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Marketing & Sales Monitor 2021
Direct-to-Consumer (D2C) Strategies in Switzerland – Explorative Investigation of the Status Quo

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10.03.2021

"From insight to impact"

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Executive Summary

For FMCG manufacturers, D2C ("direct to consumer") strategies are becoming increasingly important. From baby food to chocolate to beauty products, the products are increasingly being sold directly.
In a survey with 58 managers of FMCG manufacturers in cooperation with the association Promarca, the team of Prof. Dr. Schögel collected the status quo of D2C strategies.
The results indicate that D2C strategies will continue to gain in importance and revenue. However, it also appears that, despite high expectations from the manufacturer, the majority of companies surveyed are still in the early years of developing their D2C strategies. The dependence on retail for sales remains high.
Contrary to popular view, some managers do not consider the margin to be the most attractive in D2C strategies. Often the focus is not on sales targets, but rather on direct interaction with customers and the learning opportunities that go with them.
The implication is that embedding D2C strategies in the channel management of a brand should be handled carefully. FMCG can be seen as a benchmark for other industries, as high quality requirements, complex last-mile delivery and often low margins per product make the D2C strategy particularly demanding.

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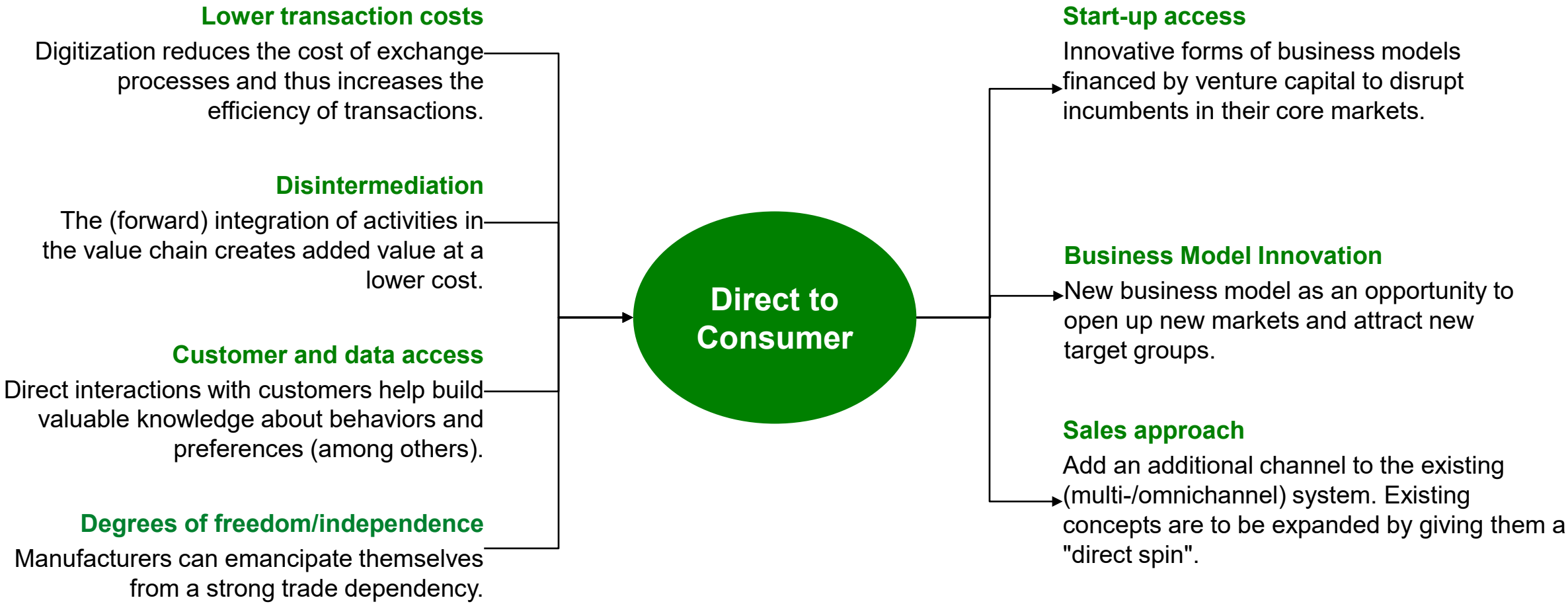
Content

1. **D2C Strategies - What's behind it?**

2. The study and results on the state of D2C strategies in Switzerland

3. Implications for the future development of D2C strategies

Reasons and applications for Direct to Consumer approaches.



Content

1. D2C Strategies - What's behind it?

2. **The study and results on the state of D2C strategies in Switzerland**

3. Implications for the future development of D2C strategies

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Various D2C activities are observed on a global level.

Yasso launches D2C initiative.



Dr. Oetker buys Flaschenpost



Bitburger launches delivery



Beiersdorf launches D2C Brand «Only what's needed».

Beiersdorf Launches Personalized Face Care

The group has introduced a direct-to-consumer, vegan brand called Only What's Needed, or O.W.N.

Coca Cola (US) reactivates subscription model (01/21).

