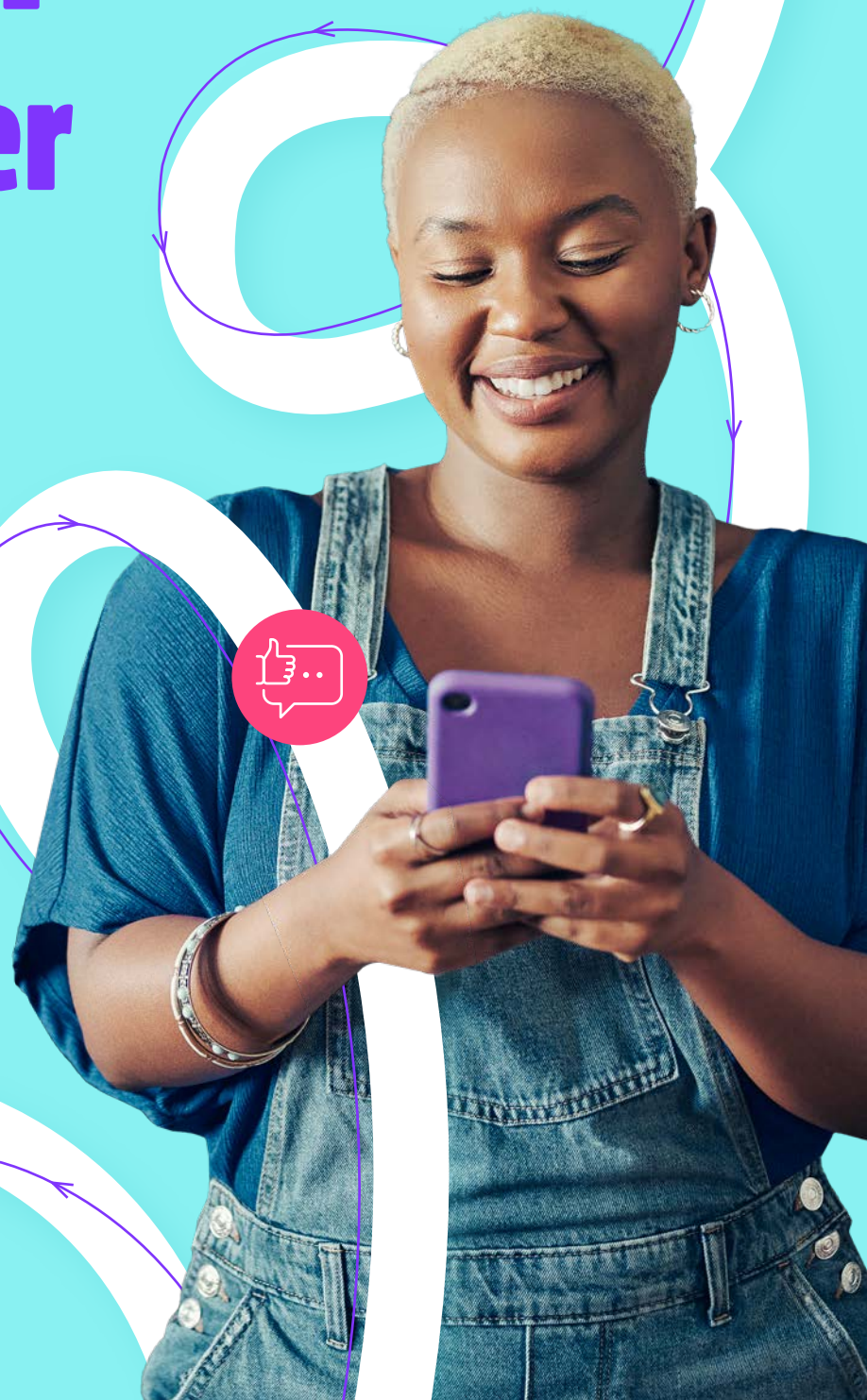


THE ANNUAL ETAIL

# Direct-to-Consumer Report

How Brand Manufacturers  
Are Using Data and  
Technology to Build  
More Direct and  
Meaningful Relationships  
with Customers



