



Enhancing direct-to-consumer connections

Executives have high hopes for growth,
but value remains elusive



The growth of direct-to-consumer business



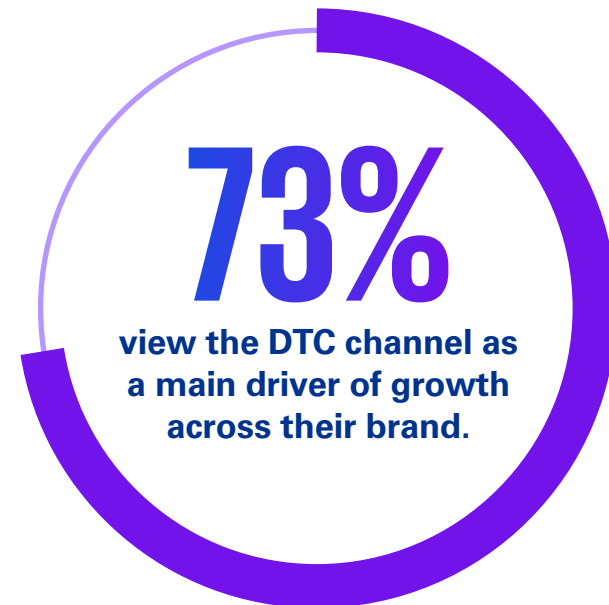
Through our extensive research, we know that while executives have high hopes for growth, value remains elusive.”

Sam Ganga

Consulting Industry Leader, Consumer & Retail

The growth of direct-to-consumer (DTC) businesses skyrocketed during the pandemic when consumers turned to online shopping while staying safe in their homes. Though overall e-commerce growth has leveled off from pandemic highs, it remains strong as consumers gradually returned to in-store shopping. Now, facing high inflation, consumers are in search of the best overall experience, highest quality, and best price. DTC models seek to offer this and more.

According to a recent KPMG survey results of 100 executives at consumer and retail brands, who leverage DTC channel strategies, DTC is poised for growth. In fact, of those that launched a DTC strategy more than five years ago, 73 percent view the DTC channel as a main driver of growth across their brand.¹ Moreover, industry research predicts DTC e-commerce sales for established brands to reach \$117 billion this year, which is triple the anticipated \$38 billion sales of digitally native brands for the same time period.²



1.KPMG Direct-to-consumer survey, September 2022. Slide 18.

2.Insider Intelligence and eMarketer, "How Established Brands and DNVBs Achieve Sustainable Growth with Direct Sales Strategies," by Andrew Lipsman. April 28, 2022.

A channel for growth

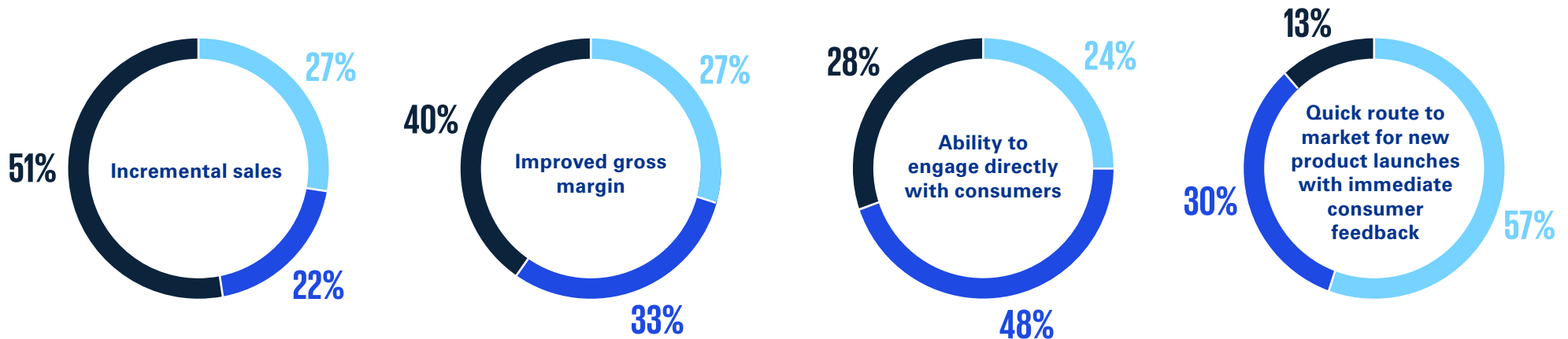
An example of how an existing brand is successfully growing its DTC channel is Nike, Inc. For its 2022 fiscal year, Nike Direct revenues were \$18.7 billion, up 14 percent from the previous year. Its gross margin increased 120 basis points to 46.0 percent,³ primarily due to margin expansion in its Nike Direct and reduced emphasis on wholesale customers.

