IGNITE2X

Direct-to-Consumer (D2C): A CPG Guide to Selling Direct

Converting initiatives for your brand from Customer Experiences to Digital Transformation.

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Dissecting CPG Digital Transformation

Today, digital transformation means reinventing how companies operate, engage customers and deliver products and services by pivoting their organization from product-centric to customer-centric. This approach also includes how businesses adapt their talent, processes and culture to take full advantage of digital opportunities.

And while no two digital transformations are alike, the foundation for change is the same:

- Customer-first culture
- Technology infrastructure that supports many stakeholders
- Streamlined direct to consumer channel
- Customer experience is king

Subject matter experts are the cornerstone that will help you and your brand stay on top of the latest technologies, present marketing insights and opportunities in digital transformation.

Brands that have mastered digital transformation have three things in common:

1. They built a stronger brand presence to capture a larger share of sales and enhance brand loyalty.
2. They accelerated organic growth by building a Direct to Consumer (D2C) channel that converts consumers into customers.
3. They discovered ways to continuously differentiate themselves as they make changes throughout the organization.

Dissecting CPG Digital Transformation

For decades brands would thrive on making promises to customers and then fulfilling those promises. Today, brands live or die on the customer experience. Every single touch point—marketing, advertising, shopping, purchase, social, content and more—informs that experience.

Many CPG brands exclusively rely on dealers and retailers to reach new customers and build brand awareness. However, this isn't where customers want to be. According to Forrester, 43% of customers prefer to buy a product directly from the brand that manufactures the product, rather than the distributor that sells it. In addition, 20% of those buyers are willing to pay marginally more for the opportunity to do so.

By creating a direct to consumer channel, you can work to increase engagement, even during down sales cycles, and leverage those customers to engage new customers to grow your brand and drive sales. Envision your direct to consumer channel as a marketing engine to grow your customer base. A well-oiled machine that feeds potential consumers into email and digital campaigns that encourage registration and customer profile creation.

Embracing the Digital Transformation

To succeed in customer experience, brands must embrace digital transformation. However, many marketers are still struggling with how to implement change at the deepest levels—rethinking organization, people, technology and processes, as well as business and marketing strategies. Not everyone will be up to the challenge and tasks that align with the customer's needs.

Even though the digital transformation will vary from brand to brand, core attributes will be crucial to success including:

- Developing a streamline process
- Exploring new sales channels
- Creating a cohesive omnichannel experience for buyers and customers
- Defining technology infrastructure
- Leveraging the data to formulate insights
- Supporting internal organizational adoption

The Pivot

Protecting your brand from future crisis

The Pivot

The Catalyst for D2C

Some business leaders never make the pivot to transform—and then their businesses fail. Many incumbent brand marketers have been caught off guard by digital-first challenger brands. Some got caught in the vortex of 2020 pandemic and may never recover. The list can go on and on highlighting the reasons why.

The COVID-19 crisis has been the catalyst for D2C. Those brands that were ready for D2C, excelled and gained a position of strength, while our offline brick-and-mortar businesses made rapid attempts to sell online for the first time. Some call this The Pandemic Pivot.

Strategic pivots have emerged in CPG channels that have never sold direct in their company's history. Since 1869, Heinz never sold direct until they launched their first ever D2C initiative in 7 days during the pandemic. Heinz's new D2C online service called Heinz to Home, enables consumers to purchase product 'bundles' and have them delivered to their door. While Lindt, a Swiss chocolate company launched in just 5 days.

The Pivot

Many startups, wholesale and retail businesses found themselves in a must do scenario, dealing with new processes and technology to survive. Delivering digital discounts, curbside pick-up,-changes to automation and processes to enhance their customer experiences. Many discovered that they could attract online traffic and drive digital sales for the first time.

Overnight, wholesale and retail-only businesses have found themselves on the cutting edge, offering digital discounts and curbside pickup, and automating workflows to improve their customer experience. Despite statewide lockdowns, international border closures, and supply-chain disruptions, DTC brands have attracted Black Friday–like online traffic.

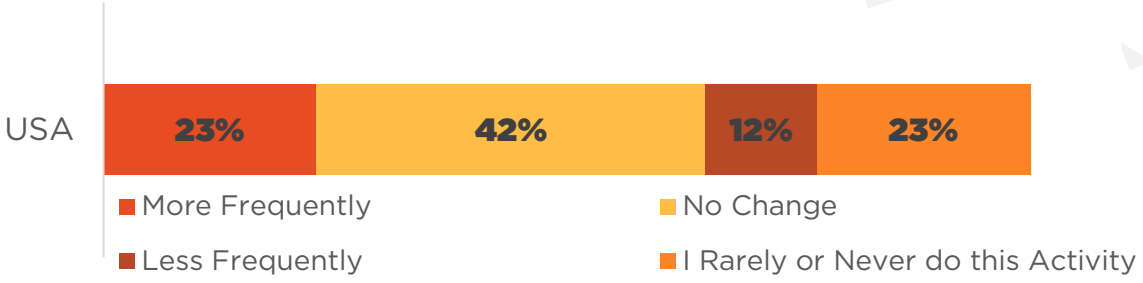
We find ourselves at a tipping point: Nice-to-have business capabilities are now must haves.

What brand managers and business owners started to realize was that selling direct can insulate their brand against a crisis. Consumers around the globe reported spending more online as the coronavirus spread.

In the U.S., change in eCommerce usage increased and total **U.S. CPG sales increased $8.5 billion, or 15 times normal sales**, with eCommerce growth nearly doubling.

Change in ecommerce usage to purchase products normally bought in-store due to coronavirus (COVID-19)

Worldwide as of March 15, 2020.



SOURCE: Ipsos © Statista 2020

It is becoming obvious that the global pandemic accelerated the trend toward ecommerce, it has also increased CPG companies going D2C. These brands found that selling direct empowers them to:

- Increase recurring revenue with subscriptions
- Own the customer relationship and data
- Compete with established brands with your own private-label brands
- Take on Amazon

The Pivot

Growth in Commerce Platforms

Brands are discovering that they are at a tipping point: Nice-to-have business capabilities are now must haves. They are seeing the world's largest and most storied brands abandon legacy platforms. They're launching D2C initiatives fast, and slashing costs at the same time.

Shopify, helps brands build a global commerce operating system along with a growing set of tools and capabilities that enable merchants of all sizes to sell to anyone, anywhere. Tobi Lütke, CEO of Shopify, views the company as a brand partner for accelerating custom ecommerce. He believes the pandemic has brought 2030 to 2020, with a rapid acceleration of consumer buying behavior and online retail trends. Their company has seen 97% growth in the second quarter and 119% YOY in 2020.

Impact of COVID-19 with Shopify:

- New stores created on the Shopify platform grew **71%** in Q2 2020 compared with Q1 2020.
- In Q2 2020, as **39%** of our brick-and-mortar merchants in English-speaking geographies are now using some form of local in-store/curbside pickup and delivery solution, up from 26% in early May 2020.
- A large number of merchant upgrades to Shopify Plus in Q2 2020

> With the rapid shift to online commerce, massive disruption to conventional employment, and growing conviction that opportunity needs to be more evenly distributed, entrepreneurship has never been more important. With all of these changes, our core principles remain the same: everything we ship is designed to lower barriers to entrepreneurship and reduce friction wherever we can.
>
> Tobi Lütke, Shopify CEO

The Pivot

Empowering Marketers

The accelerated shift to D2C commerce brought about by the Coronavirus will remain long after the pandemic subsides. Whether COVID-19 caused you to expedite your D2C launch, or reprioritize selling direct ahead of other objectives, D2C can protect you from a future financial crisis and empower you to control your business fate.

