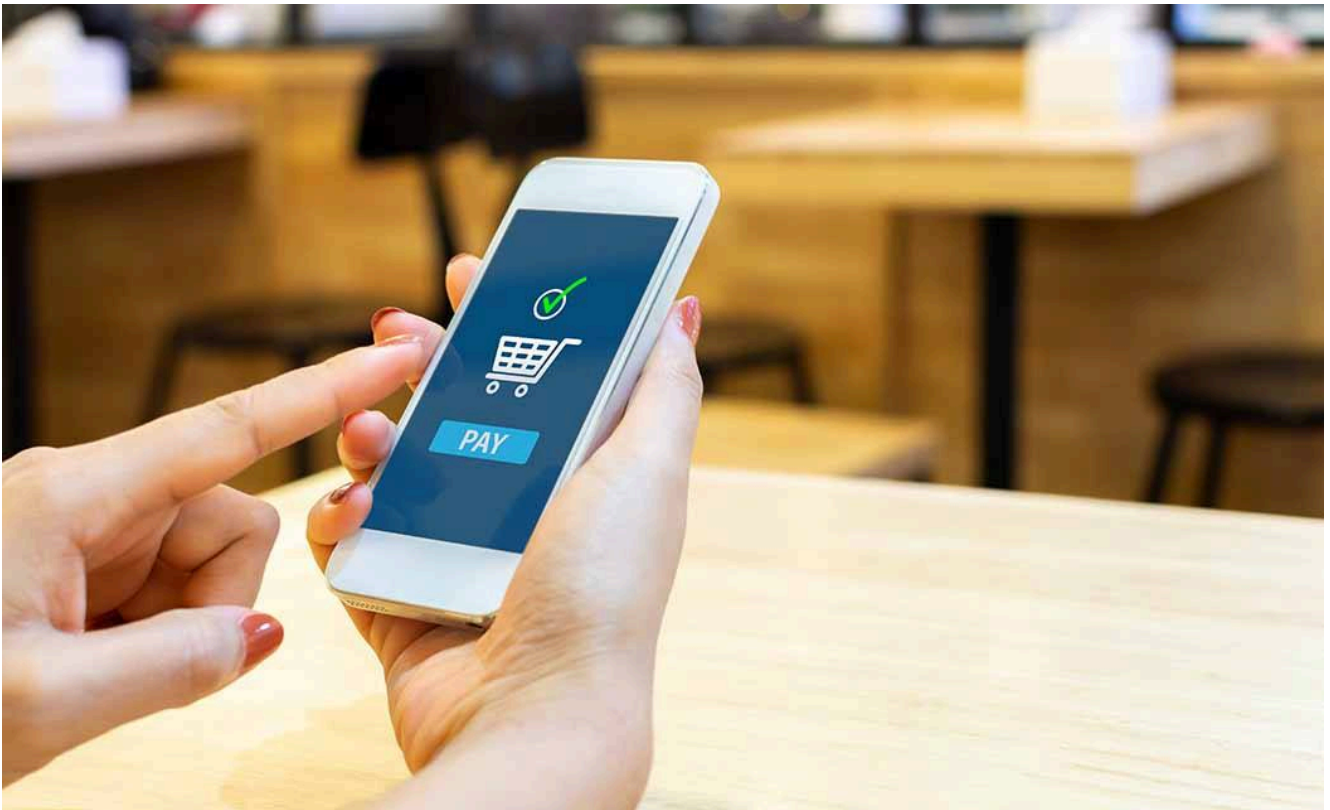


## Direct to consumer: How to reach your clients when stores disappear

According to José Luis Nueno, mass-market companies have underestimated the power of e-commerce and the direct-to-consumer (DTC) brands that are digital natives. By 2025, online commerce will have changed the marketplace irreversibly.



May 5, 2020

- **Retail will undergo a revolution in the next five years as millennials come to dominate the market and direct-to-consumer (DTC) brands thrive.**

- **Omnichannel strategies will be key.**
- **In 2018, there were more store closings than ever before. And the COVID-19 lockdowns will only accelerate this "retail apocalypse."**

How much will the online sales of mass-market products grow over the next few years? What does the future hold for physical stores? How many traditional brands will sell directly to the consumer? What opportunities does the new scenario offer to startups, and what are the keys to success?

A [book](#) by IESE's [José Luis Nuño](#) analyzes the coming revolution that is poised to reinvent the retail experience in the next five years, due to a boom in the millennial market and direct-to-consumer (DTC) brands. These vertical brands cut out intermediaries' share of profits, are more agile thanks to an outsourced supply chain, and extract greater value through direct relationships with thousands of end consumers.

Nuño predicts that many traditional companies are going to disappear and that sales infrastructure, platforms, media agencies and marketing specialists -- as well as shops and shopping streets -- will also be affected by this transformation.

Evidence is already mounting: in 2018 more physical stores closed their doors than in any other year since the birth of modern distribution systems in the late 19th century. And COVID-19 lockdowns will only accelerate this "retail apocalypse."

### **DTC brands and their secrets to success**

The book analyzes some DTC examples in the furniture, cosmetics, food and optical retail sectors, and proposes a categorization of these brands into three main business models: direct purchase, subscription and the purchase of a service.

The direct-purchase model follows the mechanics of any online brand, with products sold through the internet. The second, the subscription model, allows consumers to subscribe to a brand that regularly provides a quantity of the product they need (for example, a supply of pet food customized to their dog). Finally, the third offers product sales that incorporate a service element, such as a cosmetics company that offers to apply make-up.

A look at case studies -- such as Tails.com, Hubble, Dollar Shave Club, Nespresso, Starbucks, Blue Apron, LoMonaco, Brandless and Ametller Origen -- demonstrate the characteristics of the DTC model and the lessons learned by the pioneering companies in this category, in

addition to highlighting that the size of a company is losing its relevance as a competitive advantage. The marketing, operations and financing strategies of these brands are among the areas analyzed.

Finally, the book explains by example how to build a DTC brand, providing detailed information regarding investment, software tools and launch strategies, and concludes with recommendations for future strategies for mass-market brands.

### **An omnichannel future**

The future will bring more omnichannel retailing. In-store purchases are increasingly made after shopping digitally, and one in four digital purchases is made after shopping in a physical store (something that will likely become more pronounced after the COVID-19 pandemic).

DTC transactions are causing the physical model to lose its market hegemony. In its place are multiple hybrid formulas in which transactions are made between physical stores and pure e-commerce.

As a consequence of all this, traditional big brands are acquiring DTC brands, such as Native by Procter & Gamble Co. (for \$100 million) or Dollar Shave Club by Unilever (for \$1 billion), in order to experiment with this model.

Other brands, like Pepsico, are organizing strategic investments in accelerators or incubators. Firms like L'Oréal and Mars Petcare have developed startup incubators focused on product, supply chain and retail transformation. Meanwhile, large brands often use acquisitions to acquire capabilities or data, or simply to enter the DTC model without disturbing traditional retailers.

Although the book is inspired by entrepreneurs and their DTC initiatives, its biggest beneficiaries may be the large companies that should heed the rise of this phenomenon to steer its development and eventually capture its sales. We must not forget that, as José Luis Nuño warns, "the key to DTC is C. The Consumer, with a capital C, reveals to us what he or she wants and will pay attention to the companies that pay attention back."

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