WHITE PAPER

Why D2C Brands are Going Multi-Channel and How They're Doing It

Grab a seat and enjoy.
Read Time: 8 minutes

Why D2C Brands are Going Multi-Channel and How They're Doing It

Ecommerce has changed consumer expectations, altering the way they think and act. Retailers and online stores are no longer just a vehicle for completing a transaction for something a consumer needs. Shoppers seek a deeper relationship with the brands they buy from, especially in consumer-packaged goods (CPG) categories like apparel and footwear, health and beauty, and food and beverage. The online buying experience top brands have built has created a new type of shopper who seeks authentic, personal interactions with brands and often wants to join a community of like-minded buyers loyal to a certain brand.

Digitally native businesses (i.e., those that started online) have led this movement and put pressure on more established brands to build a meaningful connection with their customers. Indeed, the ability of direct-to-consumer (D2C) brands to meet customer expectations has fueled the increasing popularity and sustained success of these companies—40% of Americans made a D2C purchase in 2019, according to Multichannel Merchant. Bringing businesses and consumers closer together is increasingly valuable in a world where consumers are more brand-focused than ever before.

More than a decade after the first D2C brands appeared, CPG brands now understand why these forward-thinking brands have taken off. They have their own ecommerce sites that generate a significant portion of their revenue. While there is ample opportunity for these D2C sites to keep thriving, many brands are looking to expand into new markets to better meet the needs of their customers via wholesale, branded pop-up stores, online marketplaces and even social media. This is a response to loyal brand followers who seek experiences with those companies in more places.

The key is for businesses to not only launch those channels but thoughtfully link them together in a way that improves the customer experience while staying true to the fundamental principles of the brand they've already built. Meeting customer expectations everywhere they purchase goods is only possible with a prudent strategy and robust tools.

© GSI.INC ALL RIGHTS RESERVED

Direct-to-Consumer Takes Off

Before looking at how brands with a healthy online business can diversify, it makes sense to reflect on why the D2C model has thrived and the impact it's had on customer preferences and expectations.

Controlling the brand message and building loyalty

One of the primary challenges brands face today is they lack a way to showcase their brand message. Massive online marketplaces or large retailers are not adequate because they are price-driven and offer a vast sea of products.

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

- Put the brand message, including its vision and purpose, front and center, something many consumers appreciate as they increasingly seek connections with companies.
- Control how products are described and displayed, thereby shaping a consumer's understanding of them.
- Create a more enjoyable, memorable customer experience than a third party.

This ability to highlight a brand's vision and purpose has sparked the increase of loyal communities around them. Many consumers join a community because the brand's values align with their own, which is especially important to younger consumers. Those customers become the most valuable to brands because they will consistently drive future sales and have a high customer lifetime value.

Additionally, once consumers start buying from a company's site, this creates an extremely valuable asset: data. That data opens the door for personalization. A company can tailor product recommendations or discounts to certain customers based on their purchase history, age or location. The company can also send them marketing emails for sales and new product launches. That will increase conversion rates and, again, propel customer loyalty over time. And that's only the beginning—brands can leverage data to diversify by planning invite-only events or creating loyalty programs that your shoppers find valuable and reward your most loyal customers.

New products and markets

Under the old industry hierarchy, third-party retailers wielded most of the power. They decided which manufacturers or distributors 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 redistributes control of that process, opening up a realm of new possibilities for a business 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 increases).
- 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 D2C can drive significant revenue.
- More opportunities for personalization. A health and beauty company could, for example, email someone who purchased eye shadow and eyeliner in the past about its new, eco-friendly mascara.

In light of these opportunities, brands are more reactive to the preferences of consumers than large retailers, and that's one of the biggest drivers of their success. They rely on customer feedback to adjust or develop new products, even running polls about what new products customers would be most interested in.

© GSI.INC ALL RIGHTS RESERVED

The surging popularity of D2C has transferred the power to consumers. They now have a much stronger voice, shaping the company's decisions and strategy by voting with their wallets.

