D2C (Direct To Consumer) Business Model: Efficacious Strategy for the Businesses to Grow During COVID-19 Scenario

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ABSTRACT

Introduction: This paper aims to analyse D2C (direct to consumer) e-commerce strategy used by businesses or companies to sell to end-consumers directly during Covid-19 in organized retail.

Background: The pandemic has fuelled an explosion in online shopping, yet too many brands are only along for the ride, relying on their retail partners to share glimpses of first-party data that show past demand rather than a clear and predictive road map to future growth. The roots of direct marketing date back to trade catalogues, among the first tools of direct marketing.

Methods: Existing literature on COVID-19 was analysed through secondary information to identify an explosion of D2C (direct to consumer) brands globally and India and its effect on business and commerce.

Conclusion: D2C is becoming the strongest weapon of the businesses against counterfeiters and growing their brand equity at the same time.

Keywords: COVID-19, D2C strategy, FMCG sector, Organized Retailing.

INTRODUCTION

There is a long history in the fast-moving consumer goods industry of producing reliable growth through mass brands and undeniable success. The FMCG market has risen at a faster rate in rural India in the last few years compared to urban India. The semi-urban and rural sectors are increasing rapidly, with FMCG goods accounting for 50% of total rural expenditure.¹ No-one knows what the future holds, not even the experts, for the first time in a long time. Luckily, history and social science provide an insight into how the pandemic will shift the perceptions, behaviours and buying habits of consumers. Naturally, these developments would have a disproportionate effect on young people during their formative years who are witnessing the pandemic.² With D2C marketing and D2C sale promotions, major brands such as luggage manufacturer Away and office supplies manufacturer Quill have already taken the plunge, and we expect more manufacturers to sell in 2020 and beyond.³

Social distancing has increased e-commerce adoption and digital platforms for a range of needs will continue to be embraced by customers. Businesses should also extend their partnerships with e-commerce sites from third parties while also collaborating in new ways, such as deeper data sharing or shared warehousing.⁴ At the same time, they should develop their own direct-to-consumer capabilities and improve them. For businesses to have a strong online and offline presence is essential.⁵

The pandemic is likely to cause two conflicting social behaviours on an individual level. COVID-19 offers a perfect...
opportunity for a significant segment of the population to re-evaluate their existing lifestyle decisions, make changes and reset their lives. You just need to look at the amount of people who have used their newfound time to exercise, start a new skill, or transition to a profession. Sales of Peloton bikes, for example, have jumped almost 66 percent and LinkedIn has confirmed that a 3x rise in time spent learning has been recorded.2

Brands are pivoting gradually to a direct-to-consumer (D2C) market model with the closing of physical stores. D2C brands have a streamlined proposition that cuts out stores, which is also an important component of their omnichannel approach marketing directly to customers across smartphone and digital platforms.6 A host of conventional FMCG brands have sprinted towards a D2C plan since the pandemic. New entrants include Kraft Heinz at Home with Heinz and Snacks.com with PepsiCo. DTC brands have a unique benefit because of their ability to have one-to-one relationships with their customers while gathering useful information that would be difficult to gather in conventional retail. This progressively looks like a two-way partnership in which members of the group work with brands to co-create new goods and services, something that Pattern Brands calls "direct with".7

Adopting Direct to Consumer (D2C) strategies provides many opportunities with limited investment for consumer brands to expand to newer markets, increase sales and reap higher margins. There are challenges, of course, too. Due to relatively low entry barriers to competition as well as the adverse effect it produces on the supply chain with the current distributor and retailer network, this strategy poses major risks.8 Unsurprisingly, Forrester's May 2018 study indicated that customers can directly purchase specialised goods from brand manufacturers to ensure authenticity.9

In short, the D2C model implies that you sell your goods directly to the customer as a company, and in the process, going direct enhances customer service, improves the voice of your brand, and influence almost every part of the consumer journey.10 Since 2016, more than 600 such brands have entered the market, gouging up over $1.6 billion in funding. Some of these brands include Lenskart, Licious, Zivame, Boat, Wow Skin Sciences, Healthkart, Mamaearth, MyGlamm, Sugar, Country Delight, Atomberg, etc. Avendus anticipates consolidation activity in the sector in the next three-to-four years, either as roll-ups or existing large consumer goods companies buying D2C brands.11

With the restricted lockdown trend, more and more businesses that typically sell through third-party retailers are adapting by going direct-to-consumer (DTC) to the 'next normal'. With legacy brands such as PepsiCo, Kraft Heinz and Nike taking a slice of the pie alongside younger, perhaps more agile competitors such as Glossier and Dollar Shave Club, the DTC model is completely expected to take off to an even greater extent this year than last.12