The Coca-Cola® Insiders Club

22.02.2021 Food newspaper: D2C data are missing.

Online-Shops

Industrie verstärkt Direktvertrieb

Milupa HiPP

Source: WWD (2021), Pymnts (2020), Foodbusiness News (2020), Lebensmittelzeitung (2021)

But there are also things moving in Switzerland! The D2C landscape:

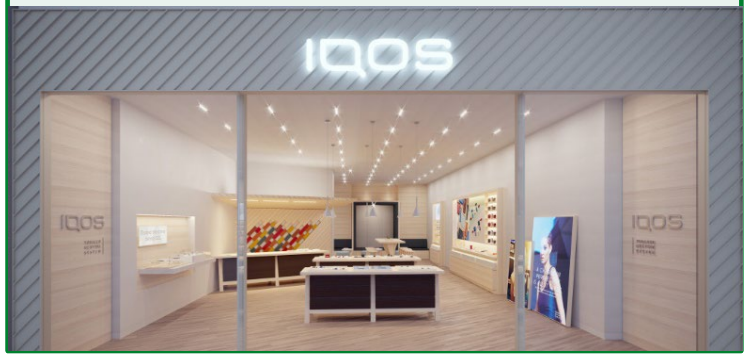
Lindt Store Jungfraujoch



Eau & Moi



IQOS Boutique



Emmi Kaltbach Boutique



Zweifel Online Store



Louis Vuitton Geschäft



Source: Jungfraujoch (2020), Eau & Moi (2020), Architron (2020), Watson (2020) Zweifel (2020), Mymüesli (2020)

Various D2C advantages convince consumer goods manufacturers.

(Selected) D2C Benefits

Financial aspects:
Higher margins
Higher range
Rising sales
Customer Experience Aspects:
Control
Collection of own customer data
Direct relationship
Channel Management Aspects:
Reduction of dependence
Ensure product availability

Benchmarks



Gross margin 85%
Over 80% directly
50% e-commerce
30% Boutique
(Gartner, 2016)



Vertical integrated for years via online and offline channels.

Source: Bovensiepen et al., 2017; Deloitte, 2014; Gerth, 2019, Gielens & Steenkamp, 2019, Bashkin et al. 2017, Berg et al., 2018

Source: Gartner (2016)

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The research project immerses itself in the D2C world of Switzerland.

Research question

D2C Lifecycle & Status Quo

How do marketing managers rate the current state of your D2C strategies?

COVID-19 Resource Management Deepening

How do D2C strategy marketing managers orchestrate their resources to achieve revenue growth at different stages of their D2C strategy, before, during, and after the Corona crisis?

Data collection

Participants:
58 Managers
Brand Awareness:
- Top of Mind Brand 41%
- Unaided Recall 38%
- Aided Recall 12%
- Niche brand 9%

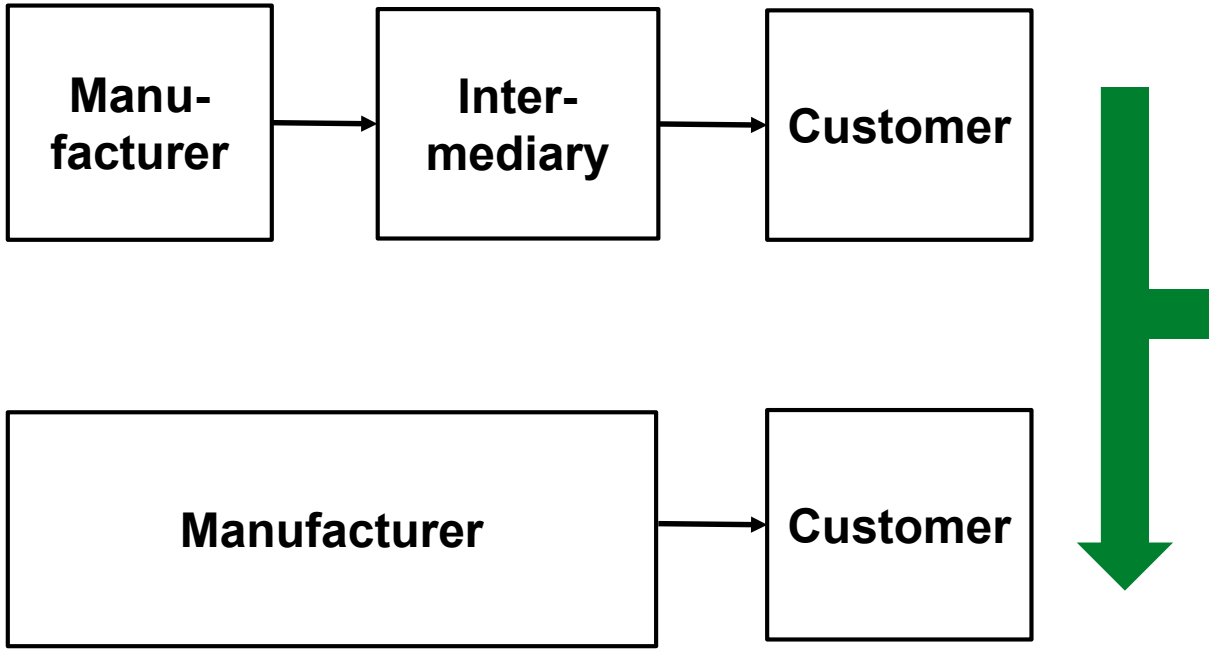
Management Level:
- Top Management 53%
- Upper Management 38%
- Lower Management 9%

Data Pool:
Promarca Members
LinkedIn
Period:
14. September – 14. October 2020

Outcome

Status Quo:
D2C-Strategies
COVID-19:
Findings on resource management during the external shock of COVID-19

The underlying approach of D2C strategies: forward integration.



