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**DA 2 Questions (Maximum length 4 pages )**

**1. Are DTC brands just a marketing gimmick or do they create value for consumers in new and innovative ways? Substantiate your answer**

What started as Emily Weiss's personal blog has grown into a $1 billion company. The 24-year-old Condé Nast intern saw writing for Into the Gloss as a side pastime, a place to share her own beauty advice with her generation. She launched her blog in 2010, and it included the kinds of topics you'd find in a beauty magazine: how-tos, daily rituals, and the like. The site began receiving over 10 million monthly page visits by 2014. Weiss launched Glossier, a DTC brand of cosmetics, using Into the Gloss as a launching pad. Glossier challenged the conventional two-step distribution chain by offering both suggestions and home delivery of the items they showcased, similar to how a shopper may obtain advise from a department store beauty expert before purchasing a product off the shelf. Glossier, which has been endorsed by Kim Kardashian and has had product waiting lists of over 10,000 people, has achieved yearly sales of over $100 million and a valuation of over $1 billion.

The success of Allbirds may be attributed to the company's innovative products and its in-depth knowledge of its customers' priorities. The $65 billion business that is athletic footwear has extensive marketing, flashy logos, and cutting-edge technology. On the other hand, the shoes made by Allbirds are casual and straightforward: Mainly merino wool fibres are used to make the shoe uppers, sugarcane-based materials replace traditional petrochemical foam in the bottoms, and recycled polyester is used to make the shoelaces. The sneakers are reasonably priced at $95 and have a minimalist design. Allbirds created a personal relationship with its customers by offering eco-friendly, reasonably priced, and high-quality items. It has a market value of more than $1.7 billion, thanks to yearly revenues of more than $100 million.

The basics of brand management. Hubble, a direct-to-consumer (DTC) retailer of contact lenses, secured a supplier in Taiwan before it knew anything about its customer base. Then, it determined the optimal selling price at which to start attracting customers away from competitors. It later hired a firm to craft its name, packaging, and online presence. Hubble went online to find optometrists to help with prescriptions and fittings for its contact lenses. Soon after, the company began offering lenses for sale on its website. Social media and data-driven marketing helped the company keep its first customers—suburban Millennial women—while also reaching out to new demographics.

Measures of financial success in business. Success in marketing has historically been evaluated financially by an up-front budgeting of all direct expenditures. Expenses are often written off for anything from advertising to building infrastructure. Marketers often estimate how much product they need to sell, and over what time period, to recoup expenses and earn a profit, based on those numbers plus knowledge of the probable range of margins on a product. After arriving at that figure, an estimate of break-even volume, marketers have an innate grasp of the market size, their goal market share, and the sales effort necessary to succeed.

Take the relationship with the client beyond the scope of the first sale. While new companies sometimes lack the resources of established ones, they do have an edge in terms of process innovation. They might stay with consumers even after the transaction has been made to ensure their satisfaction with the goods. Direct-to-consumer (DTC) enterprises have an advantage over established brands in terms of communication with consumers since they cut out the middlemen, the merchants.

Build a solid foundation first, then think about adding more. In 2010, Warby Parker began shipping product samples to customers all across the country via a service called Home Try On. Online, shoppers may request a free sample of five different eyeglass frames. Customers with mild vision issues who prefer to purchase online will find the initiative useful since the try-on frames have clear-glass lenses rather than corrective ones. They choose out the frames they wish to purchase and then submit their prescription to get the order filled. It's also free for them to return the glasses if they decide not to buy them, saving Warby Parker about $15 in the process.

Value creation, not cost cutting, is at the heart of omnichannel. In 2016, Resident was established as an online mattress business. It, like Casper, got its start distributing mattresses straight to customers. But those two were ahead of the curve when it came to becoming omnichannel among internet mattress businesses. Within three years, more than 250 retail locations carried Resident's mattresses. Currently, you can buy them at over a thousand different places around the USA.

