WHITE PAPER

A professional guide to optimizing your D2C business

5 modern strategies for B2B manufacturers to future-proof their direct-to-consumer approach

Spryker

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Introduction

Direct-to-consumer (D2C) is currently one of the best ways for innovative manufacturing companies to enhance their digital footprint and build stronger customer relationships. This exciting model has positively transformed the way businesses interact with their customers, and if implemented correctly, can put your business on the fast track to growth and success. In the B2C environment, Direct-to-Consumer may already be considered an established standard in most industries. The same can be expected for B2B. Therefore competitive B2B manufacturers are already improving their strategies, focusing on customer experience and joining the D2C race.

So, what exactly is D2C? Well, it is a sales strategy where a company creates, markets, sells, and ships a product to the customer directly. Traditionally, many manufacturers in B2B operate in an indirect sales setup, utilizing wholesalers and resellers to serve the customers. This approach is gaining traction among B2B manufacturers seeking to develop relationships with end customers. Why? Well, because in B2B customer access is key for multiple reasons, ranging from access to customer data to expectation management. With this in mind, technology managers must be able to assess their current capabilities and plan for future success while mitigating risks.

Starting your D2C journey for the first time may appear to be a marathon, so pace yourself. In the D2C market's growing competitive climate, solely making goods and services directly available is insufficient. Instead, businesses must often enhance the idea with unique selling propositions (USPs), which we will cover in the next section. Yara Molthan is the business model expert behind this guide that will equip you with everything your business needs to cross the D2C finish line in first place.

YARA MOLTHAN

Yara is the Senior Director of Business Consulting at Spryker. With +12 years experience in digital commerce, she develops strategies in the e-commerce and D2C environment for leading global companies. Her core competencies include the conception of digital projects, acquiring and connecting new digital distribution channels, and operational management.

D2C optimization checklist

Below is a basic checklist to help you see if you're already headed in the right direction. Once you master it, you can start thinking about more sophisticated add-ons.

- [ ] You understand which needs are met by your direct (digital) business models and which ones are not
- [ ] You understand your D2C business model's USP
- [ ] Your content is digital-ready
- [ ] Your product portfolio is priced for direct-to-consumer
- [ ] You are constantly evolving your business model
- [ ] CRM is an essential component of your digital strategy
- [ ] With the help of data, your customer service can provide the best assistance possible
- [ ] Your brand and marketing strategies are founded on a clear vision for your customers
- [ ] You've created a community that keeps your customers in touch with you
- [ ] Your products are shipping-optimized in size, weight, and packaging
- [ ] Your logistics can ship packages to end customers as quickly as possible
- [ ] Operational excellence: you set new standards, you are an automation champion, and you distinguish yourself from the competition
- [ ] Your business model already has a lock-in effect (subscriptions), you can anticipate a high CLV
- [ ] Your trading partners are informed, and your direct-to-consumer business is distinguished from your trading business (or you have already completely abandoned this channel)

How to expand your D2C concept

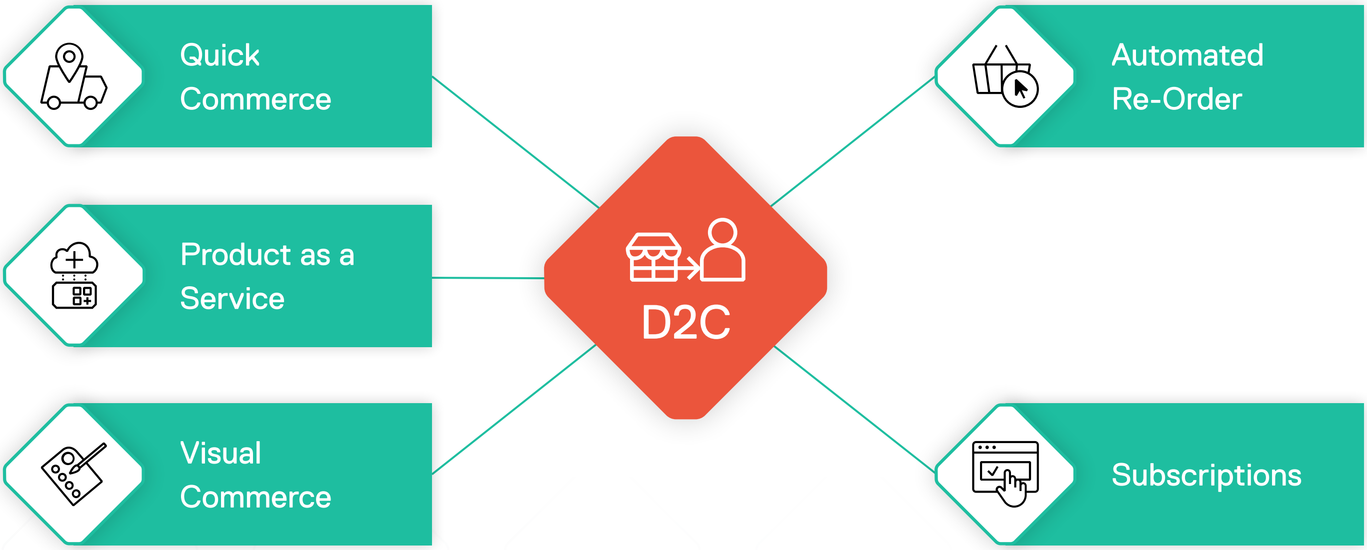
A robust D2C model needs a differentiator that encourages customers to establish a direct connection with your business. The customer's needs should always be at the center of the unique selling proposition (USP). Take for instance; if you intend to develop a new sales channel, you'd need to ensure it offers significant value to the end customer.

