Mastering D2C

The Next Frontier for CPG Manufacturers

The new challenge facing consumer products companies?

Creating a direct-to-consumer sales channel that drives increased shopper loyalty, greater profitability and sustainable growth.

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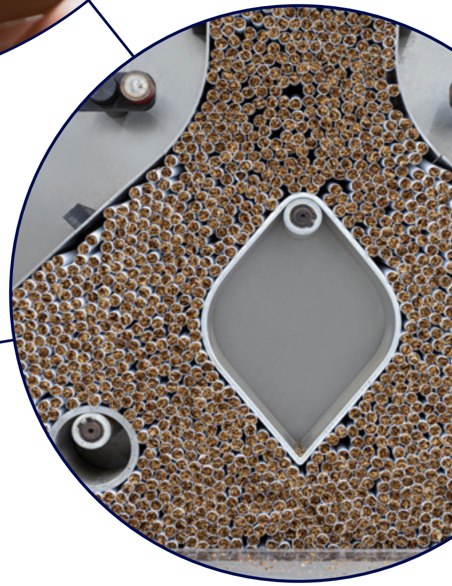
A New Era for CPG Brands

Across all industries, companies have been presented with significant new challenges — and consumer products goods (CPG) companies have been hit particularly hard. While sudden demand shifts and inventory issues wreaked immediate havoc on their supply chains, a longer-term impact has been the erosion of consumers' brand loyalty. Today many CPG companies are scrambling to re-establish the close shopper relationships and brand preferences they spent years, or even decades, carefully cultivating.

How exactly did we get here? Almost overnight, as shoppers were barred from entering physical stores, the traditional "browse and buy" experience disappeared. While consumers had explored e-commerce prior to 2020, suddenly it was the only option available, creating a significant shift in their purchasing behaviors.

Previous subconscious filters of the digital shopping experience — like brand familiarity and comfort-through-repetition — disappeared, along with leisurely browsing. Instead, online shopping turned into a practical, everyday experience driven by factors like low price and fast delivery, in which product brand mattered less and less. Online retailers offering subscriptions for repeat purchases of toilet paper, coffee, dog food and other essentials capitalized on this shift. The internet transformed into a global storefront where smaller, more nimble competitors quickly captured share from established CPG brands.



Regaining a Brand Foothold — and Capturing Market Growth

Today CPG companies are faced with regaining their strong brand footholds within a transformed omni-channel landscape. The challenge is a serious one. In recent years, leading CPG brands have generated only 25% of growth in US Nielsen-covered channels, despite comprising 50% of sales. Conversely, small- and medium-sized brands represent 45% percent of growth, with private-label offerings responsible for 30% of growth.[1]

But there is a silver lining. CPG companies have an opportunity not afforded to every business in the new normal. They can create a new channel that represents not only a completely new revenue stream, but also the chance to connect more closely with their consumers.

1 www.mckinsey.com/industries/consumer-packaged-goods/our-insights/what-got-us-here-wont-get-us-there-a-new-model-for-the-consumer-goods-industry

The Solution: Direct-to-Consumer

As CPG companies seek to rebuild their traditional brand strength, there's a straightforward solution: selling direct to consumers via an online shopping channel. By augmenting their traditional retail channels, CPG manufacturers can fuel short-term revenues, maximize margins and establish closer shopper relationships that lead to greater satisfaction, loyalty and market share growth over the longer term.

Just how big is the revenue opportunity? In 2020, L'Oreal's e-commerce sales grew by 62%, representing a record-high 26.6% of its total sales revenue[2]. In the third quarter of 2021 alone, Unilever's direct-to-consumer sales grew by 23%[3].

In Europe, where the pandemic compressed two or three years of gradual digital adoption into just one month, overall e-commerce sales in 2021 reached $465 billion. In the US, D2C e-commerce sales are expected to grow from more than $128 billion in 2021 to nearly $213 billion by the end of 2024. Globally, the direct-selling market is expected to grow from about $200 billion in 2021 to nearly $290 billion by 2028[4].