A D2C ecommerce site also simplifies the process of breaking into new markets, whether domestic or international. In the pre-ecommerce world, such development 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, even though there are still logistical and regulatory challenges that come with selling to new regions or countries.

Supporting New Channels

Make no mistake: direct-to-consumer isn't going anywhere. It's grasp on product industries will only strengthen in the years to come. However, many brands that started online or have a strong ecommerce presence are looking to capitalize on the loyal following they have developed by expanding into other channels.

The groundwork of finding a sizable customer base and driving repeat purchases is done; the next step is to find additional ways to reach this captive audience. It makes financial sense to sell more to existing customers—the cost of acquiring new customers is at least five times that of retaining them, according to a study by Invesp.

Consumers push for new experiences

Customers increasingly want to connect with brands in new ways and in more places. Since customers have more influence than ever before, businesses must find creative ways to fulfill that demand. Doing so will further boost brand loyalty and the lifetime value of customers.

Moving beyond just ecommerce is directly correlated to increasing competition in the D2C world, as well. Apparel and footwear, health and beauty, and food and beverage companies, in particular, must do more to stand out given the sheer number of competitors. Adding supplementary revenue channels acts as a protective shield should competitors start to eat into online sales.

As brands expand into new channels, they must stay true to the service, values and overall identity that brought them enough success to diversify. These experiences must speak to customers the same way the brand initially did to draw them in, so the company must think about everything from how products are displayed to the design of stores to the tone of product descriptions.

Leading the charge are digitally native businesses like Glossier (makeup), Warby Parker (glasses), Away (luggage) and Hint (beverage). All these companies have physical stores in large, strategic markets like Los Angeles, San Francisco, New York and Chicago. Others have partnered with longstanding retailers. Men's clothier Bonobos and sustainable clothing brand Everlane both sell clothes through Nordstrom. Shaving supplier Harry's, mattress maker Casper and toothbrush manufacturer Quip all found a second home for their products at Target.

A business' industry and typical customer profile will affect what channels make sense to pursue. For example, a pop-up store may make more sense for an apparel brand than a food company. But that food company could see impressive returns on a sponsored Instagram post from a celebrity chef or food blogger promoting its products.

© GSI.INC ALL RIGHTS RESERVED

This multi-channel strategy by newer D2C businesses has once again pushed legacy brands to reimagine their business models. They must find new ways to appeal to an audience that seeks online and offline experiences and a community of other brand loyalists.

Other channels to explore

Perhaps the most logical channel to explore for those accustomed to selling online is third-party reseller marketplaces like Amazon and Walmart. This can be a powerful way to reach new customers because it reaches a large group of consumers where they're already shopping. Being on consumers' radar early is critical when they can make a purchase with a few simple clicks. More than half of shoppers begin product searches on Amazon, a recent study says, and the ecommerce giant accounts for about 37% of all online sales.

From a practical standpoint, images, product descriptions, metadata and the like from an in-house ecommerce site can be re-used on these marketplaces, which should make it faster and easier to get started. The fulfillment and shipping processes should also mirror those of D2C orders, though the biggest marketplaces have strict shipping and delivery deadlines.

Another avenue to consider is partnering with a well-known retailer, like the digitally native brands that sell through Target. It may start with an apparel or grocery store offering a handful of products at a few stores. Another option is a "store-within-a-store," where a brand takes over a small section of the floor for a brief period (like during the holiday rush). A temporary pop-up store in a mall or shopping center in a few cities with a high concentration of customers is also an intriguing option for brands looking to try out physical retail. Brands with more capital may set up one or two of their own storefronts and expand from there, a la the digitally native businesses noted earlier.