Consider a manufacturer in the construction industry. Their end customers are always busy, and every administrative task may be considered a burden. They have a strong demand for direct connection and prompt help. The device that is always at hand is most probably their mobile phone. Therefore mobile communication, for example, Whatsapp Messenger can satisfy their identified needs. However, if existing channels already provide these services, you should reevaluate your investment or find a special way to use the new channel to meet critical demands.

Whatever USP you choose to fuel your D2C approach today, remember that it will need to be constantly enhanced with new USPs tomorrow. USPs have, unfortunately, a short half-life because the market is rapidly progressing. Consequently, you must continually equip your target customer with 'new USPs'. The following parts will cover appropriate examples of D2C add-ons, recommended practices, and additional advice.

D2C add-ons

B2B manufacturers can strategically expand and develop their D2C business with a focus on add-ons such as Quick Commerce, Product as a Service, Visual Commerce, Subscriptions, and Automated Re-Orders. Let's explore each of them in detail.



Quick Commerce / Ultra Fast Delivery

Our expectations for how we make purchases have fundamentally shifted as a result of the democratization of technology. Today, we are accustomed to accessing anything, anytime, and from any location. The evolution of commerce has moved on to Quick Commerce, which comes after e-commerce (with its larger order volumes and extended delivery periods). Just-in-time has been an established standard in many B2B industries. Quick Commerce may be considered the overlap of the B2C trend with this concept.

Quick Commerce blends the ease of e-commerce with immediate access to goods through neighborhood or online retailers. It is designed to supplement physical or online stores when there is an urgent demand for a specific set of goods, but not to replace them entirely.

Quick Commerce is vital when a need for a product arises at short notice, and the lack of it could cause serious harm to a company's operations, such as losing money or delaying a construction project. It could be extra equipment and parts, necessary to keep on hand but are frequently overlooked. For instance, Würth supplies automotive chemicals, fasteners, hand tools and electrical supplies to businesses across the globe. Similarly, Bex a provider of specialized industrial accessories also manages the quick delivery of industrial supplies to job locations. Although this case is more B2B than D2C, it illustrates how fast delivery may become a significant differentiation as long as there is demand.

Another similar company is RenoRun which primarily provides construction products to contractors who own small enterprises. Materials and supplies are delivered on the same day to job sites and project managers don't have to leave the site to source missing materials.

An organization can use Quick Commerce in various ways depending on the sector, consumer behavior, and fulfillment infrastructure already in place. They can either function as a merchant on pre-existing platforms, or they may develop their industry-specific platform and take on the operator role. Platform owners naturally control the customer connection and profit from first-hand consumer information and third-party transaction fees. Again here the lines between D2C and B2B overlap.

Lastly, ultra-fast delivery can offer clients an exclusive premium service. Given the high cost to set up and maintain the infrastructure, from a technology, staff, and logistics standpoint, the profitability of such a business model would only be possible at a large scale or an additional fee. Businesses could potentially establish the service as a premium customer satisfaction and retention tool that is not meant to be profitable.

Challenges:

- Logistics and processing are exceptionally complicated and likely connected to significant investments
- It is necessary to investigate how many orders can be processed simultaneously
- You need to extend the delivery time or disable the ordering option if your limit is exceeded
- Fast delivery necessitates a high level of logistical planning, some of which is costly

Quick Commerce is ideal for ...