Capitalize on your D2C opportunity by:

- Defining your D2C goals.
- Diversifying revenue streams with premium, custom, or new offerings like bundles.
- Leveraging D2C to launch new products and learn about customer actions to share with retail partners.
- Using customer data to tailor rewards.
- Developing deeper ambassador programs.
- Communicating with sales team to inform and elevate your offline strategy.
- Building a roadmap to collect interests and behavior data from your brand loyal customers.
- Protecting your brand from future crisis.

Marketers have a new role and opportunity:

- **Power at their fingertips.** A true opportunity to enhance the customer experience (CX) in a way that until recently was impractical. Through large data sets and predictive analytics, marketers can fine-tune offerings to match everyone's profile across their entire customer base.
- With cloud-based marketing suites, marketers can **enable one-to-one marketing at scale.** Content can be delivered in the right context to the right person at the right time. These technologies are setting the new standard in integrated CX.
- **Marketing...meet technology.** Technology implementation is not the same as digital transformation. What is the difference: investment in talent and culture, and a willingness to rethink operations and processes.
- **Choosing the right partners is critical.** Determining the best fit to navigate your plan will be crucial to handle all levels of transformation, including tech implementation, talent, strategy and creative services.

CASE STUDY

Ocean Spray Focusing on Agility and Innovation During Pandemic

When you think of innovation Ocean Spray Cranberries, Inc. isn't a brand that comes to mind first. However, since its internal Lighthouse incubator launched in the fall of 2019, Ocean Spray developed a new initiative around innovation. The cooperative enables an entrepreneurial mindset that elevates ideating and bringing new products to market in a five-month timeframe. This approach has become a game-changer and has helped the company navigate uncertainty during the pandemic crisis.

"Agility is more important than before," said Rizal Hamdallah, global Chief Innovation Officer at Ocean Spray. "When you already are in that game and this type of situation happens, it tests your mentality."

Ocean Spray launched its Atoka line of herbalist craft beverages direct-to-consumer. Atoka is a new brand of herbal tonics and herbal shots that have been piloted through the Lighthouse incubator.

While retailers are focused on new pandemic issues like keeping shelves stocked and protecting customers and workers, Atoka's strategy shifted to going direct to consumers and driving social engagement online through ecommerce.

"It wasn't our plan, or at least it was not a top priority originally," Hamdallah stated. "It happened in the past six or seven weeks. Health is for everybody. The challenge for companies, including us, is how we bring this health and wellness product to everyday consumers, to people that live in rural areas or people who can only afford a $2 product instead of a $10 product."

Ocean Spray's commitment to innovation doesn't end with the Lighthouse incubator. The cooperative is also partnering with Plug & Play, a California-based investor, accelerator and corporate innovation platform, to provide resources for startups that may lose their business completely because of the pandemic.

What Drives Funding?

D2C strategies with investors

What Drives Funding?

The balance of power in CPG has shifted. New brands are strategically defining D2C approaches and achieving successful results with increasing VC backing to gain market share.

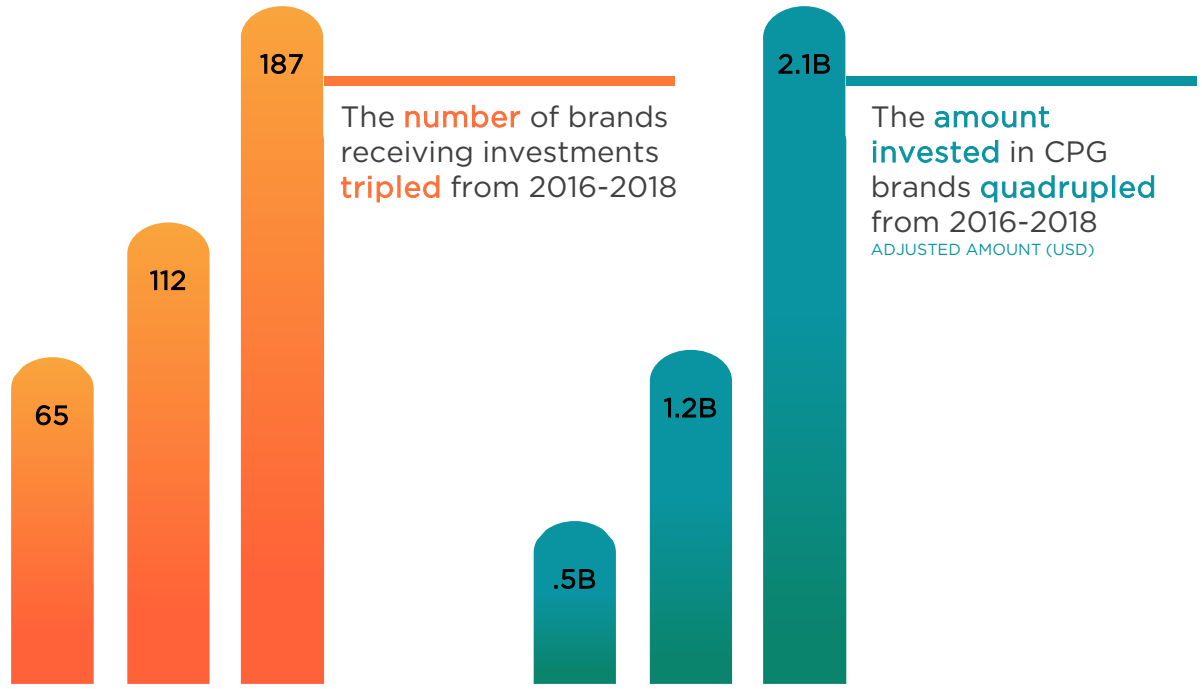
There's a reason Amazon rose to dominance. Amazon started with an obsessive focus on the customer rather then the competitor. As marketers, we understand that the way brands focus and serve their customer may change from vertical to vertical. One size clearly does not fit all. Digitally native vertical brands (DNVBs) such as Skinny Pop, Dollar Shave Club, Purple, or Dr. Squatch dove deep into the customer experience strategy and developed unique approaches in each channel to build a challenger brand to be a competitive alternative somewhere in the near future.

Newly shaped direct-to-consumer (D2C) brands are hyper-focused, strategically differentiated, and developed a core product to serve their target audience's unique needs. These brands offer greater personalization, customer service, and convenience driven with elevated customer experiences than ever before all on the digital shelf.

This new approach generated a large consumer reaction for demand and have enlightened a new approach to how brands create, market, and sell. Basically, DNVBs figured out how to accurately connect with consumers and lead them to convert. This approach takes vision and data-driven tools to continue to define and communicate to the target audience they wanted until they dialed it in right.

The innovative, faster moving brands have surely caught the big brand's eye. More than $5.5 billion was invested into CPG brands from 2015 to 2019. And now the big brands want to play in the same arena. Garnering attention to spur M&A activity.

Investments in new CPG brands quadrupled from 2016-2018



SOURCE: Digital Shelf Institute

What Drives Funding?

Big brand have not sat back. Big brands have been responding by buying their smaller competitors and backing incubators. What big brands needed was to jump in...and jump in they have. When faced with a dazzling array of CPG startups, big players began plucking the highlighted stars in the categories for themselves. As the saying goes: If you can't beat them, make them join you.

