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Going digital, going direct

Digital strategies to help brands connect with today's consumer

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Imagine being able to control your consumer experience. Now more than ever before, brands have the power to own their customer relationships. Digital platforms and tools are empowering brands to open new channels and broaden their customer reach – driving increased revenue streams, profits, and financial performance.

New opportunities for brands

New digital tools and platforms combined with powerful data analytics are enabling brands to directly engage with customers, improve the shopping experience, and gain valuable data at every point along the path to purchase. Brands that typically depended on brick and mortar retailers are now empowered to sell direct to consumers both locally and globally. In the process, these brands are opening up new markets and creating new revenue channels. It's time for established and emerging brands to take note – and evaluate the merits of going direct-to-consumer.

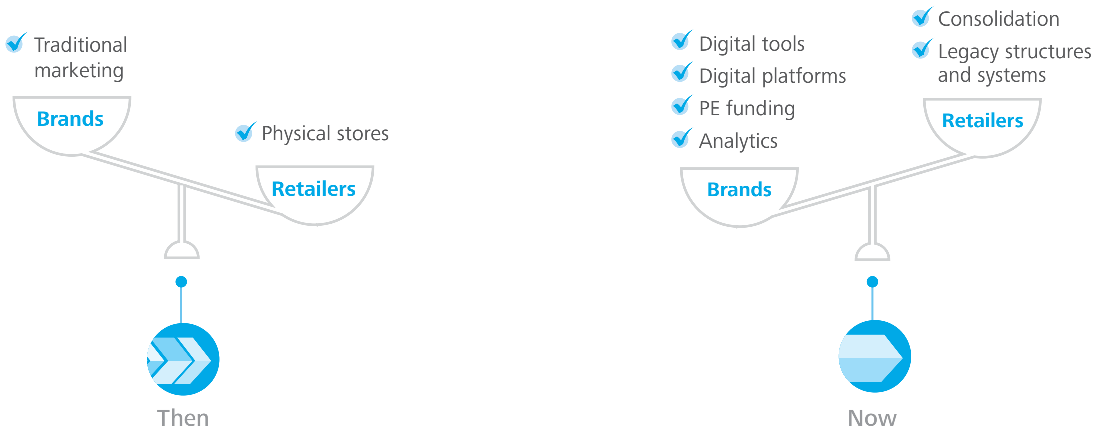
In every sector, competition is fierce and margins are tight. By using digital tools and platforms, brands no longer need to rely on traditional retail and wholesale distribution and sales channels. For example, by going direct to their consumers via eCommerce, BuildDirect.ca, which provides building materials that have been traditionally available for purchase at home improvement retailers, is now able to leverage data analytics to increase efficiency in bringing new products and services to the market.

Brands can connect with their end customers directly and develop meaningful relationships with them. They can use the data they collect to refine their products and offerings and better meet customers' needs and demands. They can expand their reach across the country or around the world and sell goods more profitably. And they can do it without making major investments in infrastructure or establishing vendor agreements with local retailers.

All brands have something to gain by exploring and pursuing digital, direct-to-consumer opportunities. For established brands that have traditionally offered products through retailers or other third-party channels, it opens up new channels to drive revenue. For established brands that have direct to consumer channels (i.e., an existing retail location) digital platforms can not only complement the existing channel strategy, but also broaden the markets beyond the local trade area. And for emerging brands, it can allow them to grow their business quickly without incurring the costs associated with traditional channels.

The consolidation of major retail industry players in Canada, has strengthened retailers' hold on their customer base. Brands are left with little negotiating power motivating them to go directly to customers as a defense strategy to offset their weakened position. Brands now opt to take advantage of digital platforms and tools to reach out to their customers giving them a strong competitive position because they are not laden with inflexible legacy operating structures and systems. Moreover, because private equity funding is now more accessible, brands can more easily expand and go directly to customers while retaining complete control of the channel, similar to OMERS Ventures' investment in BuildDirect.ca. Going direct allows brands to gain access to their customers which was previously difficult to do as customers primarily interacted with retailers. Layering on customer analytics further allows them to effectively market, merchandise, promote and launch new products to satisfy their customers' demands. As a result, digital technologies are empowering brands to reclaim the customer relationship, shifting the balance of power away from retailers.