Nike increased its DTC presence in 2017 with the launch of its “Consumer Direct Offense” strategy, designed to ramp up its digital presence, strengthen its brand, and better align to consumer needs. More recently, it seeks to replicate the in-store experience online by creating engaging DTC brand experiences

using QR codes, augmented reality, and other features that connect digital and physical interactions. Nike now aims for direct sales to represent around 60 percent of its business by the year 2025.⁴

Many organizations are hoping to follow suit. To stay competitive, many businesses leveraging DTC strategies are evolving their approaches to increase access to their brands. For instance, some are partnering with retailers and platforms, opening physical stores and pop-up locations to increase brand visibility, strengthen consumer relationships, and drive revenue.

Executives in our survey cite the potential for incremental sales (51 percent,) improved gross margins (40 percent) and greater consumer engagement (28 percent) as top reasons for launching a DTC business.⁵



Note: **Percentages might not equal 100 due to rounding. Lower N count due to unsure / cannot disclose selected Source(s): Economic Direct to Consumer Survey Results

3,4. NIKE, Inc. - Investor Relations - NIKE, Inc. Reports Fiscal 2022 Fourth Quarter and Full Year Results.

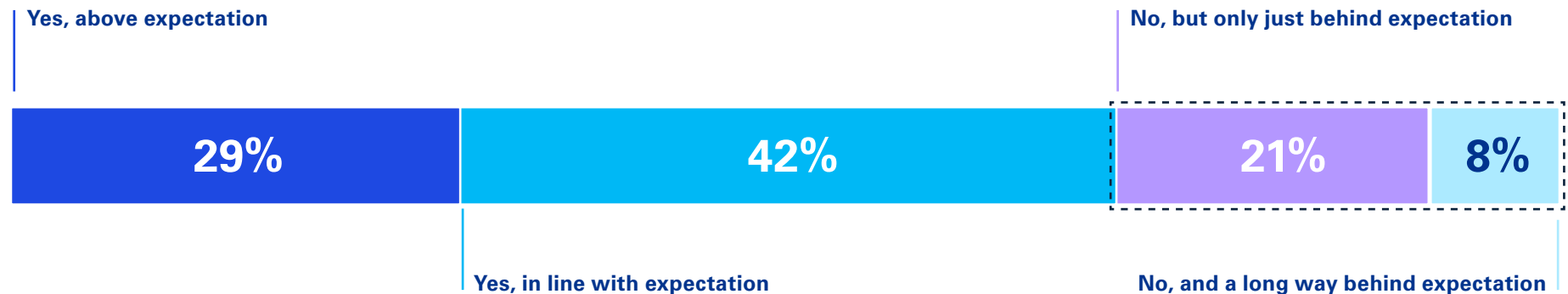
5. KPMG Direct-to-consumer survey, September 2022. Slide 9.

Data access and effectiveness

Gaining access to first-party consumer data providing insights on consumer behavior and preferences is a big plus of the DTC model. The ability to be closer to the consumer and provide better experiences and an affinity to the core brand is a key focus to drive increased loyalty. However, effectively managing first-party data and using it productively remains challenging for many companies.

