Thinking Beyond Revenue:

# 4 great reasons to invest in D2C in 2024

The Grocer VISION

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**Gavin Spencer, Shopify**

## Introduction

# From disruption to deliberation

As ecommerce has evolved, so too are consumer goods brands reflecting on what success in D2C looks like in 2024

The relationship between consumer goods and the direct-to-consumer (D2C) channel has undergone several iterations in recent years.

First, there were the swathe of early adopters, often challenger brands, looking to explore D2C as a way to disrupt the retail status quo. Then came Covid and the motivation for a bigger tranche of fmcg to set up functioning D2C platforms, practically overnight, as a way to tap into the mass migration to ecommerce. And now, as the balance between ecommerce and bricks-and-mortar shopping normalises, there’s a period of reflection going on, believes Dan Conboy, eCommerce Strategy Director of ecommerce agency idhl. “We’re now looking at what a sustainable use case for D2C looks like,” he says.

For many, the balance sheet doesn’t hold all the answers. Yes, there is money to be made in D2C. Just look at the likes of complete food brand Huel, which has built its now £185m business off the back of a thriving D2C channel. But for the majority of consumer goods brands (CPGs) the channel accounts for a small volume of sales when considered in the context of their overall business – a fact that can make the investment a difficult sell to C-suite at a time when budgets are under close scrutiny.

Compounding this challenge is the need to navigate greater complexities online, says Gavin Spencer, global accounts lead at Shopify. “Brands now face a combination of high customer acquisition costs and a much more competitive landscape to get their brand messaging across,” he says. “In many cases we’ll see brands have had to revaluate their approach and ensure it’s optimised for the ecommerce market that exists today.”

So, against this backdrop, what role should D2C play for CPGs in the current climate?

The reality is there are a range of compelling reasons to invest in D2C that go beyond straightforward revenue, leveraging the channel to differentiate brands, build better consumer connections and utilise data to gather higher quality insights too.

**This report will dig into four of those reasons, looking at how D2C can help to:**

**1** Building brand equity
**2** Engage Gen Z
**3** Inform innovation pipelines
**4** Facilitate first party data capture




Chapter One

# Attention, community and exclusivity: Using D2C to build brand equity

As brands battle against increasingly tough competition from private label, D2C channels can provide an invaluable tool with which to add value and differentiate

Cutting out the middleman has always been at the crux of D2C's appeal for UK consumer goods brands. Yes, this simplifies product sales, bypassing the (often bureaucratic and costly) process of securing a listing on supermarket shelves. But, just as importantly, it helps brands bypass the (equally bureaucratic and costly) process of in-store marketing to speak directly to end consumers instead. Used to its full advantage, this can be a valuable tool with which to elevate brand equity, at a time when that's rarely been more important.

"Now is a critical time for consumer goods brands to focus on brand equity due to the retail climate's increased consumer expectations and market competition," says Aubrey Harper, content marketing manager for the EMEA region at Klaviyo. "If brands can't establish brand equity, they'll be forced to differentiate in the crowded market with the lowest price—which may force them to cut into profit margin and business growth. Brand equity goes beyond product features and price, encompassing trust, authenticity, and the emotional connection consumers have with a brand."

Early adopters of D2C have long leveraged the channel  a D2C subscription model. "Graze really was the frontrunner for food and drink brands in this space," says Amy Thorne, managing director of Taste PR, who worked directly with the brand on its communications strategy. "They were using D2C data to shift and adapt their communications - from marketing to product design before it was commonplace to do so.

"The business leaned heavily into 'refer a friend' tactics which, once it reached saturation point, meant a pivot in strategy to build brand equity was required. [We] worked with Graze at this juncture to create campaigns that would brand build, including signing up Michelin starred chef, Simon Rogan to design a limited-edition box that highlighted the Graze's taste credentials and established an e-newsletter database where audiences could continue to learn more about brand values. As the brand entered retail, this alongside its strong D2C offer was a winning combination that bolstered the business's sale to Unilever [in 2019.]"

Ecommerce is a different, far more saturated market now than 10 years ago though, of course. So, how best can brands deploy their D2C platform to build brand equity in 2024?

