WHY B2B COMPANIES ARE GOING D2C

AND HOW THEY'RE DOING IT

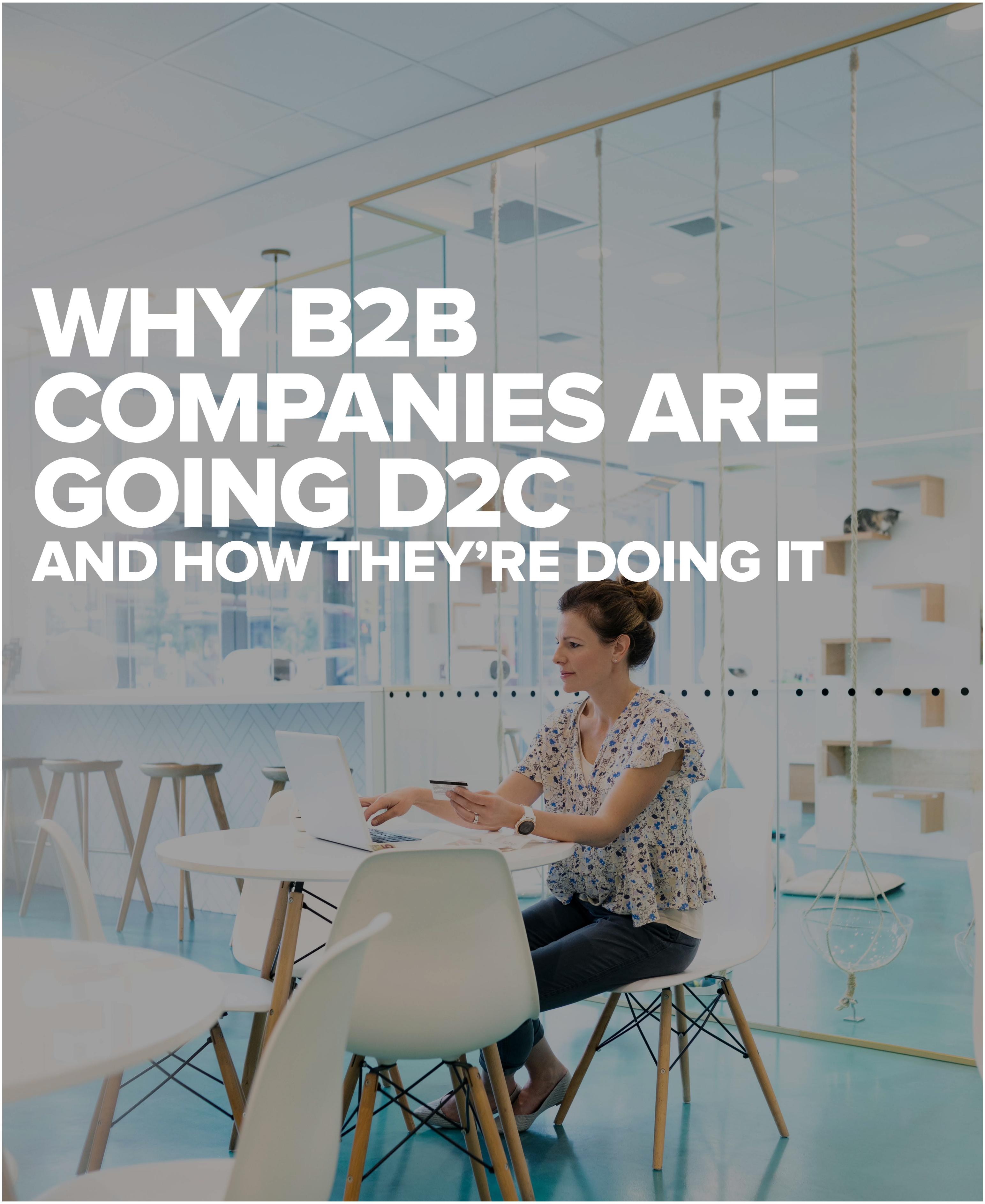

TABLE OF CONTENTS

Grab a seat and enjoy.
Read Time: 11 minutes

WHY B2B COMPANIES ARE GOING D2C AND HOW THEY'RE DOING IT

Long after ecommerce first upended the retail landscape, the aftershocks continue to impact the outlook and strategy of manufacturers, distributors and retailers. One recent aftershock is the growing appeal of direct-to-consumer sales, when a company markets and sells products straight to the end user without the help of a distributor or third-party retailer.

