

Driving Growth With

THE NEW CONSUMER-CENTRIC DTC MODEL

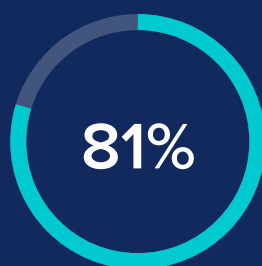


Executive Summary

The list of concerns keeping consumer goods CMOs up at night is growing rapidly. Few CMOs overall are likely sleeping well given the state of the world, but the challenges facing consumer goods brands are arguably as business-altering as any other industry.

Just consider the ways in which consumer goods brands' worlds have been turned upside down. While CMOs previously had to worry about just generating awareness and traffic – still no small feat – now their responsibility is the entire consumer journey. Not only is there a wider remit, but consumers have also evolved. Selling products isn't just about price and quality anymore. Consumers care about their experience with a brand and are quick to buy elsewhere if their expectations aren't met. In fact, 81% of consumers want a relationship with a brand.¹

The singular brand goal that looks to combat all of these challenges is growth. But as long as CG brands continue to rely on retailers, they limit their control over relationships with consumers and consequently relinquish major opportunities for growth. And with a boom in marketplaces, that retailer dependency will only increase. Yes, CMOs still need to push the growth of their brand awareness and attention, but they also must drive the growth of their customers' sales and direct relationships. This requires brands to move away from the ways in which they historically operated, mainly because they have never had to worry about these areas – from acquisition and data collection to one-to-one engagement and conversions – until now. The shift involves expanding strategy and operations beyond the traditional CG model for top-of-funnel tactics to include the bottom of the funnel, from nurture and conversions all the way to getting the product in a consumer's hands.



of consumers want a relationship with a brand.¹

¹"2021 Loyalty Barometer Report." Merkle. March 2021. Accessed, March 15, 2022.

What The New DTC Success Model Offers

After everything that's taken place over the past two years, it's understandable that CG brand marketers feel like they are either behind the pack or could be doing more. And that's OK. Better late than never certainly applies here. But there's no question that it is time to act, even if that means improving on what you believe is an already decent program. That's why in this ebook, you will learn the new definition of DTC and how our redefined DTC success model will empower your brand to:

- 1. Connect and interact directly with consumers in real time.**
- 2. Gain control over the full consumer experience.**
- 3. Build a first-party database that allows you to inform and then go beyond your brand and marketing goals.**

We cover common obstacles consumer goods brands face when building their DTC strategy, using our new DTC success model to shift from a transactional value approach to relational value, and developing a consumer-centric DTC maturity model for a strategy that grows with your business. First, let's discuss why consumers need to be at the center of your DTC approach.



SELLING PRODUCTS ONLINE ISN'T ENOUGH

As we mentioned, the product isn't enough anymore. Sure, your soda is refreshing, or your shoes are comfortable, but so are countless other brands' sodas and shoes. What may seem like a differentiator to you is often a basic feature of every brand. Because of this, the consumer must be at the center of your experience, with the product being a vehicle for their self-expression. With endless options at their disposal, consumers are less loyal and more willing to leave for another brand that better caters to their needs beyond the product if your brand cannot keep up.

With high demands and expectations from both the brand and consumer perspectives, CMOs and marketing leaders are also on a short leash. The solution is a shift in how to leverage technology, engage with consumers, and measure success. It is not the outdated direct-to-consumer strategy that just meant selling products online yourselves. This is a holistic, consumer-centric approach that brings brands and consumers closer together across every touchpoint along their journey. It's not enough to move DTC. You must have a consumer-centric DTC plan in place going beyond just the 'commerce' component.

Even more so than the avenue it offers to sell products is the direct relationship you now have with your consumers, the data you will receive and the ability to have live information about them. In fact, if you want a sustainable DTC strategy, selling products can't be the only goal.

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Redefining the Direct-to-Consumer Approach

As we established, direct-to-consumer marketing isn't just a way to sell products, although it has grown exponentially in popularity. In fact, 80% of consumers will make at least one purchase through a D2C brand within the next 5 years.²

The customer-centric data collected from a DTC strategy can provide a north star for the organization that stretches beyond marketing and aligns business units across the organization on the goals and strategies that must be implemented to reach those goals. Moving forward, it also requires a shift in mindset around what DTC is and what it can do for brands.

THE TRADITIONAL DTC MODEL

The traditional DTC approach and ways of defining success don't factor in the value of data. Instead, the return on investment for DTC has historically been measured strictly by conversions. Brands have been thinking about DTC as purely a sales strategy and not also a marketing strategy. Meanwhile, marketers previously measured success by the number of transactions acquired and the profit margin from those transactions.

This model is pretty simple. After the cost of product development, marketing, and shipping, how much money did you make? But with more sophisticated technology available to track more data than revenue alone, the success model becomes much more nuanced.



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of consumers will make at least one purchase through a D2C brand within the next 5 years.²

²"Going mainstream: Diffusion's 2021 Direct-to-Consumer Purchase Intent Index." Diffusion PR. December 2020. Accessed, January 5, 2022.