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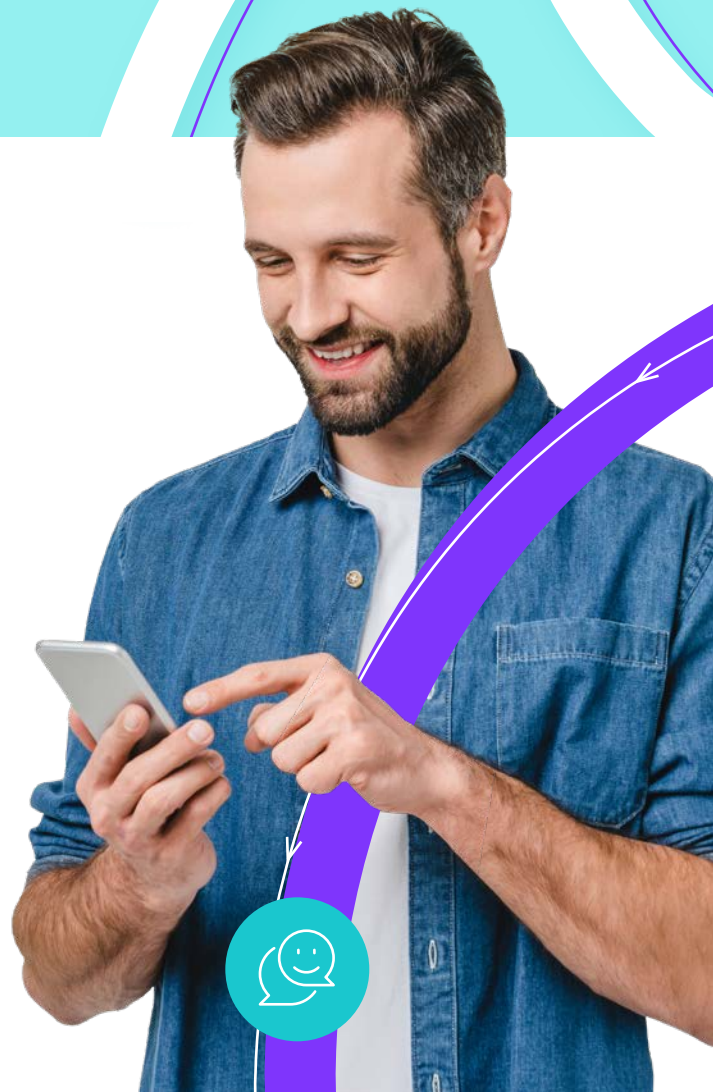
# Table of Contents

- 2** Executive Summary
- 3** About the Respondents
- 5** Key Insights
- 7** The DTC Market Is Growing and Becoming More Competitive
- 12** Some DTC Strategies Suffer from Capability and Technology Gaps
- 16** Brick-and-Mortar Partnerships Boost Sales and Exposure, But Deliver Lower Margins
- 18** Conclusion: Transforming DTC with Customer Data
- 19** Key Suggestions
- 20** About the Sponsor
- 20** About the Authors

## Executive Summary

The DTC model has become a winning strategy for many consumer brands, even those that have traditionally sold all their products via partnerships with retailers. However, the DTC space has become much more crowded.

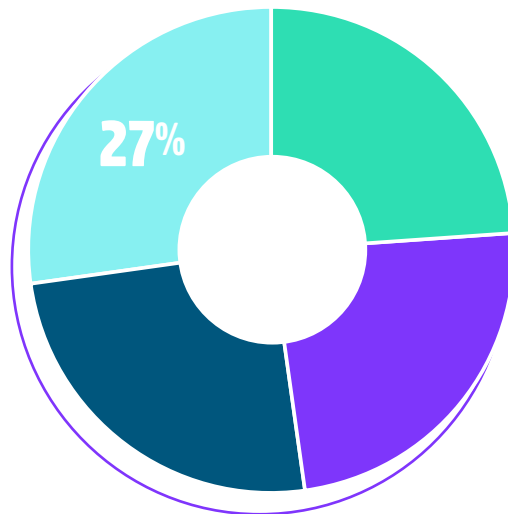
This report explores how the DTC model has evolved and where it stands in today's retail environment. It also identifies brands' current DTC strategies and reveals how they are working to address new opportunities and challenges.



# About the Respondents



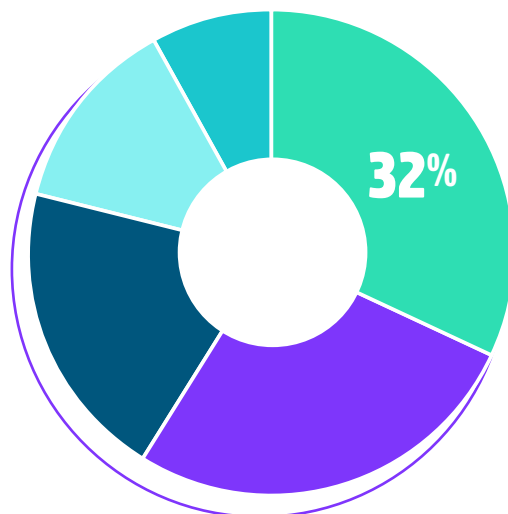
The WBR Insights research team surveyed 100 marketing, CX, and digital leaders from brand manufacturers across the U.S. and Canada to generate the results featured in this report.



## What is your seniority?

- 24% C-Suite
- 24% Vice President
- 25% Department Head
- 27% Director

The respondents are C-suite executives (24%), vice presidents (24%), department heads (25%), and directors (27%).

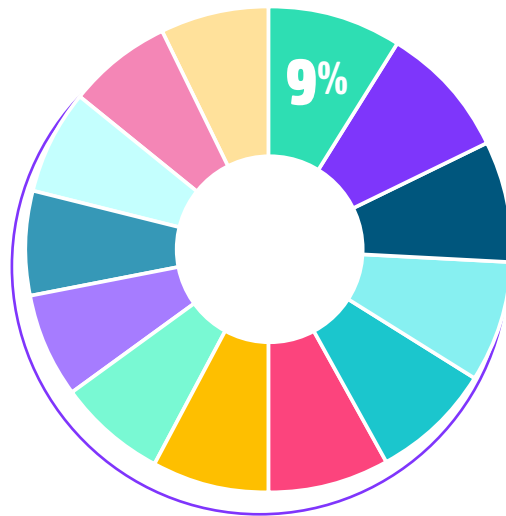


## What is your role?

- 32% Marketing
- 27% eCommerce
- 20% Customer Experience
- 13% Data Analytics
- 8% Digital Experience

The respondents occupy roles in marketing (32%), eCommerce (27%), customer experience (20%), data analytics (13%), and digital experience (8%).

