



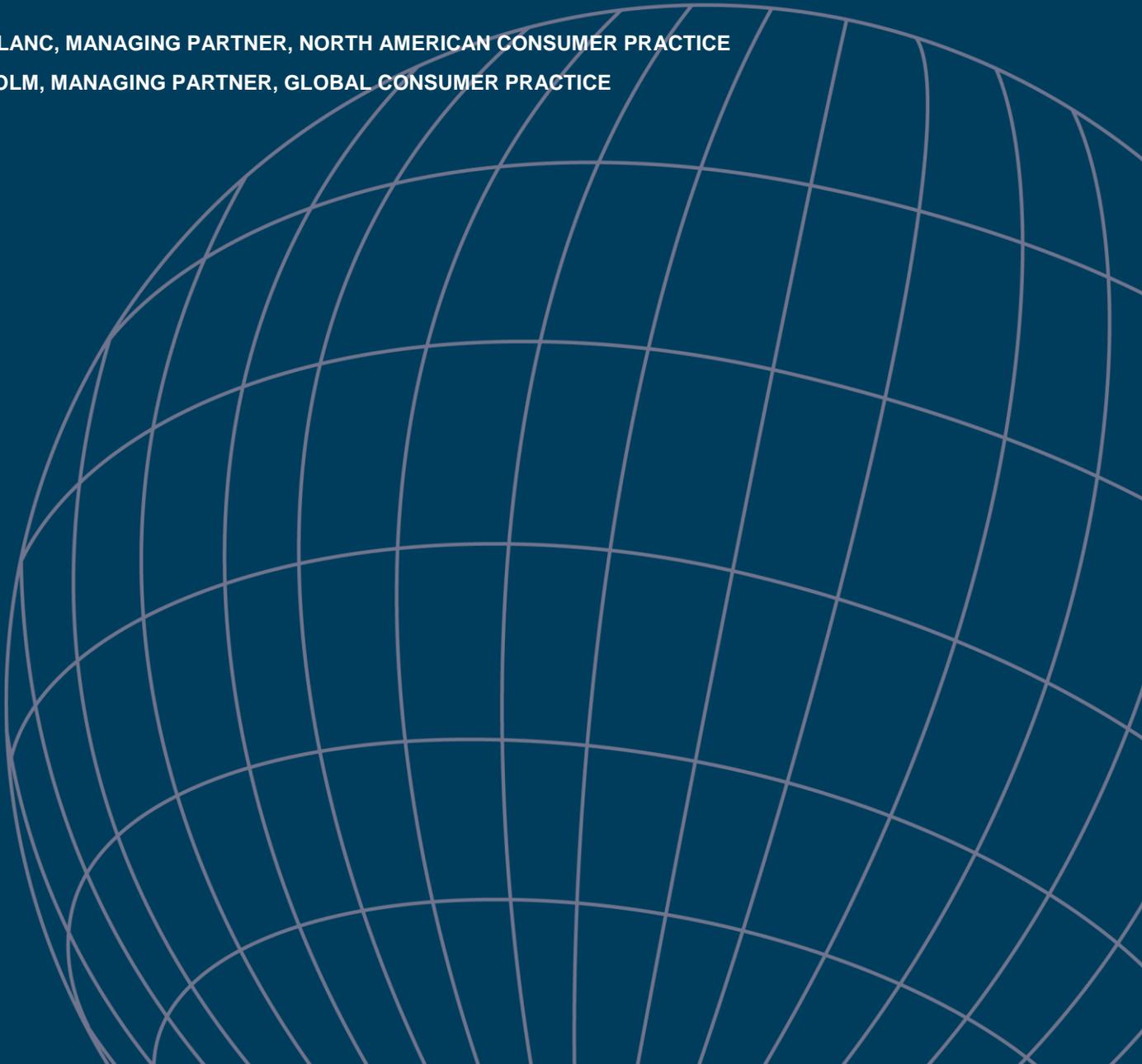
WHITE PAPER • JULY 2018

Direct-to-Consumer Retailers:

Building New Ways to Connect with Customers

KRISTI LEBLANC, MANAGING PARTNER, NORTH AMERICAN CONSUMER PRACTICE

ROD MALCOLM, MANAGING PARTNER, GLOBAL CONSUMER PRACTICE



Executive Summary

Direct-to-consumer companies (DTCs) are disrupting traditional retail business models by continuing to develop new methods to reach customers and build brand loyalty.

The success of first-generation DTCs encouraged a wide range of new DTC entrants and led many established retailers to adopt innovations pioneered by DTCs.

As a result, the DTC marketplace is becoming increasingly crowded and DTCs are having to find new ways to engage customers, create communities, and distinguish themselves from their competitors.

DTCs are striving to consistently create personalized customer experiences, develop more authentic social influencer messaging, build AI-empowered chatbots, and connect with customers via mobile and video content more effectively.

DTC Pioneers

DTCs bypass established distribution networks by marketing, selling, and shipping directly to customers. They typically manufacture themselves or use a contract manufacturer to create a unique or compelling product offering.

By controlling every aspect of production, marketing, and sales, DTC companies generally incur lower costs than traditional retailers and most importantly, they are better able to design and enhance the customer experience.

First-generation DTCs created innovative ways to connect with customers via their websites and social media to create loyal customer communities that grew through both old-fashioned word-of-mouth and social media sharing.

