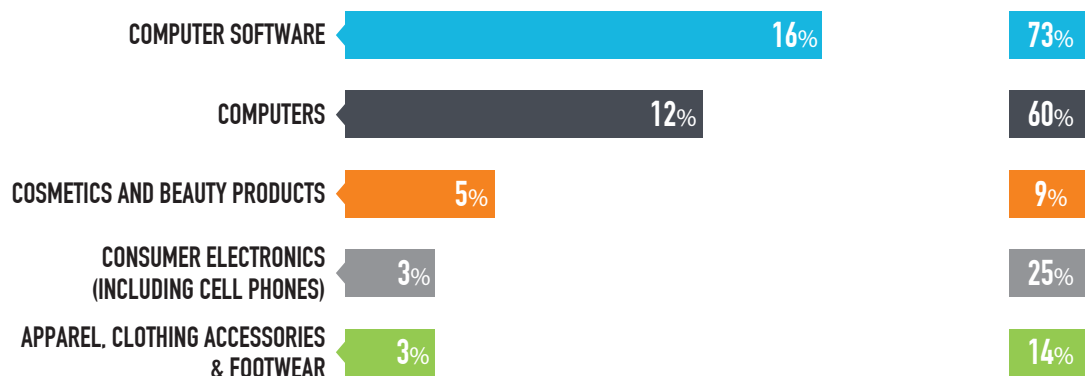
- a rich source of actionable business intelligence,
- enhanced consumer satisfaction, and
- increased sales throughout the channel.

Risks and challenges of direct-to-consumer e-commerce also fall into three broad areas: channel conflict, insufficient resources dedicated to branding and marketing, and technical and operational issues like logistics and payments.



THE MARKETING CASE FOR A BRANDED SALES CHANNEL

Online share of total category sales forecast for 2016:



Base: 4,358 US online adults (ages 18+)¹

Computers, software, and consumer electronics have the highest direct-to-consumer sales potential

CONSIDERING THE RISKS AND CHALLENGES

Channel conflict

Many manufacturers assume that selling directly to consumers will alienate channel partners. While it depends on the product category and the quality of existing channel relationships, this is often more a perceived challenge than an actual one. The way to counter these concerns, internally and externally, is to discuss how online stores can drive benefits throughout the channel. A survey by Levin Consulting in 2012 indicates that online stores actually drive consumers to physical stores and channel partner sites. If pricing is a concern, you can assure partners that you will not undercut them, and that you will share insights from pricing experiments with them.

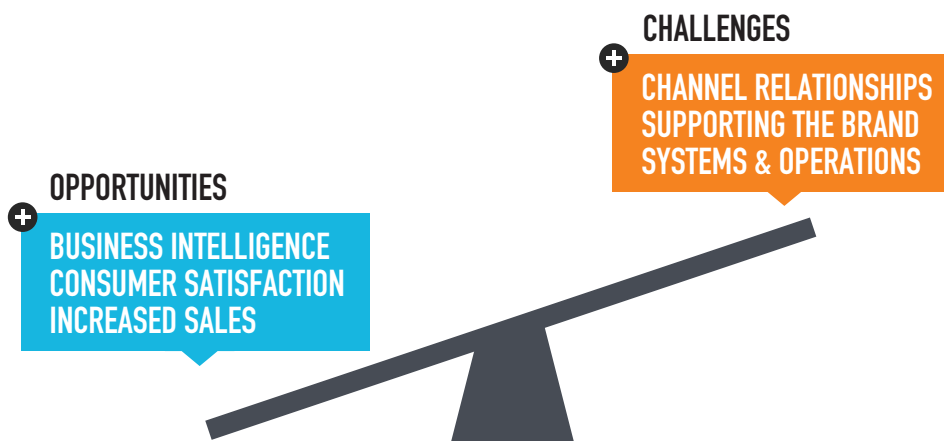
Insufficient resources

To gain the most practical benefit and meet consumer expectations, your online store needs a solid foundation. Sufficient resources should be dedicated to building the fullest expression of brand identity into your e-commerce presence. Look, feel, user experience, administrative tools, customer care strategy—all play into creating success online. A marketing strategy is also critical, to make sure that your web store is positioned to become the site of choice for research about your brand.