There are three core pillars that brands can play with, suggests Conboy. First, NPD or marketing activity that attracts attention. "This could be a limited-edition collaboration," he suggests, such as the launch of a Crème Egg flavoured beer by Chicago brewery Goose Island in 2021 [see box] or Camden Town's team-up with HP Sauce in 2023 to create a new brown ale. "The actual revenues involved may be quite low, but the attention generated for the brand is high," he adds. Other ways to attract

## How Goose Island went viral with its Crème Egg collaboration

Chicago brewery Goose Island and Crème Egg manufacturer Cadbury enjoyed a PR windfall in March 2021 as news of their unlikely collaboration went viral. The release of Golden Goo-Beer-Lee Creme Stout available on Goose Island's website, a limited-edition beer combining milk, sugar, cacao nibs, and vanilla beans to give it a distinctive 'Crème Egg' flavour, sent consumers into a frenzy of anticipation, with stocks reportedly vanishing in less than an hour of first going on sale. A second limited edition run a few days later also sold out in mere minutes.

Though unit sales were small, the attention the D2C tie-up garnered for both brands was enviable. Not only did publications from the Mail Online, to Huffington Post UK and foodie mag Delish publish full reviews of the product, but influential YouTubers and TikTok-ers joined in on the action, helping the brand reach the full gamut of potential beer drinkers with a relatively small and low-risk concept.


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> **Aubrey Harper, Klaviyo**

attention include limited edition, seasonal or personalised products, all sold exclusively via a brand's own website. This often comes with the added bonus of premiumisation. A standard 360g bar of Toblerone can be picked up at Tesco for £5.50. Those buying a personalised version via the brand's D2C website will shell out £17, a 210% price hike.

The second pillar to consider is community, utilising D2C to forge a sense of belonging and shared values between consumers. This has been a direct benefit of the D2C model at subscription recipe box Mindful Chef, says its co-founder Giles Humphries. "We were one of the first brands to pioneer a closed Facebook community just for our customers," he explains. "This community allows tens of thousands of customers to share recipes, tips, experiences and their personal health journeys - something core to our brand's DNA - making healthy eating easy. This interactive environment not only cultivates a loyal customer base but also enables us to gather invaluable feedback directly from our consumers.

"This rapid and direct feedback loop allows the business to iterate faster than larger operators, using our agility as our strength," he adds. The business has held live Q&A sessions, shared user-generated content on social media and hosted virtual cooking classes, all to cultivate this sense of community between its consumers.

Third, is integrating a sense of exclusivity into D2C platforms. "You need to create a reason to visit and a reason to return," advises Conboy. That means ensuring a differentiated offer from what's available in retail. Options range from the more utilitarian, such as selling the full range of SKUs, including those unavailable in traditional retail, to the more creative, with exclusive offers, experiences or early access to limited edition drops.

By crafting a strategy that spans all three pillars - attention, community and exclusivity – consumer brands can create a level of brand equity that both justifies their higher price tag compared to private label and puts them on a par with the big brand personalities that often give start-ups a competitive edge.

### THE D2C CHECKLIST

**STEP 1:**

**Create a vision and pick a team leader**

To start, map out a shared vision for your D2C channel and select one member of the team to act as project leader, advises idhl's Conboy. "That person needs to galvanise a sense of purpose for the channel within the business, curating and bringing together the right voices and stakeholders to figure out – ideally, on a single page – why would we invest in the channel, what value would it bring and how should we measure success in terms of outcomes. You need the 'why' in order to go the next step of creating an action plan."



Chapter Two

# Engaging Gen Z with information, inspiration and values

Dubbed the 'most disruptive generation ever,' Gen Z have high expectations when it comes to brand presence online

They may still represent a smaller chunk of the UK consumer base than millennials but at 12.6 million people – or around 20% of the population - Gen Z are a demographic to be reckoned with. Not least as they've been dubbed 'the most disruptive generation ever,' their tech savviness and focus on corporate values a spanner in the works for any brand glued to the status quo.

In this way, how they engage with online platforms is often nuanced. After all, though they may be digital natives, they've been instrumental in the revival of bricks and mortar stores post-Covid, with two thirds more inclined to shop in physical retail, according to Forbes. But make no mistake, this age group interacts with branded D2C platforms more than any other, albeit as much for inspiration, information or reassurance on brand values as to transact. "To win the hearts and pockets of Gen Z [therefore], brands must build relationships with the customers," spells out Thorne. "We know this is a demographic that demands more of the brands it chooses to shop - and they're savvy."