Some of the early DTC pioneers that helped to establish the new retail business model include:

- **Warby Parker:** The eye glass company created a process where people could test their eyesight online and see themselves in different glasses frames – thus eliminating the need for people to go to an optometrist's office.
- **Everlane:** The online clothing retailer created an infographic that revealed all the expenses to make a shirt, from cotton to cutting to finishing and transport. The infographic spread on social media, creating 20,000 new fans. The company followed up with its first product, a simple \$15 shirt, which sold out almost immediately. The company continues to provide transparency in its pricing.
- **Glossier:** The genesis of the skincare and beauty company was a blog (Gloss) that discussed the makeup rituals of celebrities and generated 1.5 million views a month. Eventually the blog evolved into a cosmetics company that actively involved blog readers in product development and created a highly engaged online community.

Customer Experience

- **Soylent:** A maker of meal replacement products, Soylent allows customers to engineer their own recipes. Through insights gained by extensive customer interaction, Soylent constantly improves and updates its products – much like a software maker.

Following the success of DTC companies, many legacy brands have invested heavily in DTC channels. Nike plans to grow its DTC business by 250% over the next five years. Under Armour's DTC revenue grew by 17% last year and now accounts for 35% of total revenue. Once reliant on department stores, DTC sales now account for more than 50% of Ralph Lauren's revenue.

Generating a great customer experience is the single most important factor behind the success of DTCs. The best DTCs consistently delight their customers by delivering product in the most thoughtful, convenient, engaging, and pleasant manner possible.

The challenge is to keep improving. As companies harness the power of mobile communication and social media to deliver better customer experiences, consumer expectations continue to rise. More than ever, customers demand a seamless experience and the ability to quickly find exactly what they want.

In addition, many customers want to connect with brands in a deeper way. They like to know the back story of the brand and how other people perceive and use the company products. They're looking for a sense of community and shared experiences.

Strategies that DTCs and other retailers are using to raise the bar on the customer experience include:

- **More personalization:** By virtue of owning the entire customer experience, the DTC model enables the collection of far more customer data than other retail business models. The best DTC companies utilize that data to analyze customer purchasing habits and browsing history to recommend products that are aligned with the customer's preferences and interests. The challenge is to avoid overloading the customer with too many recommendations and instead target the customer with special offers and that are precisely tailored to their personal interests.

Some companies are going further and providing expert help to customers, so they can find exactly the right product(s) for their needs. Bounty Hunter, a DTC wine club, provides "wine scouts" with extensive experience in the wine industry for every customer. Warby Parker provides a simple, short quiz to help customers define the glasses frames they're seeking, recommends five possible frames, and will ship all frames free of charge to customers on a trial basis.

- **Authentic social media messaging:** While celebrity endorsers will always exist, their influence is waning. Instead, micro-influencers are on the rise – people on social media that have built up a small following. For example, in the health and wellness world, yoga instructor and blogger Allie Lerner promotes yoga-inspired clothing made by a company called Spiritual Gangster. In the fashion world, Marta Pozzan uses her large social media following to promote a variety of apparel brands.

- **AI-Powered Chatbots:** We've come a long way from chatbots that offered drop down menus and took a user through a laborious process to answer a single question. Newer chatbots powered by artificial intelligence and natural language processing offer retailers a cheaper, smarter and more efficient way of engaging customers, helping brands deliver everything from 24-hour customer service to personalized product recommendations – all without human intervention.

Rarecaret, a DTC jeweler, uses an AI-powered chatbot to educate customers about diamonds and other jewels to assist in finding exactly the right piece. The Victoria's Secret chatbot, VSPINK Kik, not only provides customized lingerie styles, it also matches users with other style bots and bloggers.

- **Mobile:** Smartphones have emerged as the most popular devices for browsing the web, with 51% of people now preferring their phones. A customer-friendly mobile is an absolute must for all retailers.

Many of the better apps do more than provide just a catalog and a search engine. The video rental company, Redbox, allows users to reserve a movie from their phone, so the DVD is waiting for them when they get to the kiosk. ASOS, a U.K.-based online apparel company with a global focus allows users to select prices in 15 different currencies, shop for apparel in their size only, and view a short video of a model moving in the clothing.

- **More Video Content:** Nothing on social media is as compelling as good video content. The statistics are startling: YouTube users watch a billion hours of video every day. Facebook users view 8 billion videos a day. 82% of Twitter users watch videos from that platform.

Photographs of products offer a limited amount of information. A video is a great way to show how a product can be used by people.

Glossier, the DTC cosmetics company, has a very popular YouTube channel with 52 videos of people applying or using their products. Instant Pot, a DTC appliance company, became a sensation in the 2017 holiday season by making videos that showed how easy it was to cook great dishes using the pressure cooker.

The Challenge Ahead

The DTC product category is becoming increasingly crowded. New entrants are constantly emerging and established retailers continue to build a web presence and embrace a DTC approach for a part of their sales. The challenge for all DTC will be to build a unique marketplace identity through social media channels and continue to find new and better ways to connect with their customers.



Established in 1989, DHR International is one of the largest retained executive search firms in the world, with more than 50 offices around the globe. We conduct search assignments at the board of director, C-level, and functional vice president levels. DHR's renowned consultants specialize in all industries and functions in order to provide unparalleled senior-level executive search, management assessment and succession planning services tailored to the unique qualities and specifications of our select client base.

DHR International

Worldwide Headquarters

71 South Wacker Drive

Suite 2700

Chicago, IL 60606

P 312.782.1581 • F 312.782.2096