Given data insights span all the touchpoints across a customer journey, capturing and effectively utilizing this data is critical to be able to personalize experiences, target special offers and tailor content based on consumer preferences.

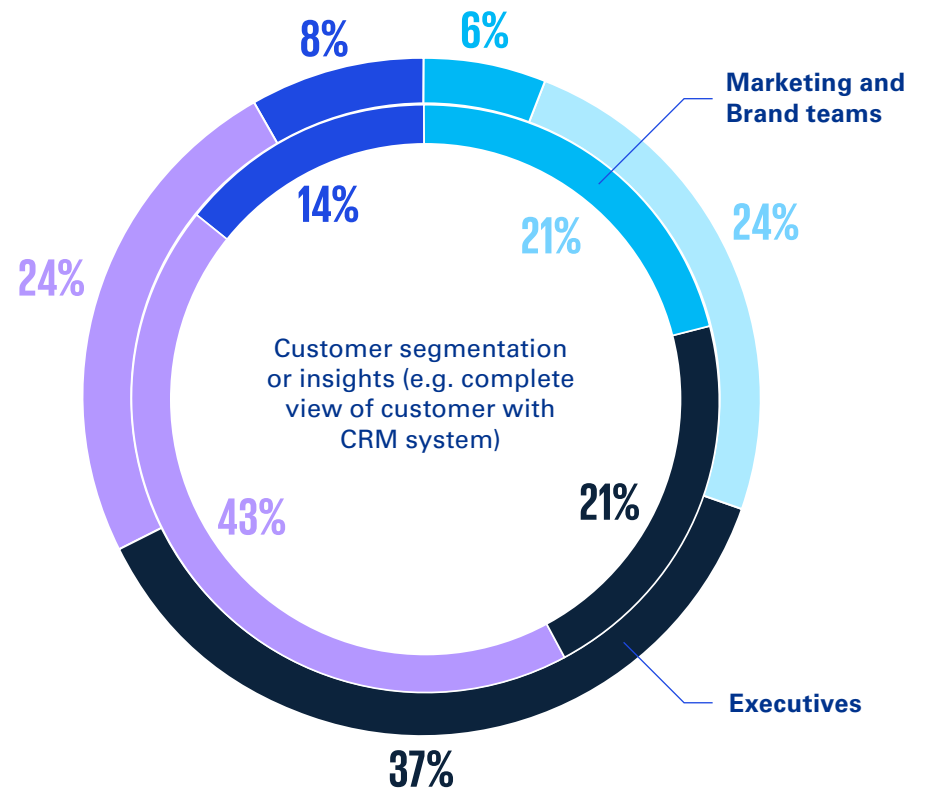
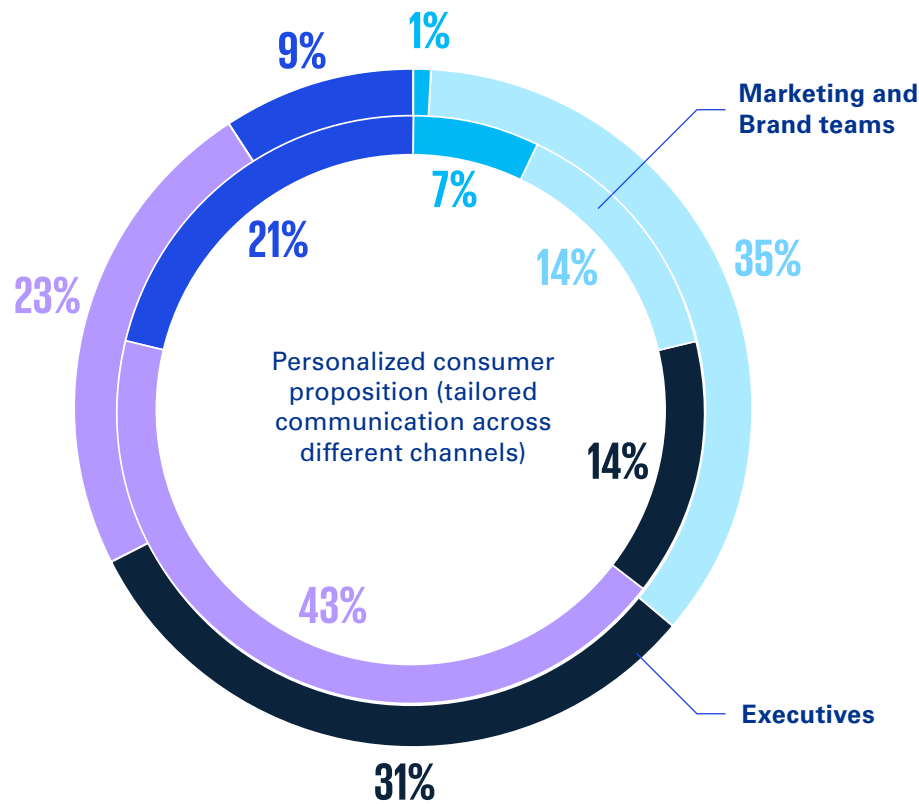
Unfortunately, 29 percent of the executives surveyed say their use of first party data has fallen behind their performance expectations.⁶