2 www.2luxury2.com/annual-results-loreal-luxe-division-outperformed-market-three-categories-especially-skincare
3 www.marketing-interactive.com/pandemic-hinders-unilever-s-sea-ops-ecommerce-sees-38-growth
4 www.grandviewresearch.com/industry-analysis/direct-selling-market-report

The Solution: Direct-to-Consumer

Unlocking Three Key Benefits

Successful D2C sellers are realizing three key competitive advantages over those businesses who continue to rely on third-party resellers and physical stores:

Market Growth.

For brands with stagnant or declining market share, D2C offers a chance to increase their leadership position. By connecting directly with consumers, they can curate the shopping experience, collect data, and gather insights that lead to product innovation and personalization, as well as more targeted marketing.

These improvements lead to greater sales across every channel, not just D2C.

Market Differentiation.

Mature brands and companies with strong retail sales can also benefit from D2C. They can better respond to seasonal demand across channels, while also creating limited-edition products that drive sales to a specific channel.

In today's age of "hype" and fleeting consumer interest, D2C is a new way to drive awareness and demand that has huge implications for both reputation and revenue.

Market Drive.

CPG companies that master the art of D2C order management, fulfillment and logistics can leverage this expertise to drive innovative new sales models, such as consumer subscriptions.

These models can improve customer connections and grow revenues, while mastery of end-to end processes can lead to better decisions, faster response times and higher profitability.

So What Exactly Is D2C?

Direct-to-consumer selling opens new opportunities for CPG companies, but it also poses a new set of challenges. Companies must manage a large volume of smaller-sized customer orders, achieve real-time inventory visibility, and master the logistics complexity that comes with flexible fulfillment and last-mile delivery.

CPG companies moving into the D2C space can opt to bring these functions in-house, or strategically outsource some activities by employing one of seven direct-selling models. As they make choices about their D2C sales strategy, CPG companies need to consider the many complexities and risks associated with each model, including current capabilities, investment capacity and channel dynamics. Organizations also need to draw consumers to the D2C channel, while also supporting their other sales channels. Conflicts among channels are unavoidable, and partner relationships must be delicately managed. Most importantly, direct sellers need to avoid disappointing today's extremely demanding, unforgiving consumers or endangering important relationships with their traditional retail partners.

No matter which model they choose, it's a given that CPG companies need to acquire new — or at least additional — competencies and physical assets to support direct-to-consumer selling. For example, they may need new inventory strategies, regional fulfillment centers or reconfigured transportation networks. In making every decision, they need to balance customer service with cost control, so the new D2C initiative ends up generating not only a new revenue stream but also healthy profit margins that support sustainable growth.

EXAMPLES OF D2C:

PARTNER → **OWNED**

Pass-through

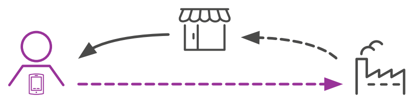
Manufacturer relies on partners for ordering and fulfillment

- Manufacturer routes customer interest to the nearest retailer
- Brand generates interest from its own website, but redirects the commerce experience to retailer partners

Marketplace

Manufacturer partners for ordering and directly owns fulfillment

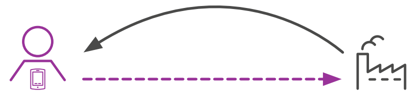
- Manufacturer sells on marketplace or e-retailer and drop-ships to customer
- Brand uses an existing 3rd party e-commerce platform to sell, but fulfillment is handled direct



Fulfillment via Partners

Manufacturer owns ordering, and fulfills from retailers or wholesalers

- Manufacturer sells online and takes order but fulfills from retailer
- Brand establishes website front-end to engage and take orders, but fulfillment is by 3rd party



Fully Direct

Manufacturer owns complete value chain from order to fulfillment

- Manufacturer sells online & directly fulfills the order
- Brand establishes digital storefront, warehousing, distribution, and fulfillment capabilities

	Pass-through	Marketplace	Fulfillment via Partners	Fully Direct
INVESTMENT	-	$	$$	$$$
ENGAGEMENT	-	+	++	+++

A Challenging Proposition

While it makes sense for CPG companies to explore the direct-to-consumer sales model, profitably and efficiently managing the end-to-end D2C supply chain — across every activity and function — is far from easy to achieve.

Legacy processes and systems that drove traditional go-to-market models are simply too siloed and disconnected to meet these new challenges.