THE CONSUMER-CENTRIC DTC SUCCESS MODEL

Consumers have shared that their experience with a brand is as important, if not more important, than product price and quality. So, a more sustainable strategy for retaining current consumers and obtaining new ones is to create valuable and impactful consumer experiences. Brands need to think more long-term and bigger picture than a single transaction. Here are three components to our consumer-centric DTC model.

Component 1: A new definition for success

Start by redefining what success means for DTC. Rather than measuring the number of transactions made on a commerce website, measure success by the value of the consumer relationship. ROI isn't just about the dollar amount, it's about the opportunities for insights and innovation. It's time to move from transactional value to a relationship value, which leads to brand loyalty. Because when you build a solid relationship with a consumer through personalized experiences, you expand the opportunity from one transaction to a lifetime of transactions. This will also require brands to move beyond short-term measures as the value in DTC is not in the immediate return but longer term benefits, including more consumer engagement, cost savings, and consumer advocates.

Consider the data your brand can leverage – and the experiences it can drive – for consumer relationships when you invest in DTC. A more direct, personal consumer relationship means entering into a value exchange: their data for your better experiences. Seventy percent of consumers are willing to share personal information with brands, but only in exchange for some kind of value.³

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³"Digital Trust in the IoT Era." Accenture. January 2015. Accessed, January 5, 2022.

Component 2: A new value exchange

However, the value exchange cannot just center around the sale. No relationship works when one side is trying to get something out of it at all times. A framework based on the relationship rather than the transaction involves providing consumers with a variety of benefits that can be used to identify the right value exchanges for consumers, including economic, convenience, social, altruistic, or entertainment value. And that value pays off in the end. For example, consumers are 131% more likely to buy when educational content is provided by a brand.⁴ The most important thing to keep in mind is that you need to offer an experience that has the same value to the consumer as the value in data you're asking them to give.

The more data you acquire, the more you can leverage insights to drive personal consumer experiences. For example, here are just a few ways you can utilize first-party data to personalize consumer experiences and build lasting relationships:

Where the consumer lives

- Does the season and location impact what your prospect needs from your product line?
- Is it appropriate to customize messaging based on time zone?

What channels the consumer interacts with your brand

- Does your prospect prefer email, SMS, etc.?

What products a consumer previously purchased or viewed

- Do they want to subscribe to a specific product purchase renewal?
- Can their previous purchases inform additional products that you can recommend to them?

Consumers are 131% more likely to buy when educational content is provided by a brand.⁴

⁴"How Educational Content Impacts Purchase Power, Brand Affinity and Trust." Conductor. 2018. Accessed, January 5, 2022.

As you can see, the consumer relationship that is cultivated using first-party data becomes a huge asset for your brand and part of your brand equity. Building your first-party database and how you can leverage that information adds value to your brand itself. Brand Equity is no longer just the perceived value of the brand but defined by how engaged your consumers are with your brand.

Component 3: The data framework

After you determine a compelling value exchange and identify what consumer data your brand needs, you also need to establish a framework to activate the consumer data you collect. To help guide DTC efforts, we use the Collect, Connect, Activate Flywheel. This involves collecting data to build a consumer profile, connecting the data to get a single view of the consumer, and then activating personalized brand experiences to humanize every moment.

Personalizing consumer experiences to acquire data not only provides value for your brand, but also value to the consumer. In our digital-first world, they expect your brand to utilize data to create experiences that are remarkable, frictionless, and efficient. Consumers want more control and personalization, and CGs want to own the relationship with the consumer rather than leave it up to retailers. Both parties win.



LAYING A SOLID FOUNDATION

When you pivot to this new success model, it's essential to establish a solid foundation to build your DTC practice. First, find your value proposition. Beyond a great consumer experience, what value does the product itself provide for the consumer? To find your value proposition, get together with your team to make sure you have the answers to these four questions.

1. Why should a prospect ever buy from you – versus a retailer or competitor – and then why should they ever come back again?
 2. How can you pivot from channel metrics (cost per lead, return on ad spend) to consumer metrics (customer lifetime value, net promoter score)?
 3. What do you need to witness a positive ROI?
 4. What value are you willing to offer your consumers in exchange for their data, information/preferences, and ongoing engagement
 5. How long will it take to net a positive ROI? It won't happen overnight, but it will happen with ongoing consumer dialog.
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Essentially, it boils down to knowing your prospects and the value of their records. Your brand can utilize first-party data for internally for market research and product innovation or externally for targeted messaging and personalized experiences.

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CREATING A CONSUMER-CENTRIC DTC MATURITY MODEL

Before you land on a technology suite to use for your DTC strategy, consider where you want your brand to be one, five, and 10 years down the road. Once you know where the company is headed and what kind of growth you want to see, you have a better idea of what technology will get you there. A great way to lay out your roadmap is with this three-stage digital maturity model.