**2. Can they scale to become mainstream brands or ware they destined to be niche players?**

A small number of companies controlled the majority of the U.S. retail market for decades. More than ten categories had no change in dominant brands between 1923 and 1983, including Kodak in cameras and Gillette in razors.

Then the internet made available to everyone the resources needed to start and grow a company. A fresh wave of start-ups appeared in the 20 years afterwards. These first "direct-to-consumer" (DTC) companies, which include Warby Parker (eyeglasses), Everlane (clothing), Casper (mattresses), and The Honest Company (baby and beauty products), were characterised by the use of borrowed supply chains, web-only retail, direct distribution, social media marketing, and a specific visual brand identity (the now ubiquitous "blanding") that favoured sans-serif type, pastel colour palettes, and scalable logos

Advertising arbitrage on low-priced social media platforms was a key factor in the emergence of direct-to-consumer firms along with plentiful venture financing, a lack of competition, and, of course, the cheap cost of these channels. According to Ben Lehrer, Managing Partner of venture company Lerer Hippeau and an early investor in Casper and Warby Parker, "back then, it wasn't too hard to thrive as a brilliant person with a poor product in a vast, sleepy TAM." It's not uncommon for MBA theses to become fully functional companies.

Now fast forward to the present day, and many of those companies are appearing less feasible than they previously did. To the private investment community, Casper was a unicorn. When the firm went public in February, its valuation was nearly $600,000 lower than in the company's previous private financing round, according to Quartz. Brandless, which operated similarly to a direct-to-consumer dollar shop, shut down and lay off 90% of its staff in a matter of days. Glossier halted production of its Play colour cosmetics line due to poor sales, while Outdoor Voices CEO Tyler Haney resigned due to the company's $2 million monthly burn rate on $40 million in annual sales.

Okay, so what exactly transpired? The environment hardly resembles what it did even ten years ago (save for the sans-serif fonts). One reason is that many new brands have entered the market because of the initial success of a few. Because of this, the cost of advertising on social media has increased, removing any room for bargaining, and making the arithmetic behind acquiring new customers more difficult. "98% of DTC businesses are out of business, they simply don't realise it yet," stated Gary Vaynerchuk, founder and CEO of VaynerMedia. The [venture capital] money will run out because "they don't have the basics to continue to attract consumers at a value that's appropriate."

Successive players have realised that Instagram ads and influencer campaigns can only reach so many of a brand's "first best" consumers before they become ineffective. As a result, we're seeing a return to traditional stores and entrepreneurs sweating over whether or not to sell their items on Amazon, both of which are making direct-to-consumer firms more resemble their forebears. Attractive markets like cookware have also seen demand splinter due to intense competition between companies like Equal Parts, Made In, Misen, Great Jones, Caraway, and Our Place, all of which aim to offer high-end cookware to style-conscious millennials. P&G's Native Deodorant and Welly, a stylish bandage brand launched in 2019 in an exclusive agreement with Target, are two examples of heritage consumer megabrands catching up with the trend of direct-to-consumer (DTC) products.

Investors, meantime, have evolved. Both the number of consumer startups vying for venture capital and the wealth of industry data available to investors have increased dramatically over the last decade. Moreover, if the early influx of funding put more emphasis on top line expansion than bottom line profitability, the pendulum has started to swing back the other way. We are seeing somewhat of a pullback after the disappointing IPO of Casper in February 2020 and the FTC's involvement to prohibit Edgewell's purchase of Harry's (the DTC razor firm). When it comes to expansion, long-term viability wins out.

To become a really remarkable success in the year 2020 is a lot more challenging than it was in 2010. CEO of eyewear company Warby Parker Neil Blumenthal told The New York Times, "I believe it's never been tougher to grow a business, but it's never been cheaper to start a business." Not to mention the long-term impact on customer expectations all of this has had. Things that were cutting edge in 2010 are now expected as the norm. It's no longer surprising to see an online store promoting itself with Instagram advertisements and a sleek logo. Ben Lerer once said, "DTC was an insight 10 years ago." A perception that DTC is novel persists. No longer is it the case... How you do things today is what makes you unique.