Determinants for D2C strategies e.g.:

Low value vs. high value

Impulse vs. replenishment

Commodity vs. unique value proposition

Low purchase frequency vs. high

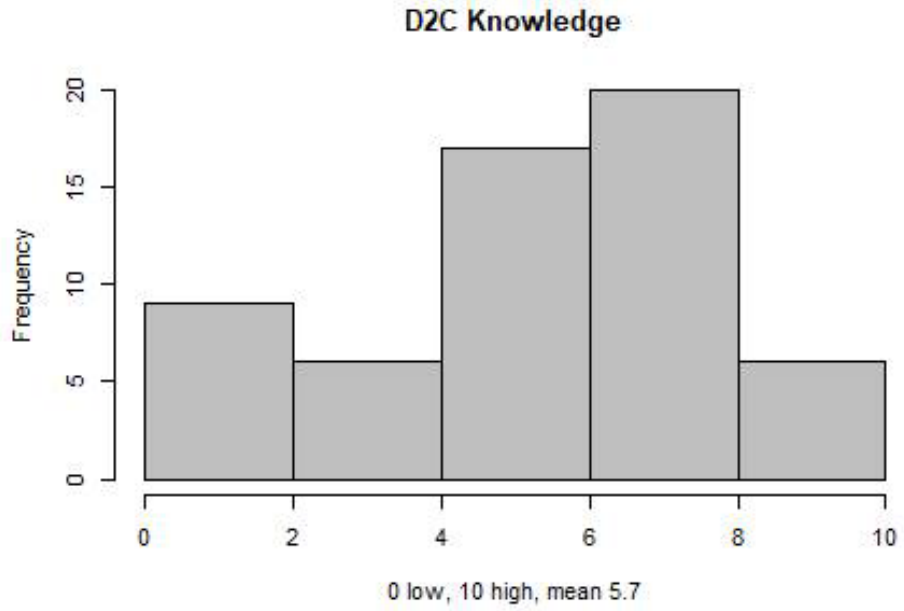
Source: Strategy & (2019), Oliver Wyman (2018)

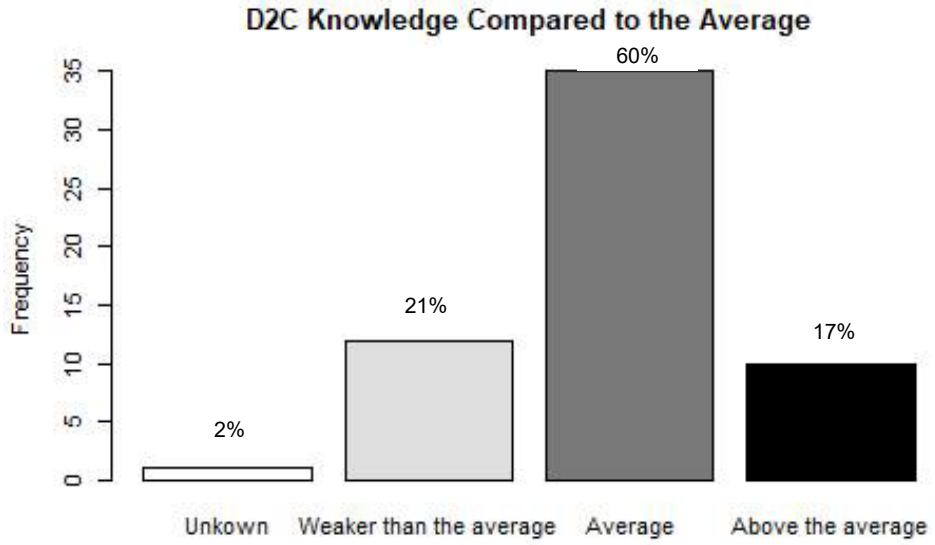
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Few managers consider their D2C knowledge to be above average.





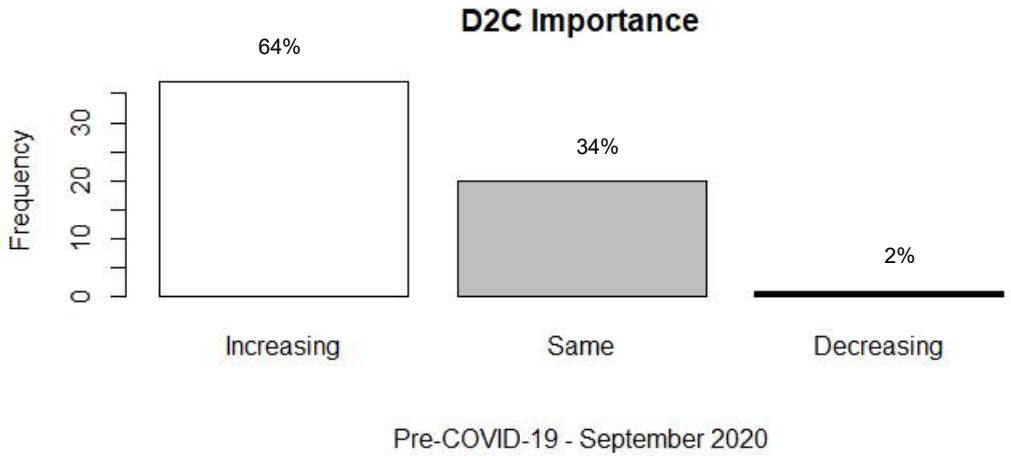
Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: How do you rate your knowledge of D2C strategies?