## About the Respondents



### What type of brand manufacturer do you represent?

- 9% Hardware, Electronics, and Appliances
- 9% Auto & Transportation
- 8% Home Furnishing
- 8% Sporting Goods
- 8% Supermarkets
- 8% Toys & Hobbies
- 8% Health & Beauty
- 7% Apparel
- 7% Entertainment, Food, and Travel
- 7% Specialty Retail
- 7% Telecommunications
- 7% Pet & Animal
- 7% Food & Beverage

### What is your annual revenue?



- 31% \$100 million to \$250 million
- 34% \$250 million to \$1 billion
- 35% More than \$1 billion

A variety of DTC businesses are represented in the report, including businesses in hardware, electronics, and appliances (9%); auto and transportation (9%); home furnishing (8%), and sporting goods (8%), among others.

The companies in the study are of varying sizes as measured by annual revenue. More than one-third of the respondents (35%) are from companies that make more than \$1 billion annually.

# Key Insights

Among the respondents:

56% say increased competition and 31% say optimizing digital marketing channels and spend are **top challenges facing their DTC operations**.

**98% currently use CRMs as part of their technology stacks**, while 60% use eCommerce platforms.



**48% say consumers are buying more products from DTC channels than in previous years**, but 49% say the DTC market has stayed about the same.

**Most companies in the study** have either 1 to 2 (35%) or 3 to 5 (37%) dedicated marketers.

**Half don't currently use a customer data platform**, but they plan to do so within the next 12 months.

63% are **increasing marketing spending on web channels**, 32% are **increasing spending on search ads**, and 30% are **increasing spending on Instagram ads**.



**46% are only somewhat satisfied with their current customer data solutions**—15% are not very satisfied and 2% aren't satisfied at all.

**71% can use retargeting ads** and **58% can use brand awareness ads** with their existing marketing tools.

**57% consider lower margins** the biggest drawback to partnering with brick-and-mortar stores.



45% consider delivering real-time personalized experiences to customers **one of the two most important uses for the customer data they collect**; 40% claim making customer service processes more efficient is among the two most important uses.



Most believe that either more exposure (40%) or increased sales (40%) **are the biggest benefits of partnering with brick-and-mortar stores**.



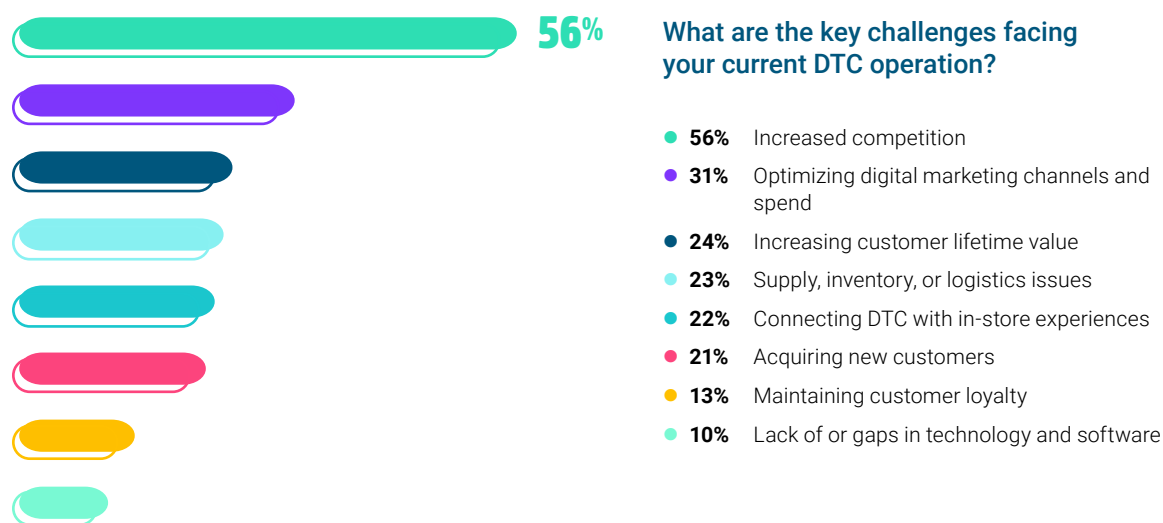


# The DTC Market Is Growing and Becoming More Competitive



With the direct-to-consumer approach, brands can sell products directly to the customer without having to go through a third-party retailer. This strategy provides numerous benefits for the brand, including higher margins, but it also enables customers to build more meaningful and personalized relationships with the brands they use every day.