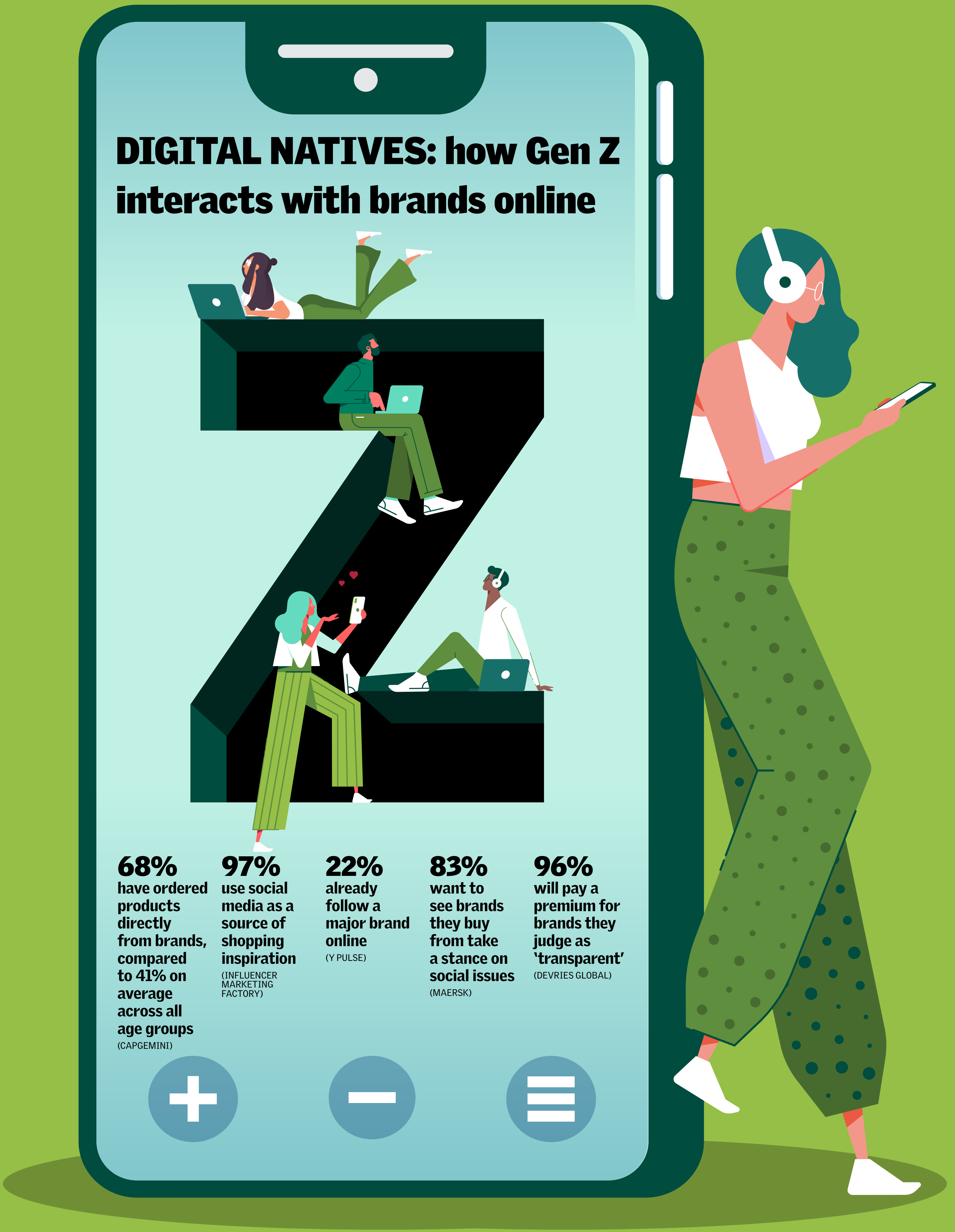
"Gen Z have a set of expectations that they want from brand interactions; less about a product purchase, more about a seamless and engaging shopping experience," adds Spencer. "Brands need to be able to meet these expectations and deliver personalised experiences that will have Gen Z customers coming back time and time again. The D2C channel is uniquely positioned to do this because it is one of the few that allows brands to engage directly with their customers."