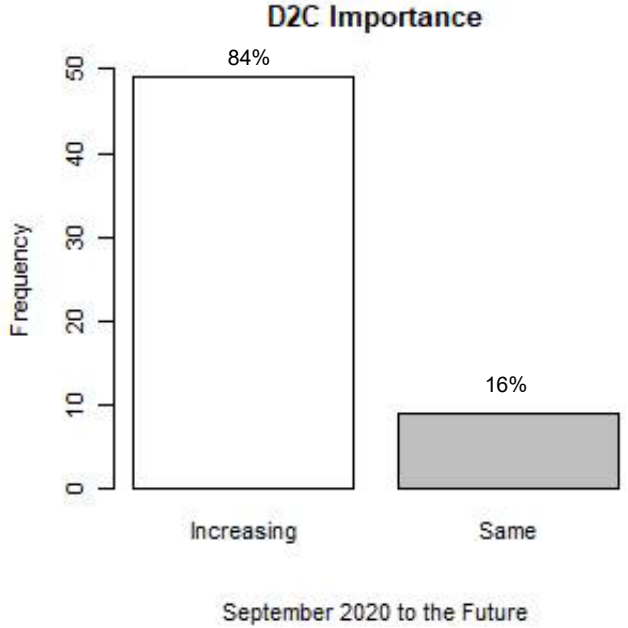
Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: How do you rate your knowledge compared to the average consumer goods manufacturer?

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D2C strategies were important before COVID-19, but their importance was further strengthened.

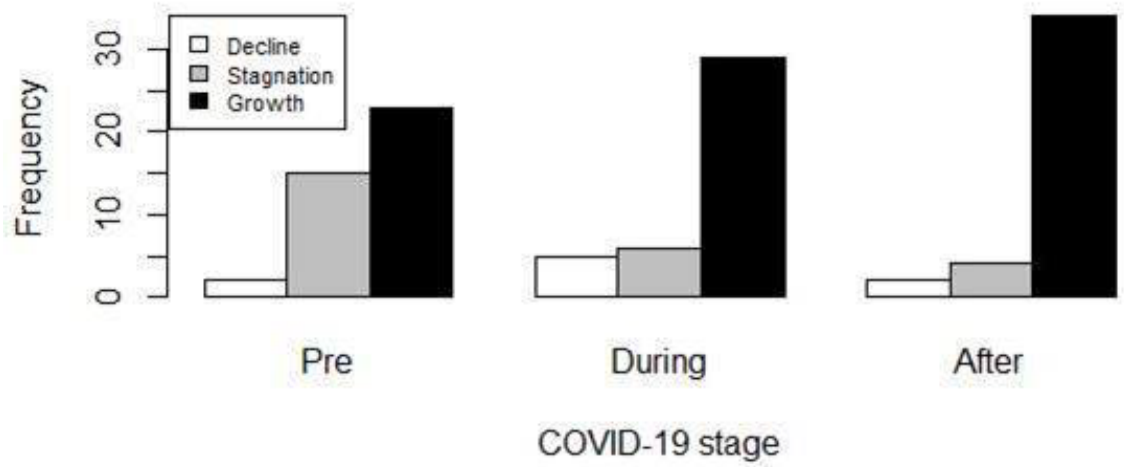




Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: How has the importance of your D2C strategy changed from pre-COVID-19 to today?

Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: How will the importance of your D2C strategy change from today to the future?

The direction of the (expected) sales trend shows only one direction: upwards.



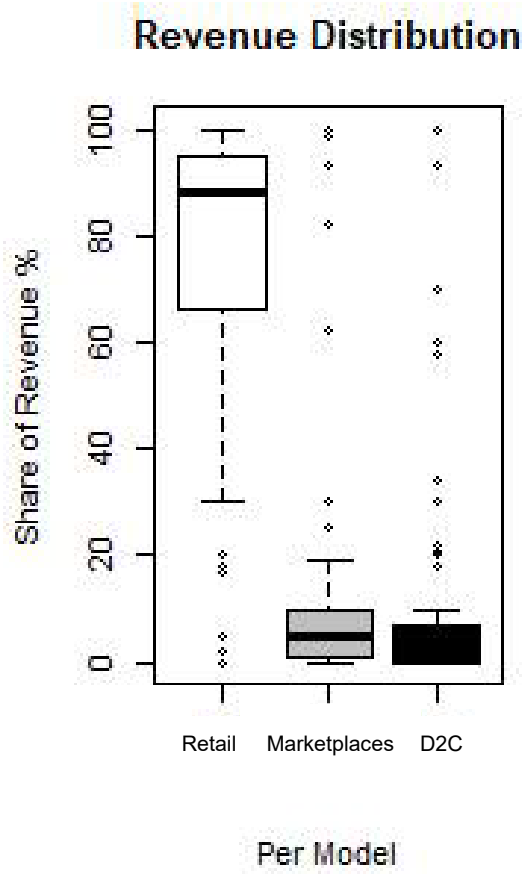
Source: D2C Manager Survey IFM HSG, September 2020, N=40
Question: How do you estimate the sales development of your d2c strategy? (Pre, during, after COVID-19)

Der GoPro Case

Pre April 2020:
distribution network suffered from the pandemic
Sales down 51% in the first quarter compared to the same period of the previous year 2019
April 2020:
Announcement of the reconstruction of its D2C strategies
Around 20% of sales via online shop
Outlook beyond COVID-19:
Appointment of a new Chief Digital Officer to make the new D2C strategy more profitable, efficient and resilient.

Source: Ernst & Young (2020)

But currently D2C sales play a negligible role and the focus is on classic retail.