	Risks	Technology Challenges
Marketplaces	• Limited control of brand identity • Everything is price-driven, price wars • Pay for data, if available	• Speed up order fulfillment/shipping • Setting up marketplace orders to flow through ERP/order management system • Branded packaging, order forms
Retail partnerships	• Retailer controls product presentation • Minimal connection with customers • Pay for data, if available	• EDI to send/receive orders • Fulfilling/shipping larger orders • Timely, accurate orders to avoid chargebacks
Pop-up/Permanent store	• Cost of space, store setup, extra employees	• Fulfilling/shipping larger orders • Distinct inventory planning
Social selling	• Reliance on third-party platform • Cannot control shopping/ checkout experience	• Integration with social media platforms • Higher chance of order surge if a post goes viral or an influencer advertises your product

© GSI.INC ALL RIGHTS RESERVED

Online-focused CPG companies are essentially following the path traditional retailers have followed over the last decade, but in reverse. As a brand's popularity increases, consumers call for the product in more places and inspire it to expand beyond ecommerce.

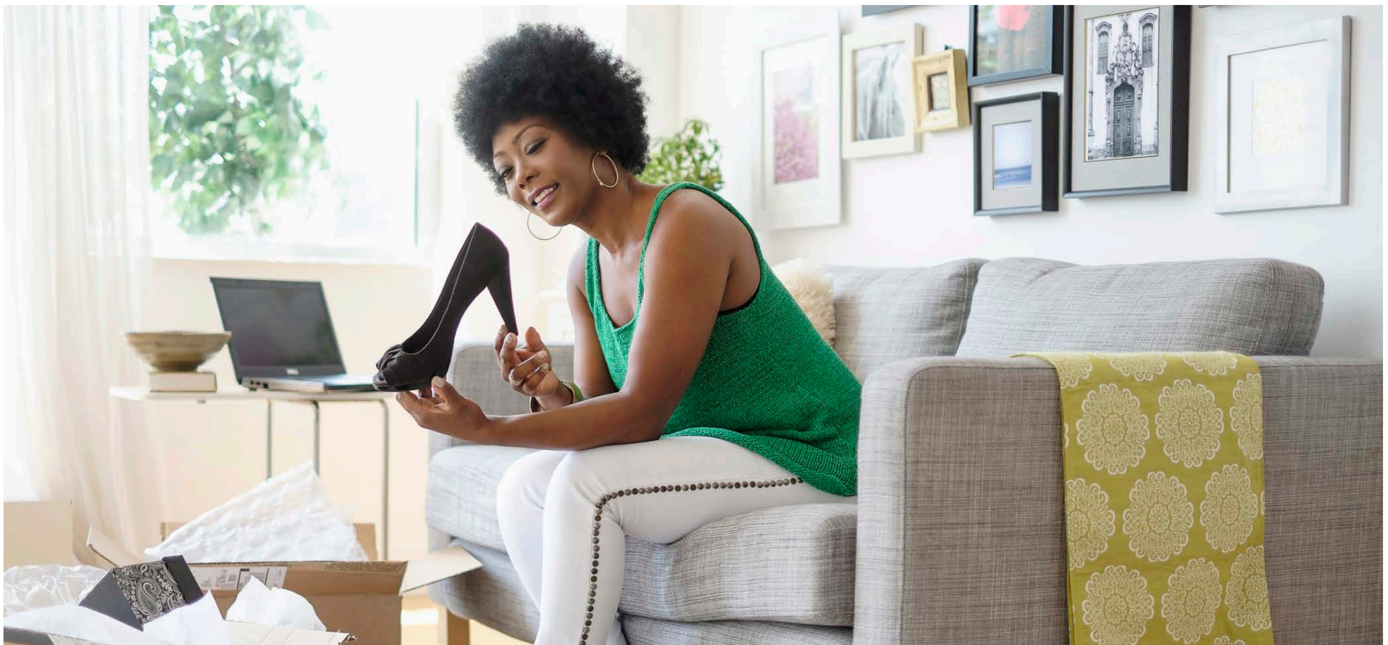
Options for new sales channels don't end there. In another example of meeting consumers where they already are, selling products through social media is gaining momentum quickly. Instagram allows its one billion users to purchase items featured in a post without ever leaving the app, a feature called Checkout. TikTok recently tested shoppable URLs that allow followers to buy items within the app. Facebook Store users can put items in their cart and check out directly on a brand's page. So-called "social commerce" has tremendous potential. This will become a crucial channel as more online shoppers try it and eventually become accustomed to buying through their feeds.