Indeed, engaging Gen Z shoppers was one of the motivations for juice brand Eager Drinks in its decision to launch a D2C platform in September 2022, 16 years after it first began selling products in the UK. "Understanding the importance of digital natives, we'll be tailoring some of our latest marketing strategies to resonate with Gen Z," says founder Ed Rigg, of the brand's strategy. "Through content on our platforms they frequent, we'll build brand awareness and loyalty early on, creating a strong foundation for future market dominance as this demographic matures. We foresee a seamless cross-over between our current focus on D2C and future brand recognition in bars and restaurants. As Gen Z transitions into adulthood, our brand, already familiar to them – through our presence in bars and restaurants – will have a natural place in their mind."

So, how can brands best go about utilising their own D2C platform to build greater loyalty across Gen Z shoppers? "The aim should be to create meaningful and insightful content that informs the Gen Z shopper about your brand and guides them to your D2C channel, which is the one you ultimately want them to purchase from," suggests Spencer.

On a macro level, emphasise brand values, advises Thorne. "One of things that is most interesting in this current climate is the waning trust in traditional institutions and how people are turning to brands in a deeper, more emotional way. In a shift that's driven by Gen-Z, we now expect brands not just to not cause harm, but to proactively do good and research tells us that having a strong social purpose can help drive sales," she says. "Having a D2C platform gives brands an owned space to tell those stories, and to respond to shopping behaviours and trends in an agile way."

On a micro level consider greater integration with social media platforms, such as limited edition social 'drops,' gamification or influencer collaborations that drive interest in products sold via D2C. In August 2023, 'wonky' sparkling water brand Dash Water teamed up with Made in Chelsea star Sam Thompson to promote its new lime flavoured









SKU, offering discount codes to fans that shopped via its website and flagging the partnership with emails to its newsletter subscribers. That Thompson walked away with the 'I'm a Celebrity Get me Out of Here' crown four months later cemented what a smart move it was for the brand.

Loyalty programmes that tap into Gen Z's interests can be another winning formula, says Spencer. This could include tiers of loyalty that reward consumers on brand interactions, reviews or social media followings. Princess Polly, a global fashion brand founded in Australia, is a great example of this approach in action. "Its rewards programme is built around the concept of a music festival, and the tiers relate to this: General Admission, Front Row, VIP, Backstage Pass," says Spencer. "The really clever thing about the programme though is that it isn't purely a points per spend mechanic, but instead it also leverages the customer's use of their social media channels and interactions with the brand with the likes of product reviews. In doing so, Princess Polly is constantly getting the customer to engage via a combination of gamification and loyalty with a net benefit to both brand and customer."

Migrating effortlessly between online and offline channels, Gen Z expects brands to keep up. That means D2C platforms with rich, engaging content that speaks to the needs and wants of a generation that's grown up on their smartphone.

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> **Amy Thorne, TASTE PR**

## THE D2C CHECKLIST

**STEP 2:**

### Decide on a distribution model

For consumer goods brands that typically rely on third-party retailers to manage online deliveries, the prospect of distributing products direct to consumers can feel daunting. But with D2C often accounting for a small volume of sales, brands needn't create their own in-house logistics arm from scratch to launch on the channel, points out Conboy. Instead, consider a strategic partnership with either a distribution partner or existing retail customer to transport stock from A to B. This avoids the need to recruit permanent new specialist staff from the outset before D2C has delivered an ROI and keeps prices to end consumers down, by distributing alongside higher existing volumes.



Chapter Three

# Illuminating innovation pipelines with instant feedback

Failed product development costs consumer goods brands millions every year. But by capturing early feedback on D2C platforms, they can create innovation that hits the mark

Not only do new products enjoy a failure rate of nearly half (49%) even once they reach retail shelves, according to the Product Development and Management Association, but 95% at the development phase go no further, according to Harvard Business School.

These are expensive misfires, costing brands and manufacturers millions in wasted investment each year and even pushing some to consider AI as an alternative tool for testing the potential success stories in their innovation pipeline.