Direct to consumer (D2C) is a notable departure from the proven model that business-to-business (B2B) product companies followed for many decades. Under that model, a brand spent time developing an innovative product, then sought funding and started pitching it to retailers, often department stores or other large chains. Those stores then powered that brand's growth and recognition.

That strategy has become far less effective as many brick-and-mortar retailers downsize or disappear entirely. Large online retailers like Amazon and eBay can partially fill that gap, but they are not a great place for organizations to highlight their brand message or build loyalty. Enter D2C, which helps companies distinguish themselves and provides a host of other benefits by bringing business and consumer closer together.

Ecommerce makes it relatively simple to launch a D2C channel. Any company can now build an ecommerce site, list its products for sale and start building a customer base. It's the vehicle that makes this new model possible. Let's look at the numerous benefits of going D2C, the operational changes required to support it and the technology necessary to manage two distinct channels.

Chapter **1**

WHAT'S BEHIND THE DIRECT-TO-CONSUMER MOVEMENT?

As longstanding retailers like Sears, JCPenney and Payless ShoeSource have either downsized or disappeared, there is no true replacement. D2C is a logical way for manufacturers and distributors who once counted on large orders from these types of retailers to make up for lost revenue. Making it especially attractive is the low cost of entry and minimal risk—there is no retail space to pay for or staff to hire. Indeed, there are many unique advantages to direct to consumer that have convinced companies to pursue it.

Controlling the brand message and building loyalty

One of the primary challenges that brands face today is they lack a way to showcase their brand message. Amazon, for example, is not well-suited for branding because price is the most important factor, so it's not conducive to consumers establishing a meaningful connection with the brands they're buying. Additionally, when a consumer searches for an item, it shows products from a variety of brands with no clear distinction.

A company's ecommerce site offers a much different experience, because it can:

- Put the brand message front and center, something many consumers appreciate as they increasingly seek a connection with the companies they buy from.
- Control how products are described and displayed, thereby shaping a consumer's understanding of them.
- Create a more enjoyable or memorable customer experience than a third party that feels like more than just a transaction.

This direct connection between company and customer can also help establish communities around certain brands or products, which is much harder to achieve on marketplaces like Amazon or Walmart. That sense of community leads to loyalty because consumers feel like their values align with those of the business, something especially important to younger consumers. Those consumers turn into the most valuable customers as they will consistently drive sales in the future, generating a higher customer lifetime value.

Additionally, once consumers start buying from a company's site, this creates an extremely valuable asset: data. Brands either cannot access or must pay for data when selling through third-party retailers. For instance, if a footwear manufacturer sells its products on Amazon, it receives no information about those Amazon buyers. The manufacturer doesn't even get the buyer's email, no less her location or other demographics. But a direct-to-consumer online store gathers all that information at no additional cost.

That data also opens the door for personalization. A company can tailor product recommendations or discounts to a certain customer based on her purchase history, age or location. The company can also send her marketing emails for sales and new product launches. That will increase conversion rates and, again, grow customer loyalty over time. And that's only the beginning—brands can leverage data to plan invite-only events or new product launches.

New products and markets

Under the old system, third-party retailers wielded most of the power. They decided which retailers to partner with and then which products to sell. This limited the variety of both brands and items that could appear on store shelves. D2C democratizes that process, opening up a realm of new possibilities for product companies like:

- Being able to sell the full product catalog on its ecommerce site. There is no need to convince a big-box store to take on a company's just-launched accessories line when it only sells that brand's women's apparel (an increasingly challenging task as stores' square footage shrinks and competition grows). The company can now simply market and sell those items through its own online store.
- Capitalizing on a built-in audience it can target with these new styles or product categories. Since many of these shoppers are already interested in the brand, selling new products could drive significant revenue and perhaps even produce better results than traditional retail.
- More opportunities for personalization. The brand could email a man, for example, about a new style of khakis if he's purchased multiple pairs of pants in the past. Beyond that, this channel empowers brands to craft an overall experience for customers that is quite different—and better—than the big-box store or marketplace experience.

A D2C ecommerce site also simplifies the process of breaking into new markets, whether domestic or international. In the pre-ecommerce world, such growth would require expanding relationships with current retail partners or building them with new sellers in different countries, a demanding task. Those hurdles disappear with a D2C site. While there are obviously logistical challenges that come with selling to new regions or countries, ecommerce makes it much more attainable.