**Moving Beyond DTC**

Things have changed so drastically that strategies used in the past are unlikely to be successful in the present or the foreseeable future. To integrate the lessons of the previous decade, the way ahead requires a return to management basics as well as a departure from the current DTC strategy. The following ideas are the precise changes that DTC leaders must make:

This is why omnichannel strategies are so important. In order to expand, digitally native companies will need to break into brick-and-mortar stores as the capacity of direct-to-consumer distribution reaches capacity (even if physical retail is on hold during the current coronavirus pandemic). To satisfy this growing need, a slew of innovative store formats have recently appeared. Showfields, Bulletin, Story, and Neighborhood Goods all have a common goal of bringing together a number of different direct-to-consumer (DTC) ideas in one convenient location without the need for a lengthy lease or costly construction. Despite the fact that it is still unclear how successful or scalable this new version of master-lease retail will be, many DTCs that have dabbled in at least some offline presence have found that customers who interact with their brand in the physical realm have lower merchandise return rates and more repeat purchases than their online counterparts. Company-owned stores, national retail networks, Amazon listings, or a hybrid of these three options might be the best fit for a brand's retail strategy, depending on the size of the brand's existing fanbase, the degree of editorial control the brand needs over its stories, and the scope of the business's expansion plans.

Community-based differentiation. Direct-to-consumer (DTC) firms have a leg up on the competition because of the personal connections they can make with their customers and the wealth of information they can collect about them that is unavailable to them via more conventional channels. Pattern Brands describes this as a "direct with" connection since it involves two parties working together to develop new goods and services. The issue for contemporary businesses with mass aspirations is to effectively scale that closeness as they go beyond direct-to-consumer (DTC), despite the fact that community will remain a powerful distinction from incumbents moving ahead.

Use vertical integration to increase profits. While borrowing supply chains might get you started, it won't work in the long term. Due to established brands competing for the same digital impressions as upstarts, the arbitrage that formerly gave direct to consumer businesses an edge has been eroded. Even while early DTCs saved money by not paying intermediaries, that savings was eaten up by the high costs of customised distribution. To maintain profitability and make it through Series B in the face of rising CACs, companies will need to consider vertical integration (by, for example, building their own manufacturing facilities rather than outsourcing it out).

The age of the voice is rapidly approaching. Just like the internet revolutionised business 30 years ago, voice interfaces are expected to radically alter that industry over the next decade. Current supply chains, marketing techniques, and brand systems are designed around the way people use computers and mobile devices to access the internet. Firms that fail to anticipate the next major platform transition will be left in the dust.

As more and more companies adopt these tactics, the phrase "direct-to-consumer" begins to lose some of its lustre. A small group of early adopters created "DTC," and that moment propelled them to fame. However, current conditions show that this approach is no longer viable. Nowadays, you need to know not just the timeless fundamentals of running a company, but also how the DTC model has irrevocably altered the playing field.

**DA3 Question (Maximum length 4 pages )**

**1. Could they grow and be profitable at the same time? Give suggestions for their growth and profitability based on your research**

To be successful in DTC, two digits must line up correctly. The first is gross margin, which is the amount left over after subtracting the cost of what you're selling (excluding overhead) from the price you sell it at, also known as the variable cost of a product. Successful direct-to-consumer businesses have a gross margin of at least

Many firms entered DTC markets by convincing investors that their gross margins would increase as they scaled. In truth, you can progressively raise gross margin as you develop, but never enough to make a terrible business acceptable. Nothing else matters if the gross margin is incorrect. Improving gross margin by 10% or more is almost never a realistic goal.