LITERATURE REVIEW

Several countries around the world resorted to lockdowns to "flatten the curve" of the infection during the coronavirus pandemic. These lockdowns meant that millions of residents were confined to their homes, industries were shut down and almost all economic activity ceased. The global economy is predicted to contract by over 3 per cent in 2020, the steepest recession since the Great Depression of the 1930s, according to the International Monetary Fund (IMF).13 Economies like the United States, Japan, the United Kingdom, Germany, France, Italy and Spain are projected to contract by 5.9, 5.2, 6.5, 7, 7.2, 9.1 and 8% respectively this year. In the first quarter of 2020, China's GDP fell by 36.6 percent, while South Korea's production declined by 5.5 percent, as the country did not implement a lockdown but pursued an aggressive testing, touch tracing and quarantining policy (IE, 2020). In Europe, France, Spain and Italy's GDP fell
by 21.3, 19.2 and 17.5 percent respectively.\textsuperscript{14}

The global ecommerce sales will hit $4.2 trillion and make up 16 percent of overall retail sales. And these numbers are only expected to go up as we progress into the ‘20s. It is important to keep up with the latest e-commerce developments, including both backend efficiencies and frontend conversion-optimizing experiences, to expand in the 2020 retail landscape.\textsuperscript{15}

The FMCG companies will attempt to remove all the intermediate stages between themselves and the customer in D2C. The firm will seek to contact the retailer or the customer directly. Most major FMCG players already have e-commerce as a core pillar of their growth strategy and are aggressively scaling up investments to expand their online offerings and geographical reach. This model has its inherent advantages and disadvantages.\textsuperscript{16} In doing so, they are rethinking their whole brand strategies and reshaping them.\textsuperscript{17} DTC businesses will need to implement an omnichannel approach to retool, establish closer links with their communities, and integrate vertically to maximise margins.\textsuperscript{18}

A first-difference model is used for direct-to-consumer (DTC) agricultural production in two food and beverage retail sub-sectors in Arkansas, Louisiana,
E-commerce and home delivery will assume a much higher prevalence of customers in the purchase pattern. Years will advance the pace of digitalization of the future market. Therefore, in the long term, businesses that digitally transform their route to market and develop robust direct to consumer capabilities, like e-commerce, will win. This will require a concentrated and organised effort, from the identification of alternative suppliers, flexible production management to digital inventory tracking, to create a more agile, open and sensitive supply chain.\(^5\)

**Direct-to-Customer (DTC) Model as an Omnichannel Strategy**

As internet penetration increases in the country and more foreign retailers start operating in India, the share of the organised retail sector will increase from about 12 percent in 2017 to about 22-25 percent by 2021, which would also be driven in part by the growth of the e-commerce market from $24 billion in 2017 to $84 billion in 2021. The study ties e-commerce market growth to factors such as increased internet penetration and increased smartphone use, among others, according to a latest joint report by Deloitte and the Retailers Association of India (RAI).

The FMCG market in India in 2018 was estimated at 68.4 billion U.S. dollars. This is predicted to grow to US$ 220 billion by 2025. Growth in rural consumption across the country was one of the reasons for the rising market size over the years.\(^20\)

In the US, there will be 87.3 million D2C ecommerce buyers ages 14 and older in 2020, up 10.3% from the prior year. To reach the next phase of growth, many D2C brands are evolving beyond performance-based search and social ads to more traditional branding media, like TV, podcasts and out-of-home, but they are doing so while incorporating performance advertising principles. D2C sales will account for $17.75 billion of total ecommerce sales in 2020, up 24.3% from the previous year. While overall sector growth remains strong and outpaces total US ecommerce gains, momentum is slowing.\(^21\)
The Indian Direct Selling Industry is well positioned to foray into foreign and domestic markets successfully. In states such as Andhra Pradesh, Telangana and Kerala, due to a lack of regulatory clarity, the direct sale industry has been affected. There is a need for a comprehensive policy for the industry to be established by the central and respective state governments, which would enable the industry to grow and generate both direct and indirect jobs.