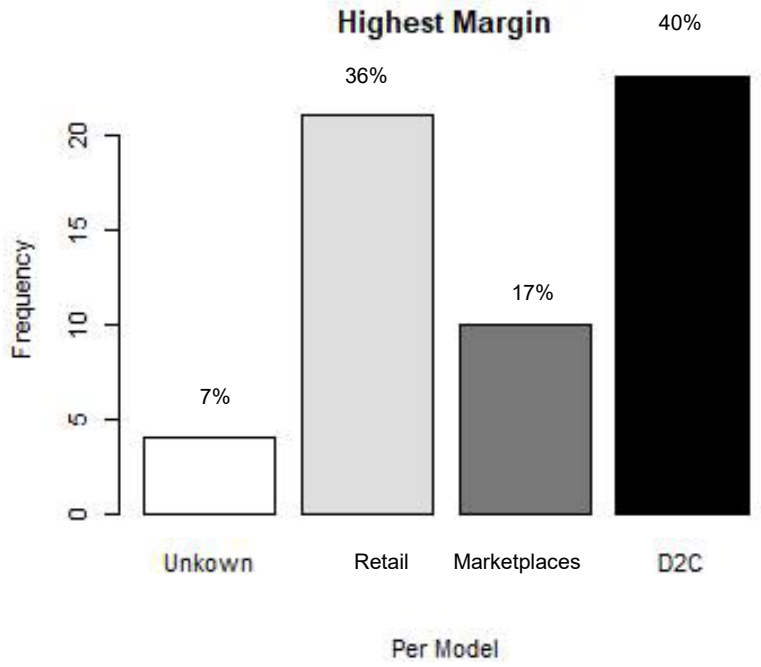


Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: How are the revenues distributed over the following three channels?

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Contrary to the common opinion, the D2C margin is not necessarily the best.



"D2C helps the manufacturer to improve the **overall profitability** through reducing ex-ante transaction costs otherwise **charged by the intermediaries** and reducing double marginalization."

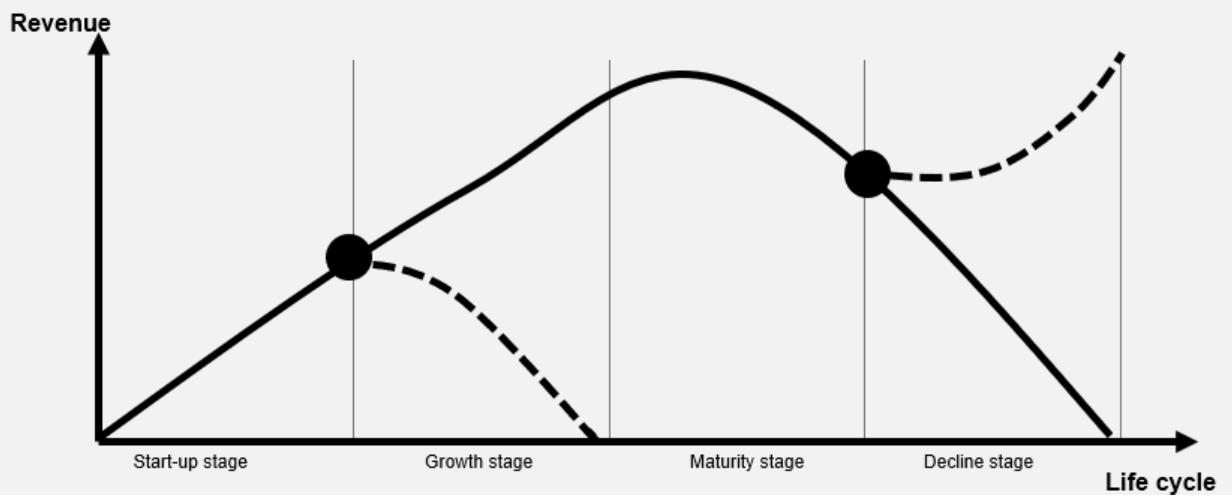
Gielens & Steenkamp, 2019

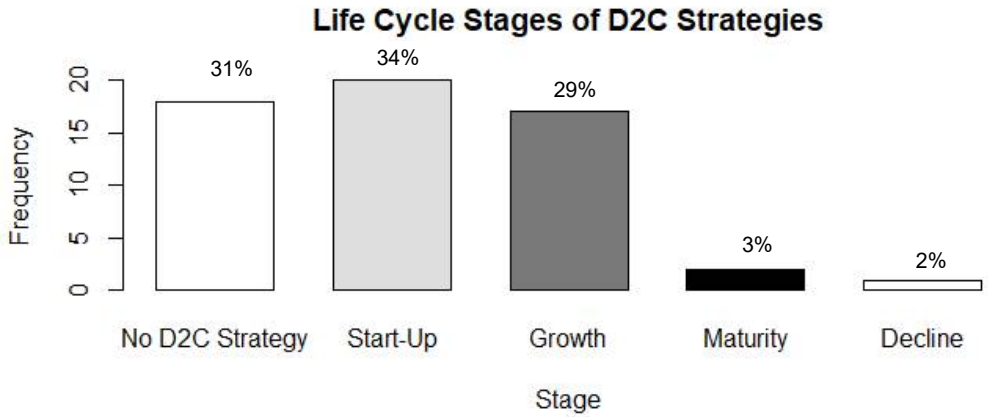
"Won't DTC just cannibalize all my other channels, possibly at higher cost? What if it **brings down our profitability**?"

Global CPG Executive, McKinsey, 2020

Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: Through which channel can you achieve the highest profit margin for your company?