Technical matters

Setting up an online store requires attention to issues such as financial systems and supply chain logistics. Certainly, going direct can be a complex undertaking, but the long-term benefits are unquestionable. Outside e-commerce expertise is readily available. As Gartner writes, "The ecosystem of service providers to support direct online sales of CGs has matured, making it more efficient to aggregate and ship these items with point-to-point solutions."²

WEIGHING THE OPPORTUNITIES VS. THE CHALLENGES



WEIGH THE REWARDS

Actionable business intelligence

Going direct provides an unmatched source of insights and understanding, unfiltered by a retailer lens. By analyzing what visitors to your site research and buy, you will gain a deeper understanding, sooner, of what your customers want. You'll be able to respond to shifts in the marketplace quickly and confidently. For example, a luxury brand, such as a leather goods company or clothing manufacturer, can use online store data to track which styles and colors are trending. Not only can their factories and designers act on that information, traditional retailers can be kept in the loop and provided with insights to help them stay in step with evolving tastes and trends in their region. If direct and traditional customers differ in their tastes, that, too, is valuable information for forecasting physical store sales.

Enhanced customer satisfaction

Consumers today are empowered. They want relationships, and going direct is the ideal way for your brand to build those relationships. Empowered consumers also seek reliable information. Detailed product

descriptions, comparison tools, store locator functionality, the ability to post reviews—all build satisfaction and connection with your brand and provide consumers with more and better information. Busy consumers also appreciate the convenience.

Customer care is important not only for customer satisfaction, but for providing operational intelligence. An online store will provide you with insights about returns and defective products, as well as top sellers. Use those insights to tailor your product mix and manufacturing to help ensure optimal return.

Increased sales throughout the channel

Consumers increasingly buy online and increasingly buy directly from manufacturers. A credible, information-rich manufacturer site will drive sales throughout the channel, as consumers research their purchases in advance. It will also extend your reach to areas without a channel presence.

Robust “where to buy” functionality will support increased sales. Consumers want instant gratification and choices: to buy direct, find the retail store nearest them, link to an online retailer they're comfortable with, or find

another source for the product if the manufacturer's site is sold out.

You will directly capture some incremental sales, but your online presence is more important for its role in capturing consumer insights. Going direct also provides a way for customers to find your products in the event that one of your major channel partners closes its doors, whether that's a big-box store, a regional department store, an online superstore, or a major wholesaler.

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IDEAS, INSPIRATION AND BEST PRACTICES

Learn

Use your online store as a laboratory. It gives your organization the freedom and control to experiment with pricing, promotions, exclusives and special offers. Take pre-orders on the site to gauge demand for new products. Share what works and what doesn't with your channel partners.

Offer a complete catalog

You are uniquely positioned to deliver the full footprint of your product line. Your online store can carry accessories, unusual items and hard-to-find replacement parts to satisfy all your prospective buyers, whether or not they live in areas served by well-stocked channel partners. This may be an especially successful tactic if your primary market is a small but passionate group of hobbyists or fans.

Target a niche

If going direct permits a narrow focus on specific, passionate market segments, identify what those are in your business. For example, book publishers have begun creating niche sites for devotees of specific series and authors. Today's leading

commerce platforms provide you with the functionality to create private shopping experiences that are not searchable on the internet. You can leverage a private shopping site to create community among a targeted set of shoppers, offer special discounts and exclusive products. A narrow approach is an easy way to make a profit and build a happy community of customers.

Share the wealth

The positive outcomes of well-executed direct-to-consumer e-commerce are themselves tools for eliminating channel conflict and improving channel relationships. For example, an easy-to-use, up-to-date store locator tool will inform your visitors about your channel partners' locations of service. Analysis of the store locator tool's use can provide actionable insights on regional variations in trends and interests. You might even discover that a given region is under-served by bricks and mortar. With the variety of new intelligence at your disposal, you will have much to share with your channel partners.

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ABOUT DIGITAL RIVER

E-commerce is constantly changing. Instead of managing your online store in-house, leverage the expertise of a full-service partner. A company like Digital River offers a full range of commerce-as-a-service solutions and a flexible, cloud based platform, designed to help you grow your online businesses and serve your customers across the globe—without the time, cost and risk of managing an on-premise solution.

Digital River, a leading provider of global e-commerce solutions, helps companies of all sizes build and manage their online businesses, maximize online revenue, reduce costs and minimize risk. Founded in 1994, the company is headquartered in Minneapolis with offices across the United States, Asia, Europe and South America.

Contact us today to show you how Digital River can help build an effective direct-to-consumer presence online.

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Sources

¹ "The Marketing Case For a Branded Sales Channel", Forrester Research, Inc., February 1, 2013.

² Gartner, "Predicts 2014: New Realities Will Drive New Growth Opportunities in Consumer Goods Manufacturing," Dale Hagemeyer, Don Scheibenreif, Michael Shanler, December 2, 2013.