Traditionally, global FMCG companies have marketed their goods through third parties (MGR and bricks and mortar retail) and have built close partnerships with their retail partners. However, in recent years, we have noted tensions erupting between retailers and suppliers that would lead to a longer-term trigger for the ‘direct to consumer strategies’ of major FMCG players. On the supply side, e-tailor e-grocery has received significant attention for essential goods. Most of the modern retail giants have linked up with e-commerce players for an effective fulfilment. Future Group’s Big Bazaar, which partnered with Rapido and Scootsy for distribution, Cash and Carry retailers such as Metro have started direct distribution to their Kirana partners.
Shikha Bhagat et al. D2C (Direct to consumer) business model: Efficacious strategy for the businesses to grow during COVID-19 scenario.

Table 1: Top Direct selling companies in the world based on 2019 revenue

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amway</td>
<td>$8.4B</td>
</tr>
<tr>
<td>2</td>
<td>Herbalife Nutrition</td>
<td>$4.9B</td>
</tr>
<tr>
<td>3</td>
<td>Avon Products Inc.</td>
<td>$4.76B</td>
</tr>
<tr>
<td>4</td>
<td>Vorwerk</td>
<td>$4.23B</td>
</tr>
<tr>
<td>5</td>
<td>Natura</td>
<td>$3.66B</td>
</tr>
<tr>
<td>6</td>
<td>Coway</td>
<td>$2.59B</td>
</tr>
<tr>
<td>7</td>
<td>Nu Skin</td>
<td>$2.40B</td>
</tr>
<tr>
<td>8</td>
<td>Tupperware</td>
<td>$1.80B</td>
</tr>
<tr>
<td>9</td>
<td>Oriflame</td>
<td>$1.47B</td>
</tr>
<tr>
<td>10</td>
<td>Ambit Energy</td>
<td>$1.31B</td>
</tr>
</tbody>
</table>

Source: https://www.directsellingnews.com/dsn-announces-2020-global-100-list/

The 2020 list took on a new look this year, highlighting 50 companies achieving more than $100 million revenue for 2019. From 2018 to 2019, 48% of firms grew year-over-year. Two of the top 10 companies reported increased revenue. From 2018 to 2019, six companies grew by $100 million. The aim of the Global 100 list is to showcase the true effect of this channel on people’s lives as well as the economic impact on the communities they represent through direct selling companies. Amway continues to be the leading Direct Selling organization with global revenue of USD 8.8 billion in 2019. Avon Products Inc., Herbalife, Infinitus, and Vorwerk along with Amway comprise of the top 5 Direct Selling organizations in 2019 based on their global revenue.

Table 2: Covid-19 FMCG Direct-To-Consumer Initiatives

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Covid-19 Direct-To-Consumer initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nivea</td>
<td>India</td>
<td>Partnered with delivery services Zomato and Swiggy in March 2020 to deliver personal care products across 100 cities in India.</td>
</tr>
<tr>
<td>Heinz</td>
<td>UK</td>
<td>Heinz to Home Service: canned food delivery in bundles of 16, launched in April 2020. Company planning to add sauces and baby food products to this initiative.</td>
</tr>
<tr>
<td>Unilever</td>
<td>Brazil</td>
<td>Partnered with delivery service Rappi in April 2020 to deliver household cleaning products, as well as personal care products.</td>
</tr>
<tr>
<td>P &amp; G</td>
<td>India</td>
<td>Expanded opportunities with Dunzo, Swiggy and Zomato partners to serve their consumers during this difficult time.</td>
</tr>
<tr>
<td>ITC</td>
<td>India</td>
<td>Collaborated with apna complex, My Gate, Swiggy, Dunzo and Zomato utilised the needs of the nation during these unprecedented times and also selling products through its own portal.</td>
</tr>
<tr>
<td>Dabur</td>
<td>India</td>
<td>Tied up with online delivery service providers for retail outlets and households and found innovative solutions to ensure uninterrupted supply of essential products to their consumers.</td>
</tr>
</tbody>
</table>

Source: News sources, Fitch Solutions

Rise in the Investors Interest on D2D brands

According to a recent report by Avendus Capital, the growing investor interest in the region comes as D2C brands across sectors such as apparel, beauty & personal care, food & beverages and electronics are projected to become a $100 billion company in India by 2025. Elevation Capital, which was until recently known as SAIF Partners, is in talks with a $10-15 million cheque to back cosmetics brand Sugar. In addition, a $14 million investment in Country Delight, a brand of milk products, is also being finalised, said three sources briefed on the matter. Top investors are doubling their bets on direct-to-consumer (D2C) brands, such as Sequoia Capital India, Verlinvest and Elevation Capital. These are goods that are first launched, leveraging social media and technology across e-commerce platforms, and later their distribution is constructed offline as they scale.