Major CPG Acquisitions

Big CPGs are buying up their aggressive, challenger brands and smaller competitors. From 2017 to 2020, acquisitions highlights include:

- Kellog's acquired RXBAR for $600M
- Hershey's acquired Skinny Pop for $1B
- PetSmart acquired Chewy for $3B
- Kraft acquired Primal Kitchen for $200M
- Unilever acquired Dollar Shave Club for $1B
- PepsiCo acquired SodaStream for over $3.2B
- The Simply Good Foods Company acquired Quest Nutrition for $1B
- Edgewell Personal Care acquired Harry's for $1.37B
- Campbell Soup's $10 million investment in meal-kit company Chef'd

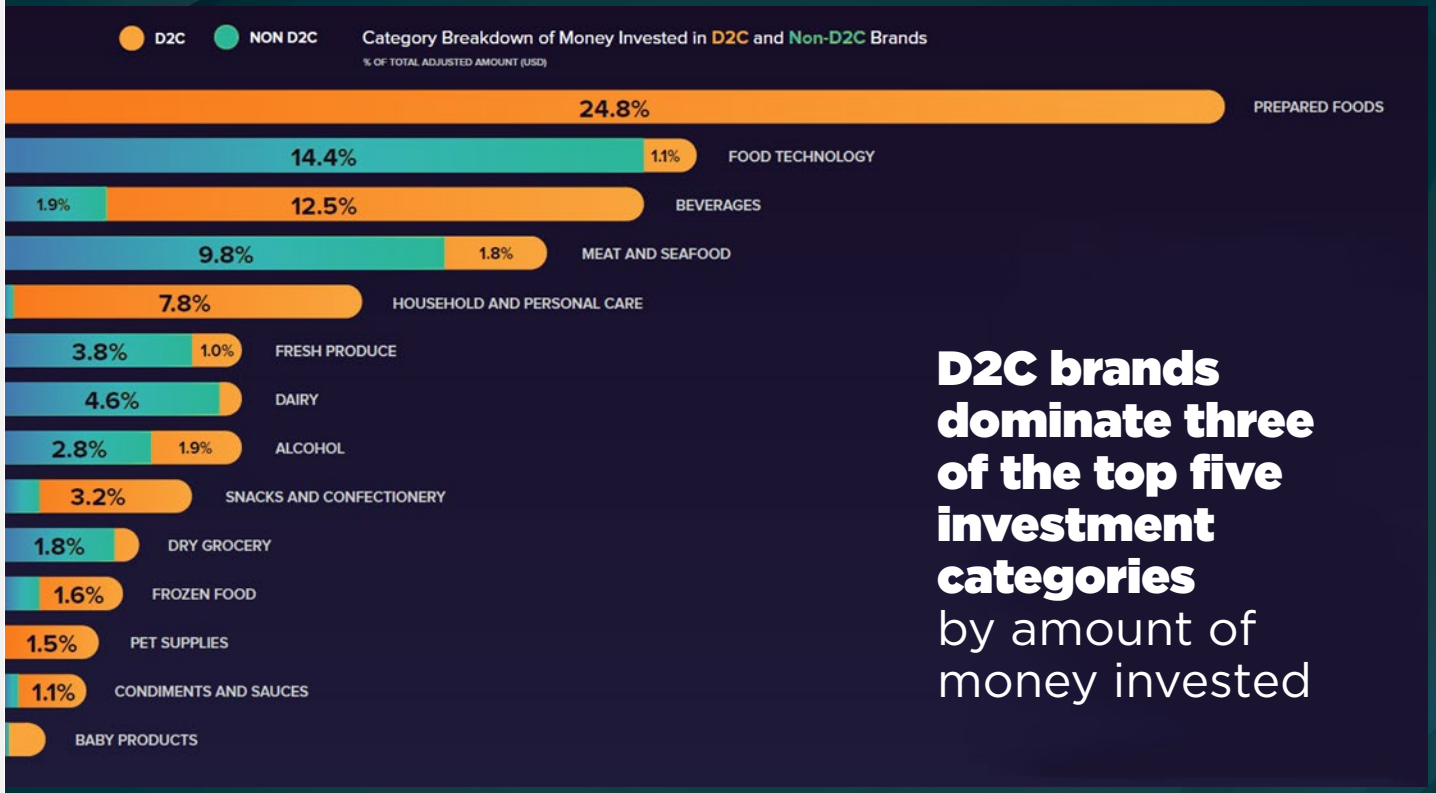
CPG Giants Investing

However, mergers and acquisitions are not the only option. Large CPG players are pouring money into startups. Mondelez created SnackFutures102, an investment hub that is operated as an independent unit within Mondelez. Collaboration with venture capitalists, entrepreneurs, scientists, accelerators and incubators to create "an unconventional ecosystem" is a key piece of the platform. Mondelez is targeting $100M in revenue growth by 2022 with SnackFutures.

Other major brands like Mars Petcare and Starbucks have launched their own funds to spur growth. Mars Petcare unveiled two new programs in 2018 to support startup innovation and the next generation of disruptors in the pet care industry. Through connected technology, data, expansive reach, resources and core capabilities of Mars they believe they will create a powerful force for change in the pet industry.

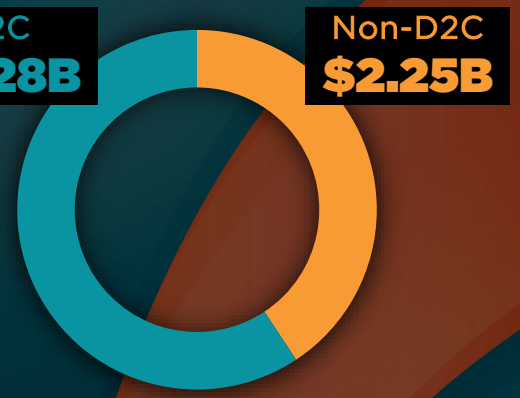
Ocean Spray's Lighthouse decided to take a little different approach. The new entrepreneurial approach objective is to fuel disruptive, agile innovation. As a powerful proof point, the Lighthouse innovation incubator is debuting the farmer-owned cooperative's first-ever new brand, Atoka.

The Investment Funding Trends



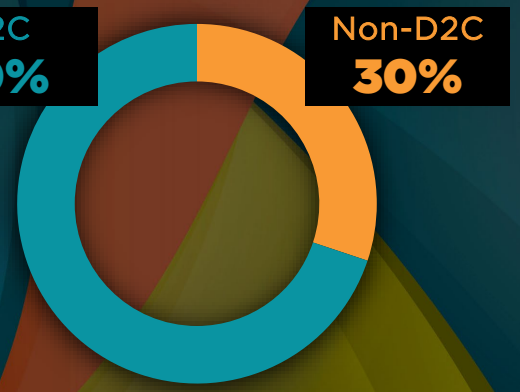
D2C brands dominate three of the top five investment categories by amount of money invested

Non-D2C vs. D2C



60% of money invested went to a D2C brand (2015-2019)