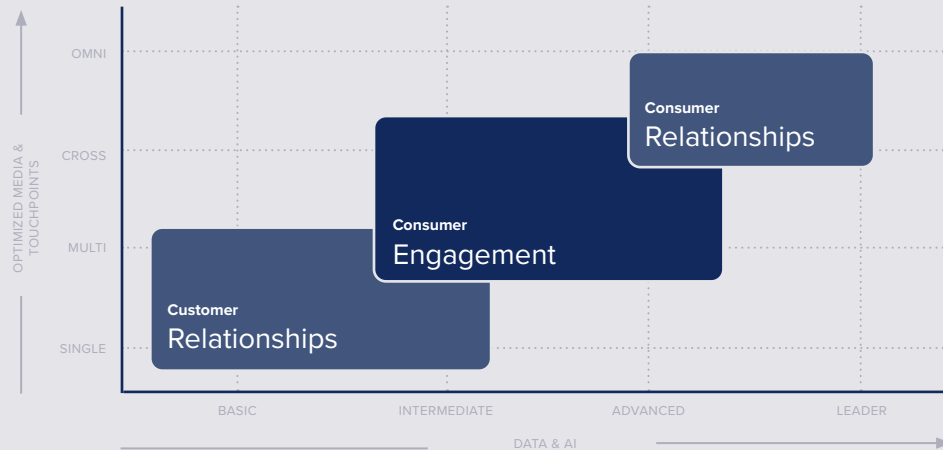
Stage 1: Customer relationships

The first stage of the digital maturity model is where most CGs spend their time, which is focusing most of their time and budget on their established relationships with retail customers. But now is the time to make the move from customer-focused to consumer-focused. To do so, you should be collecting first-party data and centralizing that data in a couple of ways. The first is to collect first-party data and create understanding of who is visiting your site and use to interact directly. Another is to optimize your media spend with this data. The interactions are across one single channel and the first-party data you collect is on the basic to intermediate level, but can be used to make your advertising more efficient. You may also have artificial intelligence with basic workflows available to consumers at all times and grow your relationship with them.

Consider platforms with these capabilities to start stage one:

- Connect 100% of your marketing data with an end-to-end intelligence platform
- Create data profiles and manage consent with a data marketplace





From a KPI standpoint, important metrics to prioritize in this stage are return on media spend and awareness statistics across the board.

Stage 2: Consumer engagement

Advancing to the next stage in this consumer-centric model involves a more mature approach to collecting data that includes data so you can engage with your audience directly, not only consumers but also prospects who haven't bought from you yet but are shopping. This is where the value exchange comes into play. You should be driving awareness and interacting with them on an omni-channel basis with intermediate to advanced data and AI.

Step it up to stage two with platforms that have the following capabilities:

Segment, analyze, and personalize data with a CDP

Activate campaigns using data-driven insights

Real-time personalization and interaction with consumers

KPIs at this stage should be around channel activation and engagement.

Stage 3: Consumer relationships

The last stage of the maturity model is to create a holistic experience that meets consumers where they are across channels and touchpoints. This involves an omni-channel approach from the beginning of the consumer journey with awareness to conversion and finally to loyalty, and you should be using data not only to drive DTC transactions, but also informing your customer service and using those insights to drive innovation. At this point, when you implement advanced technology for this progressive stage, we would consider you a leader in data and AI.

Advance to become a leader in your industry with platforms possessing these capabilities:

- Mobile- and user-friendly ecommerce
- Real-time customer service automation and interactions
- Personalize at scale with consumer-centric activation
- Visual data for helpful insights that inform marketing strategy

KPIs at this final stage move from more activation metrics to more loyalty-based measures of success such as share of wallet and customer lifetime value.

Use this maturity model as a blueprint for transitioning your brand to the new DTC success model. You don't have to do everything at once. Start small in phase one and mature your marketing operations with data as your business grows.



Conclusion

Consumer goods brands can no longer rely on retail partners to carry the load when it comes to the second half of the customer journey. It's time to eliminate one-and-done buyers by engaging directly with consumers and prospects using a consumer-centric DTC model. While it can feel like a heavy lift to get a DTC strategy up and running for consumer goods brands that traditionally sell product in stores, the value of collected data and ownership of the consumer experience far outweighs the cost. The consumer data asset you create allows your brand to intervene in the moments that matter for consumers, engage with shoppers, become top of mind for individuals before they start shopping, and earn consumer loyalty. Additionally, the technology you invest in for DTC enables new efforts that drive higher share of wallet, longer lifetime value of the consumer, and strong brand affinity.

Previously, this was all difficult to measure, but it becomes simpler when you change how your brand measures success by switching from transactional value to relationship value and moving from brand value to consumer value. After redefining marketing and brand goals for this new DTC success model, it's time to start building your first-party database and leveraging that data to connect directly with consumers and meet business outcomes.

ABOUT MERKLE

Merkle is a leading data-driven customer experience management (CXM) company that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The company's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive hyper-personalized marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With 12,000 employees, Merkle is headquartered in Columbia, Maryland, with 50+ additional offices throughout the Americas, EMEA, and APAC. Merkle is a dentsu company. For more information, contact Merkle at 1-877-9-Merkle or visit www.merkleinc.com.

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