Unifying the supply chain

It's become much easier for manufacturers to open a direct-to-consumer channel as many consolidate their supply chains. A growing number of manufacturers are assuming control over more aspects of their supply chain, something called supply chain verticalization. This means a manufacturing business might add distribution and/or retail capabilities or even acquire suppliers, cutting out partners that were historically part of the distribution model.

Though supply chain verticalization requires a big capital investment and can be risky, it has become popular because of major benefits like:

- Reduced supply chain costs (economies of scale lower cost per unit).
- Lower costs for consumers.
- Better quality control and positive product differentiation.
- Improved visibility and control over materials sourcing.
- Flexibility to keep up with market changes.
- Less risk with third-party suppliers.
- A greater voice for the fair treatment of workers.

Supply chain verticalization started before D2C took hold because of the potential gains outlined above. However, recently some manufacturers have made the move in part because it opens the door for direct-to-consumer opportunities.

A manufacturer taking over distribution puts it only a step away from D2C, and if it also consolidates the retail component, it is already selling direct to consumer.

The savings generated by a company unifying its supply chain reveals another key benefit of direct to consumer: higher margins. It has higher margins because organizations no longer need to split profits between multiple parties (distributors, retailers, etc.). This is especially critical as margins decrease due to tariffs on Chinese imports over the last year. Those disrupted decades-long relationships with Chinese suppliers as the tariffs eroded already-thin margins and made D2C that much more appealing.

Chapter **2**

SUPPORTING DIRECT TO CONSUMER

From pallets to eaches

Many companies may be eager to start a direct-to-consumer channel given its promise, but it's essential to understand what it takes to support this channel operationally. It's not as simple as paying for an ecommerce platform and setting up a functional website (though that is an important step).

The primary differences between D2C and B2B orders are size and volume. Orders from retailers or distributors are usually multiple pallets and come in cycles, with gaps between orders. When selling to consumers, products are sold in eaches and there will be a steady flow of those small orders throughout the year, with spikes during the holiday season. That changes how companies purchase supplies and plan production.

The typical size of orders affects shipping, as well. Organizations selling B2B must move large quantities of goods so they typically use less-than-truckload (LTL) shipping. It's a cost-effective approach for B2B transactions and the longer transit time is not problematic since most orders are placed far in advance.

But LTL shipping doesn't make sense for consumers ordering one or a few items. Companies will rely on UPS, FedEx and USPS for these orders since they need to be packed and shipped separately to different addresses. Unlike LTL, each carrier may come to the warehouse multiple times per day to pick up orders. For example, UPS Next Day Air, 2nd Day Air and Ground all have different pickup times. That poses a major logistical challenge because a business must prioritize orders based on the pickup time and organize them by carrier and service.

Companies that want to go D2C and use a third-party logistics provider (3PL) have additional factors to consider. These businesses will either need to adjust their agreement with the 3PL or find a new partner. Some 3PLs charge per touch, which looks much different for D2C than B2B. It's another cost to calculate before opening up this channel.

A higher level of service and responsibility

As much as being closer to the customer is an advantage, it does create its own set of challenges for businesses used to working with third-party retailers or distributors. The primary challenge is that brands are responsible for providing the high level of service today's consumers expect. A wrong or damaged order becomes the manufacturer's or distributor's problem—they can no longer leave that to the third party. Customers may want to find out why their order hasn't been delivered yet or help choosing an item—the list goes on.

Consumers' expectations are higher than they have ever been due to the convenience many brands offer today, and they have more alternatives to turn to than ever before.

This is a big adjustment for organizations accustomed to dealing with other businesses, who present a different set of problems to manage. There are also fewer customers to worry about in a B2B setting.

The stakes are higher when it comes to direct to consumer, too. An order missing a few items or arriving late leads to chargebacks in the B2B world, and those can add up quickly. But they are still not as penalizing as mistakes with consumers, when a single negative experience usually means that person will never buy from you again and may take their complaints to social media or review sites. First impressions truly matter, because many brands never get a second chance.

With that in mind, a positive customer experience will have a direct impact on how quickly a business' consumer-facing channel grows. It is up to the brand, and the brand only, to figure out how to build a core base of customers. Under the old model, once retailers agreed to sell a product, it was up to them to move the product from there.

