

Why D2C is a mindset, not a channel

Three problems can limit the success of D2C strategies. Here's how the right mindset can help you avoid them.

In brief

- ▶ D2C exists in many forms. Each requires different technologies and capabilities.
- ▶ Leaders with a D2C mindset think about how D2C, in all its forms, can help to create value.
- ▶ Decide how you want to leverage D2C and how its role in your business could evolve.

The rapid emergence of direct to consumer (D2C) strategies is a transformative opportunity for consumer goods companies. New technologies and new ways of engaging and serving people are creating almost limitless possibilities, which is why D2C is so exciting. But it's also why D2C efforts can easily become an unfocused, unprofitable or unscalable drain on resources. The key to getting this right is to approach D2C not just as a channel but as a mindset. That will help you avoid three problems that get in the way of winning D2C strategies:

01

Channel conflict

A narrow approach to D2C creates internal competition between channels that undermines the cooperation that success requires. With a D2C mindset, you can get all your channels making a positive contribution.

02

The wrong metrics

Assessing D2C initiatives using traditional channel metrics makes it harder to innovate and scale ideas with potential. With a D2C mindset, you measure the success of D2C across your business, using a set of metrics more suited to the task.

03

Partial view of the consumer

When D2C is treated like a channel, it's harder to build a comprehensive view of the consumer. With a D2C mindset, everything you learn about the consumer is used to create a comprehensive view of who you are serving and how to be profitably relevant.

Where are you in the D2C matrix?

It's useful to think about any D2C strategy in terms of two variables: the degree of control you have over how your brand is experienced and the degree of access you have to data insights about how consumers are engaging with your offer.

If a consumer is encountering your product on a website or phone app you own, for example, you have total control over the experience and can capture all the data generated by that interaction (to the extent that the consumer gives permission).

If the interaction is taking place in a marketplace owned by another organization, your ability to control the experience and gather data will be limited, depending on the rules of engagement with the platform.

You can plot any number of consumer engagement activities on the experience/insight matrix, from pop-up stores and livestreaming to social selling, on your own websites and a variety of branded presences on third-party platforms.

Depending on the geographic region, we believe these can all come under the broadest definition of D2C, but they each require very different strategies, capabilities and technologies to make them work.

Organizations with a D2C mindset think about the role that D2C, in all its forms, can play in helping the organization as a whole create value for all its stakeholders. They then balance D2C imperatives against the needs of the rest of the business and create the operating models needed to support them.

Those that approach D2C as a channel find all of this much harder because their perspective is so narrow.

Here are three ways the right D2C mindset can help you generate better insights and grow your business:

1. Put channel conflict in context

When D2C is a mindset, not a channel, people inside the business worry less about channel conflict. Will the success of one initiative undermine efforts elsewhere? Too much focus on that question can create an internal culture of winners and losers that limits internal cooperation and makes it harder for the business as a whole to succeed.

For example, one of the central benefits of D2C engagement is that it can generate rich insights about consumer preferences and behaviors. When those insights are shared widely within the organization, they can have transformative value. But in a culture of channel conflict, that sharing is limited.

2. Trust the right metrics

When D2C is a mindset, not a channel, people manage and optimize what they are trying to do around a broader set of metrics. This awareness of the bigger picture leads to better decision-making.

D2C is an opportunity to experiment with new propositions and experiences, especially towards the point in the D2C matrix where you have maximum control and can gather maximum insights. But promising D2C ideas don't secure funding, are killed off too soon or don't get scaled fast enough because they are judged against metrics that don't reflect their fuller contribution to value creation. A different set of metrics would reflect the opportunity to create value with that consumer across all channels.

3. Create a comprehensive view of the consumer

When D2C is a mindset, not a channel, decisions are based on a more complete view of the consumer. Often, organizations have only a limited record of a consumer's transaction history with the brand; their journey across all channels and touchpoints is not well captured or understood, which makes it harder to shape an ongoing relationship.

To serve the future consumer, this perspective needs to be seamless. Then you can fully deliver on your brand promise. You're also in a stronger position to give consumers what they want when they want it, and to shape new products, services and experiences that feel personalized to their needs and context.

Define the role of D2C in your business

Companies that approach D2C with the right mindset can engage the consumer and deliver experiences across multiple channels at multiple points in time. But it's important to decide how you want to leverage D2C now and how its role in your business could evolve.

The challenge is to grow D2C in a way that works for your organization. Many companies are using D2C to drive sales growth, but often those sales are not profitable. Whether that's a problem or not depends on your overall business strategy.

To master D2C, you need to master the economics of D2C. They are fundamentally different from the economics of traditional retail channels, and they vary among go-to-market approaches.

Consumer insights are valuable, but how valuable? Can you use them to create more value than it cost to get them? Which levers will determine the success of your D2C strategies? What does it take to move the dial in your favor? Where can you innovate to make D2C accretive to the overall business results?

Innovate new ways of connecting with the consumer

The answers to these questions should be based on your understanding of how consumer needs are evolving and what they could look like three to five years from now.

If you have better consumer insights and can experiment quickly, you can find new propositions and new ways of doing business, and rapidly scale those that work. You can also identify what missing data insights you need, how to get them and how to make the best use of them.

Approach D2C as just a channel, and it's much harder to secure the benefits it can offer and, in many cases, it's impossible. But treat it like a mindset, and it can transform your organization.

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