By utilising D2C platforms though, brands may find a simpler, less experimental way to gauge the appetite for their next big idea. "D2C offers a speedier route to market, a much-improved margin – compared to retail and wholesale - plus the opportunity to build long term, stickier customer relationships," outlines Adam Hardie, head of food and drink at Johnston Carmichael. It also "allows grocery brands to have improved customer insights, which helps them better understand the market's needs and wants, which is of course at the core of marketing principle."

"Being able to test innovation at more cost-effective levels is a great tactic for brands," agrees Thorne. "Not only does that showcase what flavours or innovations might be winners on the shopfloor, it builds brand equity with shoppers who see that company giving its audience first-dibs and refusal on its new products." It was a tactic she and her team used while working with liqueur brand Baileys on the relaunch of their Baileys Colada SKU in April 2023, collaborating with accessories brand Skinnydip to offer brand fans an exclusive 'holiday pack' of goodies via the Diageo D2C platform. "Savvy brands with great marketing teams can use this mechanic as fertile ground to connect with their audiences and create campaigns that have PR and social mileage from this sort of activity too."

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> **Adam Hardie, Johnston Carmichael**

So how can brands go about turning their D2C platform into a testbed for innovation?

Innovation can be trialled via D2C at any stage of the pipeline, from bouncing initial ideas off users to sampling early test concepts with small groups online and tweaking final iterations based on early sales data from the D2C channel.

Feedback can be gathered in lots of different ways too depending on how established the D2C platform and engaged its users are. "Brands could survey users to monitor initial reactions to a product or even run a voting exercise pre-launch where they distribute sample packs of new flavours ahead of release," suggests Conboy. "This could be followed up with an email that asks consumers to feed back their preferences."

Huel relies on a mix of these strategies. Not only does the brand test out the potential for new flavour and format ideas via its Huel Forum, where fans discuss all things Huel-related, it sends samples to small groups of 'Hueligans' for pre-launch feedback and then analyses feedback from its community post-launch to make tweaks where necessary.

Beware restricting any 'test and learn' strategy to only existing or loyal customers though, says Spencer. "The natural inclination is to lean into the 'loyal' customer with the assumption that they are the most likely to give detailed feedback," he says. "There is no doubt loyal customers can help make a good product even better and can inform on incremental gains on additional features and lines they'd like to see.

"From an NPD perspective, however, brands might want to look past their loyal customers to those who don't shop with them or those that possibly did once or twice, but fell off afterwards," he adds. "What insights can those particular lapsed or non-customer segments provide and how can they inform NPD on entirely new product lines or categories that don't necessarily exist yet within a brand's portfolios?"

Harness this insight and the potential insights for any brand's innovation pipeline ramp up a gear.

## THE D2C CHECKLIST

**STEP 3:**

### Take baby steps

Large upfront investments can feel daunting to the C-suite of any consumer goods brand in the current climate. Particularly where that investment may not instantly boost the balance sheet. So instead of rolling out an all-singing, all-dancing D2C proposition, start small instead, advises Spencer. "Use it as a proof of concept, learn and iterate as you go," he says. "You don't need to invest huge sums of money in monolithic tech stacks, you can grow and scale slowly. Take incremental steps to be able to get to where you want to go."

## Making the most of 'fantastic' feedback on NPD at Biotiful Gut Health

Kefir brand Biotiful Gut Health opted to launch their new Meal Booster range exclusively via their D2C platform earlier this year as a way to support their venture into a new category. The ambient range, a blend of billions of live cultures, prebiotic fibre, oats, fruits, seeds and spices designed to be sprinkled on breakfasts, salads and smoothies, was made available on their website from January 2, to coincide with the swathe of healthy new year intentions.

Launching via D2C gave the brand an opportunity to gather consumer feedback on the products, plus understand purchase behaviour and product usage, explains head of DTC Robert Manning. The team could also "gather data on pricing and promotions to help define the optimum consumer value proposition." Engagement on the platform has been "fantastic so far," he adds. "We have been able to understand key consumer questions around the product as well as the key benefits and flavour profiles that are most popular. All of the feedback and data we gather will be used to refine the product offering and to shape the future go to market strategy."