Figure 1: **Digital platforms create new opportunities for brands**



Going direct in the digital era

Brands going directly to consumers isn't a new idea, of course. Nike, Disney and Apple are all brands that have combined traditional sales and distribution channels with direct-to-consumer channels such as self-branded stores and eCommerce websites.

Yet the approach taken by these well-known brands can require tremendous investments in their own online stores, retail chains and staff. Today's digital tools and platforms can enable brands to develop their own direct-to-consumer channels far more quickly and cost-effectively.

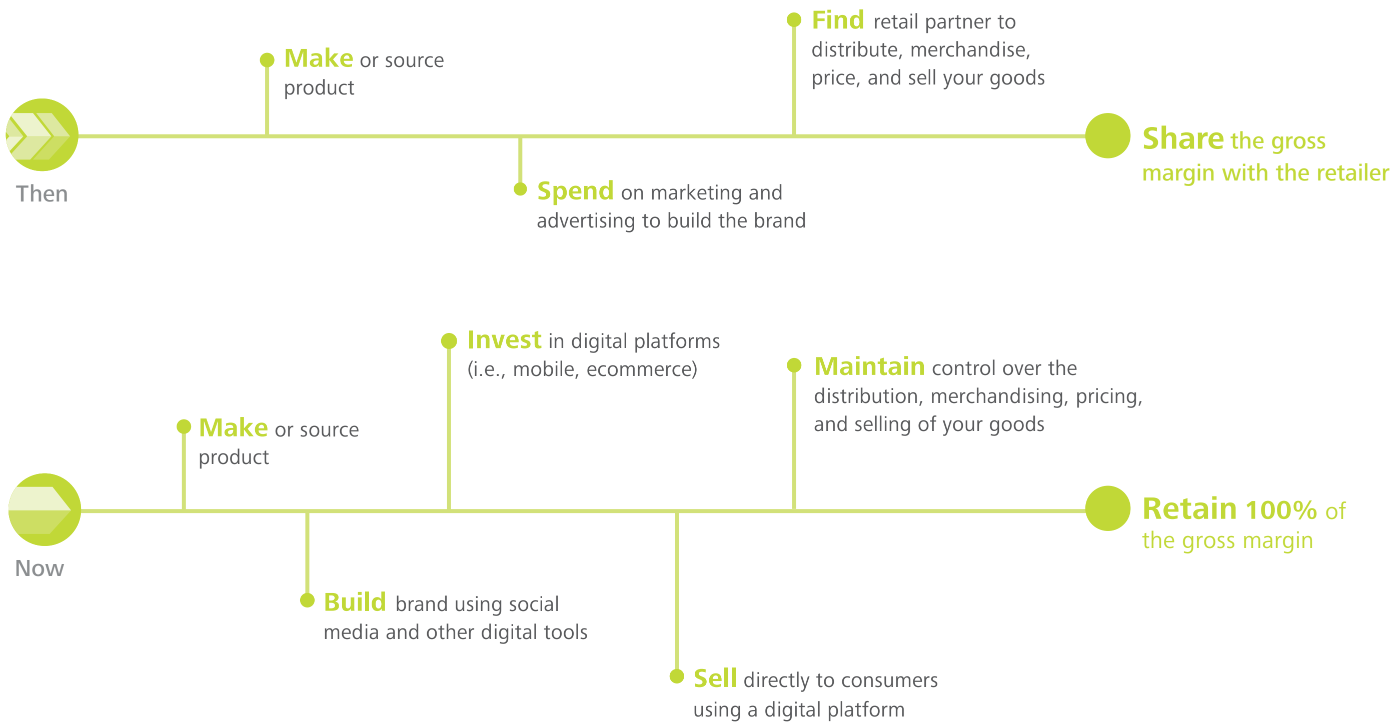
Digital tools

Social media tools, such as Facebook, Twitter, Instagram, and Pinterest, have transformed the way that customers and brands interact with one another. Low cost analytics tools are allowing companies to understand customers better than ever before. For brands, these digital tools provide a free or low-cost way to connect and engage with the people who buy and use their products. For some established brands, this can be the first time they've been able to connect directly with their customers.