DTC became especially prominent during the COVID-19 pandemic, as fewer consumers were visiting retail stores to purchase products. Since then, the market has evolved, and more brands are enacting DTC strategies than in previous years.

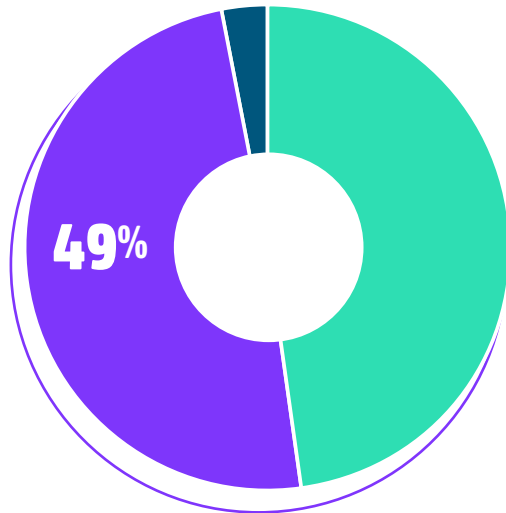


This is a benefit to consumers, who now have a wide range of purchasing options for the products they use. For brands, however, the increasing popularity of DTC has resulted in some notable challenges.

Researchers asked the respondents to select their top-two challenges from a list of eight. Most of the respondents (56%) agree

that increased competition is a key challenge currently facing their DTC operations. Other key challenges for some of the respondents include channel optimization challenges (31%), increasing customer lifetime value (24%), and supply and logistics issues (23%).

# The DTC Market Is Growing and Becoming More Competitive



In your experience, how has the DTC market changed over the past three years?

- 48% Consumers are buying more products from DTC channels.
- 49% The market has stayed about the same.
- 3% Consumers are buying fewer products from DTC channels.

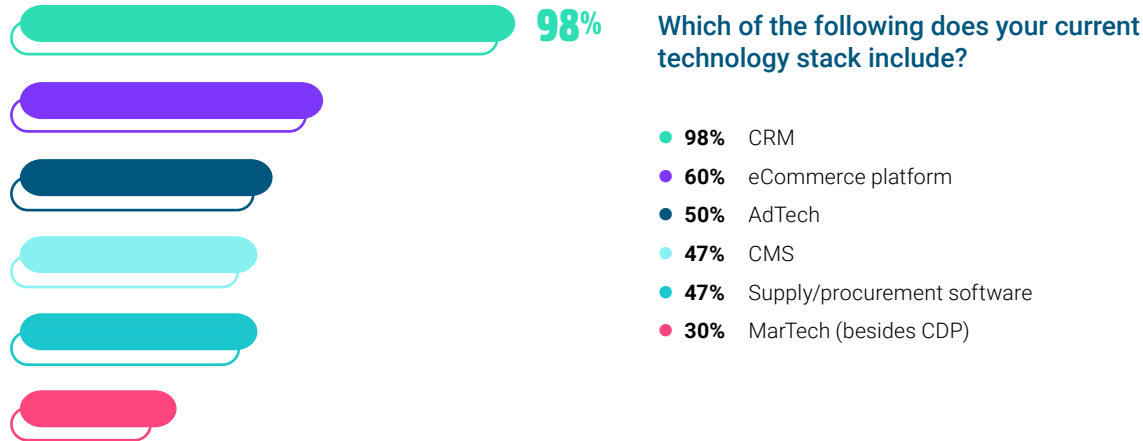
These challenges are arising because more brands are breaking into DTC, but also because consumers are increasingly turning to it as a way to purchase products without going to the store.

Almost half of the respondents (48%) say consumers have been buying more products from DTC channels over the past three years, even though 49% say the market has stayed about the same. This suggests that there is still meaningful growth in the DTC market.

Direct-to-consumer (D2C) purchasing is becoming increasingly popular due to its convenience for customers, but also thanks to consumers increasing use of digital channels. Brands can use channels like social media, the web, and search to reach consumers directly. There are also more opportunities for brands to offer their customers personalized services and loyalty rewards.



# The DTC Market Is Growing and Becoming More Competitive



Still, competition is getting fierce in the DTC market, and brands must tend to the customers they typically reach through partnerships with stores and other resellers. Brands have turned to a range of new technologies to assist with both their direct and indirect sales channels.

