



THE DIRECT-TO-CONSUMER OPPORTUNITY

How consumer goods companies and retailers are responding to a changing landscape



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1 INTRODUCTION

Across the world, consumer goods companies and retailers are taking innovative approaches to engaging consumers. For some, the driving goal is to develop and sustain market-leading positions in current and new geographies, and realise new growth opportunities. For others, an effort to retain relevance in a rapidly changing world is the driver.

In either case, the combination of accelerating consumer change and disruptive technology is simultaneously creating new growth opportunities and competitive challenges. To address this, companies are formulating a diverse and complex suite of ways to engage consumers, with many focusing on digitally enabled platform business models.

In our work with the world's largest consumer goods companies and retailers, we've seen that the e-commerce giants – notably Amazon and Alibaba – offer interesting collaboration opportunities for some, and a significant competitive challenge for others. And for others still, they represent a combination of the two.

We regularly supplement our advice to clients with market-leading research. That's why we set out to create a global picture of this complex new world. We surveyed senior leaders from 150 consumer goods companies and 150 retailers for their perspectives on online marketplaces and direct-to-consumer (D2C) initiatives. We collated responses from businesses headquartered in the US, Europe and Asia-Pacific (APAC), with 100 respondents from each of the three regions.

Of the 300 companies surveyed, 86 per cent (258) had global revenues of between £500 million and £1 billion, while 14 per cent (42) had revenues of between £1 billion and £10 billion.

This paper presents a summary of our research findings, together with some of our insights and recommendations.

2 THE CHANGING LANDSCAPE

Fundamental changes in consumer buying behaviours and evolving disruptive technologies are interacting to transform retail and consumer goods markets globally:

- Alibaba reported sales growth of 61 per cent in the third quarter of 2017,¹ while a record 7,000 brick-and-mortar US retail stores closed over the course of the year²
- 49 per cent of US shoppers now use Amazon, not search engines, at the start of their search process³
- 80 per cent of consumers said they are more likely to make a purchase when brands offer personalised experiences.⁴

While change, uncertainty and challenges define the landscape for retailers and consumer goods companies, it's also rich in opportunity for far-sighted companies that can navigate these complexities and create and implement effective consumer engagement strategies.

Our research had two primary areas of focus. First, we set out to gain insights into how consumer goods companies and retailers view the opportunities and challenges in the D2C arena. By D2C, we are referring to the activities of brand owners in seeking to develop transactional relationships directly with the end users of their products, thereby bypassing their traditional channel partners, notably retailer intermediaries.

Second, we sought to understand the views that consumer goods companies and retailers have of online marketplaces, that is trading platforms operated by Amazon and Alibaba in particular, but also by less well-known but regionally important operators.



Figure 1: The changing landscape for consumer goods companies and retailers

Source: PA Consulting

¹ <https://www.bbc.co.uk/news/business-41854540>

² <https://money.cnn.com/2017/12/26/news/companies/retail-toughest-year-store-closings/index.html>

³ <https://www.surveya.com/blog/amazon-takes-49-percent-of-consumers-first-product-search-but-search-engines-rebound>

⁴ <http://pressroom.epsilon.com/new-epsilon-research-indicates-80-of-consumers-are-more-likely-to-make-a-purchase-when-brands-offer-personalized-experiences>

3 CONSUMER GOODS COMPANIES' PERSPECTIVES

Consumer goods companies are buoyant about D2C opportunities

With strong consumer appetite to buy directly from, and engage with, consumer goods brands, it's unsurprising that such companies are enthusiastic about the opportunities for D2C approaches. In fact, 84 per cent of consumer goods companies report increased D2C sales in the last 18 to 36 months, and 88 per cent expect their direct sales to increase further by 2020.

Most of the consumer goods companies surveyed already go to market through multiple channels, including retailers, distributors, online marketplaces and their own transactional websites and apps. But only proprietary websites and online marketplaces – that is, the D2C channels – are expected to increase sales by 2020.

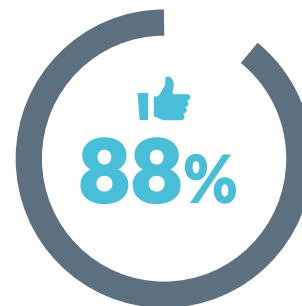
Consumer goods companies intend to increase the proportion of their sales via websites and online marketplaces

Globally, consumer goods companies have already committed to developing and strengthening their D2C propositions. All 150 consumer goods companies surveyed were either planning to, or have already, developed a D2C strategy, with 82 per cent already implementing one and the remaining 18 per cent developing one.