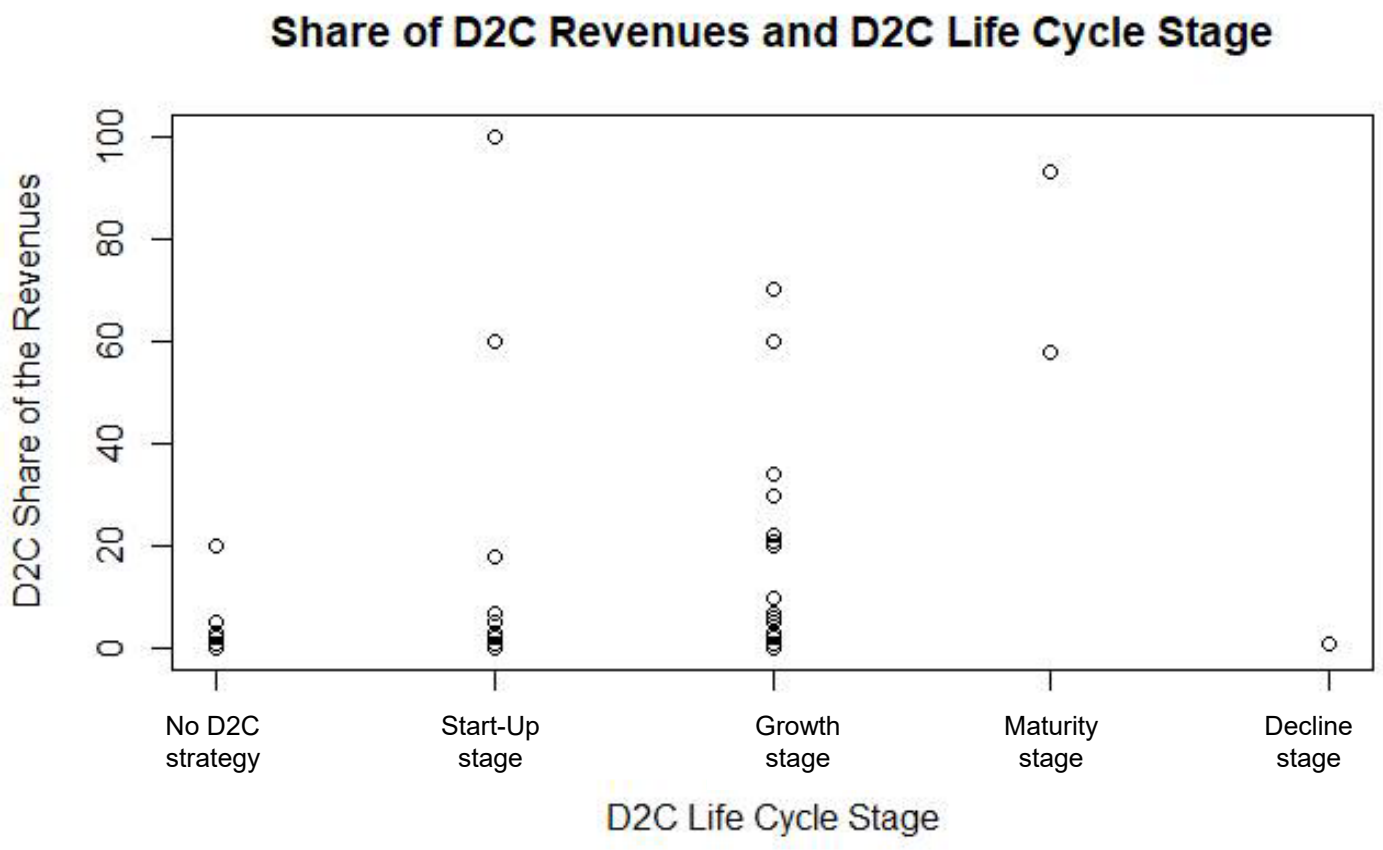
For most people, development is still in its infancy.





Source: D2C Manager Survey IFM HSG, September 2020, N=58
Question: In which life cycle is your D2C strategy today?

Although growth is taking place, the share of total sales is growing only slowly.



Current status:
Regardless of the life cycle phase, the share of total brand sales is almost non-increasing.

The thesis on overall growth:
The D2C strategy increases total revenue so that the percentage of total sales does not change

The thesis of marginal meaning:
Even if the strategy has made it into a start-up or even growth phase, there are only marginal sales improvements. If this is the case, the key challenge is to create relevant growth shares.

Source: D2C Manager Survey IFM HSG, September 2020, N=58
Analysis of the correlation of two variables (plot)

The core challenge overlaps with that of D2C start-ups: Long-term sales growth of the D2C strategy and establishment in the market.

*"It's never been **cheaper to start a business**, although I think it's never been **harder to scale a business**."*

Neil Blumenthal, CEO of Warby Parker, 2020



Source: New York Times (2020)

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The attractiveness from a margin point of view is levelling in the growth phase – are managers losing faith in D2C at this point?

	100%	100%	100%	100%	100%
D2C Strategy (23)	28% (5)	50% (10)	29% (5)	100% (2)	100% (1)
Marketplaces (10)	11% (2)	15% (3)	29% (5)		
Retail (21)	50% (9)	30% (6)	35% (6)		
Unkown (4)	11% (2)	5% (1)	6% (1)		
Margin / Stage	No D2C Strategy (18)	Start Up Stage (20)	Growth Stage (17)	Maturity Stage (2)	Decline Stage (1)

- The attractiveness of D2C strategies from a margin point of view is highest in the start-ups stage.
- In the growth phase, the picture balances and the differences between the models blur.