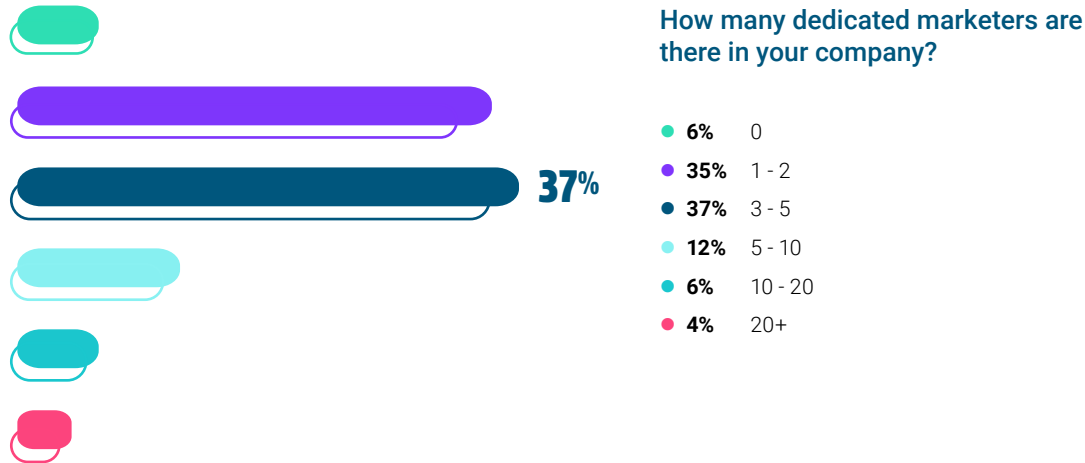
Most of the brand manufacturers surveyed in this study are using CRMs (98%) and eCommerce platforms (60%). These two tools have become essentials for DTC services, as they enable companies to compile customer data, analyze it, then craft powerful online shopping experiences for customers. Turnkey solutions like eCommerce platforms also make it easy for brands to launch new products and DTC initiatives quickly.

Other key technologies include advertising technology (50%), supply and procurement software (47%), and content management systems (47%). CMS platforms are important tools for brands that want to create dedicated websites, as they enable them to build and customize their web presence.

Notably, only 30% are using marketing technology besides a CDP. These respondents may be missing opportunities to add personalized experiences to the customer journey.



# The DTC Market Is Growing and Becoming More Competitive



Thanks to this influx of new technology, brands can rely on a small but dedicated team of marketers to manage their DTC businesses.

Most of the companies represented in the study have one to five experts dedicated to marketing. Specifically, 35% say they have one to two individuals dedicated to marketing while 37% say they have three to five dedicated marketers.

These results align with an ongoing industry trend. Many consumer-facing companies have downsized their internal marketing staff and are increasingly reliant upon partnerships with agencies, solution providers, and third-party channel management services for their marketing. This strategy can help them save on costs while also accessing key capabilities they may not be able to produce internally.

# The DTC Market Is Growing and Becoming More Competitive



Brand manufacturers are also shifting some of their DTC marketing spending this year, but they say many of their channel spending will stay about the same compared to last year.

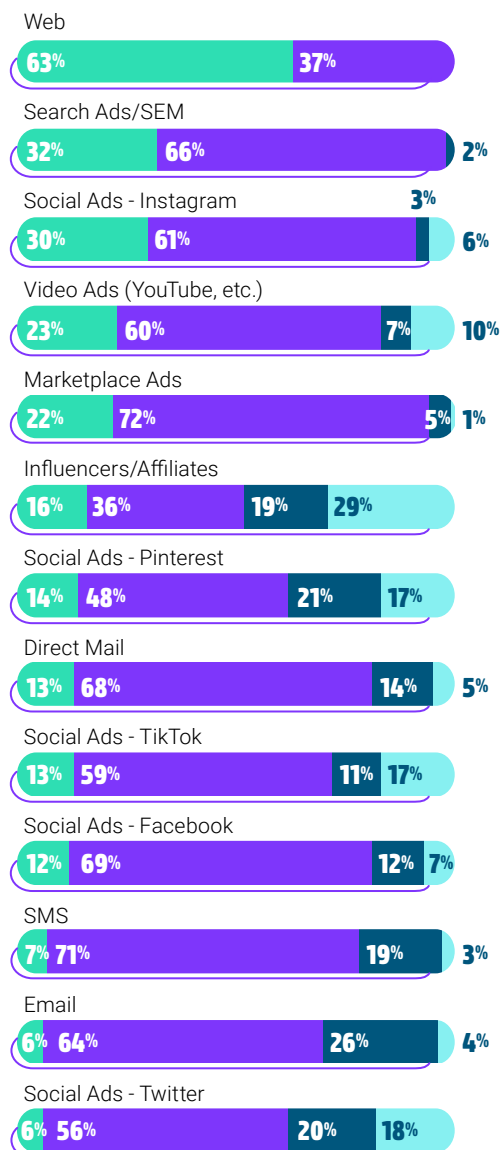
A majority (63%) say they plan to increase their web spending, while the remaining 37% say they plan to keep their web spending the same as last year. None of the respondents plan to decrease their web spending.

Respondents are also increasing their spending on search ads and SEM (32%), Instagram ads (30%), video ads (23%), and marketplace ads (22%). However, most of the respondents say their spending on these channels will stay about the same as last year.

The one channel a significant number of respondents are reducing spending on is Pinterest, at 29%. Pinterest still has a dedicated user base, but it is not as popular as apps like Instagram and TikTok (this study was conducted before the news broke that the U.S. might ban TikTok).