Non-D2C vs. D2C



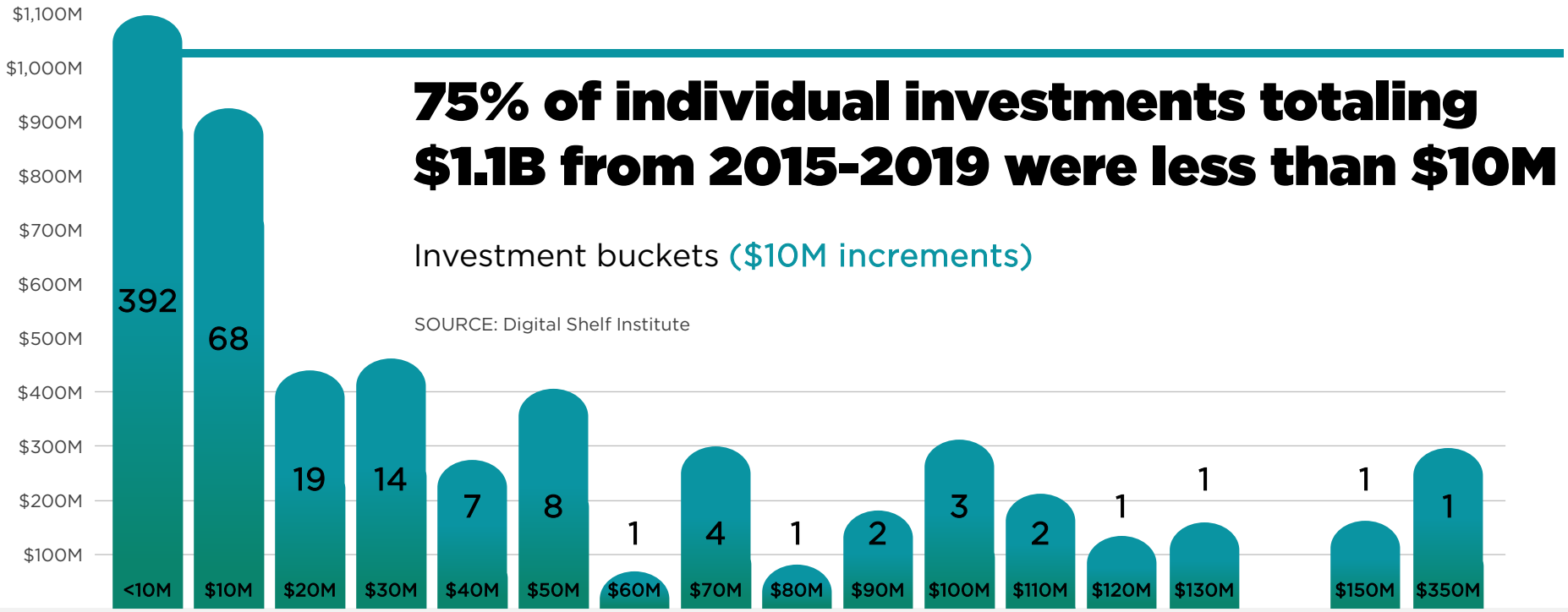
70% of CPG brands receiving VC Investments have a D2C component (2015-2019)

What Drives Funding?

The Lighthouse cultivates a new entrepreneurial culture from the inside out. They have developed a culture to create products and brands true to the heritage of Ocean Spray that are indicative of a new disruptive era with a "build" mentality.

"Our Lighthouse Incubation team is set to tackle the most interesting challenges we face as a food and beverage industry today and position Ocean Spray at the forefront of change." said Rizal Hamdallah, Global Chief Innovation Officer at Ocean Spray.

Lighthouse initiative was built around a 5-month with “speed to market” and ideation of new products as the cornerstone. They added a compelling new twist to the incubator than other beverage companies: Ocean Spray is farmer-owned. This strategic arrangement strengthens the Lighthouse team to innovate sustainable, nourishing food not only for people worldwide, but also for its farmer-owners. The Lighthouse is committed to Ocean Spray's purpose of connecting farms to families for a better life. What’s good for their customers must be sustainable for farmer-partners and the planet.



75% of individual investments totaling $1.1B from 2015-2019 were less than $10M

Investment buckets ($10M increments)

SOURCE: Digital Shelf Institute

What Drives Funding?

It's time to get moving, and quickly.

You may not be able to transform in 30 days, like Frito-Lay did with its DTC site, Snacks.com, but meaningful change can happen faster than ever before. That's good news for smaller brands like PeaTos®, the healthy snack upstart that offers better-for-you versions of Frito-Lay favorites by replacing the underlying corn base with peas and getting rid of artificial ingredients. Shortly after the Frito-Lay site when live, PeoTos launched their own DTC site, and what did they call it? BetterSnacks.com. DTC is the reason why many Goliaths can't sleep at night.

> ...while the landscape has certainly become crowded with these smaller brands, the truly innovative and differentiated brands will continue to excel and garner attention from strategic, propelling M&A activity.
>
> Jon Sebasiani, founder of Sonoma Brands

Prepared Foods Category:

$1.37B+ TOTAL VC INVESTMENTS 2015-2019

Beverage Category:

$765M+ TOTAL VC INVESTMENTS 2015-2019

Household and Personal Care Category:

$440M+ TOTAL VC INVESTMENTS 2015-2019

Snacks and Confectionery Category:

$210M+ TOTAL VC INVESTMENTS 2015-2019

SOURCE: Digital Shelf Institute

CASE STUDY

David vs. Goliath. But with Peas.

During the peak of the pandemic, as at-home food consumption grows and consumer reliance on e-commerce remains high, PepsiCo subsidiary Frito-Lay launched their new direct-to-consumer (D2C) website Snacks.com. A snack destination where consumers can shop over 100 of Frito-Lay's snack foods which will be sent straight to their homes. With nearly 92,000 Cheetos® consumed per second, Frito-Lay is looking to expand their multi-billion-dollar snack business by leveraging D2C.

In the other corner, PeaTos. Developed to disrupt the "$20 billion junk snack market" dominated by PepsiCo's Frito-Lay, Peatos' pulse-based take on Cheetos first appeared on retail shelves in late 2017. Kroger Co. began selling the product in 2,000 stores and by 2018 PeaTos brought a challenger attitude, making a name for itself with its irreverent brand of humor and the no holds barred approach to embarking on a David vs Goliath battle with Frito-Lay. They even have a cease and desist order to prove it. That was dropped in 2019.

"We went from 100 stores to 5,200 stores in less than a year. Look, if you want to be the best, you have to take on the best, and there is no one that does snacking like Frito-Lay. I mean I grew up on their brands," says Nick Desai, CEO.

Desai assembled a team of some of the most enthusiastic snack scientists and innovative minds in the world to develop a snack that tastes, crunches and satisfies like traditional corn-based junk food snacks, but made from nutrient dense peas. In 2018, PeaTos launched as a "junk food" snack made from peas that

CASE STUDY

David vs. Goliath. But with Peas. *(continued)*

put taste first while containing no artificial ingredients, 2X the protein and 3X the fiber as its famous corn-based counterparts.

In less than two years, PeaTos has become a force in the salty snack industry and experienced massive growth in traditional retailers like Kroger, Safeway, Albertsons, and 7-11. From 2019 to 2020, the brand experienced 50% growth, making it a leader in the sector. And with the launch of their e-commerce platform the sales even impressed shipping partners.

"D2C was just something we were starting noodling on, but suddenly it became center stage," Desai added, "Now we've gone so far to be able to fulfill from our own offices — becoming a makeshift ecommerce company overnight. One benefit of ecommerce, on the other hand, is not worrying about store placement, he said; instead, the United States Postal Service (USPS) and United Parcel Service (UPS) essentially became retail partners, Desai said. "The increase in ecommerce has been far greater than the small slowdown in impulse, so it has actually been a huge net positive."