Chapter Four

# Prepare for a cookie-less future by capturing consumer insights

As debate rages on about the implications of a 'cookie-less' future, now is the time for consumer goods brands to double down on gathering first party data instead

For years, consumer goods brands have relied - substantially in some cases - on third-party data, i.e., data gleaned from other company websites, apps and search engines on customer's online behaviour. But major providers like Google and Apple have now announced their plans to phase out support for 'cookies' going forward, a transition that will require brands to find an alternative if they're to maintain their understanding of who their consumers are and what they want.

It's why we've seen major UK retailers both invest heavily in their own loyalty schemes in the last 18 months and monetize retail media, a source of revenue that's expected to net them £2bn by the end of this year, according to Goldman Sachs.

For brands though, this "fated end of cookies means they might want to capture and make more of their own data," says Conboy. "D2C provides a great opportunity for brands to do that."

But how can they best go about it?

Data can be captured at many levels on a brand's own site. There are the insights gleaned from sales via the platform, of course. What products are people buying? Which enjoy the highest repeat rate? Which offers or discounts drive the highest sales spikes? Then there's the data lifted from website traffic. How many visitors and which are the peak times? What's the conversion rate to sales? Where do most users come from, and which parts of the platform are they engaging with?

But there are also ways in which brands can capture a richer stream of data, suggests Harper, by creating opportunities for additional information sharing. To begin with, try sign-up forms, surveys and reviews, she suggests. "Because these data points aren't filtered through platforms like media advertising, they're the shining stars of D2C marketing. This data, also known as zero-party data, can come from first-time visitors to your website, customers who have placed an order, and those who sign up for your email or SMS lists are all prospects who can reveal data about their preferences."

Sign-up forms can appear as pop-ups, flyouts or embedded forms on your website, Harper explains, and gather names, emails and phone numbers, as well as additional data that may be used to personalise customer experiences, such as their birthday or dream holiday destination. Quizzes and surveys can be used to build up a better understanding of interest in new products (and identify those that lack relevance). And customer reviews can also feed into innovation and facilitate tailored recommendations. "You can also use positive reviews as user-generated content in future marketing campaigns," she adds.

And once you've captured the data you can start to make it work for you.

According to Harper, there are two key strands here: personalisation and

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**Dan Conboy, idhl**

segmentation. For the former, brands "use gathered data to personalise marketing messages, product recommendations, and overall customer experiences," she says. And for the second, use data to "segment your audience based on their preferences to send targeted and relevant communications."

Nearly three quarters (71%) of revenue now comes from repeat customers at Grind Coffee, in large part thanks to the way it's used the insights gleaned from automated subscription cancellation emails, for example. Depending on the reason entered for cancellation by a customer, an automated follow-up communication is sent out. If a customer cancelled as they didn't enjoy the taste, for instance, they'll receive a message containing tips on how to ensure their machine is working properly and that they're using the pods correctly. This tailored communication, created by Klaviyo, drives some of the highest revenue per recipient for the brand.

At Twinings, the brand uses subscriber data that's collected from purchases and product views and uses this to build segments for different taste profiles and run cross-sell campaigns promoting its range of drinks. Customers with preference for Earl Grey, for example, are targeted with herbal blends containing citrus, since they probably enjoy subtle lemon flavours.

Data capture has been a key element of the D2C proposal at Mindful Chef, says Humphries. "Data is the biggest opportunity presented by selling D2C," he says. "Our D2C platform allows us to curate a more personalised experience for customers from millions of data points; from tailored recipe recommendations based on their preferences to exclusive promotions and content based on their behaviours.

"The direct feedback loop inherent in D2C allows us to swiftly respond to customer needs which is important in the recipe box sector given the complexity of operations and the customer journey including third parties like our delivery partners," he adds. "This agility helps us develop our proposition and stay relevant in an evolving market."

The evolving landscape of consumer data and privacy has made first-party data more crucial than ever, points out Harper. "First-party data, however, allows brands to directly collect information from their audience. This not only ensures compliance with privacy regulations but also fosters a more transparent and trusting relationship between brands and consumers."