These companies have a strong appetite to engage directly with consumers because they see the opportunities associated with putting the consumer at the centre of their operations. They expect to be able to give consumers greater choice (55 per cent of respondents), faster access to products (52 per cent), better experiences (52 per cent) and more personalised products (45 per cent).

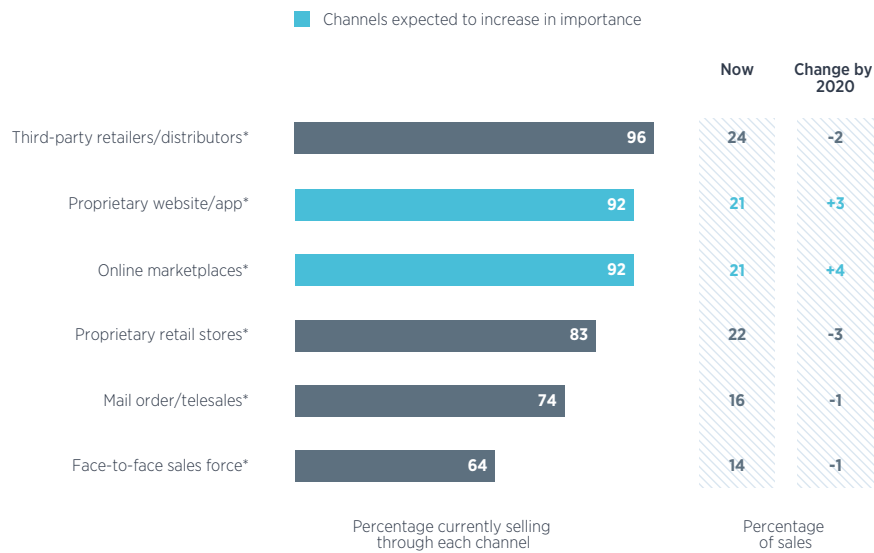


Eighty-four per cent of consumer goods companies have seen increased D2C sales over the past 18 to 36 months.



Eighty-eight per cent expect D2C sales to increase further by 2020.

Source: PA Consulting



* The average manufacturer sells through five channels. Only three per cent sell through just one channel.

Figure 2: Consumer goods companies' use of channel and sales through channel

Source: PA Consulting



Figure 3: Consumer goods companies' expectations of benefits to consumers from D2C initiatives

Source: PA Consulting

Consumer goods companies expect D2C to increase sales

Almost all consumer goods companies (98 per cent) expect D2C initiatives to increase sales, with a quarter expecting them to add more than 20 per cent to their sales by 2020.

These companies say they're confident about their ability to grow sales through D2C because it will enable them to have greater access to customer data and more control of the buying experience. They expect to use these enhanced capabilities to improve cross-selling (16 per cent), marketing effectiveness (14 per cent), brand experience (10 per cent) and consumer relationships (9 per cent).



Figure 4: Consumer goods companies' anticipated benefits from successful D2C initiatives

Source: PA Consulting

Insufficient budget and scale are the main challenges for consumer goods companies

Importantly, however, consumer goods companies face some significant challenges if they are to realise their D2C ambitions. Budget considerations are prominent for many (23 per cent). But so too are structural concerns, with 22 per cent worried that they don't have the scale to make an impact in the market, 18 per cent questioning their internal skill gaps and 15 per cent saying they lack ideas on how to define and deliver their D2C ambitions.