The launch of BetterSnacks.com in May of 2020 during the pandemic. The website features PeaTos entire product range including bestsellers like Classic and Fiery Hot Curls, Vegan Masala Curls and new products on the block like Classic Onion and Fiery Onion Rings. BetterSnacks.com will continue to expand with different bundles, exclusive collaborations, and brand partners.

Let's face it, "junk food" snacking isn't going anywhere! But with just one simple twist — using peas vs. corn — They've changed snacking forever!

Building Your D2C Roadmap Goals

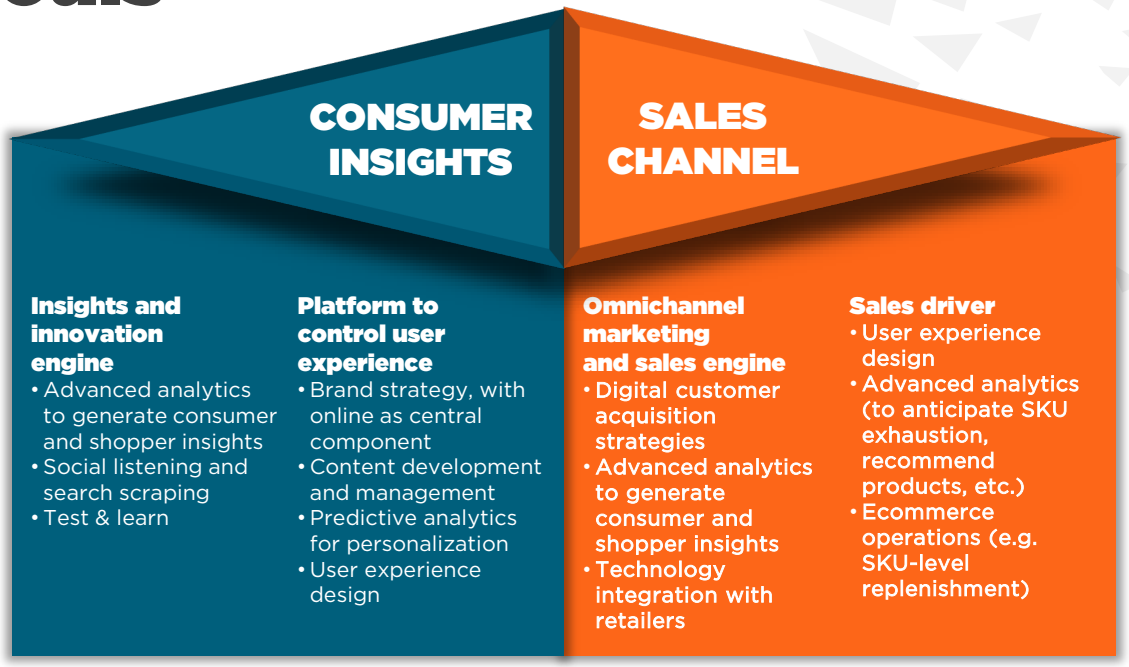
Defining your company's overall strategy.

Building Your D2C Roadmap Goals

Increasing sales is just one reason for selling direct. Before developing your project, it's important to define the goals of your DTC strategy, which should be clearly defined and integrated into your company's overall strategy. This will help to begin with all of the stakeholders on the same page to address and resolve any potential channel conflicts or the cannibalization of retail sales before they impact the consumer.

Two of the most important considerations when going DTC include providing clear value to the customer, and not introducing friction to the customer journey. A CPG manufacturer's decision to engage directly with consumers could deteriorate its retail partners. Therefore, a company's D2C strategy shouldn't stand alone; it must be integrated into an overarching channel strategy that anticipates—and seeks to resolve—channel conflict. CPG companies must start by deciding on the role of their D2C channel. What role will it play? What do they want the D2C efforts to achieve? The likelihood of channel conflict increases as companies get closer to the Sales Channel side of the spectrum in chart to the right.

D2C websites can play different roles for CPG brands and must include critical capabilities for each role through a balanced approach with consumer insights and sales channels in the strategic objectives. The answer can be one of four options along a spectrum that emphasizes consumer insights on one end and sales on the other to help define the D2C's role.



Adapted from McKinsey & Company

Typically, CPG brands that choose the insights side don't have the scale, brand equity, or financial resources to drive traffic to their own website. Companies that choose a sales engine tend to be single-brand organizations with very strong brand equity. That said, some CPG brands that ventured into D2C as a pure sales channel five or more years ago have rethought their approach, because of consumer habits and traffic driving investment to D2C sites, have gradually changed their websites to function more like insights engines.

Building Your D2C Roadmap Goals

Let's face it, D2C brands compete and win on product experience. While there is no silver bullet to achieve success, small D2C brands chain several effective strategies together into a well-oiled flywheel of pure customer experience.

Key attributes of D2C brands:

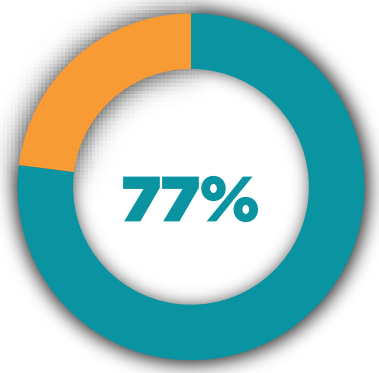
- Define a clear mission deeply rooted in your target audience's values. This will help you connect and foster loyalty to the brand.
- Launch a product, or product category, at a time that solves an audience need. The launch may strike a chord that a consumer can't find.
- Distribute the product to maximize convenience and access to first party data to increase relationship over time.
- Cultivate conversations with consumers from packaging to website to social media to engage with value-add content.
- Listen and gather feedback from direct sales, reviews, and conversations on social channels. Listen and learn.

> In today's age, you need to be personally engaged with customers and give them experiences that are better that will keep them coming back. So the emergence of tech-savvy CMOs is really important—because we have tech-savvy customers.
>
> Geraldine Calpin, CMO, Hilton Worldwide

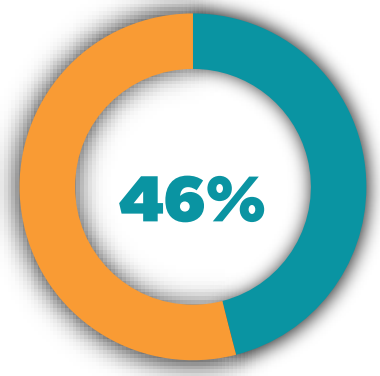
Building Your D2C Roadmap Goals

Companies are realizing the digital skills gap and its importance.