All businesses with products that are required immediately or can run out at short notice like DIY home improvement products or essential components for industrial or construction sites.

Product as a Service

The emergence of connected products and digital services has profoundly altered how we think about ownership and purchasing. Pay-per-use or flat rate business models are becoming more common in all industries. With Product as a Service business models, businesses offer access rather than actual goods or services. Customers must pay a set charge based on usage levels or a set recurring fee, rather than the entire purchase price. The product is therefore rented, not owned.

That model is already more prevalent when it comes to entirely digital products (e.g., software), where access can be granted at the click of a button, and the actual usage can be easily tracked. Think of training & development as an example. Companies can also use telemetry data to conveniently offer pay-per-usage business models for those innovative products as more physical products become fitted with sensors and are connected to the internet.

Pay-per-use is essential when there is occasional demand for goods or services, and full ownership wouldn't be appealing, for instance, because of the high acquisition or upkeep costs. Another common use case is when high acquisition costs make pay-per-use more attractive for cash-flow reasons, even though the customer might pay more over the product lifetime.

Another, more conventional type of pay-per-use is equipment rental. Renting can be a good option for large machinery, where storage and maintenance would be difficult or costly during downtime. It is also essential for managing the consumption of raw materials because the equipment can be offered to another user rather than lying dormant. Ultimately, Pay-per-use business models can draw in new client segments because of their improved flexibility and lowered entry barriers.

Challenges:

- Flexible costs for customers result in higher up-front investments for the product or service provider
- Operational setup and required infrastructure can be more complex

Product as a Service is ideal for ...

- Products and services used by more than one business or employee as a sharing object
- The demand is infrequent, and ownership would not be attractive (e.g., due to storing or maintenance)
- Companies aiming to avoid high investment costs for a product, which instead can be offered as a service

Visual Commerce

The core of this business model is Visual Commerce, also known as Configurator or Customization. Essentially, it's anything to do with the total or partial individualization of goods and services and its corresponding visualization. Personalization is strongly tied to visually mocking up the eventual outcome of the product. Any customization increases conversion and client satisfaction, a phenomenon known as the "Ikea effect." According to studies, consumers who invest time and energy into a product value it much more than a ready-made one.

A click line that guides the buyer through the many product attributes can easily be used to individualize a product or service. The result of this guided shopping experience is a product recommendation. Expectation management is essential here; therefore, combining guided shopping with visual commerce is the way to go.

A configurator then assembles or exchanges product features and can price and mock-up its appearance accordingly, typically supporting more complex types of individualization. If you have a large variety of products in your portfolio, you might want to start easy and use a product finder to guide clients through your options. Smart filters limit the options based on the customer's selections, ideally producing just one product. The buyer, however, perceives this as a personalization.

Additionally, customization reduces the price sensitivity of the buyer. The customer is already much more invested in the process, even though it might require more time and effort than other products. To use this business model, you need to identify components of a product that can be altered. It also depends on your current production set-up and technical capabilities.

Another crucial task would be calculating the cost and delivery time based on the customization options. As a business, you may create an experience that "seems" customized by simply facilitating a product finder. When your items are naturally fully or partially personalized or if you have a comprehensive product portfolio with numerous variants, you should consider this business model.

Even while customized items of every kind seem to be a big trend in business-to-consumer (B2C), Visual Commerce is even more applicable in B2B because most business-to-business products require some level of customization from the onset.

Challenges:

- Break-down of customization elements
- Operations have to be enabled to perform the customization
- Pricing and delivery time calculation can be challenging
- Production of visual mock-ups

Visual Commerce is ideal for ...

- Products that can be wholly or partially customized
- Comprehensive product portfolios with multiple variants (Product Finder)

Subscriptions

Increasingly organizations realize the immense potential of subscription models over standard one-time purchases. Subscribers typically receive ongoing access or regular delivery at lower yet recurrent prices.

The key advantages from a customer perspective of a subscription model include lower administrative efforts coupled with great flexibility due to short cancellation periods. Other subscription models even allow customers to commit to a set number of deliveries before the contract automatically expires after the final delivery. A subscription model offers further ease by eliminating the need to reorder for smaller, regularly needed products with predictable usage.

Businesses, in turn, profit from a steady, regular revenue source. Subscription models are great for client acquisition and retention. For manufacturers, subscription means an increase in customer lifetime and a simultaneous decrease of acquisition cost.

By design, a subscription-based business model starts a long-term relationship with the customer. Frequent client interactions enable retention strategies like cross and up-selling opportunities, such as subscription plan upgrades. These are usually more expensive but provide more services in turn.