Source: D2C Manager Survey IFM HSG, September 2020, N=58

The attractiveness from a margin point of view is levelling in the growth phase – are managers losing faith in D2C at this point?



No-D2C-Thesis:

→ No D2C strategies are launched because the margin in retail is the most attractive.

→ No D2C strategies are launched because the disadvantages (e.g. channel conflicts) outweigh the margins, although the margins would be most attractive in D2C.



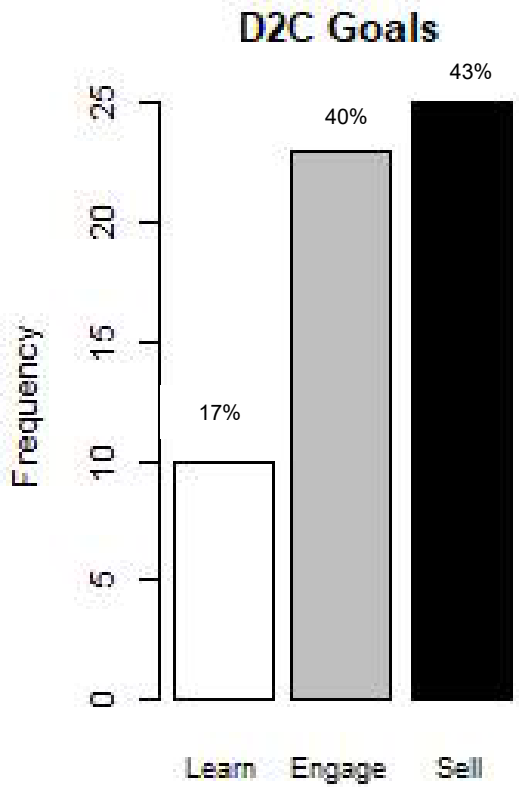
D2C-Growth-Thesis:

→ When D2C strategies are in the growth phase, they lose attractiveness from a margin perspective.

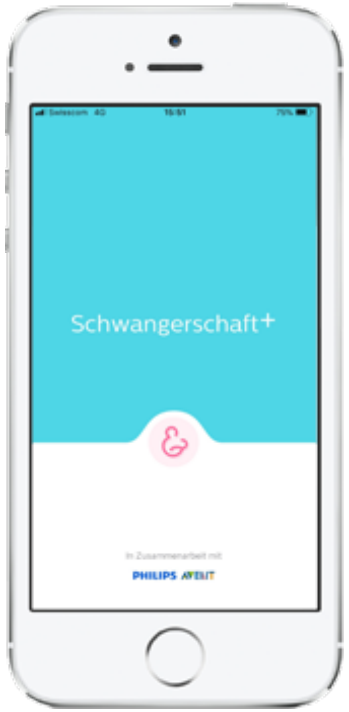
→ When the D2C strategy reaches maturity, the benefits of D2C strategies outweigh the benefits.

Source: D2C Manager Survey IFM HSG, September 2020, N=58

But is the focus on sales too short? Philips Avent as an example of engagement, service and data collection.



- Learning is the most important goal for only 17%.
- Generating revenue and selling products is virtually as important as creating engagement with the customer.



Source: D2C Manager Survey IFM HSG, 2020, N=58
Question: What goals are you pursuing with your D2C strategy? (Select the most important one)

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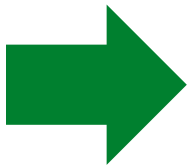
3. **Implications for the future development of D2C strategies**

Traffic generation remains the condition to learn to create engagement or sell profitably! Wouldn't learning be the most achievable goal?

Challenge

“One of the main obstacles in building branded websites into true sales channels is that often these brands do not have **top-of-mind awareness, scale, and financial resources** to drive **traffic** to the website.”

Gielens & Steenkamp, 2019



1 **Learn**

"The big consumer goods companies want to get to know their customers better in order to assess their needs and to align product development with them".
Christian Wulff PwC

2 **Engage**

„Nestlé's main focus is on interacting with consumers," Lebensmittelzeitung, 2021

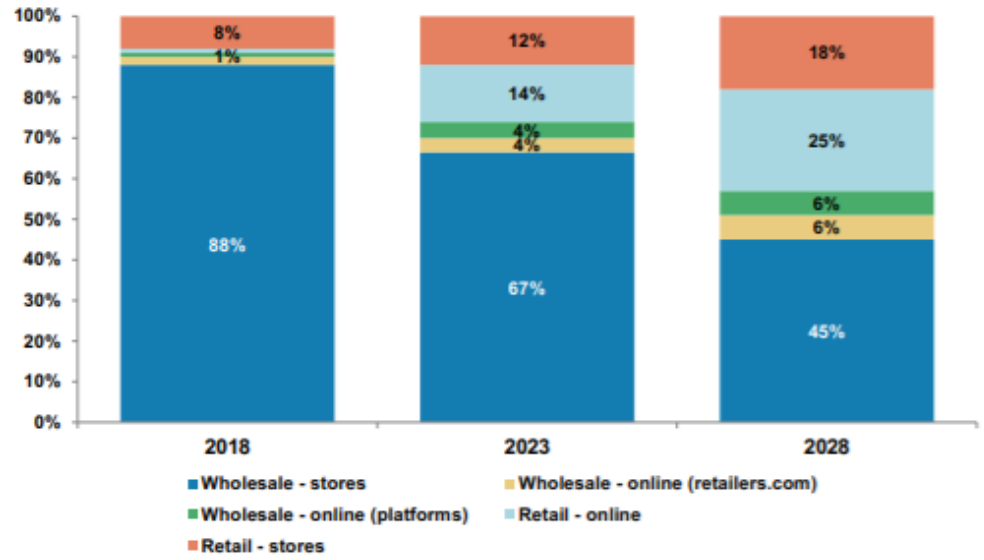
3 **Sell**

"Food is a shopping cart business"
Sirko Siemssen Oliver Wyman

Source: Lebensmittelzeitung (2021)

Because D2C strategies are very important across industries, but the road to this is long and rocky.