## How is your marketing spend changing from 2022 to 2023 on the following channels?

- Increasing spend
- Keeping spend the same
- Decreasing spend
- We don't spend in this category

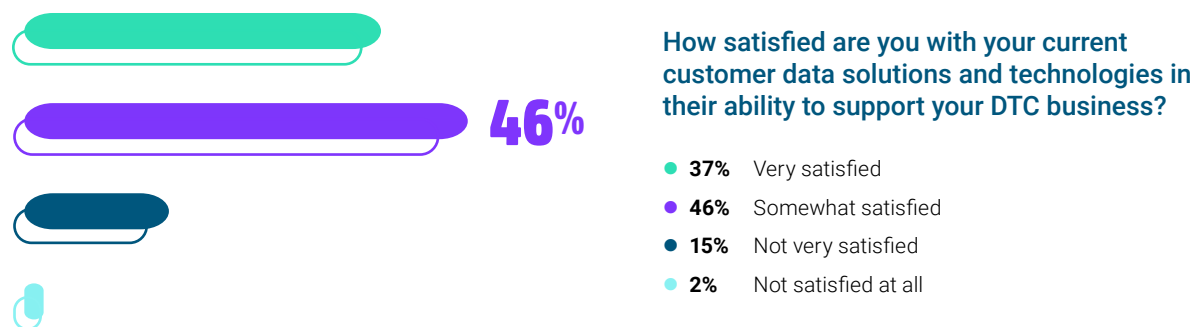


# Some DTC Strategies Suffer from Capability and Technology Gaps



Technology is important for a direct-to-consumer (D2C) sales strategy because it enables companies to provide customers with an enhanced shopping experience that can help to drive conversion and loyalty.

As such, customer data platforms (CDPs) and similar solutions are some of the most important technology investments for DTC operations in recent years. Data technologies enable brands to generate meaningful insights about customer behavior through customer interactions. Those insights can then be used to deliver personalized experiences and offers directly to customers.



Currently, only 37% of the respondents are very satisfied with their current customer data solutions and their ability to support their DTC operations. Almost half (46%) are only somewhat satisfied, while 17% are either not very satisfied or not satisfied at all.

Among those respondents who say they aren't satisfied with their current customer data solutions, many say the gaps in their capabilities come from close to the source of data. According to one C-level marketing executive from a supermarket, "The gap begins when customer data is fragmented at the source and it gets difficult to reduce the speed at which we can provide DTC services."

Similarly, a customer experience director from a home furnishing company says, "The capability gap lies closer to the source of data. Data quality gets hampered there, which hampers our flow of using customer data effectively across stages."

Customer data quality suffers at the source of the data due to outdated or incomplete information, privacy concerns, and incorrect data entry. This can lead to difficulties in obtaining accurate customer insights and making sound business decisions.

To improve customer data quality at the source, brands should ensure that they have a secure solution in place for collecting, storing, and managing data, and they should use automated solutions to vet any new sources of customer information before adding it to their databases.

# Some DTC Strategies Suffer from Capability and Technology Gaps



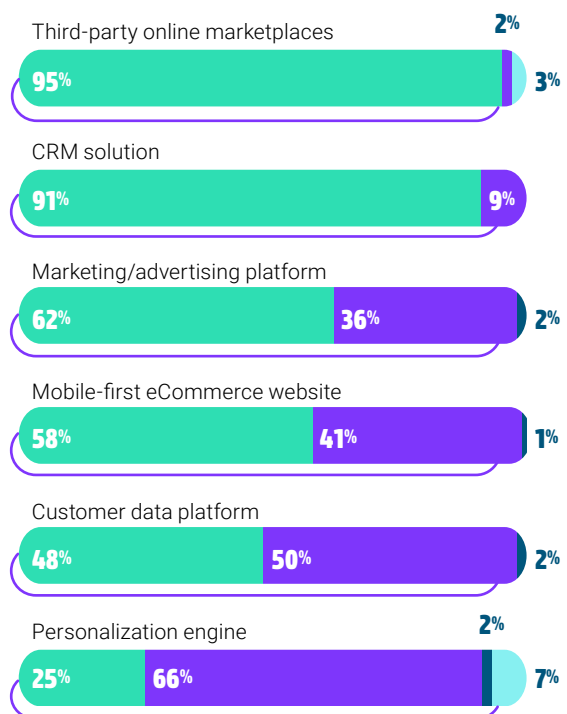
The report noted previously that many brands are turning to technologies to address key challenges in both their DTC and retail operations. Comparatively, brands are relying on a specific set of technologies to power only their DTC operations.

Most of the respondents are currently using and will continue to use third-party online marketplaces (95%), CRM solutions (91%), marketing and advertising platforms (62%), and mobile-first eCommerce websites (58%) to power their DTC businesses. Almost half (48%) are using and will continue to use customer data platforms as part of their DTC operations.

The respondents also have plans to onboard four of the technologies presented to them if they aren't using them already. Most (66%) don't currently use a personalization engine, but they'd like to use one within the next 12 months. Half of the respondents say the same about customer data platforms.

## What solutions and technologies are you currently using to support your DTC strategy, and what do you plan to adopt in the next 12 months?

- We currently use this and will continue to use this over the next 12 months.
- We don't currently use this, but we'd like to use this within the next 12 months.
- We currently use this, but we won't be using this over the next 12 months.
- We don't currently use this, and we don't plan to use this within the next 12 months.



# Some DTC Strategies Suffer from Capability and Technology Gaps



Which of the following marketing capabilities can you currently use given your existing marketing tools?