Risks of turning multi-channel

Breaking into these new channels does present some risk because the company is ceding control of its brand to partners. CPG companies can give specific direction to a retail store about how their products should be displayed and can create an "Amazon Store" page with logos and the company's mission. But this is like designing one room in another person's house rather than building a new house to one's exact specifications from the ground up.

This makes it more difficult to build personal connections with buyers, especially since price is the most important factor for most marketplace shoppers. A company's product is just one listing among many similar offerings. Price is front and center—customers often filter results to show the cheapest products first, and it's easy to get into price wars on marketplaces where many people are selling the same item. A brand will need to dedicate resources to ensuring it is portrayed as desired across these third-party channels.

Another key difference with third-party sales is businesses either cannot access or must pay for data when using resellers. For instance, if a protein bar brand sells its products on Amazon, it receives no information about those buyers. The food manufacturer doesn't even get buyers' emails,



© GSI.INC ALL RIGHTS RESERVED

much less their location or other demographics, while a direct-to-consumer online store gathers all that information at no additional cost.

While CPG companies should weigh these factors, they are not a reason to ignore additional channels, especially as multi-channel becomes less a choice and more a requirement. Pulling in revenue through these other channels will only become more important in the years to come as a multi-channel strategy continues to become the new normal.

And remember: these additional channels do not replace direct-to-consumer, they just complement it. Companies can—and should—stick to their bread and butter, still conveying their desired brand messaging, designing an outstanding shopping experience and collecting customer data on their own ecommerce sites.

Finding the Right Technology

When a company moves from selling primarily or exclusively online to making its products available through numerous channels, its operations become far more complex. That's true even if ecommerce still accounts for the largest chunk of business.

For example, large retailers require partners to have EDI to send and receive order information like product numbers and specifications, prices and more. These retailers also have strict rules for vendors around delivery windows, quality metrics, order accuracy and more. Failure to meet those rules results in hefty fines, called chargebacks, that can add up quickly. A pattern of problems could lead to the retailer ending the relationship altogether.

Similarly, Amazon has notoriously high standards for its millions of sellers. Businesses selling on the marketplace must eliminate any inefficiencies in order processing and fulfillment to ensure orders leave the warehouse quickly and arrive at customers' doorsteps when promised. Orders from big marketplaces often need to use that marketplace's branded packaging and order forms, as well. This will require close attention from staff, and as this channel's order volume climbs, it could require a dedicated team.

Branded physical stores, whether pop-up or permanent, require additional inventory reserves separate from that used for other channels. Certain products may sell better in stores than online, which affects inventory planning. Like with wholesale orders, a business will deliver products to its stores in pallets, and the process for putting together such a large order is much different than a two- or three-item order for a consumer. The list goes on.

A business often sells the same SKUs online, in stores and through third-party marketplaces. Inventory visibility is of critical importance in this situation so the operations team can see what is promised to each channel. Without that visibility, inventory management is next to impossible. A CPG company may run out of a certain product online or not be able to deliver a complete order to a third-party vendor. Those complications will damage relationships and could impact the brand's long-term success.

Scaling exacerbates problems

Selling through multiple channels expands the amount of inventory, orders and shipments to keep straight. And problems multiply as a company finds success and tries to scale. Companies just starting to diversify their business by adding these channels must think about the future—success often comes faster than expected. Furthermore, single-channel brands thinking about these other channels must consider whether they have the systems to support multi-channel.