Done effectively, social media-driven engagement efforts can help build brand loyalty and drive direct-to-consumer sales. The social influence of individuals can now be measured and valued by their number of friends or followers, how likely their social network is to re-broadcast a message – their reach – and how likely those receiving the message are to convert to customers.

As a result, brands can more readily identify high value individuals and monetize their social equity through analytics. Brands can also use social media channels to deliver unique products and offers to followers – and in return, gather vital customer data that can be used to better target their sales and marketing efforts going forward.

Figure 2: **Launching a branded product**



Digital platforms

Having a digital platform is essential to ensure your brand is considered in the path to purchase and critical to winning today's consumer. E-Commerce capability is table stakes – customers expect to be able to buy products online. For many new and emerging brands, eCommerce is the only way they sell their products or services.

Thanks to new digital platforms, including marketplaces, mobile apps, e-readers, and electronic kiosks, it is now significantly easier for brands to establish an eCommerce capability. These platforms allow companies to build a branded retail presence for a fraction of the cost of building physical store fronts. Critical capabilities, such as detailed reporting and analytics, same day shipping or the introduction of 'Amazon Prime' models and online/mobile customer service capabilities such as online chat tools, are instantly at the disposal of any brand. Digital tools go hand in hand with paid platforms, providing the customer facing presence that can establish a direct relationship and drive online traffic.

Other trends

Other developments are helping make a digital direct-to-consumer strategy a viable channel for brands. Advances in smartphone technologies, upgraded mobile networks and mobile-specific digital tools and platforms are making both mobile commerce and location-based services a reality. This, in turn, enables brands and consumers to engage with one another anytime, anywhere – exactly what today's customers demand.

Traditional distribution channels such as retail chains aren't going away any time soon, though they are now just one aspect of the omnichannel shopping experience. However, stores are going digital – they can now offer many more products than they can physically stock. This can allow emerging brands an opportunity to get their products into traditional distribution channels digitally, and as a result does not require them to provide retailers with products on consignment, or trade spend, or listing fees. For established brands, it creates opportunities to deliver wider, more differentiated product offerings.

Digital platform profile

Kobo writing life – Bringing authors direct to market

More and more writers are turning to self-publishing to share and sell their works and build their own communities of fans and readers.

Kobo Writing Life is a digital platform for independent writers that enable them to publish and sell their works easily. All writers need is Internet access – and a manuscript. Kobo Writing Life's free open system that allows writer to self-publish e-books in four steps. As a result, writers can publish in a variety of languages and market their books in more than 200 countries.

Kobo Writing Life is also aimed at independent booksellers – who can use the platform to stock self-published writers' e-books online. By using the Kobo platform, independent booksellers can stock local authors' works even if they don't have the physical shelf space.

Writers and bookstores can use links and QR codes to make it easy for interested readers to buy a copy. When an e-book is sold online, the writer is compensated higher than through a publishing book deal due to lower overhead costs.

The direct-to-consumer opportunity

Capitalizing on today's digital tools and platforms to develop a direct-to-consumer capability can deliver a range of benefits across financial, operational and market dimensions:

- **Revenue growth** – Brands can establish their own direct connection with customers, increasing engagement and conversion rates through their own eCommerce channels. With retail sales expected to slow in Canada, brands can quickly establish a presence and scale up business in higher growth markets.