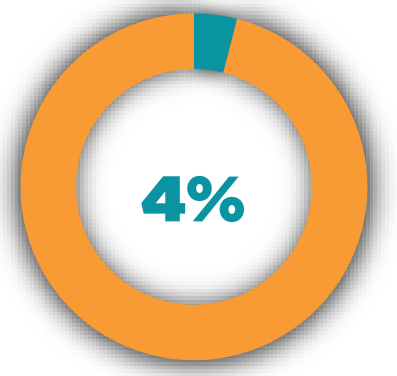
90% OF COMPANIES **LACK DIGITAL SKILLS**



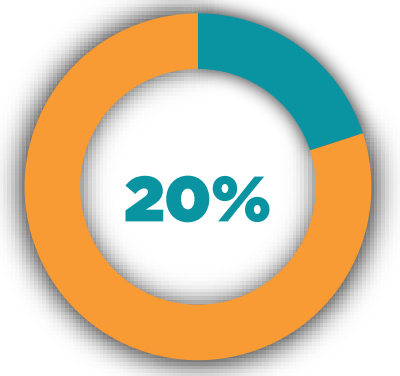
77% OF COMPANIES CONSIDER MISSING DIGITAL SKILLS AS THE KEY HURDLE TO THEIR **DIGITAL TRANSFORMATION**



46% ARE **INVESTING IN DEVELOPING** DIGITAL SKILLS



ONLY 4% OF COMPANIES **ALIGN** THEIR **TRAINING EFFORTS** WITH THEIR DIGITAL STRATEGY



ONLY 20% OF COMPANIES' EMPLOYEES BENEFIT FROM **DIGITAL TRAINING**

SOURCE: CAPGEMINI

7 Skills an Agency Must have to Support Your Digital Transformation

1. Be Willing to Reinvent your Company for the Digital Age
2. Strategic Business Thinking
3. 360° View of Data Integration
4. Actionable Insights to Build Marketing Campaigns
5. Tech Fluency to Navigate Cloud Systems
6. Working Throughout the Brand's Ecosystem
7. Play well with Others While Collaborating with In-House Teams

Supporting the Retail Relationship

Translating insights to retailer partners.

Supporting the Retail Relationship

Consumer packaged goods, which were once purchased almost exclusively in stores, have moved into the "digital battleground." The digital world has given CPG brands new ways to engage consumers, but online D2C models are a diverse bag. Consumers are increasingly researching and buying them online. Recent surveys indicate that nearly one in four US households already shop for food and beverages online, and US consumers buying health and hygiene products online could more than double within a year.

A CPG brand's decision to engage directly with consumers could, of course, displease its retail partners. Therefore, a company's D2C strategy shouldn't stand alone; it must be integrated into an overarching channel strategy that anticipates and seeks to resolve any channel conflict. We recommend that CPG companies start by deciding on the role their D2C channel will play.

The leverage achieved with a DTC strategy can also strengthen a brand's financial health. Through revenue stream diversification, less dependency on existing distribution channels and improved negotiating power with retailers.

D2C doesn't mean bypassing trusted retail partners

With a solid strategy that emphasizes consumer insights and sales channels options, a brand will have less likelihood of channel conflict. Consumers can still purchase from both of you if given a compelling reason and offered the right incentives.

In fact, going DTC might even strengthen the bond between companies and big-box retailers. Some retailers are asking, even demanding, that manufacturers sell DTC since a recognizable brand on brick-and-mortar shelves is more likely to sell. And you can creatively bundle, brand, or package your DTC offering to avoid competing directly with retail partners.

> "...I look at it this way: if I can create the right level of demand and interest in my product, then where I'm putting the product—whether it's Amazon or Target or Walmart—becomes part of a consumer-oriented solution set."
>
> Nick Vlahos, CEO of Honest Company

Supporting the Retail Relationship

Future signs

A D2C website can help a brand reduce its reliance on retailers and hedge against disruptions in its retailer relationships. This is especially important in an environment where retailers are placing margin pressure on suppliers, weaker retailers are going out of business or being acquired, and all retailers view their customer data and insights as competitive advantages and are therefore unlikely to share them with CPG brands.

The challenge is when to make the switch. Savvy brands will understand how to spot and make the jump.

The importance of the D2C role

D2C goals vary tremendously. D2C roles are options when considering how to execute on the goal you choose:

- A **consumer insights and innovation engine**
- A **platform to deliver the user experience**
- An **omnichannel marketing and sales engine**
- A **sales driver**

However, each of the roles requires different capabilities. Companies need to make clear decisions on the difference and impact. It's rare a brand is great in every role. Poor D2C roles may result in having resources spread too thin.

Distinctive customer value proposition

A CPG brand can pair assortment strategies with special services (such as a subscription service) to distinguish its D2C site from retailers' sites, thereby attracting and retaining customers while also managing channel conflict.

To reduce conflict with your retail partners, consider strategies that aren't part of a retailer channel:

- **Offer Premium DTC Products** - Offering a premium product, bundle or unique assortment can distinguish your DTC offering from that of your retail partners.
- **Personalize Products** – Fact: 40% of shoppers spend more on brands that personalize the customer experience. The more you engage your customers directly, the more first-party data you'll get to fuel your product recommendations, loyalty programs, and ambassador programs.
- **Launch new brands** - When launching a new brand, base the brand around price or convenience, or create a category to fill an unmet need.
- **Feature Exclusives** – Possibly seasonal, limited edition or unique products that can only be found on your D2C website.

CASE STUDY

An Honest Approach to D2C and Retailers.

The Honest Company, launched in 2012 by actress and entrepreneur Jessica Alba. Its promise of safe and effective products resonated with new moms nationwide.

The Honest Company started as a D2C brand online, but in recent years, the company has been building its omnichannel presence. They analyzed their data and developed insights on their audience. Data shows that about 48% of new moms will change their purchase habits and their regimens when they're pregnant, and 50% will move toward better-for-you, clean products. That's a big insight for Honest. Being a digital-first brand, they educate and connect with you on a one-on-one basis during that aperture of pregnancy. They offer subscriptions and sell products online, but the website also has a "retail locator" helping consumers find stores that carry Honest products.

The evolution to omnichannel was through rewards to their audience. They understood that their customers are currently buying Honest diapers and wipes online, but they're not buying Honest personal-care or beauty products. So when they connect with a customer, they present an offer to them that is a solution set based on their needs. Their baby is going to grow, and Honest believes the customer will eventually need other products during the child's growth. So Honest rewards her with a $5 Target gift card for a car seat. The reward creates loyalty, brings added value, and excitement about being part of the Honest family.

By rewarding our customer with a Target gift card, Honest now creates an omnichannel experience through their retailer partner. And, since Honest has year-round distribution at Target and an endcap dedicated to diapers, wipes, and personal-care products, chances are high that the customer might also buy an Honest product while they're at Target. By giving the customer an experience that connects with how they shops and by creating solution sets that meet their needs, Honest starts to create "stickiness" and loyalty to their brand.

"To succeed as an omnichannel brand, you have to start with the right value proposition for your product. What price can you command every day for that product, how do you drive accessibility based on where consumers want to shop, and how can you make money doing that day in and day out," states Nick Vlahos company CEO.

Building New Customers

Adding and managing customers for growth and life-time-value (LTV)

Building New Customers

Building customers for life

Besides new sales, selling DTC gives your brand access to customer data and insights that can be used to grow your bottom line. Successful DTC brands have experimented with many tools to eventually find the best for their objectives and they know how to create memorable customer experiences around the data they collect. Your commerce platform should enable you to access, manage and retain customer records like:

- Customer lifetime value (LTV)
- Order history and average order value (AOV)
- Shipping preferences
- Customer segmentation
- Email and Phone number
- Birthday or personal milestones
- Cart abandonment

Identifying your top customers and their purchasing frequency, sales totals, and behaviors will help in developing content and valuable loyalty programs.

Giving customers a reason to visit again and again

Having settled on D2C's role, a company must then determine what D2C model to adopt and what value the D2C site will offer customers. Why should they visit the site? And after visiting once, why should they come back?