The second figure is CAC, which stands for client acquisition cost. DTC brands must attract customers to their website, shop, or app, and CAC is the cost of doing so. CAC used to be advertising on Facebook, Instagram, and other social media platforms, but those firms now understand how much value they offer and have changed their pricing appropriately. DTC businesses that rely exclusively on social media advertising

Oftentimes, startups expect to see CAC economies of scale as they expand. In fact, it's usually the other way around. Early adopters are the most responsive and cost-effective clients to acquire. More impressions are needed to entice additional consumers, which increases CAC. Even worse, CAC is notorious for its volatility and huge monthly swings. (During the outbreak, for the first time ever, media consumption as a whole has decreased, and thus, CAC has decreased for the vast majority of businesses.)

It would seem that keeping an eye on only two numbers—gross margin and CAC—would be sufficient to prevent the failure of a direct-to-consumer (DTC) business. If any of those figures are off, the company will fail.

**What Their Secret Is**

Businesses that sell direct to consumers successfully use a variety of tactics to keep their CAC low. However, the CAC approach of another business cannot be replicated. What makes client acquisition work best is when businesses use their own distinct tone, medium, and approach when communicating with their target market. Copycat strategies fail because customers can tell they aren't genuine to the brand, therefore marketing plans should be tailored to each company's unique demands. These are some of the things that some businesses are doing.

Monica and Andy, a direct-to-consumer (DTC) baby clothes brand, markets themselves as an occasion-based operation. That's when a couple has their first kid. As a result of Monica and Andy's online and in-store pregnancy and parenting resources, customers feel more like members than customers and are more likely to make purchases. Because of this connection, Monica and Andy has been able to expand their size range to include women's size 8.

The Groomsman Suit, an up-and-coming internet retailer catering only to the needs of the males in the wedding party, markets itself as a "event-driven" firm with a primary emphasis on the nuptials of friends and family members. Despite the dramatic drop in weddings and other social events due to the coronavirus shutdown, the firm has managed to retain sales and profitability because to its laser-like concentration.

Customers of both establishments are encouraged to inform others about their positive product-buying and overall event-attending experiences. The best kind of promotion is positive recommendations from satisfied customers; unfortunately, it is also the most difficult to get. Both businesses are able to maintain their cost of acquiring new consumers at very low levels by embedding themselves in the significant event and using it to their advantage to acquire new customers.

While Alo Yoga is most known for its yoga gear shops, it also offers free yoga lessons to customers at its in-store and online facilities. The idea is the same as at any amusement park: You can't enter or exit the park without first visiting the gift shop, where, of course, merchandise will be sold. Customers' associations with the brand are strengthened through their time spent in the yoga class.

A surprising business model used by some direct-to-consumer brands is wholesale distribution. The goal is to increase brand awareness and website traffic by partnering with shops that already have established relationships with consumers. Direct-to-consumer businesses who choose for wholesale distribution are choosy about who they work with, allowing their wares to be distributed in just a subset of the locations that their wholesalers operate.

Direct-to-consumer companies may launch their own retail outlets. That seems to be the exact opposite of what direct sales should be like. However, the function of shops has shifted. Of course, making a sale is important, but so is building a name for the company and directing people to their website or app. "Discovery is an aspect that is really crucial when there is newness and the product looks and feels different and they need to experience it," said Joey Zwillinger, CEO of footwear manufacturer Allbirds. "Consumers are telling us they're having a great time in our shops." While it's not unprecedented for established brands like Lands' EndLE +4.9 or Williams-SonomaWSM -6.2% to branch out into physical retail, this is a novel strategy for startups that once existed only in the digital realm.

DTC firms, like other businesses, increase revenue from current clients by expanding into new product categories. However, it might be difficult to decide what sort of product to focus on while looking to grow. Made In is an online retailer that offers premium cookware (including pans) at affordable direct-to-consumer rates. They wanted to grow, so they choose a related product to cookware that would profit from their established brand name. They zeroed on on plates since it was obvious to customers that this was a specialty area for them, and because doing so would increase their average order value.

