

# Be Direct: Why A Direct-To- Consumer Online Channel Is Right For Your Business

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## Executive Summary

Customers today increasingly want to interact with brands through digital channels. In the age of the customer, most manufacturers have implemented direct online channels in order to meet these demands and foster closer customer relationships. Manufacturers that have implemented a direct channel are seeing significant year-on-year growth and expect the direct channel to be the highest generator of sales within the next two years. Still, some organizations remain hesitant, due to either a lack of perceived demand or for fear of the implications that the direct channel may have on existing channel partner relationships.

In January 2014, Digital River commissioned Forrester Consulting to evaluate brand manufacturers' drivers, priorities, and barriers for the adoption of direct-to-consumer (DTC) online channels. We sought out to test how successfully brand manufacturers can sell directly while avoiding channel conflict.

**Direct-to-consumer selling drives both top and bottom line revenue and deeper customer engagement across channels.**

In conducting in-depth surveys with 109 US sales channel decision-makers at brand manufacturing organizations, Forrester found that direct online sales channels have resulted in gains in both top-line revenue and customer relationships, and have in many cases actually improved other channel relationships.

### KEY FINDINGS

Forrester's study yielded three key findings:

- › **Customers seek DTC online channels.** Customers are demanding direct-to-consumer channels, and in the age of the customer, companies that meet this demand stand to gain from both increased revenues and customer engagement.
- › **Selling DTC enables businesses to deepen relationships with customers.** The top reported driver for building a direct-to-consumer online channel is to build a closer relationship with the customer — and it works. Eighty-two percent of respondents told us that their DTC channel improved their customer relationships, and 76% reported that it improved their customer experience.

- › **Selling DTC can improve channel relationships if managed appropriately (and failure to sell direct may underpotentialize all channels, including offline).** A common roadblock to brands developing direct channels is a fear of channel conflict. However, there are a number of ways in which direct channels can be set up to bolster the other channels. Benefits can come from techniques such as routing order fulfillment through channel partners, providing information about offline locations and inventories, and/or using data collected in the direct channel to help optimize inventory and targeting.

## Direct-To-Consumer Online Channels Are Essential To A Balanced Customer Engagement

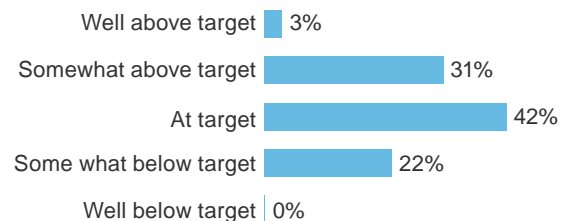
Customers today are “information controllers” in that they now “exert more control over how, when, and where they consume information than at any other time in history.”<sup>1</sup> In light of this, brands need to meet customers on their own terms and take advantage of every opportunity to foster deeper relationships with them while they have their attention. Given the prevalence of digital channels, most brand manufacturers have already built out direct channels in an attempt to maximize:

- Revenue.** Forrester’s US online retail forecast predicts that “in the US, online retail spend will grow at an annual compounded rate of 9.9% between 2012 and 2017.”<sup>2</sup> By 2017, online retail will account for 10% of total retail spending. As consumers’ buying behavior turns increasingly digital, companies are realizing revenue growth in their online channels. Brand manufacturers have told Forrester that their online sales in 2013 grew 28% over 2012.<sup>3</sup> Our study supported this finding, revealing that 76% of brand manufacturers’ online channels are producing sales revenues at plan or higher (see Figure 1). Moreover, brand manufacturers expect that their direct-to-consumer online channels will become the highest generators of sales within the next two years (see Figure 2).
- Customer engagement.** The trend toward customer obsession places a lot of value on customer relationships. Accordingly, developing more meaningful customer engagement is a strong driver for the development of a direct-to-consumer online channel. When asked about the drivers for developing a direct channel, 72% of respondents identified “building a closer relationship directly with the customer” as a key factor (see Figure 3). The No. 2 reason given was “demand from consumers,” which shows that the desire for interaction through this channel goes both ways. However, the benefits of selling DTC are not confined to the online channel. Companies report that they’re seeing gains across multiple channels. For example, 82% of respondents reported a generally improved relationship with customers, and 76% reported a similarly improved customer experience (see Figure 4).