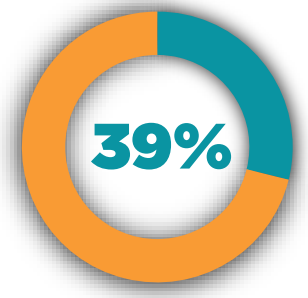
Top CPG brands have identified key programs to increase return visits and create memorable experiences that include:

- Launching a truly rewarding loyalty program
- Defined and planned Content Strategy
- Build your brand with user-generated content (UGC)
- Turn your best customers into Evangelists and/or Ambassadors
- Offer convenient delivery options
- Offer redeemable promotions
- Buy now, pay later options

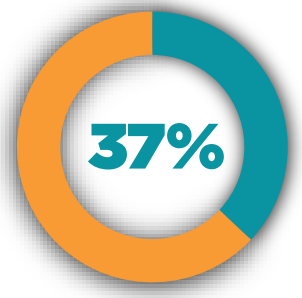
Building New Customers

Top 3 reasons why loyalty programs succeed

Easy to use



Gives me great discounts



Easy to understand

SOURCE: 2017 COLLOQUY Loyalty Census

The value of returning customers?

15% of online shoppers are returning customers

30% of all online shopping revenue comes from returning shoppers

SOURCE: 2017 COLLOQUY Loyalty Census

> You've got to start with the customer experience and work back toward the technology - not the other way around.

Steve Jobs,
Co-founder, Chairman,
and CEO of Apple Inc.

CASE STUDY

Domino's Gives Customers a Pizza Transformation

There are few more dramatic stories of digital transformation than Domino's, the pizza delivery chain that boasts some 12,500 outlets in more than 80 countries. The $2.5 billion company has thrived by putting customers in the driver's seat.

Seven years ago, then-newly minted CEO Patrick Doyle decided to reinvent the company around technology. Now half of the 800 employees at its Ann Arbor, Mich., headquarters work in software development or analytics.

One of the tech innovations Doyle brought was how customers can order a pie. In the U.K., nearly 80% of Domino's orders are made online, versus less than 30 percent some five years ago, and two-thirds of those are made via a mobile device. In the U.S., customers can also order via the pizza chain's Zero Click mobile app, text message, Facebook Messenger, Twitter, a Samsung smart TV, an Apple Watch, a Ford automobile using Sync AppLink, or a voice-driven assistant like Amazon Alexa or Google Now.

Pizza lovers can also use the Domino's app to track their order from the moment the pie goes into the oven until it arrives on their doorstep. And Domino's is equally innovative on the delivery side; it has experimented with delivery via unmanned aerial vehicles (drones), terrestrial robots and custom-designed automobiles.

The key to Domino's success, says Doyle, is failure—specifically, the willingness to take big risks (like opening a pizza franchise in Italy), make big bets and suffer the consequences, good or bad.

To prove that the transformation of Domino's corporate culture is working, Doyle points to seven consecutive years of domestic sales growth and a share price that zoomed from just under $5 to over $155 during that same period.

In his public presentations, Doyle encourages CEOs to think like investors, not managers, and to try to get ahead of the curve, even if it doesn't produce tangible results right away.

"Providing permission to fail is energizing," Doyle says, **"and energy creates positive momentum."**

The D2C Strategy

Developing a model for measurable success.

The D2C Strategy

Strategy matters

Digital transformation is changing every industry, not just CPG, and in every industry, CEOs and CMOs need to be careful that their strategy drives the transformation, not the other way around.

Brands that understand at the "CX services stack" will need to define the right D2C role. Finding the right partners to help build the technology stack behind it and then bring it to life with creative services and content that drive unique experiences around the brand will reduce the fail rate.

As the technology becomes cost effective and the ROI more obvious, the market will open to smaller-scale providers that can offer these services in ways that make sense to their clients. Not every bell and whistle needs to be added day one, and partners will know how to help brands navigate the strategic path to meet their objectives and goals.

How will you know when you are successful?

Without a sustainable economic model, a D2C play will fail. CPG companies that successfully scaled up their D2C efforts were able to do so in part because they adopted a VC mind-set toward metrics. Some metrics just don't matter that much in D2C, like the number of impressions or the level of brand awareness for instance, and CPG brands shouldn't waste time and resources on them.

In categories that tend to be impulse driven or where the average basket size is small, CPG brands must weigh the costs of customer acquisition, web hosting, and fulfillment against the benefits of a D2C play. CPG companies do best when they prioritize margins over revenues, and have a clear understanding of the factors affecting gross margins (Example: foods that require refrigeration will lower gross margins and customer LTV). Companies that pursue an omnichannel role rather than online-only, advances D2C plays that tend to perform better. When managed well, each channel can complement and strengthen the other.

In evaluating D2C success, CPG brands can learn from VC firms, which model attention to three types of metrics in early-stage D2C companies: **general business indicators, drivers of high lifetime value (LTV), and low customer-acquisition costs**. VC firm standards can be a beneficial guide to follow including:

- Gross margin per customer should be at least 6 times the cost of acquisition.
- YOY growth rate should be at least 50%.
- Capital investment should break even in 4 years or less.
- Cash flow should be consistent regardless of seasonal spikes in the business.

The D2C Strategy

- Drive for high LTV by validating that the average basket size will more than cover the associated cost of goods sold.
- Encourage frequent repeat purchases or require lengthy customer commitments (such as memberships of at least six months) and have low customer churn.
- Keep customer-acquisition costs low, by ensuring that at least 10% of new customers come through word of mouth.

There are multiple key performance metrics brands can use to gauge the success or failure of the customer experience from customer satisfaction surveys to capture, rank and understand speed of response, average handling times and churn. Brands also need to define KPIs and metrics that allow them to determine whether their digital transformation efforts align with their strategic objectives.

Remember, its all about the customer

Consumers will continue to demand convenience and personalization, and digital channels will continue to advance—which means the D2C arena will only become more crowded and competitive. But not every CPG manufacturer should jump in; a company should first decide whether, and where, to play. Companies that choose to embark on a D2C journey should embed D2C into their broader channel strategy, beginning with defining the role of D2C and developing a compelling customer value proposition. Then, with agile execution and stringent metrics, they will be well on their way to D2C success.

4 Senior Executive Views on the Importance of Digital Transformation

87%

Think Digital Transformation is a **"Competitive Opportunity"**

51%

Believe it is **"Critical"** to Implement Digital Transformation in the Next Year

27%

Rate Digital Transformation as a **"Matter of Survival"**

59%

Worried they are late and will **Fall Behind to Competitors**

SOURCE: SOURCE: ADWEEK INTERVIEWS; CAPGEMINI; CMO.COM; PROGRESS GLOBAL SURVEY

CASE STUDY

Give Peas a Chance

Hippeas cultivates a carefree, cool image with snacking with a purpose mission. The hip snack was founded in 2014 with a mission to conquer global food issues like hunger, and to sell healthier snacks made of chickpeas at the same time. A laser focus, as they penetrate the global vegan food market which is estimated to reach $24.3 billion by 2026. By creating a vegan product with an authentic message, Hippeas appealed not just to vegans but all those who feel connected to the peace movement of the 60's. That's just groovy baby.

Hippeas sells one product, chickpea puffs, but in six flavors: vegan white cheddar, nacho vibes, Himalayan happiness, sriracha sunshine, bohemian barbecue, and pepper power. These hipster snacks are gluten-free, kosher, nut-free, certified organic, vegan, non-gmo, and soy-free. They defied the assumption that chickpeas were only popular in the mainstream through products like hummus and raised over $22M since 2017.

Hippeas sells direct to their customers through hippeas.com. By maintaining a direct line to the customers, Hippeas is able to understand product performance, and track against campaign performance.