6. KPMG Direct-to-consumer survey, September 2022. Slide 12.

In addition, 22 percent of executives cite the need for considerable improvement in personalization across channels and the same amount (22 percent) also express the need for improvement in customer segmentation or insights that enable a single view of a customer.⁷

While DTC models also offer greater control of sales and marketing strategies, executives cite even greater room for improvement. Survey results show marketing and brand executives believe even more strongly that consumer personalization (64 percent) and customer segmentation (57 percent) requires considerable development.⁸



● 1 - Considerable further development required ● 2 ● 3 ● 4 ● 5 - Minimal development / improvements required

7. KPMG Direct-to-consumer survey, September 2022. Slide 15.
8. KPMG Direct-to-consumer survey, September 2022. Slide 16.

End-to-end connections

The DTC approach enables an organization to gain valuable consumer data and insights that can improve consumer experiences by providing new benefits. For example, by breaking down silos between internal systems, brands can offer consumers new features that add value and convenience such as online order tracking visible to the consumer at every step.

There is a need to modernize internal systems to achieve greater digital functionality and connectivity across the business. Many organizations are plagued with aging legacy systems that were further customized with quick fixes during the pandemic to keep products moving to customers. However, such approaches did not provide the optimal experiences consumers demand and will not support new advanced functionality or work at scale.

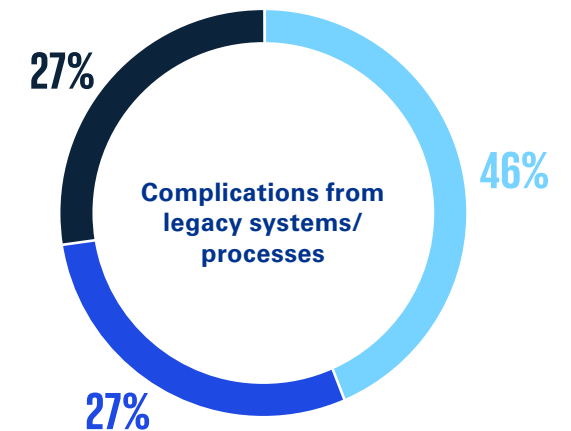
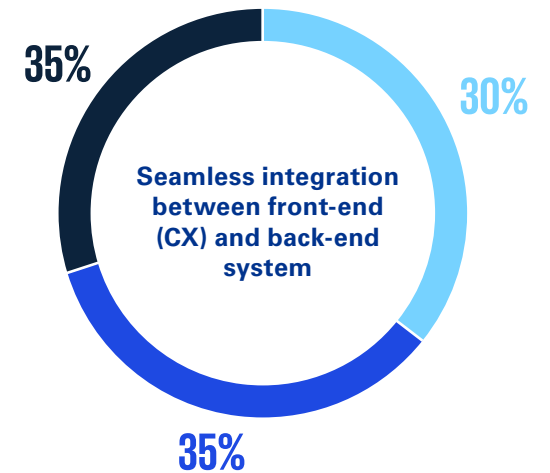
Underscoring this point, 37 percent of respondents listed seamless integration between front-to-back-end systems and 37 percent pointed to complications from legacy systems and processes as their top two technology challenges for their DTC businesses.⁹