Smaller businesses may have even more to gain than their larger counterparts, as 90% of <\$1 billion companies reported a “moderate” or “significant” positive impact of their direct channels on their relationships with customers.

**FIGURE 1**  
DTC Channels Are Meeting Targets

“How has the sales revenue of your direct-to-consumer online channel performed against targets set out for this program overall?”

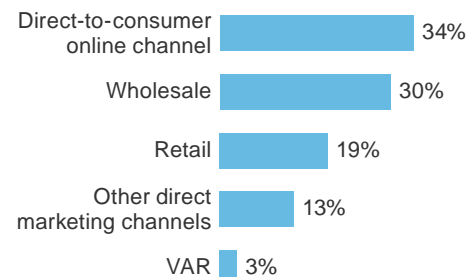


Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

**FIGURE 2**  
DTC Channels Are Projected To Become More Critical Within The Next Two Years

“What percentage of your sales do you anticipate will be generated by each of the following channels two years from now?”



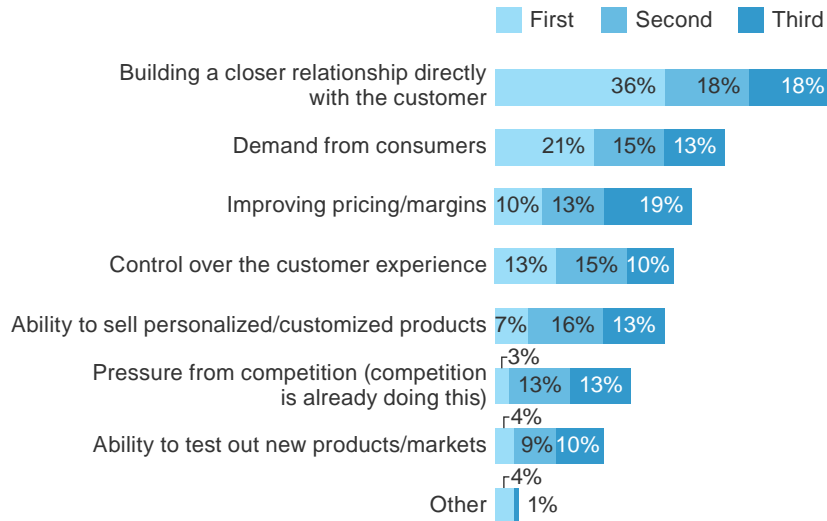
Base: 109 US sales channel decision-makers at brand manufacturing organizations

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

FIGURE 3

## Top Drivers Are Tied To Customer Satisfaction And Engagement

“What were the top drivers for developing your direct-to-consumer online channel?”



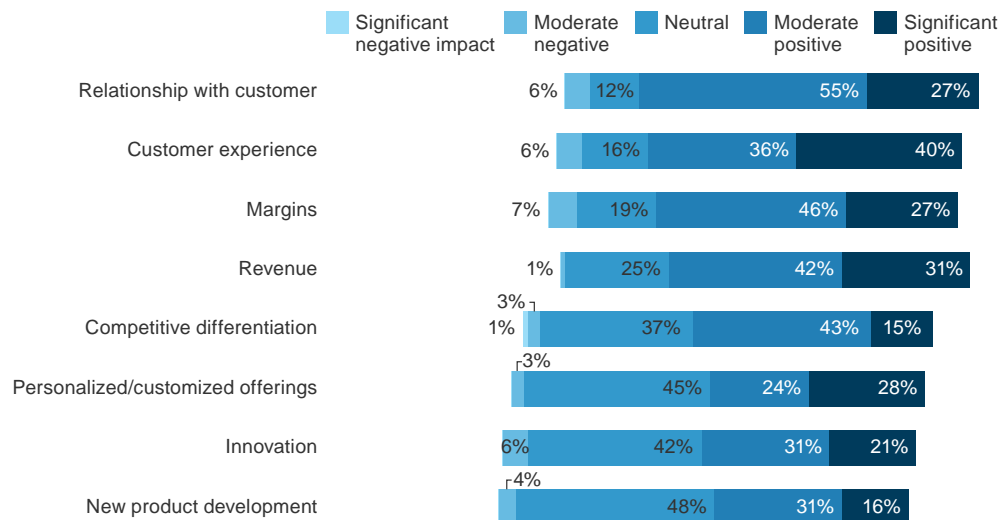
Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

FIGURE 4

## Direct Channels Are Producing Benefits Across The Board

“What impact has your direct-to-consumer online channel had on the following areas?”



Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

## Channel Conflict Fears Are Often Misplaced

There is a common fear that creating a direct-to-consumer online channel will lead to conflicts with other channels. When we asked manufacturers without a direct channel what roadblocks were preventing them from developing one, “fear of alienating channel partners” was the top response. However, the responses from those that had actually implemented a DTC channel told a very different story. Most respondents indicated that their direct channels had *positive* impacts on their other channel relationships — and only 9% reported a negative impact (see Figure 5).

If a company manages the process strategically, direct-to-consumer online channels can benefit other channel relationships by:

- › **Partnering to fulfill orders.** Fifty-four percent of respondents reported that they route their DTC orders to their channel partners to fulfill, thereby ensuring that existing channel partners still get credit for sales that

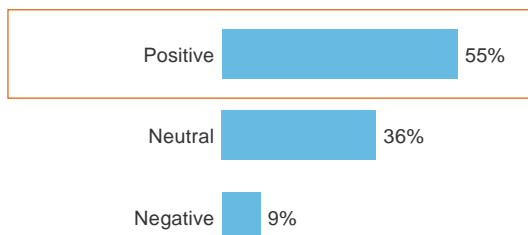
originate from the direct channel. Following this strategy can make direct channels more viable for manufacturers that would otherwise struggle to fulfill individual consumer orders.

- › **Creating brand awareness.** Forty-nine percent of respondents reported that their channel partners benefit from greater brand awareness created by their direct channels. In addition to being a valued source of product information, online stores can include tools for finding dealers and distributors — both of which can lead to more leads and visitors to the other channels as well as incremental sales.
- › **Helping to optimize inventory and targeting.** Direct channels provide an opportunity to offer the “long-tail” assortment of inventory online, enabling channel partners to focus only on products that are profitable for them to stock and sell. Brands can also use direct channels as a way to test new products in the market, gauging interest among different buyers to minimize the risk to other channels of taking on new inventory.

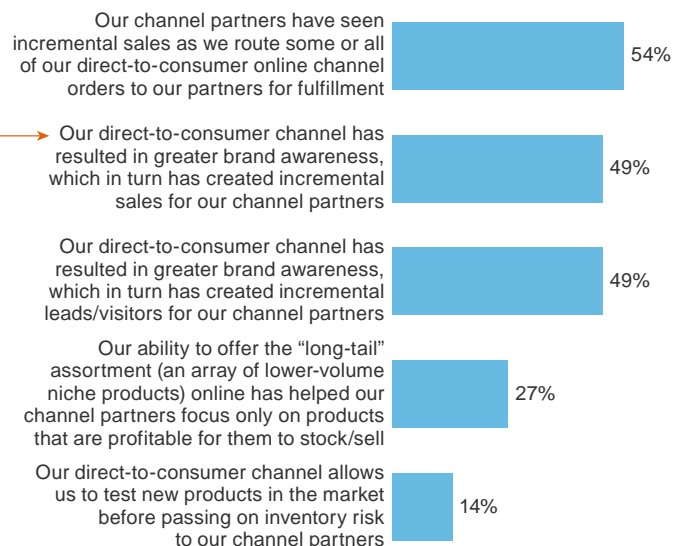
FIGURE 5

### Strategic Implementation Of A Direct Channel Can Positively Impact Other Channels

“Has your direct-to-consumer online channel had a positive or negative effect on your other channel relationships?”



“You indicated that your direct-to-consumer online channel has had a *positive* effect on your other channel relationships. In what ways were your channel relationships positively impacted?”



Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

## Failure To Sell Direct Can Reduce Your Potential Across All Channels

Manufacturer websites are one of the most trusted sources of information on products. In fact, manufacturer websites are the channel most highly correlated with spending premiums in several industries. In many cases, manufacturer websites are the first sites customers visit when they begin their shopping journey.