The enormous volumes of orders and data generated by D2C selling, combined with the incredibly fast-paced nature of today's retail landscape, exceed the cognitive abilities of human planners.

A Challenging Proposition

It's a brave new world in which CPG companies must constantly adapt and respond — and face significant challenges:

Providing real-time order visibility

CPG companies are competing directly with e-commerce leaders like Amazon, as well as retail giants who have already perfected the complexities of the end-to-end "click and collect" process.

To succeed, CPG companies need to provide consumers with a satisfying shopping experience that's seamless and transparent at every stage. From the moment they click "buy" until the moment they collect the order, consumers have come to expect real-time visibility and communication.

Supporting flexible fulfillment and delivery

As they fight for market share against established retailers, CPG companies need to offer fast delivery, at no or low cost. They also need to offer flexible fulfillment options on the consumer's terms. Shopper are used to deciding exactly when and where they want to receive products.

This is unfamiliar territory for CPG companies, and manufacturers need to ensure they can deliver on their fulfillment and delivery promises, both accurately and profitably.

Managing complexities of smaller orders and bigger volumes

CPG companies accustomed to shipping pallets and truckloads to a limited number of distribution points are now tasked with picking, packing and shipping single products to a seemingly infinite number of homes, offices and other geographically scattered destinations. And as labor shortages continue and shipping charges skyrocket, it becomes even more challenging to act with speed, efficiency, and cost control.

Inventory needs to be as close as possible to the consumer, with optimal fulfillment decisions that balance service and margins.

Five Key D2C Capabilities

For CPG manufacturers, succeeding in the complex and unfamiliar D2C landscape relies on creating entirely new supply chain capabilities. Blue Yonder believes there are five key competencies required to win customers, increase market share, and achieve their profitability goals:

1 Visibility and Connectivity Across the Network

Creating real-time visibility across the entire supply chain — including a single view of orders, available inventory, and execution status — allows the entire organization to agree on priorities, set realistic expectations, and act in a synchronized manner. A digitally enabled always-on, multi-channel ecosystem breaks down functional boundaries, including key partners such as carriers, to deliver faster response times, improved profitability and increased satisfaction.

2 End-to-End Order Orchestration

Armed with critical, real-time insights on every customer order and every product, CPG companies can optimize the entire order-to-cash lifecycle. They can make smart, profitable, service-driven choices about where to position inventory, how to allocate scarce products, and which fulfillment and delivery nodes to use.

3 Flexible Fulfillment Options

Today's consumers expect fast, low-cost delivery and a range of convenience options such as ship to home, curbside pickup and buy online/pickup in store (BOPIS). Retailers have spent the last several years mastering this level of fulfillment agility. Now, CPG manufacturers must also add these capabilities on top of store replenishment. That means they need to enhance their capabilities to plan, orchestrate, and optimize resources — including humans, robots, equipment, and trucks — at every stage to define priorities and control costs.

4 Personalized Customer Experiences

Winning consumers' loyalty and repeat purchases is lot harder than it used to be. To create a competitive edge, CPG companies can leverage data to create tailored shopping experiences, product choices, and fulfillment offers that meet each consumer's unique needs. Consumer insights and personalization can not only lead to a one-time purchase and short-term revenue gains, but also drive lifetime value growth.

5 Intelligent, Automated Disruption Management

No matter how much data or visibility is built into the supply chain, D2C sellers are inevitably going to encounter unanticipated disruptions. Whether it's material shortages or sudden demand spikes, companies need to be prepared for the unexpected. Today's fast-changing world requires that exceptions are managed immediately or, better yet, predicted and headed off before they occur. Fortunately, artificial intelligence (AI) and machine learning (ML) make automated disruption management easier than ever.

Introducing:
Blue Yonder's Order Management & Fulfillment

If these seem like overwhelming obstacles to overcome, there's good news: Blue Yonder is redefining how businesses transform their commerce with domain-centric microservices powered by the intelligent supply chain that augment and scale with your business needs.

Blue Yonder helps direct sellers deliver personalized consumer experiences by unifying D2C activities under a single, connected workflow, from browse to fulfillment, with end-to-end visibility and shared insights.