Legacy Brands: Direct to customer

Customers buy more and more items online and purchase fewer goods from traditional physical stores. Through leveraging technology to provide a deep insight into the customer, a direct-to-consumer (DTC) approach is about building one-on-one consumer relationships. This can lead to adequate, tailored products, services, experiences, contact and deals and can effectively drive increased acquisition, conversion, retention and advocacy of customers. More than a dozen consumer goods companies, including Hindustan Unilever, ITC, Mondelez, Procter & Gamble, Dabur and Colgate, have started selling products directly to consumers. That is circumventing traditional trade and distributor networks in areas where last-mile
delivery has been disrupted due to Covid-19 constraints. Direct to Consumer (D2C) is literally an alternate distribution channel for brands, in addition to traditional retail and e-commerce that they already have.  

FMCG companies have begun to give up control of the distribution model and collaborate with several players for the best coverage of the urban and rural market, concentrating their own resources on promotion, branding and in-store merchandising in order to build the best-in-class retail experience. In this case, they are likely to collaborate to push coverage with aggregators, e-comm delivery businesses, rural distribution businesses, and distribution arms of modern trade.

Tata Consumer Goods Ltd (TCPL) is redesigning its entire sales and distribution system to be more direct, active and digitised and aims to double its direct reach in the next 12 months in response to the coronavirus pandemic challenges and to make its entire distribution system more direct, active and digitised in order to double its direct reach in 12 months.

Due to the pandemic, e-commerce is now only selling the necessary items to make people feel better and not afraid to go out to buy essential goods from retail stores. According to Capgemini’s market perception analysis, this study stated that in the next nine months, e-commerce customers will grow from 46 percent to 64 percent. As a result of a huge increase in demand for these products, FMCG companies such as Amul, Godrej, and ITC have increased their production as well as prices.

They claimed that this was because people prefer to be confined in their homes and buy items that are contact-free via these portals and see this as a great opportunity for the country’s e-commerce sector to improve and emerge in the coming years as a profitable sector. And with the end of this lockout period, the purchasing behaviour and expectations of consumers will radically shift.

Several Challenges faced by the CPG Brands

The companies experiencing rapid growth in consumer-packaged goods (CPG) brands are taking the leap to the business model of DTC. Learning how to better handle the customer service relationship is mission critical for CPG brands using DTC for the first time. Brands must be able to respond quickly to any and all customer questions, regardless of medium, whether they connect by phone, email, online chat, or social media. Your brand needs to have a great site search interface, so that consumers can easily find answers about the brand and the products.

The size of brands direct-to-consumer is small. For middle class India, the aspirational purchase occurs only offline. So, they need to open offline stores until they reach a certain turnover. The customers of the new age in India are brand-starved, searching for variety. However, to achieve size and meet more households, such brands would need to have an equal balance of online and offline sales. Nutrition, or healthy food items, are some of the online brands. They cut through age, gender, SEC classification and target individuals aware of fitness. So, these brands have to do the right targeting based on need.

CONCLUSION

The pandemic has resulted in a significant shift in the way people buy products and services. Studies have also shown that MSMEs that have gone digital-to-consumer (D2C) have seen their businesses expand by 30%. Consumers will continue to expect convenience and customization, and digital platforms will continue to evolve, ensuring that the D2C arena will only become more crowded and competitive. But not every CPG manufacturer should jump in; if and where to play, a company should first decide. D2C should be incorporated into their broader channel strategy by companies who want to embark on a D2C path, starting with...
identifying the role of D2C and creating a compelling customer value proposition. Then, they will be well on their way to D2C performance with agile execution and rigorous metrics. As smartphone devices, Internet speeds and social connexions expand, D2C is still growing and will continuously evolve.

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Dr. Shikha Bhagat is an Assistant Professor at Christ (Deemed to be University) Bengaluru. She has more than 9 yrs of experience in teaching and research. She obtained her doctoral degree from Noida International University, Greater Noida, Uttar Pradesh. Her research interests cover Marketing, International Business, and Retail Management. She has also published research papers on a wide range of topics in marketing.

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Authors’ contributions
Dr. Shikha Bhagat conceived and presented the idea. Dr. Shikha Bhagat and Ms. Shilpa developed the theory and performed logical computations. Ms. Shilpa worked on introduction and Dr. Shikha worked on literature review while Both the authors together contributed to the conclusions, limitations, future study and implications.

Conflict of Interest
Both the authors Dr. Shikha Bhagat and Shilpa Sarvani Ravi, certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter or materials discussed in this manuscript.

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