However, in addition to being destination sites, manufacturer sites also “feed” leads to other channels, particularly retail. Manufacturers drive activity to other channels by highlighting that products are available from both online and offline partners. Some even go so far as to create searchable lists of their locations and/or products (see Figure 6). As a best practice, not only should brands enable this, but they need to measure and track these leads to be able to show the value that the online direct-to-consumer channel is providing.

Our study found that 41% of retail channels, 38% of other direct marketing, and 34% of value-added-reseller (VAR) sales are attributed to web activities (see Figure 7). By failing to provide value to the website through an eCommerce portal and comprehensive product and channel information, manufacturers may be missing an opportunity to generate awareness for their other channels as well.

**FIGURE 6**

### Many Firms Offer Information About Other Channels Online

“Which (if any) of the following features do you enable online?”



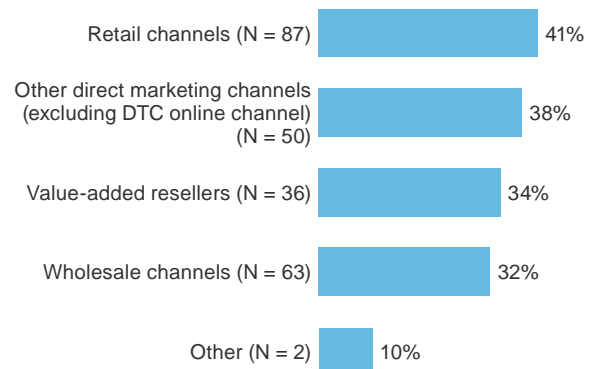
Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

**FIGURE 7**

### The Web Directly Influences Other Channels

“What percentage of sales in the following channels is influenced by the Web?”



Base: 109 US sales channel decision-makers at brand manufacturing organizations

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

## Manufacturers Must Move Quickly

Most manufacturers do not have a dedicated eCommerce department. They often (wrongly) make eCommerce a function of their existing sales groups, when the group really needs its own profit and loss management and executive ownership. But building an eCommerce team is hard, particularly in terms of attracting seasoned online merchandisers.

Brand manufacturers don't have time to procrastinate on developing an agile way to create and establish a complex new channel. The customer-facing nature of this channel means that companies can't afford to sacrifice the customer experience, nor can they botch or phase the launch. For many organizations, doing this confidently and in a timely manner requires enlisting a strategic partner who has been there before.

Building and managing a transactional site is complicated and costly for brands, especially given the fact that brand sites must serve multiple purposes (e.g., DTC, channel lead generation, and trusted source of product content). Not every company has every capability, and when brands were asked what the top challenges/roadblocks were to

developing a direct-to-consumer online channel, four of the six top challenges had to do with insufficient knowledge/capabilities to develop and support the channel. Brands should take a measured approach to implementing their direct-to-consumer online strategy, and consider partners to help fill gaps in their strengths.

In the report "Create Your Global eCommerce Road Map," Forrester reported that "brands have told us that their new site builds and launches have taken anywhere from six months to three years. In addition to investing in the eCommerce platform, businesses need to identify partners to provide assistance in multiple areas including logistics, customer service, payments, and marketing for the new operation."<sup>iv</sup>

Outsourcing can help to hedge the initial startup costs of developing internal expertise in building and managing online channels, which is the greatest reported challenge (see Figure 8). Fifty percent of companies are using outsourced eCommerce solutions — and smaller (<\$1 billion) companies with fewer resources make even greater use of outsourced solutions (68%). By outsourcing, respondents report that they are saving money on certain functions while also gaining access to increased capabilities and expertise (see Figure 9).



FIGURE 8

### Developing Expertise Is The Top Roadblock To Implementing A Direct Channel

“On a scale of 1 to 5, how significant were the following challenges when implementing your direct-to-consumer online channel?”