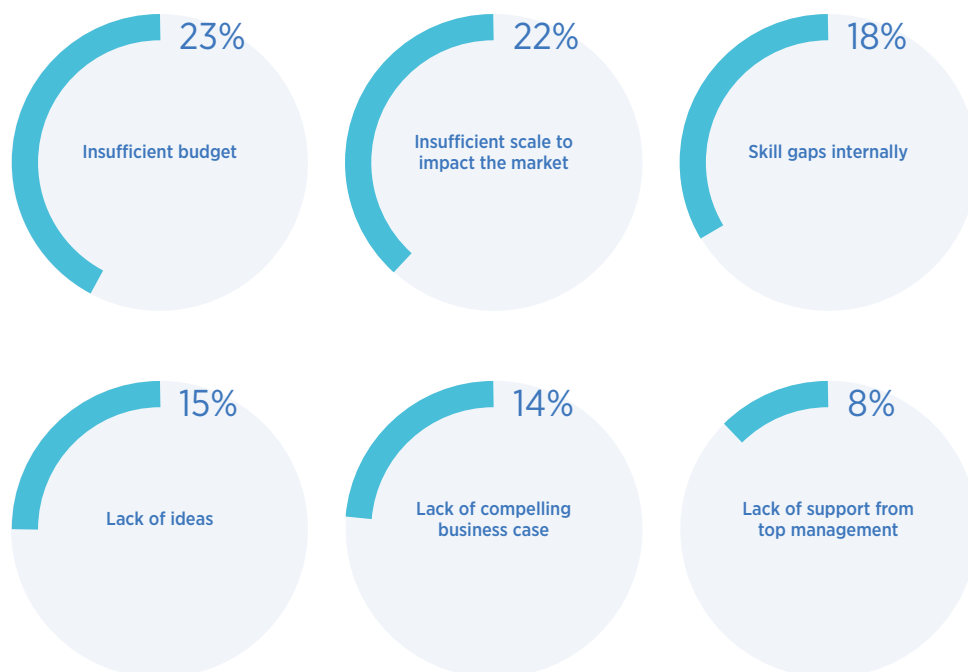


Figure 5: Consumer goods companies' main challenges to successfully realising D2C ambitions

Source: PA Consulting

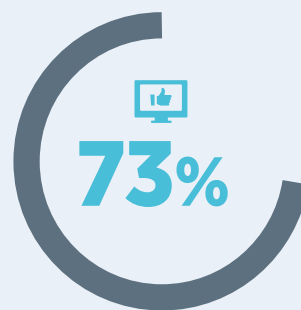
4 RETAILERS' PERSPECTIVES

Retailers are optimistic about online marketplaces

Madeleine Albright, former secretary of state in the Clinton administration, memorably described herself in her keynote presentation to the Consumer Goods Forum's 2018 Global Summit as "an optimist who worries a lot". This seems to describe the retailers in our survey – they are optimistic, but it's clear they worry too.

While there's still a lot of debate about the competitive threat of online marketplaces, especially Amazon and Alibaba, this is not how most retailers view them. Almost three-quarters (73 per cent) expect online marketplaces to have a positive impact on their businesses over the next five years.

As with consumer goods companies, the source of retailers' optimism is largely around the more customer-centric strategies they anticipate implementing through online marketplaces. They expect this to drive growth in customer demand (56 per cent), leverage e-commerce opportunities (52 per cent), improve customer service (52 per cent), hone marketing effectiveness (51 per cent), improve customer insight (49 per cent) and boost delivery to customers (48 per cent).



Seventy-three per cent of retailers expect to see a positive impact from the rise of online marketplaces in the next five years.

Source: PA Consulting



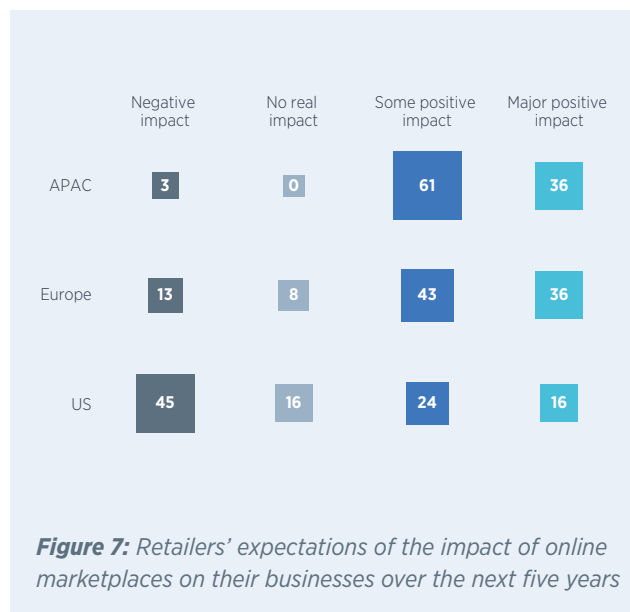
Figure 6: How retailers expect online marketplaces to positively affect their businesses

Source: PA Consulting

APAC retailers are much more positive about online marketplaces than US retailers

A significant minority of retailers (20 per cent) believe online marketplaces will have a negative impact on their businesses between now and 2023. This negative sentiment is far stronger in the US (45 per cent) than in Europe (13 per cent) or APAC (3 per cent).

This might reflect the experiences that retailers have had with Amazon (which is more prevalent in the US than Asia) and with Alibaba (which is more prevalent in Asia than the US). While there tends to be a view of Alibaba as the 'Amazon of Asia', this is very misleading given how different their business models are. Both businesses have many component parts, of course, several of which are common to both. But whereas Amazon emphasises its role as a retailer, Alibaba's focus is more strongly on its role as a platform provider connecting sellers to buyers, rather than being a seller itself.