Subscription models encourage businesses to be more user-centric and maximize user value. Ideally, the hurdles for cancellations are just as low as those for signing up. The good news is that because they would personally benefit from product upgrades and enhancements, members are typically more eager to provide valuable feedback.

Challenges:

- Orders must be generated automatically (recurring subscription intervals) and mapped technologically; otherwise, it will be time-consuming and error-prone
- The subscription should be customizable (pause, adjust quantities). A technical solution is required to avoid additional administrative tasks and customer frustration
- Stock must be readily available. A subscription where the goods are not reserved in time and delivery is delayed is not very useful

Subscriptions are ideal for ...

- A product or service that is required or updated regularly where consumption levels can be predicted
- Consumer electronics or software where full ownership would not be attractive for customers

> **"By 2023, 75% of organizations selling direct to consumers will offer subscription services, but only 20% will succeed in increasing customer retention."** — *Gartner*[1]

[1] Gartner, Top 10 Trends in Digital Commerce

Automated Re-Order (Auto Replenishment)

Automated Replenishment describes a business model that works similarly to a Subscription but is based on event triggers. An event trigger can be physical–for example, a smart shelf with integrated weighing technology replenishing on demand. The event trigger can be software that tracks data and algorithms like past buying behavior to predict future demand, resulting in custom order events.

This business model allows companies to increase order volume and collect valuable data. Customers can reduce their administrative workload and avoid running out of stock. Designing such event triggers is challenging. This is true no matter if they are triggered by software or hardware.

Whenever events are created through hardware, the devices must be purchased and programmed. This is either an investment for the company, or the devices can be paid for or rented by the customer. In this context, it is vital to consider the created lock-in effect, which is significant when calculating the break-even of such a hardware investment.

Furthermore, it is imperative that the events that result in orders are also fulfilled promptly. Otherwise, the benefits for customers are lost. Automated Replenishment is highly relevant when products or services are regularly needed, and their consumption can be more or less anticipated. Also, it can be attractive in scenarios where out of stock can result in significant penalties, loss of revenue, or additional costs for customers. This is the case, for example, in construction, where one missing item can result in significant waiting times for various parties.

In the B2B environment, supply chains are often designed in a just-in-time setup and have a more substantial financial impact. Therefore, the relevance in B2B can be considered higher than in B2C.

Challenges:

- An event that creates orders must be set or programmed
- Hardware requires an initial outlay of capital but has a significant lock-in effect
- Stock and fulfillment must be ensured by operational excellence

Automated Re-Orders are ideal for ...

- A product or service that is regularly needed and consumption can be more or less anticipated
- Businesses where stock outages can result in significant penalties, loss of revenue, or additional costs for customers (e.g., construction)

Conclusion

In conclusion, these growth strategies highlight the challenges of implementing D2C and how to overcome them, as well as charting a course for businesses looking to capitalize on this rapidly growing and innovative sector. Making some of these changes is costly, but the benefits can be significant in the long run. It is key not to consider the expansion of the D2C concept as a one-time project. Along with the evolution of digital commerce, D2C strategies are also changing all the time. D2C is a considerable area where businesses can change their relationship with e-commerce to maximize its benefits, ensuring they remain competitive in an increasingly connected online world.

Win the D2C race (without impacting your reseller network) and become a B2B marketplace. Discover how Marketplaces enable B2B Manufacturers to go D2C.

About Spryker

Spryker Systems GmbH is a privately held technology company headquartered in Berlin, Germany and New York, USA. Founded in 2014, Spryker enables companies to build sophisticated transactional business models in unified commerce including B2B, B2C, and Enterprise Marketplaces. Spryker is the most modern, fully composable platform-as-a-service (PaaS) solution with headless & API-based architecture that is cloud and enterprise-ready and loved by developers and business users worldwide. Spryker customers extend their sales reach and grow revenue with a system that allows them to increase operational efficiency, lower the total cost of ownership, expand to new markets and business models faster than ever before: Spryker solutions have empowered 150+ companies to manage transactions in more than 200 countries worldwide and is trusted by brands such as Aldi, Siemens, Hilti, and Ricoh. Gartner® recognized Spryker as a Visionary in the 2021 Magic Quadrant™ for Digital Commerce, just one year after it first appeared (2020), and has also been named as a major player in B2B e-Commerce by IDC. Finally, it is the only commerce platform to provide full B2B, B2C, D2C, and Marketplace capabilities out of one stack. Find out more at spryker.com

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