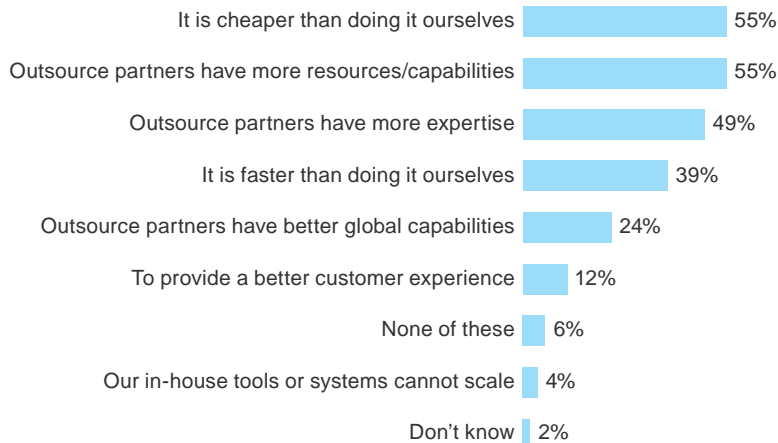
Base: 67 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

FIGURE 9

### Organizations Turn To Partners For A Variety Of Reasons

“Why do you outsource functions related to your direct-to-consumer channel?”



Base: 51 US sales channel decision-makers at brand manufacturing organizations with a direct-to-consumer online channel

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, March 2014

## Key Recommendations

Direct-to-consumer online channels offer clear benefits in the form of both higher revenues and customer engagement. Reluctant firms should take strategic steps to overcome roadblocks that may be preventing the development of this channel. Forrester's in-depth surveys with sales channel decision-makers yielded several important findings:

- › **Don't procrastinate over the development of your DTC online channel.** Listen to your customers and be responsive to their evolving demands. If they are asking for a direct-to-consumer online channel, then it is imperative that you offer it. Recognize the demand and huge opportunity that offering a DTC channel presents to both increase revenue and connect more closely to your customers. Understand that development of this channel takes time, and brands should start now to keep from falling behind the competition.
- › **Ensure that your DTC online channel supports partners, and include these partners in the transition.** Build a site that works well for everyone in the channel — starting with you. Share the data that you collect to help your other channels better market and streamline inventory. Use other channels to help fill gaps in fulfillment, marketing, and customer service capabilities.
- › **Stay neutral to give customers an unbiased channel choice.** It is imperative that brands offer multiple paths to purchase, both direct and indirect. Successful brands aim to remove friction from customers' experiences while trying to purchase online and/or via existing partners at all points in the online journey. Think through the various buyer journeys your customers take and optimize those paths by providing the best content and buying experience possible at each step along the way.
- › **Consider bringing in external expertise to help you build your DTC channel.** Evaluate core competencies and strategic growth areas for your company, and consider whether bringing expert partners onto the team can save you time and/or money. Outsourcing certain functions can help you overcome the risk, time, and cost factors of building from scratch. Take advantage of partner expertise, soak up all the information you can, and speed time-to-market.
- › **Don't let sales play their veto.** Reluctance toward building a DTC channel often is generated by the fear of alienating sales reps and other channel partners. In some cases, partners may directly vocalize concerns that their commissions and revenues will be put at risk by the development of a competing channel. Communication is key: Bring sales into the fold to get them on board with the long-term strategic opportunity and cross-channel benefits of a DTC channel.

## Appendix A: Methodology

In this study, Forrester conducted an online survey of 109 brand manufacturing organizations in the US to evaluate their sales channels, with particular focus on drivers, benefits, and challenges of developing a direct-to-consumer online channel. Survey participants included channel decision-makers in sales, operations, marketing, brand, and eCommerce roles. Respondents were offered a small financial incentive as a thank you for time spent on the survey. The study began in March 2014 and was completed in April 2014.

## Appendix B: Endnotes

<sup>1</sup> Source: "Build Your Content Brand By Delivering Customer Value," Forrester Research, Inc., March 19, 2014

<sup>2</sup> Source: "US Online Retail Forecast, 2012 to 2017," Forrester Research, Inc., March 13, 2013

<sup>3</sup> Source: "The State Of Retailing Online: Key Metrics And Initiatives 2014," Forrester Research, Inc., February 12, 2014

<sup>iv</sup> Source: "Create Your Global eCommerce Road Map," Forrester Research, Inc., March 24, 2014