© GSI.INC ALL RIGHTS RESERVED

Running multiple, siloed systems that cater to each channel and have their own data is not a sustainable solution long term.

For example, an ecommerce platform for D2C and a separate order management system for wholesale orders may get the job done early on, but it is not sufficient when demand increases. The lack of visibility into inventory, orders and customers from across the business could bring down the entire operation.

Those challenges often lead to a company replacing its business management platform as it diversifies, in the midst of hyper-growth. But that's a massive headache that will slow down the business, one that can be avoided by initially choosing a system capable of supporting future development.

A unified cloud platform

CPG businesses must invest in a scalable cloud platform like NetSuite early on, before these issues make for an untenable situation. NetSuite has the capabilities to serve as a central hub for these various channels, with dashboards that provide a comprehensive overview of the business and flag any major problems. It can automate many processes, thereby reducing the burden of managing all these channels.

NetSuite is built for today's multi-channel brands because it is a unified platform that will:

- Support all channels with native order management, inventory management and CRM, and modules for ecommerce and brick-and-mortar sales.
- Understand the differences in processes for planning, production, inventory management, shipping, service and customer support for each channel.
- Allow users to set up rules to logically separate D2C, marketplace, wholesale and retail store inventory so the system properly allocates orders and directs warehouse employees to the appropriate locations (case packs or eaches) for fulfillment.
- Provide a complete picture of the business in one place to facilitate better visibility and data-driven decisions, making managing the business more straightforward.
- Eliminate the burden of building and maintaining custom integrations with an industry-leading platform that offers reliable, battle-tested integrations.

NetSuite's unified platform will result in far less manual work for brands, reducing the opportunity for errors and the general frustration that comes with juggling disparate systems. The issues noted above may initially seem minor, but they will intensify as order volume climbs.

Capitalizing on the Opportunity

Hello Products

Hello Products is one of those digitally native brands that has reshaped the landscape for everyone. It makes all-natural oral care products like toothpaste, mouthwash, floss and toothbrushes with ingredients like activated charcoal and hemp oil.

> "NetSuite is not a piece of software, it's a platform. It's an integral partner of our business that helps us fulfill our ambitions efficiently and effectively."
>
> Craig Dubitsky, Founder, Hello Products

© GSI.INC ALL RIGHTS RESERVED

As Hello's unique items developed a following, drug stores and big retailers like Target started selling its products. These became key revenue streams to complement its loyal online shopper base.

That success led to CPG giant Colgate-Palmolive acquiring Hello in early 2020. That backing will allow Hello to reach more prospective customers and develop more innovative products.

Dyla Brands

Dyla is a beverage brand that makes coffee shots, cold brew and flavored drink mixes initially available at convenience stores and airports. After starting in 2012, success came quickly for the beverage manufacturer—sales have doubled every year since its founding. As revenue spiked, manually syncing inventory, order and customer information for the two brands in QuickBooks and keying in EDI transactions took far too much time.

To better manage its multi-channel business and realize the benefits of a unified, real-time view of key information, Dyla moved to NetSuite. The platform allowed the business to keep its operations team at three people even as its products became available in more than 50,000 stores.

"We have grown 500% year-over-year because we're able to put our resources on selling the product, and not a lot into the back-end," said Justin Lawrence, Head of Supply Chain/Operations and Finance at Dyla.

Dyla now sells its Forto coffee and drink mixes, Juicy Mixes and Stur, through its own ecommerce site. Customers can make one-time purchases or sign up for a monthly subscription. Its products are also available through third-party marketplaces like Amazon and Walmart.

> "NetSuite has helped prevent the back-end from being a bottleneck by giving us the structure, visibility and flexibility to meet any demand that comes our way without a lot of hassle. We have not once been limited by what our systems can do."
>
> **Justin Lawrence, Head of Supply Chain/Operations and Finance, Dyla Brands**

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.

© GSI.INC ALL RIGHTS RESERVED