



IS IT TIME TO GO IT ALONE?

Ecommerce has delivered to suppliers a greater involvement in the customer journey and changed relationships in every area of retail. Emma Herrod investigates the challenges and the opportunities this creates for manufacturers.

THERE WAS A TIME when manufacturers were 7 or 8 weeks removed from their customers as their sole sales channel was via retail chains. Once products had been shipped to the stores it took time for manufacturers to receive feedback, if indeed they ever did. Some retailers would filter the information, so the first time manufacturers became aware of a problem was when products were returned for repair under guarantee, explains Wilko Klaassen, Director Commercial Development Online Business To Consumer Unit, AB Electrolux. His MBA thesis on 'Online Direct Sales: decision

framework for European manufacturers' explains how online is changing the retail landscape and how manufacturers selling direct to consumers (D2C) is altering the relationships between manufacturers, retailers and consumers.

In the past, he explains, retailers held the knowledge of how to attract consumers to their shops and how to convert them into buyers. They learnt what features consumers wanted – or didn't want – from different products and found out about any problems they had with brands or specific models.

By moving into the D2C arena, manufacturers have had to grapple with online not only for branding, but also as an information channel to help consumers with their purchasing decision. This has changed fulfilment from solely a distribution-to-retailer model into one in which individual items can be despatched and which involves digital marketing, conversion and online as a 2-way communications channel.

Being head of ecommerce for a manufacturer sometimes calls for nerves of steel, believes Adam Dorrell, founder of the Manufacturers D2C Europe association. He says it's the most hated job in D2C because of channel conflict: channel managers have to look after the retailer relationships, and retailers may use the fact that a manufacturer is selling direct to consumers to drive down prices.

In some cases, this has led to manufacturers operating websites that sell a fairly limited range of products, high-price web exclusives, product bundles or value-add services. They can justify a higher price by tapping into the customer base that prefers purchasing direct from the manufacturer because of the perceived reliability and security rather than the uncertainty of buying lower priced items from an unknown retailer on the internet.

CHANNEL CONFLICT?

The issue of channel conflict is one that will come as no surprise to retail ecommerce managers who will have already encountered similar problems when ecommerce is up against shop sales. Much of this is a hypothetical conflict that does not translate into reduced sales; indeed, all channels can work in harmony to increase turnover.

"Shoppers are not necessarily going to a brand website to buy; they are going to learn," comments David Williams, Europe Online Manager, Deckers Europe, the company behind the Ugg boots brand. Manufacturers have to understand where they can add value with their own ecommerce site, the customer fit and where their site sits among existing channels.

"Manufacturers who understand what value they add in the whole selling model understand they shouldn't compete with their retailers," comments Dorrell.

Klaassen agrees: "The consumer decides in which channel to buy, so it doesn't matter where they buy the product as long as they buy my brand." This is why manufacturers have had to work out for themselves how best to approach the ecommerce market, how it sits with the strength of their brand and whether it might be better to have a close relationship with a retailer and use online

DISRUPTING THE TRADITIONAL MODEL

While 'traditional' manufacturers are developing their relationships with end customers on one side and re-evaluating and re-negotiating their relationship with retailers on the other side of the business, online is enabling new entrants and disruptive models to emerge. Made.com is bringing furniture makers direct to consumers, FarFetch is working with small, independent retailers and Naked Wines is introducing consumers to wine producers.

For new manufacturers online offers a fast route to market, cutting out the middle men and double handling within a traditional manufacturer-retailer-customer supply chain, while allowing manufacturers to communicate directly with the end customer. "We make what customers want," says Ruslan Kogan, founder CEO of consumer electronics company Kogan, explaining how the company asked its customers what features they wanted in a new laptop and received 1,000 responses in short order. "The bottom line is that the consumer benefits."

Michael Ross agrees that the shake up of relationships between manufacturer, retailer and consumers is changing retailer-supplier economics. "Category by category, a new economic model is emerging with different margins and risk structure. Anyone contesting on price against Amazon can attest to a new economic reality," said the Ecommerce Director in his recent Trading Intelligence Quarterly.

as a brand-led information channel instead.