Exhibit 23: Swiss watch market: Expected change in the distribution channel mix over the next five and ten years (percentage)



Source: Morgan Stanley Research estimates

Short-term (3 - 5 years):
Expectation that D2C strategies will be very disruptive in the short and medium term.
Dilemma: Either buy out of third-party inventory (which puts further pressure on cash flow and ROIC) or sell this inventory at a discount on third-party online platforms (and thus damage their brand value in the long term and their sales in the short term)

Long-term (5+ years):
Benefits of D2C strategies will begin to outweigh (Morgan Stanley)

Source: Morgan Stanley (2018), Journal Hautehorlogie (2019)

What does this mean for FMCG Player? The example of the Locher brewery and its diverse distribution channels.









National Leader Articles:
In retail national sales at Coop or Valora, among others.

Regional chips:
In addition to the D2C channels, the D2C channels are used as a regional product in. Coop regions.

Brew Food:
(Circular Economy) Products are launched via the D2C channels.

Fast response:
Can respond to demand changes and distribute safely via D2C channels.

Source: SRF ECO (n.d.); Brauerei Locher (2021)

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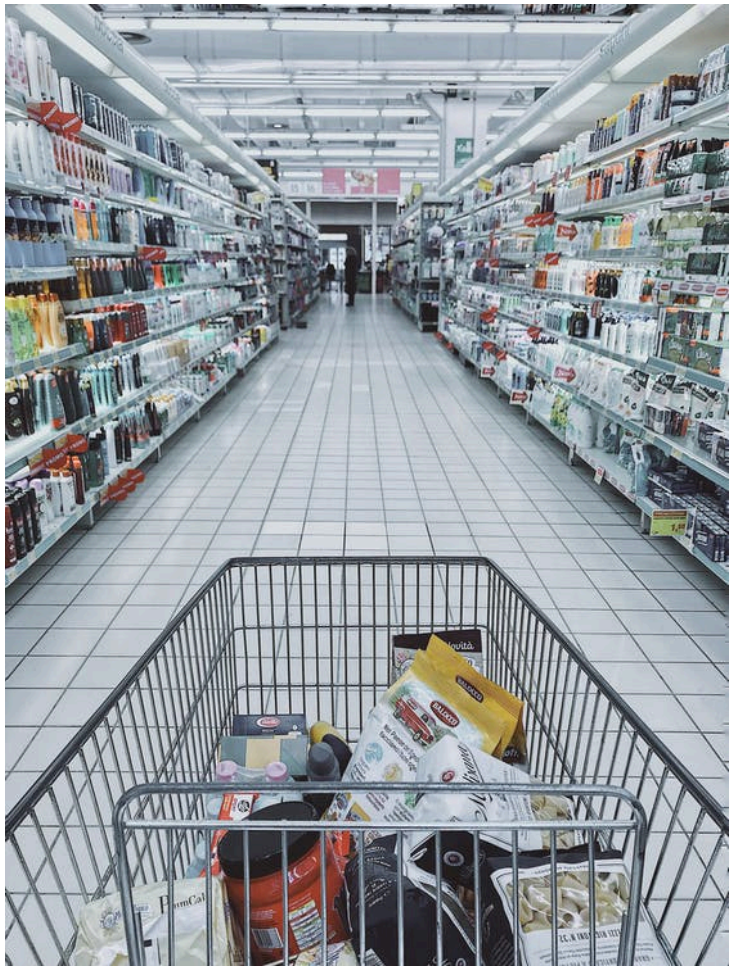
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D2C Conclusion

1 **Holistic view:** D2C strategies are not always the right means. A careful holistic view is needed.

2 **FMCG as D2C Royal Discipline:** D2C strategies are highly demanding, but in the FMCG (e.g. low prices per product, quality requirements, desire for shopping baskets...) this is all the more true.

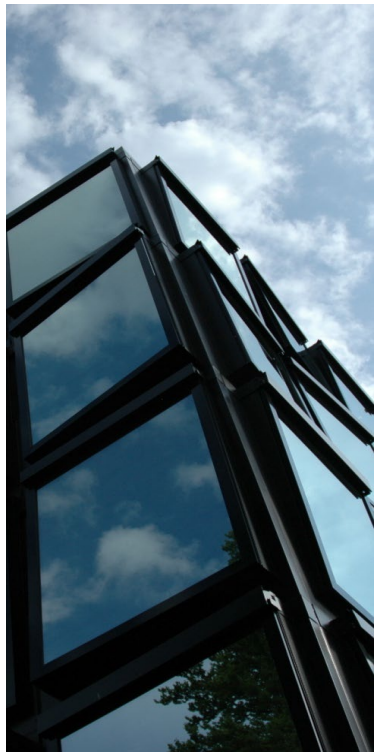
3 **Opportunity in the consumer goods environment:** D2C enables fast testing of products, customer learning, data collection, regional operation and development of growth areas.



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