- **Improved margins** – Brands no longer have to out-spend the competition for better in-store positioning and promotions through pricing or trade spend, or negotiate pricing with retailers for paper-thin margins.

- **Expanded market reach** – Brands don't need to be restricted by geography or their distributors' reach when they market and sell their products directly to consumers online. Now they can sell to the fastest growing markets with the most desirable customer segments, allowing them to go global overnight.

- **Reduced capital expenditures** – Brands can reduce some CAPEX investment costs as they don't necessarily need to develop costly, cumbersome brick and mortar stores to drive growth. They do however, need to invest in digital channels.

- **Improved customer data** – Brands can leverage the incredible wealth of data generated by digital tools and platforms to better understand their customers' preferences, lifestyles, demographics, and path to purchase. High value segments can be identified and targeted, while pain points in the customer journey can be alleviated.

Opportunity

- **Improved customer relationships** – Brands can own their customer relationships by leveraging their data-driven understanding of customer behaviour to deliver a more targeted value proposition.

- **Comprehensive product assortment** – Brands can provide a full assortment line of products while not being restricted to what retailers deem as hot selling items.

The opportunities – and thus, the benefits – will vary depending on the type and maturity of brand. An established brand with no direct-to-consumer channels will achieve different results than a 'digitally native' brand.

Brands need to establish their motivations and objectives for going direct, identify which digital tools, platforms and traditional initiatives could be used, develop the business case and estimate the ROI, and determine the sequence for deployment.

Figure 3: **General opportunity**

Dimension	Traditional		Digital
Reach	Finite	→	Unlimited
Personalization	Mass market	→	Personalized
Loyalty	Basic	→	Advanced
Access to customer	Limited, periodic	→	Comprehensive, real-time
Pricing	Partial control	→	Full control
Speed to market	Slow	→	Fast
Merchandising	Limited control	→	Full control
Assortment	Limited	→	Full
CAPEX	High	→	Low
Overhead	High	→	Low

Traditional approach

Established brand with no direct-to-consumer channels

Many large, established Canadian brands offer products solely through retailers or other traditional distribution channels. These brands have a wide reach by virtue of their distributors' footprint. Capital expenditures are lower, because the necessary infrastructure is already in place.

However, there are trade-offs. Brands have limited control over prices, which are negotiated with and ultimately set by retailers. Furthermore, they don't own their customer data. At best, they can buy aggregated point-of-sale customer data and analyze it post-purchase, but this provides little insight into who their customers really are. Retailer relationships must be continually managed, and brands must work with retailers' timing and pricing, margin and trade spend demands. Operating costs are high thanks to trade spend and retailer margins – and yet retail sales are stagnating.

The opportunity

For these brands, going directly to consumers through digital channels allows brands to move into new and previously unreachable markets. Brands can tap into the 'long tail' of their product offering and gain a greater share of their customers' category spend. Product selection can be extended through a digital 'endless aisle' that can move customers to higher margin online channels that complement brick and mortar channels. Moreover, they can develop and deepen their own relationship with customers – using their customer data to deliver a personalized, targeted experience and building brand loyalty based on relationships rather than quality or price.

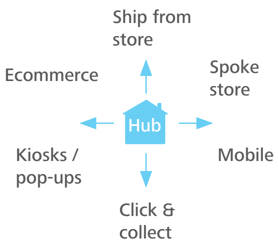
A direct-to-consumer approach also provides established brands with more flexibility in launching and marketing products. Brands can leverage real-world data through digital tools to better understand the expected performance of a product before it is launched. New SKUs can be tested through direct channels without incurring listing fees or having to de-list existing products. Post-launch, brands can introduce more targeted and personalized marketing strategies for their traditional and direct-to-consumer channels, such as context-based promotions.

Many brands are facing increasing retailer consolidation, resulting in a concentration of sales to fewer distributors and a weakening negotiating position. In some retail categories, individual retailers can control up to 80% of the market, creating significant negotiating power and heightened risk for supplier brands. Going direct can open up new channels, and limit channel concentration risks.