No one could have predicted the five-year digital acceleration that occurred during the pandemic. As a result, many businesses have infrastructure that is insufficient to support the volume and flexibility needed for direct-to-consumer business models at scale. Moving forward, organizations will need to retool internal capabilities and connect internal systems to increase organizational agility.



Note(s): Percentages might not equal 100 due to rounding. One vote on 'other' was excluded from this chart.
 Source(s): Economic Direct to Consumer Survey Results

9. KPMG Direct-to-consumer survey, September 2022. Slide 30.



Where's the value?

While DTC remains an important strategic channel, challenges need to be overcome for its performance to live up to its promise. This is especially true when it comes to the lack of understanding of the performance and profitability of a company's DTC business. For instance, only 20 percent of the non-finance executives surveyed were very confident their business accurately measures true DTC profitability. This compares to 56 percent who cited average confidence and 22 percent that think their company doesn't allocate profitability measures accurately.¹⁰

To continue investing in this channel, brands need better insight into the channel's end-to-end costs—from customer acquisition and other marketing costs, to pricing, promotion, fulfillment, logistics and customer service.

Since DTC often represents a smaller business unit of existing brands, such costs may be co-mingled between departments or included in overarching functional budgets, making it more challenging to fully allocate costs accurately. More than half (56 percent) of survey respondents acknowledge DTC is part of the P&L of the overall business and not broken out from wholesale.¹¹

While size and scale have an impact on the ability to determine activity-based costing, it is extremely helpful to have costs allocated at a low enough level (even order level) to understand profitability drivers. For example, organizations may want to implement minimum order sizes or charge for shipping given the elevated fulfillment costs.



10. KPMG Direct-to-consumer survey, September 2022. Slide 36.
 11. KPMG Direct-to-consumer survey, September 2022. Slide 37.

3 tips for growing your DTC channel

Consider the following recommendations as you move your DTC channel forward:

1



Focus on identifying the business value proposition

For legacy brands to profit from a DTC channel, it is necessary to understand and plan how to manage the economics of a DTC channel. Seek to define the operational costs and revenue potential along with; the opportunities to improve the DTC operating model.

2



Break down internal silos

Being able to increase DTC functionality may require organizations to dismantle departmental silos and processes that houses pockets of data in outdated legacy systems. By implementing modern systems that connect with each other, organizations can create one single unified view of the customer. This singular view provides a record for customer engagement, interactions, preferences, and most importantly, insights on where and how to best serve the customer across every channel, platform, device, and touchpoint.

3



Enhance marketing and sales strategies

Be vigilant in managing marketing and sales data. Invest in measuring your marketing performance and being able to analyze the data from DTC along with all channels. Use this analysis to develop highly targeted, marketing messaging including personalized promotions, special offers and relevant recommendations to customers.

How KPMG can help

KPMG helps organizations grow and personalize their DTC business. We provide the insights and experience to make informed decisions on how and where to connect technology, enhance marketing and sales and unlock additional value.

We help organizations:



Elevate performance

Generate capacity and elevate your transformation journey by using data-driven insights to realize opportunities



Create new value

Define and quantify opportunities for growth



Amplify customer centricity

Be connected, using a customer-centric approach to align the front-, middle-, and back-office



Accelerate agility

Be powered, by advanced technologies, agile business practices and tested solutions



Rethink risk and resiliency

Be trusted, by stakeholders to foster growth, by anticipating and balancing risk to generate value and gain competitive advantage



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