One final consideration when exploring D2C is the issues posed by competing with wholesale partners, since a brand may sell the same product on its own site and to third parties. Companies must take care to ensure that a D2C channel does not erode the confidence of B2B customers and should never undercut retail prices on their own site. In some cases, unique styles, exclusive offerings and other protections may be required to continue to appeal to wholesale customers.

Chapter **3**

FINDING THE RIGHT TECHNOLOGY

Direct to consumer is obviously its own entity with a unique set of challenges and processes. That means the technological needs of D2C are typically not covered by the legacy systems that more mature retailers, manufacturers and distributors often use. Such technical debt could kill a D2C project before it even gets off the ground.

Dabbling in direct-to-consumer sales is possible with a modest investment in technology. Many entry-level ecommerce platforms are cheap and, paired with basic inventory management software, may be adequate to manage this new channel early on. But that is certainly not a long-term fix—as sales volumes increase and per-transaction charges soar, a D2C channel can become a victim of its own success and present serious technological challenges.

In general, legacy technology built to manage wholesale orders usually lacks the features and capabilities needed to run a D2C brand. Those missing features include a lack of inventory and order visibility—a critical issue since D2C orders must be distinguished from B2B orders—and a complete view of the customers and their activities. Growth often comes faster than expected and many businesses end up replacing their ERP to better manage this growth.

The best option for managing both a B2B and D2C channel is a unified platform that will:

- Support both channels by understanding the differences in processes for planning, production, inventory management, shipping, service and customer support.
- Allow users to set up rules to logically separate B2B and D2C orders so the system properly allocates orders and directs warehouse employees to the appropriate inventory locations (case packs or eaches) for fulfillment.
- Enable a company to pull from the B2B inventory pool without labor-intensive inventory transfers if it runs out of inventory for D2C orders, or vice versa, to prevent lost sales.

- Provide a complete picture of the business in one place to facilitate data-driven decisions and make managing the business much easier.
- Eliminate integrations between disparate systems that could malfunction and provide misleading data. (It's also cheaper than running multiple separate systems.)

Ideally, the solution also supports ecommerce so the business can track the buying behavior of individual customers and larger buying trends on the same platform. A final, valuable piece is a marketing platform connected to that primary solution. The marketing software allows a brand to attract those initial customers and generate recurring revenue with personalized emails informed by customer data. Together, all of these tools supply the information and functionality needed to provide the excellent experience today's consumers expect.

In general, a unified platform will result in far less manual work, therefore reducing the opportunity for errors and the headaches that come with juggling disparate systems. The issues noted above may initially seem minor, but they will intensify as order volume climbs.

Chapter **4**

CAPITALIZING ON THE OPPORTUNITY

The promise of direct to consumer does not end with ecommerce. Digitally native brands like Untuckit, Warby Parker and Casper have all opened physical stores and seen much success in brick-and-mortar. They all recognized small stores in hand-picked markets as another way to tell the brand story, engage with customers and build stronger relationships with shoppers. Interestingly, cities home to a brand's store typically see more online traffic and orders from consumers in that area so physical locations can have a halo effect. While opening stores is certainly a secondary step in a direct-to-consumer strategy, it's yet another example of how this channel can help a company thrive.

Ultimately, D2C makes sense for the vast majority of companies that don't currently sell straight to end users. Selling to consumers does not mean abandoning a tried-and-true B2B business model—it can be a complementary channel.

The positive effects of interacting directly with customers are undeniable. While supporting D2C is not without operational obstacles, the cost and effort to get it going will pay for itself many times over. This project becomes less daunting with the right solution in place, namely a single platform that can handle all aspects of B2B and D2C.

D2C is a valuable way for B2B companies to gain autonomy from the partners that have long controlled much of what they do. That freedom will empower many brands to remain relevant and successful in this new and rapidly changing age of retail.

ABOUT ORACLE NETSUITE

NetSuite is a leading commerce solution provider, helping merchants manage their business with a unified cloud-based platform. As the only cloud solution to unify ecommerce and in-store with your core operational business systems—inventory and order management, CRM, business intelligence, marketing and financials—NetSuite enables businesses to provide more relevant and personalized customer experiences while streamlining operations, better managing suppliers and stock, speeding fulfillment, and improving customer service.

www.netsuite.com

info@netsuite.com

877-638-7848