Opportunity

Hybrid approach

Established brand with existing direct-to-consumer channels



Other established brands have already taken some steps into the direct-to-consumer space, operating self-branded stores, eCommerce or mCommerce channels, loyalty programs, or some combination of these. Some brands will have gone it alone, while others have partly outsourced the functions to third-parties such as Amazon or SHOP.CA.

By combining traditional distribution and direct channels, these brands already enjoy a large reach. Owning their own channels – and in some cases, their own loyalty programs – gives these brands some consumer data, though traditional retailers still own much of the rest. Prices must still be negotiated with retailers and other traditional partners, though owning direct channels does provide these brands with the opportunity to release different products through different channels.

Established brands that have existing direct-to-consumer channels such as their own retail stores can lower their overall cost structure by digitally going direct as well, eCommerce which would allow for higher margins and increased revenues from existing direct channels through the omnichannel 'multiplier' effect, i.e. online-influenced retail sales.

The opportunity

Established brands that have made the push into direct-to-consumer channels are likely already pursuing many of the opportunities detailed in the previous example. The new opportunities for these brands lie in growing the share of revenue they generate from their higher margin, direct channels.

Brands could achieve this by expanding the breadth and depth of their – for example, adding mCommerce or location-based capabilities, or opening physical pop-up stores. This will require additional capital investment, though working with new digital platforms can alleviate some of the cost of developing custom solutions.

Brands with existing direct-to-consumer channels in place may achieve better returns by focusing their attention on deepening their customer relationships. Data analytics can help these brands make the optimum use of the data they collect – from social media interactions to online purchasing behaviour – and create an ever-sharper picture of their customers. The insights gained from this data analysis can be used to fine-tune and differentiate direct-channel product offers, promotions and online or mobile features. By enhancing their ability to deliver the products customers want, when and how they want it, brands stand to improve conversion, grow brand loyalty – and take a bigger slice of the pie for themselves.

Digital platform profile

SHOP.CA – Making eCommerce accessible for new online players

SHOP.CA is an online multi-merchant marketplace – a digital platform providing a marketplace-as-a-service (MaaS) offering to brands across Canada. SHOP.CA allows brands to list a virtually unlimited range of products, eliminating competition for shelf space. The site lists 2 million shippable products from over 3,500 brands across a wide range of categories. SHOP.CA provides payment support, covers the cost of delivery, and manages returns and refunds on behalf of the brand. SHOP.CA is also optimized for mobile devices, and offers its own loyalty and rewards program. SHOP.CA does not charge brands any setup, listing or monthly fees, or impose any minimum commitments or overhead charges. The cost to brands is a percentage of sales. This means that brands can achieve an immediate increase in margins using the platform, compared to traditional indirect channels. Unlike those traditional channels, the SHOP.CA digital channel allows brands retain full control over pricing. At the same time, brands are entirely responsible for marketing and advertising the products listed on the SHOP.CA platform. Because SHOP.CA is a direct-to-consumer portal, brands are able to access their customer data and obtain real-time feedback.

New approach

Emerging brands

Emerging brands aren't as well known as the more established brands. They're the newcomers trying to make a name for themselves and their products, and it isn't always easy.

Traditionally, emerging brands haven't had the resources to invest in mass marketing campaigns to build brand awareness, and rely on traditional channels to get in front of potential customers.

It can take time to develop relationships with those traditional partners – time to connect with them, test products, negotiate trade spend and pricing and so on. Emerging brands have little say on pricing and merchandising, owing to the lack of brand awareness – and working through traditional channels can make it hard for these brands to gain any significant exposure to their end customers. This makes it very challenging to gain a better picture of those customers' needs, wants and behaviours – much less build brand awareness and loyalty.

The opportunity

The good news is that emerging brands are no longer hampered by their size and budgets in their drive to build awareness and a thriving customer base. New digital tools and platforms mean that emerging brands no longer need to distribute their products through traditional channels. Now, emerging brands can take the direct-to-customer route from the very start.