Delivery boxes from Winc, a wine shop, have inserts from inexpensive apparel retailer RueLaLa and high-end bedding retailer Byourbed. Jenson USA, a manufacturer of bicycles, is providing inserts to Harry's, a manufacturer of razors.Everlane, an apparel company, teamed up with the New York Times to raise awareness about climate change and boost sales for both companies. Although influencer marketing gives firms a voice of their own, it may be challenging to persuade customers that the endorsements they're receiving are genuine. Case in point: AshleyBlackGuru, a cosmetics firm where the creator doubles as the brand's primary influencer. According to Ashley Black: "Founders have to speak for themselves...they can't rent out social media and affiliates... The question is, "How can someone else be you online?"

It's apparent that the innovative strategies that companies employ to connect with consumers will continue to surprise and delight us. Brands will continue to innovate low-cost methods of advertising as new technologies emerge. Companies who refuse to abandon tried and true practises will see their expenses steadily climb until it is no longer profitable to continue. Even while one of the keys to the success of direct-to-consumer (DTC) businesses is their ability to quickly adapt to change, particularly in the area of customer acquisition, one thing will never change: the importance of getting the gross margin and client acquisition expenses just right.

**2. How should incumbents/ legacy brands respond to DTC brands ?**

Companies that sell directly to consumers (DTC) are making waves. Glossier and Rent the Runway became unicorns (companies valued at $1 billion or more). For established brands, what does this portend? At Forrester's Consumer Marketing 2019 Forum next week in New York City, we'll be discussing the direct-to-consumer (DTC) trend and its implications and presenting new data on DTC trends and how marketers may respond to them.

Based on findings, DTC firms are succeeding because they are creating novel approaches to provide value to customers. As an example, Dollar Shave Club's founder, Michael Dubin, described the problem that mail-order razors address: Finding a pharmacy clerk to unlock the razors case is a necessary step in making a purchase. He said to NPR's How I Built This that customers often feel that they are a burden when asking for assistance in acquiring a product. Direct-to-consumer (DTC) companies seize their moment in the spotlight by pioneering cutting-edge goods and offerings, such as Rent the Runway's service, which helps ladies look (and feel) like a million dollars without breaking the bank. They are outgrowing more established businesses because they are able to win the hearts and wallets of people. While DTC businesses have flourished, conventional brands and businesses have found it difficult to adapt to the growing influence of consumers. As direct-to-consumer (DTC) firms make inroads and even steal market share, major brands like these need to up their game to compete.

DTC isn't simply a fad. To construct a DTC model, businesses must switch gears and expand their focus outside the conventional sales funnel when considering how best to serve their clients. Traditional brands and businesses who wish to compete will need to improve their direct ties with customers and shift their focus to the aspirations of their target audience. In my latest study, I outline the factors that big companies need to think about when formulating their direct-to-consumer (DTC) strategy, including brand and execution limitations, various value propositions (including curation, community, and personalization), and more.

There is an increasing pressure on many surprisingly established firms to open up a direct sales channel for its consumers.

PantryShop.com and Snacks.com, two of PepsiCo's newest websites, allow customers to buy a wide selection of the company's food and drink products. Progressive Grocer reports that this was done by PepsiCo in order to better compete in the grocery industry and to adapt to changing consumer preferences.

Brands in other industries, outside the food and beverage industry, have also come to realise the value of direct-to-consumer (DTC) marketing and sales.

Nike responded to the global health issue with an aggressive direct-to-consumer (DTC) approach, which it dubbed "Consumer Direct Offense." This helped push Nike's stock price to an all-time high.

Evenflo, a company that makes items for babies and kids, has released a new line of smart car seats under the brand name Evenflo Gold, and they are only available direct to consumer.

These companies aren't the only ones considering a switch to direct sales. Companies like L'Oreal, Coach, and Procter & Gamble are just a few more that have been exploring direct-to-consumer tactics.