- 71% Retargeting ads
- 58% Brand awareness ads
- 49% Orchestrate customer journeys across channels
- 48% Connected social media ads
- 47% Audience identification and segmentation
- 44% Email marketing automation
- 43% In-depth marketing analytics and reporting

Thanks to these technology investments, the respondents have developed an impressive range of marketing capabilities. Those that are planning investments into new technologies will likely be able to harness these capabilities soon if they can't do so already.

Most of the respondents can currently use retargeting ads (71%) and brand awareness ads (58%) with their existing marketing tools. However, fewer than half of the respondents can use the remaining marketing capabilities presented to them due to a lack of technologies.

For example, most of the respondents can't orchestrate customer journeys across channels, launch connected social media ads, engage in audience identification and segmentation, leverage email marketing automation, or use in-depth marketing analytics and reporting to gain a 360-degree view of customers.



## Some DTC Strategies Suffer from Capability and Technology Gaps

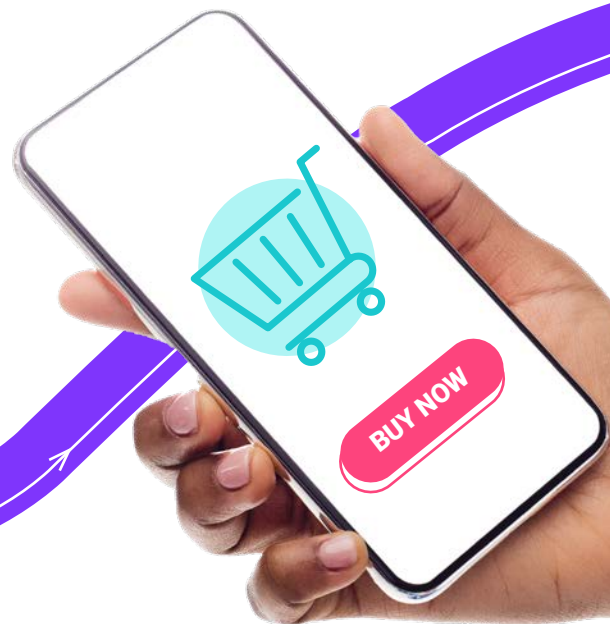


What is your company's most important use for the customer data you collect as part of your DTC business?

- **45%** Delivering real-time personalized experiences to customers
- **40%** Making customer service processes more efficient
- **36%** Getting product feedback quickly
- **35%** Recognizing loyal and at-risk customers for rewards and interventions
- **33%** Gaining contextual insights into customers to inform high-level strategy
- **11%** Powering automation, AI, or machine learning

Closing these capability gaps will likely be the key to DTC success in the coming months and years, and most of these capabilities are powered by data.

Customer data can be used in a variety of contexts for DTC marketing. According to the respondents, some of their top-two most important uses of customer data include delivering real-time, personalized customer experiences (45%), improving customer service processes (40%), and receiving product feedback efficiently (36%).

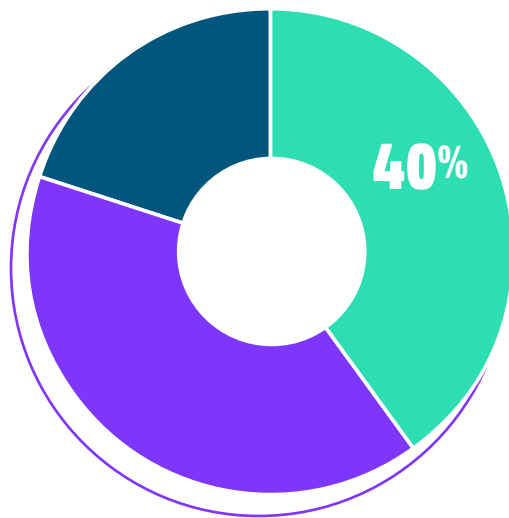


# Brick-and-Mortar Partnerships Boost Sales and Exposure, But Deliver Lower Margins



The brick-and-mortar retail sector has seen significant changes over the past three years due to consumers' increased adoption of digital purchasing. Many retailers have had to adjust their strategies to stay competitive, with many focusing on creating unique in-store and online experiences for customers.

Despite the rise of eCommerce and DTC, brick-and-mortar retail is still important for brands because it allows them to establish a meaningful touchpoint for customers. Many brands, even those focusing heavily on DTC, still partner with retailers to sell their products in stores.



**Many DTC companies are partnering with brick-and-mortar stores. In your view, which of the following is the biggest benefit of this strategy?**

- **40%** More exposure—DTC companies can present products to more customers who may not be aware of them.
- **40%** Increased sales—physical stores represent a new sales channel that could improve sales and revenue.
- **20%** Brick-and-mortar infrastructure—DTC companies can leverage stores' shipping and merchandizing infrastructure to reach new markets at cost.