Emerging brands can use platforms such as Amazon and SHOP.CA to develop a branded, easy-to-use online commerce capability – achieving scale quickly without the time and expense of a custom-built capability. Social media can be harnessed to promote the new products or services and create awareness and buzz, enabling brands to build a community of potential customers who want to hear more about what brands have to say and sell.

By adopting a digital, direct approach at the outset, emerging brands can easily test and experiment with pricing and SKUs to better determine the 'sweet spot' for conversion and profitability. Because they retain their entire margin, emerging brands can adjust prices as necessary to gain market momentum.

That's not to say emerging brands don't need to work with traditional channels. For many customers, the path to purchase includes a stop at a physical location. The difference is that by creating awareness, buzz – and sales – through a direct-to-consumer approach, emerging brands can negotiate from a far stronger position.

Digital platform profile

Flybits – Connecting brick-and-mortar stores to the digital world

The Flybits digital platform delivers context relevant content to targeted mobile users. The platform offers brands a unique way to connect with customers and provide a differentiated product offer – it's especially useful for brands operating their own stores.

Flybits can create unique, branded apps that allow businesses to detect when a customer is in range of their stores. Content – for example, an exclusive coupon or sale offer – is delivered to the customer's smartphone, giving them a special reason to visit the shop.

Moreover, the Flybits platform provides demographic and other customer data to businesses, allowing them to get a detailed picture of their customer base – and which offers convert to sales more often.

Flybits enables brands to deliver what customers want: tailored, relevant information and offers when they need it. What better time to offer a special price than when the customer a minute's walk away?

Going digital

Taking the digital, direct-to-customer route is not without its challenges.

Challenges

- **Alleviating potential conflict with retail partners** – Established brands got that way by building strong relationships with traditional distributors and retailers over the years. Opening up direct-to-customers channels creates new, profitable opportunities for brands, but it can also create conflicts with their traditional channel retail partners.

- **Differentiating products and offers** – For brands that own some direct-to-consumer channels, a very different set of challenges are presented. Product and offer differentiation becomes a crucial strategic decision, as is careful attention to pricing strategies for the various channels used. Understanding how customer segments shop across product categories can help match the appropriate channel and offering with the most receptive segment.

- **Monetizing through digital and social media** – Emerging brands face different challenges. While digital tools such as social media make it easier than ever to reach potential customers, driving them to sites where they can become buyers—and turning those fans into customers – can be much more difficult. Emerging brands may also need to determine the optimal mix of direct channels to better focus their attention and investment.

An opportunity for Canadian brands to seize
Despite these challenges, Canadian brands – whether household names or determined, plucky newcomers – should seize the opportunity to reach out to their customers directly.

Today's digital tools and platforms have made the direct-to-customer approaches an accessible strategy for any brand. For established brands, the direct approach can open up new, more profitable revenue channels that can offset a stagnating, low-margin retail environment. For emerging brands, the direct route can enable them to build awareness, buzz and sales more quickly – and cheaply – than they could by taking a more traditional approach.

But more importantly, taking a digital, direct approach can enable every brand to control their customer experience and deepen their relationship through data driven insights.

Going direct to consumers offers many benefits to Canadian brands – but determining how best to do it isn't always easy. Deloitte can work with you to evaluate your options and develop a plan for going direct in the digital era.

How Deloitte can help

- **Develop** and implement eCommerce, mobile commerce and OmniChannel strategies
- **Understand** the investment and evaluate whether it's better to use third-party tools or develop your platform yourself
- **Create** product and pricing channels to maximize returns and avoid channel conflict
- **Map** customer experience and path to purchase
- **Evaluate** privacy and risk management practices and processes
- **Build** a globalization strategy
- **Evaluate** supply chain and distribution processes.
- **Evaluate** how channel strategies will impact the physical store network
- **Develop** pricing strategies

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