Blue Yonder's order management and fulfillment solutions determine where inventory should be, for what purpose and delivered by which fulfillment option — based on demand signals, customer service targets and financial objectives. It provides real-time order tracking and updates, across the end-to-end supply chain. And when exceptions inevitably happen, the powerful, AI-enabled solution suite brings the supply chain back on track quickly, with little to no human intervention.

Introducing:

Blue Yonder's Order Management & Fulfillment

The Power of Synchronizing and Automating Every D2C Activity

Blue Yonder simultaneously optimizes four key facets of the D2C sales model, leveraging advanced AI to empower optimized decision-making and near real-time response:

Inventory Availability

Provide near real-time data on available inventory across the enterprise, with product reservation capabilities.

Commitments & Optimization

Capabilities to provide pre- and post-order fulfillment options and delivery date by utilizing a cost-based approach to increase conversion rates and improve customer satisfaction.

Order Orchestration

Manage and orchestrate orders, which ensures a single source of truth for all order transactions and provides visibility at each step of the order lifecycle to ensure order and fulfillment accuracy.

Order Fulfillment

Solutions streamline the process of accepting, prioritizing, picking, packing and delivering, while supporting flexible last-mile delivery options.

With these capabilities, CPG manufacturers are able to align on a shared understanding of cost and service objectives across the supply chain, and drive actions and trade-offs to maximize results. And because Blue Yonder's solutions can process thousands of transactions per second to provide real-time inventory and available to promise, CPG companies can confidently manage both B2B and B2C channels with the response time, scale, and performance so volume and inventory allocation no longer become a concern.

Blue Yonder's Unique Strength:
Connecting the Front and Back Ends

Direct-to-consumer selling is especially challenging for CPG manufacturers because it combines traditional "front end" activities like fulfillment and delivery with new "back end" capabilities that may be more unfamiliar, including real-time order management and inventory commitment. That's where Blue Yonder comes in. With proven technology that spans the supply chain — from inventory, to order, to orchestration and fulfillment — Blue Yonder is uniquely qualified to help CPG companies master end-to-end direct-selling.

Blue Yonder's order management and fulfillment solutions integrate the front and back ends of the D2C supply chain, meaning inventory decisions are directly tied to both current customer orders and forward-looking demand projections, spanning B2B and B2C available to promise and capacity to execute. And, because orders are matched to available products, the result is higher sales, greater profit margins and lower fulfillment costs. CPG companies can realize increased shopper satisfaction, at a lower cost-to-serve.

The Payback on End-to-End Connectivity Is Enormous

What kinds of results can CPG companies expect to realize from partnering with Blue Yonder to optimize their direct-selling initiatives? Customers have increased revenues by up to 10% by improving consumers' inventory visibility, product availability and fill rates. CPG companies can reduce cart abandonment and grow conversion rates by as much as 14% by creating an urgency to buy, as well as offering delivery speed and convenience options.

Blue Yonder customers can also expect significant margin improvements as they cut costs via AI-driven insights, fact-based decision-making and process efficiencies. By reducing promotions, stockouts and oversells, CPG companies can improve margins by up to 5%. And they can cut fulfillment costs by as much as 20% as they reduce the number of split shipments, drive down labor costs and minimize the need for expedited shipments.

Direct-to-Consumer Sales Are Fueling Supply-Chain Tech Growth

Software providers that help companies manage inventories are expanding as goods manufacturers look to sell directly to shoppers.