CASE STUDY

Give Peas a Chance *(continued)*

However, Hippeas is also available in over 30,000 main-stream grocery and convenience stores across the USA.

By going D2C, Hippeas discovered interesting pairings including: Salty, chickpea puff snacks and coffee. Their partnership with Starbucks allows Hippeas to be part of the impulse buying path that attracts so many people every day. Strategically matching Hippeas to similar daily habits like coffee.

"We're shaking up snacking, one puff at a time. Simple ingredients, far-out flavor. So, go ahead, stick it to the man and Give Peas A Chance®," states founder Livio Bisterzo.

Hippeas knows how to appeal to consumers and drive the customer experience. They literally dotted their social media feeds with chill oranges, pinks, and yellows. While connecting to catchy quotes, happy friends, a Hippeas bus, snacks for picnics and hiking, kids' lunches. Surely a snack for all.

The unique Hippeas humorous storytelling is at the core of the brand and helps to communicate to their audience that defines Hippeas as no ordinary snack, but a healthy snack that you can feel great about indulging any time of the day, wherever your day takes you, and family and friends.

Today, Hippeas is still seeking to increase their market penetration prior to branching out into other snack lines and growing loyalty through customer experience.

10 Steps to Launch D2C

You knew this was coming.

Step 1

Reexamine Relationships with Customers.

We live in a world where every angry customer is just one tweet away from the CEO, this experience can be the difference between success and failure. Brands that want to survive in this tumultuous environment need to go back to square one and rethink all their processes. Brands need to reimagine the kind of company they really are and reexamine their relationships with customers.

Brands need to discover that without crucial investments in technology and a commitment to culture change, they risk becoming irrelevant.

Step 2

What Do Your Customers Truly Want?

You can't move forward until you answer this question.

This is the essential question every brand must answer. They need to view their organization through their customers' eyes and map their journey from product awareness to post-purchase support. What are customers doing and experiencing at each stage? What motivates them to move to the next one? What barriers do customers encounter at each step in the process, and how do they overcome them?

Step 3

Choosing the Right Fulfillment Vendors.

Freight is a critical part of delivering products and a positive experience that is expected by your customer. Working with a fulfillment vendor allows brands to share freight rates with the total volume of the vendor rather than the individual brand's volume. This is a huge cost-saving and allows the brand to turn those savings into benefits for their customers, such as free or reduced shipping.

Crazy things can happen to the packaged product from shipping to arrival, requiring more thoughtful strategic design and packaging for every CPG brand. Reviewing all steps in the fulfillment process will decrease customer service involvement and can prevent a negative customer experience.

Step 4

Develop Your Performance Marketing Strategy.

Build it and they will come? Only in the movies.

Too often, brands build a DTC site, only to see minimal traffic once launched. Expertise in ecommerce specific best practices and KPIs such as CTAs, cloud-based product feeds, dynamic product ads, and driving relevant users, most likely to make a purchase will be a critical piece to drive results. An understanding of increasing customer lifetime value (LTV) and lowering new customer acquisition costs by leveraging data and insights will be a key factor in ROI.

To create a performance marketing strategy brands need to:

- Define goals & KPIs
- Develop customer segmentation
- Identify and evaluate digital marketing channels
- Create product feeds for Google Shopping, Instagram & Facebook
- Establish an email marketing strategy

Step 5

Security and Data Protection.

One security misstep or data breach can drastically reduce a brand's trustworthiness in the eyes of the customer. To protect against fraud, brands must combine an automated and manual approach.

Building in checkpoints to bear the burden of fraud, penalties, and chargebacks will limit your liability, giving you the freedom to focus on building quality products, forming customer relationships, and growing revenue.

Step 6

Integrate Customer Service.

Customer Service Representatives are on the frontline. Literally. They will have direct access to customers and will need the right training, tools and information to not only solve the issues, but personalize every interaction and turn a shopper into a raving loyal fan.

The customer service team often captures customer insights that are difficult to track anywhere else. Closing the feedback loop between customer service and all ecommerce teams will allow you to proactively address customer concerns, while gaining valuable insights to drive future product or customer experience initiatives.

Step 7

Inform Stakeholders.

A brand is not in this alone.

Many teams are going to cross paths and need to work together. Marketing with the technology department and financing with customer service.

In addition, an out partner or agency will add another layer to the communication and inner circle. The brand's team will need to learn how to work across a partner's specialized ecosystem and collaborate with in-house teams.

Don't forget your retail partners. They needs to understand the reasoning behind your initiative before they feel they are losing sales.

Step 8

Organizing Staff Around D2C Objectives.

Traditional top-down hierarchical teams simply aren't nimble enough to survive in the digital age. Smart organizations create cross-functional teams with expertise across a wide range of business processes. For example, some brands are aligning cross-functional teams against specific customer segments in lieu of organizing around traditional marketing capabilities.

Step 9

Evaluate the Customer Experience.

98% of first-time visits may not end in a transaction. Your site will require a dedicated site operations team to constantly evaluate the customer experience in order to meet heightening customer expectations and your goals.

The best digital partners will follow industry best practices and employ the most effective tools to ensure the D2C site continually meets the evolving needs of customers while improving ROI with elevated customer experiences.

Step 10

Find the Right Partner.

Launching a direct-to-consumer (D2C) site in a competitive market requires taking planned action and choosing the right digital partner. A digital customer experience company that can build and manage all aspects of the D2C website and system including technical, marketing, customer service, and fulfillment and will help you cut your project timeline and reduce the headaches of managing multiple vendors, APPs and technologies for each component of the customer experience. Not to mention meeting your goals and staying on budget.

The Worksheet

To start to identify the core building blocks to D2C, use the outline to identify the complexities that you may need to address within your digital transformation.

Identifying and simplifying these hurdles will help you take the first steps to your D2C journey.

OBJECTIVES

What would you like to accomplish?

How will you set goals?

What are the KPIs?

What is your approach?

FOUNDATION FOR CHANGE

Define your top 5 challenges

How can we obtain internal alignment and support?

What product line or brand will benefit from D2C?

What technologies will be needed for change?

What technologies can support the roadmap?

How can our data define insights?

Who is our customer?

How do we grow our customer base?

What will our digital customer experience look like?

DESIRED RESULTS

What is short term/long term internal optimization result?

What is short term/long term technology and data result?

What is short term/long term audience growth and customer experience result?

Let's make you a hero.

Focus on making the Customer Experience king.

About Ignite2X

A full-service agency powered by digital capabilities

Born from courage, Ignite2X is a full-service agency serving mid-size clients committed to solving problems and delivering measurable results for our client brands. We aren't the first company to bring together solutions through the convergence of analytics and insights, digital commerce and design, shopper marketing and customer experience, and Direct-to-Consumer (D2C) services, but we do deliver results.

We're ok being a small—but growing—integrated brand and marketing agency. We're not afraid of a challenge or of having a point of view. We build brands, launch new products and deliver big ideas that lead to success. We hit hard, fight the good fight, and we win for you.

Whatever it takes. **Seriously.**

Our entire agency is focused on your business, from CEO on down. We tend to go "all in" to help our clients and their brands attain success and generate sales.

We take a fresh look at each challenge and dig deep in order to understand the cultural and lifestyle issues that shape consumer perceptions and behavior. We do our "homework," analyzing and understanding trends that affect the industry, category and channels, so that our big ideas separate us from the fleet.

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Thank you

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