## Using D2C to create a centralised customer view at The Lakes Distillery

Founded in 2011, luxury single malt whisky brand The Lakes Distillery has always sold a substantial portion of its products via D2C, ecommerce accounting for some 10-15% of revenues, explains head of digital Karen Ripley. The platform has the advantage of providing higher margins and showcasing its brand story too. "Our digital platform is one of the channels where we can do some exciting brand storytelling, as well as delivering a personalised, inspirational brand experience with exceptional service and even an 'unboxing' moment," she explains.

But having re-platformed its ecommerce offer onto Shopify last year, the brand now also benefits from a centralised view of orders across both products and tours, providing it an insight into "true buying patterns and customer behaviour."

As a result, "we are instantly able to capitalise on customer activity as it happens, using automated marketing to help increase our basket size to over £100," says Ripley. "Capturing geodemographic data allows us to understand our consumer profile and develop our communication and targeting accordingly. For example, we know customers in the London region are the most likely region in the UK to purchase our single malt and we can update our communications accordingly." The brand is even able to forecast peaks in interest for gifts and use this to predict when a customer's next purchase may be. "Combining this with paid media activity and email marketing, we can really build on that customer relationship to deliver something exceptional," she adds.

### THE D2C CHECKLIST:

**STEP 4:**

### Mitigate any skills gaps

Building an effective D2C platform may utilise skills that aren't housed within a brand's existing team. Logistics, ecommerce, data-driven marketing... these are just a few of the specialist areas of knowledge that may crop up in taking a D2C channel from concept to launch, none of which are core functions at all CPGs. Identify any skills gaps at the outset to avoid momentum stalling further down the line. This may mean upskilling existing team members, recruiting in new permanent roles or working with external partners that specialise in ecommerce and / or D2C.

## Conclusion

# Unlocking the value in direct-to-consumer

If once upon a time CPGs rushed in to experiment with D2C, now there's a greater tendency to pause and reflect. But with the right execution, D2C can provide a raft of benefits for brands

If D2C can't substantially increase revenues, what value does it add?

How can D2C complement, rather than compete with, a retail strategy?

What skills and resources are required to make it effective?

These are just a few of the questions asked by brand teams as they navigate the financial pressures and complexities of the current landscape in consumer goods. And rightly so. If launching a D2C platform was a largely reactive step during the peak of Covid, it now needs a far more considered strategy if it's to survive in the longer term.

But, as has been outlined in the pages of this report, the C-suite would be remiss to dismiss D2C on the grounds that it doesn't prove itself as a standalone sales channel.

For those brands where the majority of transactions will continue to take place via traditional retail channels, D2C still offers a raft of compelling use cases.

First, by leveraging a direct relationship with consumers, brands can create differentiation, elevate equity and drive loyalty at a time when private label alternatives are often grabbing market share through price. Second, the platform can be used to create connections with Gen Z shoppers. Set to overtake Boomers in the workforce as early as this year, this generation of digital natives may finish transactions offline, but they rarely engage with brands that lack an online presence. Third is the role D2C can play in refining innovation platforms. By utilising a mix of sales data, direct consumer feedback, sampling and even brand community forums, teams can finetune new products from first concept to final iteration. Fourth and final is data. With the restrictions on third-party data amid rising privacy concerns, CPGs need to build up their own streams of first-party data or risk losing invaluable shopper insights.

"Though its purpose may have evolved in the last few years, D2C remains a compelling proposition within consumer goods"

A fully established D2C platform can tick all these boxes, and more. But there's also no need to start with an offer that has all the bells and whistle from the outset. Particularly given all the other elements to consider, including internal skills, project plans, distribution etc. Instead, start small. Identify a targeted purpose for the channel that complements your current business goals and start there. Create a small but focused team to bring this initial execution to life. Experiment with what works and what doesn't, always gathering data to make informed decisions and don't be afraid to transition through different iterations to find the approach that works for you and your brand.

This is also where the value of working with experienced partners such as idhl, Shopify or Klaviyo can come into its own. With so many different elements to consider at once, working with a partner can help remove initial workload, avoid early mistakes, mitigate internal skills gaps and refine your vision so that it delivers an ROI far more quickly than it might otherwise.

In essence, though its purpose may have evolved in the last few years, D2C remains a compelling proposition within consumer goods to create brand equity, support innovation and drive additive revenue. And by looking beyond the balance sheet, brands can better unlock that value.

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