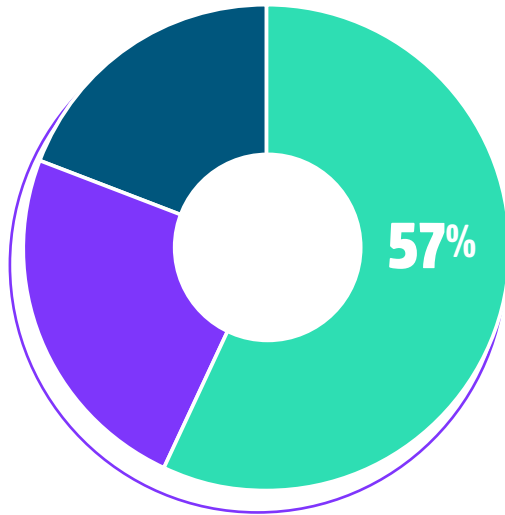
In each case, 40% of the respondents say partnering with brick-and-mortar stores provides them with more exposure and increased sales.

DTC companies can't always reach every consumer, and they may benefit from targeted, localized sales instead of selling exclusively online. Selling products through brick-and-mortar stores in target locations allows

the brand to leverage those stores' marketing capabilities to reach new prospective customers.

Brick-and-mortar retail is also still an important sales channel for brands. Companies that can't move their product through their own channels can benefit from third-party sales, especially if they are sitting on large stocks of products that they struggle to sell on their own.

# Brick-and-Mortar Partnerships Boost Sales and Exposure, But Deliver Lower Margins



There could be some drawbacks for DTC companies partnering with brick-and-mortar stores as well. In your view, which of the following is the biggest drawback of this strategy?

- **57%** Lower margins—DTC businesses may have to accept reduced margins when selling their products in a physical store.
- **24%** Less brand control—third parties will oversee branding or merchandising.
- **19%** Lack of data—it's much more difficult to collect customer data via third parties and in physical sales environments.

Despite these advantages, partnering with brick-and-mortar stores may be more of a necessity for some brands, as there are clear drawbacks to the strategy.

Most of the respondents (57%) agree that the biggest drawback of partnering with brick-and-mortar retailers is that they experience lower margins. DTC businesses lose some of the funds from a purchase when the product is sold in a physical store instead of through a DTC channel. Most brand manufacturers are already accustomed to this if they sell products through

retail partnerships, but dedicated DTC brands could be missing out on revenue opportunities if they must move products by selling through third parties.

Many brand manufacturers will likely maintain their partnerships with brick-and-mortar retailers for the foreseeable future, if only for the benefits of exposure and increased sales. However, they could shift more of their business toward DTC channels if they obtain the technology and capabilities they need to build more meaningful, direct relationships with customers.

# Conclusion: Transforming DTC with Customer Data

In their final line of questioning, researchers asked the respondents to describe their companies' plans to transform their DTC operations and how customer data will play a role in the transformation. One idea that is repeated in the responses is that brands must focus on improving their ability to engage customers across their DTC channels. In short, brands want to generate more customer participation.

For example, one eCommerce director at a sporting goods brand says they want to develop "more channel engagement through gamification." They also believe customer data will help them tailor their approach, especially when choosing what type of gamification to implement.

Similarly, a VP of marketing from a supermarket brand says they intend to transform their DTC strategy by "leveraging engagement and interaction on [their] mobile channels, especially [their] app, to improve DTC transformation." They believe customer data will be essential for stratification in this area, as well as tailoring their interactions with customers.

Other respondents say they first need to focus on

becoming more data-centric and improving the quality of their data. According to one marketing department head at a toys and hobbies brand, leveraging more data will enable them to create customer personas and "a 360-degree view" of their customers. They say "data will take center stage" in this strategy.

Finally, some of the respondents say they want to improve communications, engage in more customer journey mapping and analysis, and create more digital touchpoints. All of the respondents agree, however, that customer data will underpin each of these strategies and that establishing standards of data quality, collection, and analysis will be crucial.



# Key Suggestions

**Transform your DTC operation to become more data-centric and customer-centric.** The DTC space is growing increasingly competitive, and only those brands that can forge meaningful experiences for their customers will be able to stay top-of-mind.

**Identify the capabilities that are lacking in your DTC strategy and use technology to fill the gaps.** Most of the respondents say their brands can't currently engage in activities like cross-channel customer journey orchestration, audience identification, segmentation, or in-depth marketing analytics and reporting.

**Use customer data solutions like CDPs to transform your DTC strategy.** Many brands say they can leverage customer data and the insights it provides to improve customer visibility, customer engagement, and the overall customer experience—if they have the technology necessary to maintain data quality and analytical capabilities.

**Strike a balance between brick-and-mortar retail partnerships and your DTC operation, but leverage opportunities to bring more revenue in-house.** Most of the respondents agree that there are benefits to brick-and-mortar partnerships, but they lead to reduced margins.





# About the Sponsor



AdRoll is a marketing and advertising platform that helps ecommerce brands grow revenue and save time on one streamlined platform. Make web ads, social ads, and email work together and more effectively run, measure, and optimize your marketing efforts.

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# About the Authors



WBR Insights is the custom research division of Worldwide Business Research (WBR), the world leader in industry-driven thought-leadership conferences. Our mission is to help inform and educate key stakeholders with research-based whitepapers, webinars, digital summits, and other thought-leadership assets while achieving our clients' strategic goals.

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