At the core of most D2C sites are the brand experience and the products themselves. Klaassen's thesis lists the main reasons for a manufacturer to sell online as to:

- 1) support the brand;
- 2) list all products in one place;
- 3) give it access to all product data;
- 4) increase the speed to market for new products;
- 5) give it the ability to reach new consumers;
- 6) allow it to control the brand experience.

"There's no point competing on price," believes Klaassen. "Although it's nice to make some money," responds Dorrell. A direct sale may give a better margin than the retail channel but this has to be offset against the higher cost of distribution.

The real value of D2C sites is their marketing collateral, believes Dorrell. By offering a high asset standard – such as images, descriptions and full product data – they are helping consumers in their purchasing decisions.

By making sure that the product marketing material on their website is outstanding, ►

GROCERIES GET IN ON THE ACT

D2C is not just for electronics and clothing manufacturers. More than a quarter (27%) of food and grocery manufacturers say they would consider building their own e-stores in a bid to engage directly with shoppers online, according to research published in March by food and grocery analysts IGD. More than two-fifths (43%) of manufacturers expect up to 10% of their total revenue to come from the online channel by 2015 – more than double the number (18%) currently generating this level of revenue.

manufacturers are helping customers who purchase through any of their channels, be that a retailer or their own site or store. It also gives a controlled, branded destination online that potential customers can visit to obtain product information and prices, driven there from wherever they've seen a product mentioned online or in the press.

One company that's very good at this is Philips; it also understands the power of consumer choice by listing on its site where visitors can purchase their products on the high street and on retail sites online.

CUSTOMER SERVICE

One challenge for the retailer/manufacturer relationship is customer service and the brand's ability to control the end-to-end brand experience. As a customer wouldn't expect a premium product to be put in a plain brown box, so they would expect a brand to be displayed in a certain way online or in-store or any other channel. They also expect the same service around a brand across all channels and that is an area in which a manufacturer can lead the experience and customer expectations and push retailers to copy. It's down to the strength of the brand, explains Klaassen, and some manufacturers, such as Apple, can dictate what happens in the market.

So, while this translates into a higher price on the manufacturer site and boosts some customers' perceptions of product security and reliability, it also challenges retailers to match or improve on the level of service offered.

CUSTOMER/MANUFACTURER RELATIONSHIP

The big impact that D2C has had on manufacturers is the increased interaction with consumers that it has delivered. Although some are no strangers to selling direct to consumers – such as Electrolux, which originally sold door-to-door before moving to the lower-cost retailer-distributed model – many are now able to do so via the digital platform, enabling them to engage

with customers, gain insights and enhance relationships.

"The insight gained will help manufacturers stay in tune with their customers and this in turn can be used to inform retailers," says Williams.

"Brands can learn a lot about their customers by having their own online store," adds Carsten Kraus, Chief Executive and Founder of FACT-Finder.com. "It opens up enormous possibilities for data mining. Which products do customers click on before they buy other items? Which sizes do they want? Which product details are of importance? Which pictures lead to purchase – and which ones don't? On top of this, by analysing the search log of their onsite search, brands can discover which products customers expect to be in their range, even if they do not currently carry them, as well as spotting new trends or keywords and how customers would name a product in their own words and spelling. This is helpful for both future product naming and development, as well as for any SEO support the brand may give to their retailers."

Online has speeded up trading and feedback processes for manufacturers as well as other parts of retailing. Rather than having to wait months for product feedback through retailers, manufacturers can get it almost straight away from customers buying through any channel. They also have the opportunity to interact and market through social channels, listen to customers and engage with them pre- and during purchase.

Post-purchase, which has always been the realm of the manufacturer, also now offers wider scope for interaction with customers through whichever channel they make their purchase. D2C sites are becoming destinations for spare parts, post-purchase accessories and consumables. Apple, for example, has the post-purchase added value of iTunes and its app store, Nestle has its online exclusives for Dolce-Gusto coffee, and while you can buy an HP product through many retailers, some believe it would love to have the monopoly on its ink sales.

Retail evolution is shifting channels, and manufacturers' relationships with retailers and consumers are continuing to change. "Each has their role in the flow, but no manufacturer can stop selling through retailers and just go direct," believes Klaassen. Online may be an additional sales channel for a manufacturer, or even become their main one – as is the case for Dell as it continues to flirt with selling through retail stores as well as via the web – but retailers are paid for doing a job and if they are doing it well, why would a manufacturer want to change that relationship? ■