Source: PA Consulting

Retailers' perceived advantages over online marketplaces

Retailers do see some areas where they retain an advantage over online marketplaces. This includes strong customer relationships (25 per cent see this as their greatest advantage), face-to-face engagement (21 per cent), multichannel experiences (17 per cent) and strong brand equity (15 per cent).



Figure 8: Retailers' perceived advantages over online marketplaces

Source: PA Consulting



Retailers' strategies for responding to online marketplaces often focus on investing further in customer service

In response to the growth of online marketplaces, retailers plan to capitalise on their strengths by increasing investment in customer service (61 per cent), broadening product offerings (51 per cent) and investing more in marketing (50 per cent).

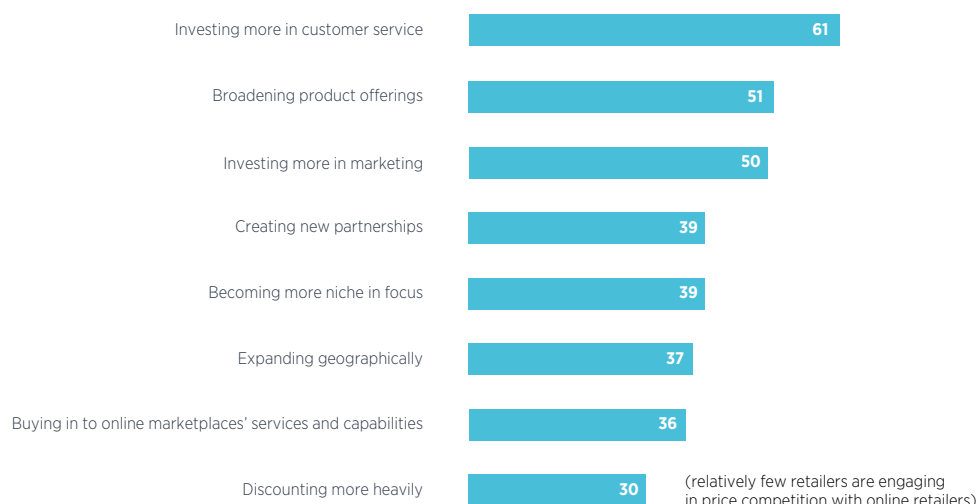


Figure 9: How retailers are responding to the growth of online marketplaces

Source: PA Consulting

5 CONCLUSION: A WAY FORWARD

Against a backdrop of evolving consumer demands and disruptive technology, our research shows that consumer goods companies and retailers are willing to develop innovative ways of engaging customers more effectively. But there's also considerable uncertainty about how to navigate this complex landscape.

Among consumer goods companies, there's widespread optimism that D2C initiatives will have a positive impact on consumer engagement, consumer targeting and sales.

Among retailers, there's general optimism about the role of online marketplaces in driving growth by enabling more consumer-centric approaches – but it's important to acknowledge that not all retailers see the world this way. A significant minority see online marketplaces as a major competitive threat, albeit one that many feel confident to tackle by leveraging the direct relationship they already have with consumers.

Our recommendations for business leaders:

1. Start with the customer

The key is to understand your customer's needs and expectations in forensic detail. Use the data available to reflect the needs and nuances of individual segments, and better still, individual customers. What challenges can you solve for them? How can innovative approaches engage them and deliver better experiences and outcomes? What are the sources of added value for the customer that will in turn add value to your company?

2. Be highly data literate

Effectively participating in and implementing digital platforms and D2C initiatives requires advanced data literacy and insight capabilities. This is vital to achieving the necessary levels of customer understanding and insight, operational effectiveness and control – and to understanding where the strongest opportunities for value creation are.

3. Be agile and open to new models

In a fast-changing world defined by disruptive change, the companies that succeed are those that design and implement in-market initiatives in an agile way. They're also open to embracing new working models such as Lean Startup and Agile methodologies. Securing the future for both consumer goods companies and retailers will require a willingness to discard some current ways of working.

4. Choose your position on the innovation spectrum

While focus tends to be on organisations that are at the forefront of innovation, this is by no means the only position to occupy and isn't desirable for all. Thoughtful leaders consider what innovation means for their company and their customers, as well as the type and scale of innovation they should and can consider. For some, this may mean being at the leading edge of innovation, creating entirely new value propositions. For others, it may mean being a 'fast follower', learning and benefiting from the experiences of others.

5. Be realistic about the organisational context

In seeking to move from the current state to the desired state, it's critically important to be realistic about the internal context for change and innovation. Carefully consider the capabilities needed, the cost of changing and acquiring them and the barriers that will need to be overcome.

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