Read the WSJ article here

Real-World D2C Success Stories: Enabled by Blue Yonder

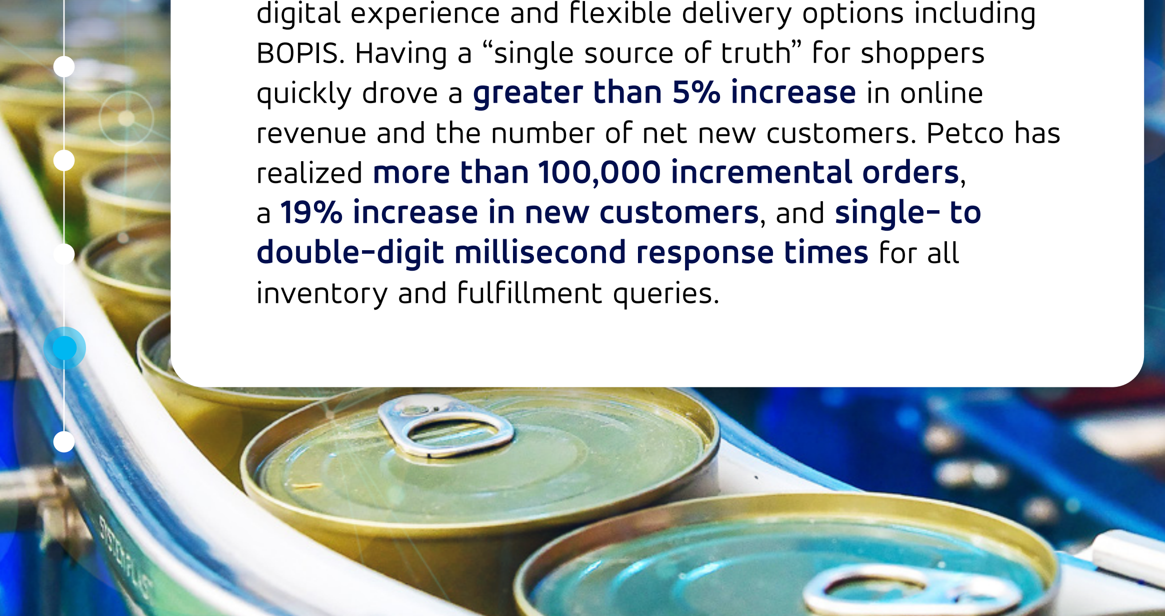
With industry-leading technologies that span the supply chain, Blue Yonder is helping the world's leading CPG companies and retailers master the complex challenge of omni-channel selling, including D2C models. Here are some examples of Blue Yonder's impact and real results.

petco

Petco needed to deploy a buy online/pickup in-store (BOPIS) capability across 1500 stores in an accelerated timeframe. Blue Yonder's Commerce for CPG was deployed in less than four months. Its capabilities unify Petco's inventory, fulfillment and customer location data in a single platform to create a customer-centric, personalized digital experience and flexible delivery options including BOPIS. Having a "single source of truth" for shoppers quickly drove a **greater than 5% increase** in online revenue and the number of net new customers. Petco has realized **more than 100,000 incremental orders**, a **19% increase in new customers**, and **single- to double-digit millisecond response times** for all inventory and fulfillment queries.

Walgreens

Blue Yonder helped Walgreens meet consumers' growing expectations for fulfillment speed and flexibility, accelerating its omni-channel roadmap so customers have a complete range of choices when it comes to how products are fulfilled across and between stores, distribution networks and micro-fulfillment centers. Blue Yonder's microservices approach led to a fast transition that didn't disrupt Walgreens' existing operations. Digital sales grew by **116%** following the rollout. Today Walgreens can guarantee item availability in **30 minutes** when a customer chooses BOPIS, and orders can be delivered in as little as one hour if they are placed when local stores are open.



Capture the D2C Opportunity with Blue Yonder

The challenge of mastering D2C may seem daunting, but the rewards are well worth it. CPG companies can capture an entirely new revenue stream, as well as gain valuable insights that strengthen their relationships with consumers and drive incremental sales — no matter which channel they are shopping.

The key to D2C success is leveraging the power of the intelligent supply chain, from order management through final delivery, to accelerate and seamlessly connect the diverse activities involved in direct selling — many of which are new to CPG manufacturers. These technologies are designed to unlock the power of real-time data and create the end-to-end visibility that's so critical to making optimal decisions across all sales channels. Enabled by AI and ML, Blue Yonder solutions can easily manage omni-channel complexity, reveal trade-offs, and balance costs and service in a way that leads to long-term success.

While Blue Yonder's advanced capabilities are readily available and easily deployed via a microservices approach, it's important to recognize that every company's D2C challenges, risks and opportunities are different. With a broad range of proven solutions that span the supply chain, Blue Yonder stands ready to help all customers achieve their own D2C success story, quickly and cost-effectively.

Ready to start exploring the benefits of direct-to-consumer selling?
Contact us today to schedule a demo of Blue Yonder's Commerce for CPG

BlueYonder